IFRS
Accounting

April 2024

Project Summary

IFRS® Accounting Standards

IFRS 18 *Presentation and Disclosure in Financial Statements*

At a glance

The International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024.

IFRS 18 aims **to improve how companies communicate** in their financial statements, with a focus on **information about financial performance in the statement of profit or loss**. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 *Statement of Cash Flows*.

IFRS 18 is effective from 1 January 2027. Companies are permitted to apply IFRS 18 before that date.

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. Requirements in IAS 1 that are unchanged have been transferred to IFRS 18 and other Standards.

IFRS 18 will affect all companies in all industries. Although IFRS 18 will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance.

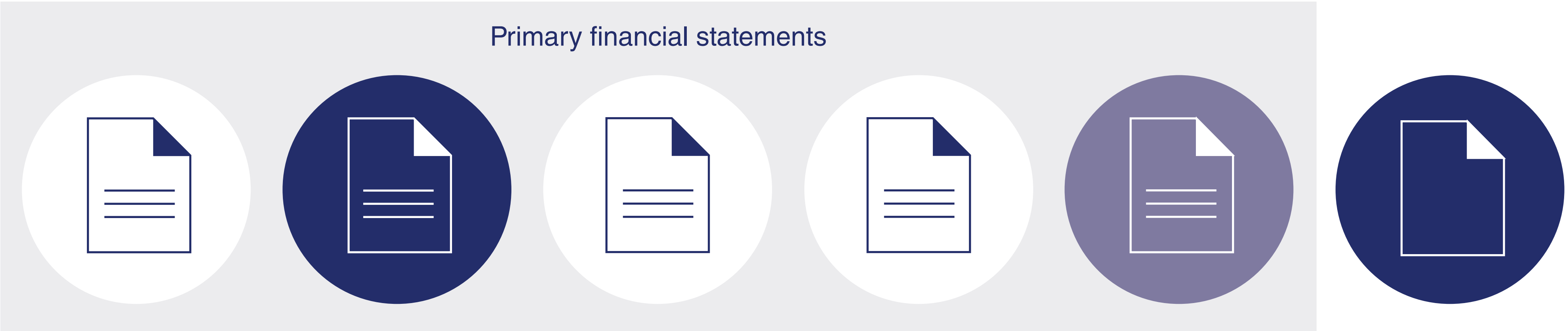
IFRS 18 aims to improve financial reporting by:

- requiring **additional defined subtotals** in the statement of profit or loss;
- requiring disclosures about **management-defined performance measures**; and
- adding new principles for **grouping (aggregation and disaggregation) of information**.

IFRS 18 responds to stakeholder feedback that:

- **statements of profit or loss vary in structure and content**.
  Adding defined subtotals to the statement of profit or loss makes companies' financial performance easier to compare and provides a consistent starting point for investors' analysis.
- **measures defined by management are useful to investors, but companies might not explain how these measures are calculated and why they are used**.
  Requiring companies to disclose information about management-defined performance measures increases discipline over their use and transparency about their calculation.
- **investors would like to see information more appropriately grouped (aggregated or disaggregated) in the financial statements**.
  Setting out requirements on whether information should be in the primary financial statements or the notes and providing principles on the level of detail needed improves effective communication of information.

IFRS 18 affects the complete set of financial statements, including:



statement of financial position (balance sheet)	**statement of profit or loss** (income statement)	**statement presenting comprehensive income**	**statement of changes in equity**	**statement of cash flows** (cash flow statement)	**and the notes to the financial statements**

Legend:

- Major changes
- Some changes
- Minimal changes

Requirements on grouping of information will affect the complete set of financial statements.

Improving communication of financial performance

IFRS 18 helps companies improve how they communicate financial performance in the statement of profit or loss to investors. Better information will contribute to efficient and resilient capital markets by enabling investors to make better decisions.

IFRS 18 introduces three sets of requirements to achieve these goals. In combination, these requirements strike a balance by introducing defined subtotals that create a consistent structure in the statement of profit or loss to provide a starting point for investors' analysis, while leaving room for companies to report their own performance measures. The disclosure requirements for management-defined performance measures anchor companies' own performance measures to the defined subtotals, increasing the transparency of these measures. Additionally, the principles for grouping of information will help companies provide more useful information.

Summary of key requirements in IFRS 18

1 Presentation of new defined subtotals in the statement of profit or loss (pages 5–8)

IFRS 18 requires companies to report:

- operating profit; and
- profit before financing and income taxes.

These subtotals provide a consistent structure for the statement of profit or loss, thereby improving comparability. IFRS 18 will not affect how companies measure their financial performance and the overall profit figure.

2 Disclosure of management-defined performance measures (pages 9–11)

Many companies report alternative performance measures or non-GAAP measures. When those measures meet the definition of management-defined performance measures (MPMs), IFRS 18 requires companies to disclose reconciliations between those measures and subtotals listed in IFRS 18 or totals or subtotals required by IFRS Accounting Standards. MPMs are subtotals of income and expenses used in public communications to communicate management's view of an aspect of the financial performance for the company as a whole.

3 Enhanced requirements for grouping (aggregation and disaggregation) of information (pages 12–13)

IFRS 18 sets out requirements to help companies determine whether information about items should be in the primary financial statements or in the notes and provides principles for determining the level of detail needed for the information. IFRS 18 also includes requirements for the presentation of operating expenses in the statement of profit or loss, disclosure of specified expenses by nature, and further information on items grouped together and labelled 'other'.

1 Subtotals in the statement of profit or loss

IFRS 18 requires a company:

- to classify income and expenses into **operating**, **investing** and **financing** (dark blue in Figure 1) categories in the statement of profit or loss—plus **income taxes** and **discontinued operations**; and
- to present two new defined subtotals—**operating profit** and **profit before financing and income taxes**.

These new requirements respond to investor feedback that variation in the structure and content of the statement of profit or loss has made it difficult to analyse and compare companies' financial performance.

Operating profit is used by investors as a comparable measure of financial performance and a starting point for forecasting future cash flows. Also, investors would like to understand how a company is performing before the effects of its financing.

Figure 1 shows the structure of, and subtotals in, a statement of profit or loss. IFRS 18 will be applied differently by companies with specific business activities, such as banks, insurers and investment property companies (see page 8).

Figure 1: Statement of profit or loss for most companies[1]

Categories	Income Statement
Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit
Investing	Share of profit and gains on disposal of associates and joint ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before income taxes
Income taxes	Income tax expense
	Profit from continuing operations
Discontinued operations	Loss from discontinued operations
	Profit

1 This figure assumes that the company presents some operating expenses by function and some by nature. Subtotals highlighted in blue are required. Subtotals highlighted in grey are examples of additional subtotals. A company presents additional subtotals if necessary to provide a useful structured summary of the company's income and expenses. Line items in Figure 1 are for illustrative purposes and do not denote line items that any particular company would present.

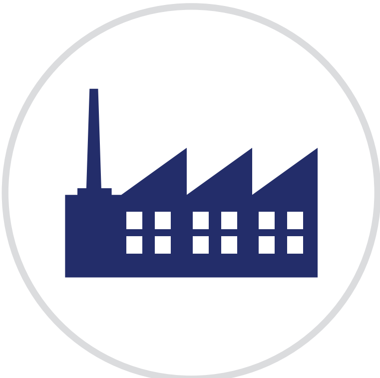
What is in the operating category?

The operating category provides a complete picture of a company's operations. Investors use the operating profit subtotal as a measure of how a company is performing in its business activities and as a starting point for forecasting future cash flows.

The operating category consists of all income and expenses that are not classified in the investing, financing, income taxes or discontinued operations categories—income and expenses classified in those categories are items that investors generally analyse separately.

The operating category is the default category and:

- includes **all income and expenses arising from a company's operations, regardless of whether they are volatile or unusual in some way**. Operating profit provides a complete picture of a company's operations for the period. It is not meant to measure only 'persistent' or 'recurring' operating performance.
- includes, but is not limited to, **income and expenses from a company's main business activities**. Income and expenses from other business activities, such as income and expenses from additional activities, are also classified in the operating category if those income and expenses do not meet the requirements to be classified in any of the other categories.



What is in the investing category?

The investing category enables investors to analyse returns from stand-alone investments separately from a company's operations.

The investing category includes:

- income and expenses from assets that generate returns separately from a company's business activities—for example, a company might collect rentals from an investment property or dividends from shares in other companies.
- income and expenses from cash and cash equivalents and investments in associates and joint ventures—for example, a company might earn its share of profits from an associate.

What is in the financing category?

The financing category and the subtotal for profit before financing and income taxes enable investors to analyse companies' performance before the effects of its financing.

The financing category includes:

- income and expenses on liabilities such as bank loans and bonds (liabilities arising from pure financing transactions); and
- interest expenses on any other liability, for example, lease and pension liabilities.

Therefore, the financing category includes interest expenses on all liabilities.

What is in the other categories?

The **income taxes category** consists of income tax expense (or tax income) that is included in profit or loss in accordance with IAS 12 *Income Taxes*, and any related foreign exchange differences.

The **discontinued operations category** consists of income and expenses from discontinued operations recognised in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

How are foreign exchange differences classified?

Foreign exchange differences are classified in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. For example, foreign exchange differences on bank loans are classified in the financing category.

If classifying foreign exchange differences this way would involve undue cost or effort, a company is permitted to classify foreign exchange differences in the operating category.

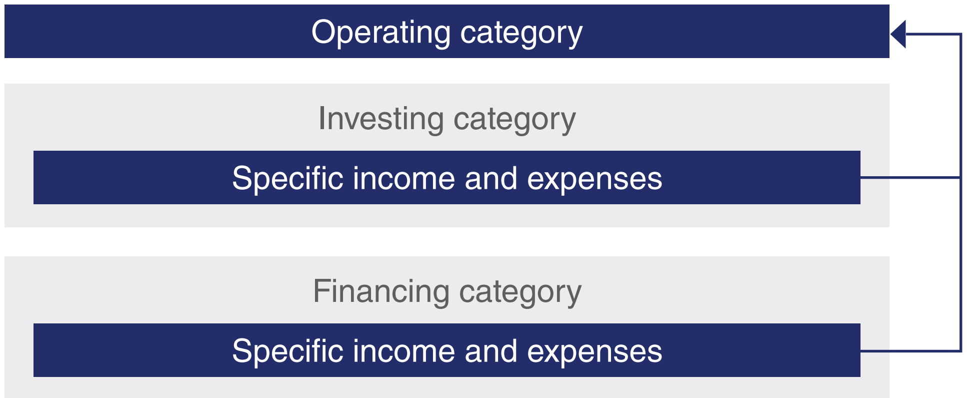
IFRS 18 also includes specific requirements for classifying fair value gains and losses on derivatives and hedging instruments and for classifying income and expenses from hybrid contracts.

How do companies like banks and insurers apply IFRS 18?

Some companies invest in assets or provide financing to customers as a main business activity—for example, banks and insurers. Income and expenses that would otherwise be classified in the investing or financing categories by most companies would form part of the operating result for such companies. IFRS 18 therefore requires these income and expenses to be classified in the operating category (Figure 2).

The illustrative examples provided for IFRS 18 include examples of what a statement of profit or loss looks like for a company that provides financing to customers or invests in assets as a main business activity.

Figure 2: Classification of income and expenses for companies like banks and insurers



Banks

The operating category for a bank would generally include income and expenses from, for example:

- the **net interest result**—including interest revenue and interest expenses; and
- the **fee and commission result**—including fee and commission revenue and fee and commission expenses.

The operating category would include some income and expenses that would otherwise be classified in the financing category. In most cases, banks would not present the 'profit before financing and income taxes' subtotal.

Insurers

The operating category for an insurer would generally include income and expenses that would otherwise be classified in the investing or financing categories, for example:

- the **insurance service result**—including insurance revenue and insurance service expenses; and
- the **net financial result**—including investment income and insurance finance income and expenses.

2 Management-defined performance measures

What are management-defined performance measures (MPMs)?

MPMs are alternative or non-GAAP performance measures (that is, measures that are not defined by IFRS Accounting Standards) that are related to the statement of profit or loss. Specifically, MPMs are:

subtotals of income and expenses other than those listed by IFRS 18 or specifically required by IFRS Accounting Standards, that a company uses	
in public communications outside financial statements	to communicate to investors management's view of an aspect of the financial performance of the company as a whole

IFRS 18 requires companies to disclose information about MPMs, which will increase transparency and investors' understanding of how the measures compare with the measures defined by IFRS Accounting Standards. Investors use MPMs to get insight into how management views the company's financial performance, how the company is managed and how its financial performance is developing.

Subtotals of income and expenses

A measure that is not a subtotal of income and expenses—for example, free cash flows—cannot be an MPM, as illustrated in Figure 3. IFRS 18 requires disclosures only for MPMs.

Figure 3: Scope of MPMs

Performance measures		
Subtotals of income and expenses		Other performance measures
MPMs	IFRS-specified	
• Adjusted profit • Adjusted operating profit • Adjusted earnings before interest, tax, depreciation and amortisation	• Operating profit • Operating profit before depreciation, amortisation and impairments within the scope of IAS 36 *Impairment of Assets*	• Free cash flow • Return on equity • Net debt • Number of customers • Customer satisfaction

Public communications outside the financial statements

An MPM is a subtotal of income and expenses that a company uses in public communications outside financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of identifying MPMs, public communications do not include oral communications, written transcripts of oral communications or social media posts.

Management's view

IFRS 18 presumes a subtotal of income and expenses included in a company's public communications outside financial statements represents management's view of an aspect of the financial performance of the company as a whole.

A company can assert that a subtotal does not communicate management's view (and therefore it cannot be an MPM), but only if it has reasonable and supportable information for the assertion. For example, regulation might require a company to include an adjusted profit or loss measure in its public communications, but if the measure is not used internally by management to make decisions and does not represent management's view of performance, it cannot be an MPM.

What disclosures are required for MPMs?

A company is required to provide disclosures for MPMs in a single note, including:

- ✓ **a reconciliation between the measure and the most directly comparable subtotal listed in IFRS 18 or total or subtotal specifically required by IFRS Accounting Standards**, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;
- ✓ **a description of how the measure communicates management's view and how the measure is calculated;**
- ✓ **an explanation of any changes in the company's MPMs or in how it calculates its MPMs**; and
- ✓ **a statement that the measure reflects management's view of an aspect of financial performance of the company as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other companies.**

3 Grouping of information

What are the different roles of the primary financial statements and the notes?

The primary financial statements include:

- the statement of financial position (balance sheet);
- the statement of profit or loss (income statement);
- the statement presenting comprehensive income;
- the statement of changes in equity; and
- the statement of cash flows (cash flow statement).

The financial statements and the notes have complementary roles.

Primary financial statements	Notes
Provide **structured summaries** of a company’s recognised assets, liabilities, equity, income, expenses and cash flows, that are **useful** to investors for: • **obtaining an understandable overview** of the company’s recognised assets, liabilities, equity, income, expenses and cash flows; • **making comparisons** between companies, and between reporting periods for the same company; and • **identifying items or areas** about which investors may wish to seek additional information in the notes.	Provide **material information** necessary: • to **enable investors to understand the line items in the primary financial statements**; and • to **supplement the primary financial statements** with additional information to achieve the objective of the financial statements.

What are the principles for grouping (aggregation and disaggregation) of information?

According to investors, the way companies group information in financial statements does not always provide the information they need for their analysis—for example, some information is not shown in enough detail while other information is obscured with too much detail.

IFRS 18 gives guidance for companies on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. These principles generally require companies to:

- aggregate items that share characteristics, and disaggregate items that have different characteristics;
- group items in a way that does not obscure material information or reduce the understandability of the information presented; and
- place items in the primary financial statements and the notes to fulfil their complementary roles.

How are expenses presented in the operating category?

IFRS 18 requires a company to present expenses in the operating category in a way that provides the most useful structured summary of its expenses. To do so, a company will present in the operating category expenses classified based on:

- their **nature**—that is, the economic resources consumed to accomplish the company's activities, for example, raw materials, salaries, advertising costs; or
- their **function**—that is, the activity to which the consumed resource relates, for example, cost of sales, distribution costs, administrative expenses.

IFRS 18 requires companies to classify expenses in a way that provides the most useful information to investors, considering, for example:

- what line items provide the most useful information about the important components or drivers of the company's profitability; and
- what line items most closely represent the way the company is managed and how management reports internally.

Some companies might decide that classifying some expenses by nature and other expenses by function provides the most useful structured summary of their expenses.

Which expenses classified by function need to be disaggregated by nature in the notes?

IFRS 18 requires companies that present expenses classified by function to disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-downs of inventories included in each line item in the operating category of the statement of profit or loss.

This information is disclosed in the notes and provides investors with additional information about operating expenses to help them forecast future cash flows in changing economic conditions.

Other changes introduced by IFRS 18

IFRS 18 replaces IAS 1. As a result, the requirements in IAS 1 have been:

- replaced by new requirements in IFRS 18;
- transferred to IFRS 18 with only limited wording changes; or
- moved to IAS 8 *Basis of Preparation of Financial Statements*[2] or IFRS 7 *Financial Instruments: Disclosures* with only limited wording changes.

IFRS 18 has also introduced changes to other IFRS Accounting Standards, the most important of which are listed here.

Statement of cash flows

The IASB has made limited changes to the statement of cash flows as defined in IAS 7 *Statement of Cash Flows*, notably:

- requiring companies to use the operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method; and
- removing the presentation alternatives for interest and dividend cash flows for most companies—dividends and interest paid are generally classified in cash flows from financing activities, and dividends and interest received are generally classified in cash flows from investing activities.

These changes will simplify practice and reduce diversity in presentation. Stakeholders have expressed other concerns to the IASB regarding the statement of cash flows. As a result of the Third Agenda Consultation, the IASB plans to start work on a separate project on the statement of cash flows.

Earnings per share

In addition to reporting basic and diluted earnings per share, companies were permitted under IAS 33 *Earnings per Share* to disclose earnings per share calculated based on any component of the statement of comprehensive income.

The amendments to IAS 33 permit a company to disclose these additional earnings per share only if the numerator is either a total or subtotal identified in IFRS 18 or an MPM.

Interim financial reporting

IAS 34 *Interim Financial Reporting* was amended to require companies to disclose information about MPMs in interim financial statements. Some of the other changes (including those about subtotals) also apply to condensed financial statements in interim reports.

2 Previously IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective date and implementation support

When does IFRS 18 come into effect?

IFRS 18 is effective for annual periods beginning on or after 1 January 2027. A company can choose to apply IFRS 18 for annual periods before that date.

Companies are required to apply the new requirements in interim financial statements in the initial year of application, and to restate comparative information for the prior year ('apply IFRS 18 retrospectively') in accordance with IAS 8.

Where can I find more information including materials supporting implementation?

Together with IFRS 18, the IASB is publishing:

- examples illustrating aspects of IFRS 18;
- an effects analysis describing the likely costs and benefits (for example, better economic decision-making) of IFRS 18 for both preparers and users; and
- a feedback statement summarising the IASB's response to feedback received on the proposals that preceded IFRS 18.

The IFRS 18 implementation page on IFRS.org is updated regularly with webcasts and other supporting materials focused on implementing IFRS 18.

To stay up to date with the latest developments on IFRS 18 and to sign up for email alerts, please refer to the IFRS 18 implementation page.

Important information

This Project Summary was prepared by the staff of the IFRS Foundation for the convenience of interested parties. The views and opinions in this document are those of the staff who prepared it, not the IASB, and should not be considered authoritative in any way. The content of this Project Summary does not constitute advice.

Official pronouncements of the IASB are available in electronic format to subscribers of IFRS.org. All IFRS publications can be ordered from the IFRS Foundation website at www.ifrs.org.

Other relevant documents

IFRS 18 *Presentation and Disclosure in Financial Statements*—specifies requirements for the presentation and disclosure of information in general purpose financial statements.

Basis for Conclusions on IFRS 18—summarises the IASB's considerations in developing the requirements in IFRS 18.

Illustrative Examples on IFRS 18—illustrates aspects of IFRS 18, without giving interpretative guidance.

Supporting Materials—includes flowcharts of key requirements in IFRS 18.

Effects Analysis on IFRS 18—describes the likely benefits and costs of IFRS 18.

Feedback Statement on IFRS 18—summarises feedback on the proposals that preceded IFRS 18 and the IASB's response to the feedback.

Reference Materials—includes a table of concordance and a comparison of the requirements in IAS 1 and IFRS 18.

IFRS 18 on one page.

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