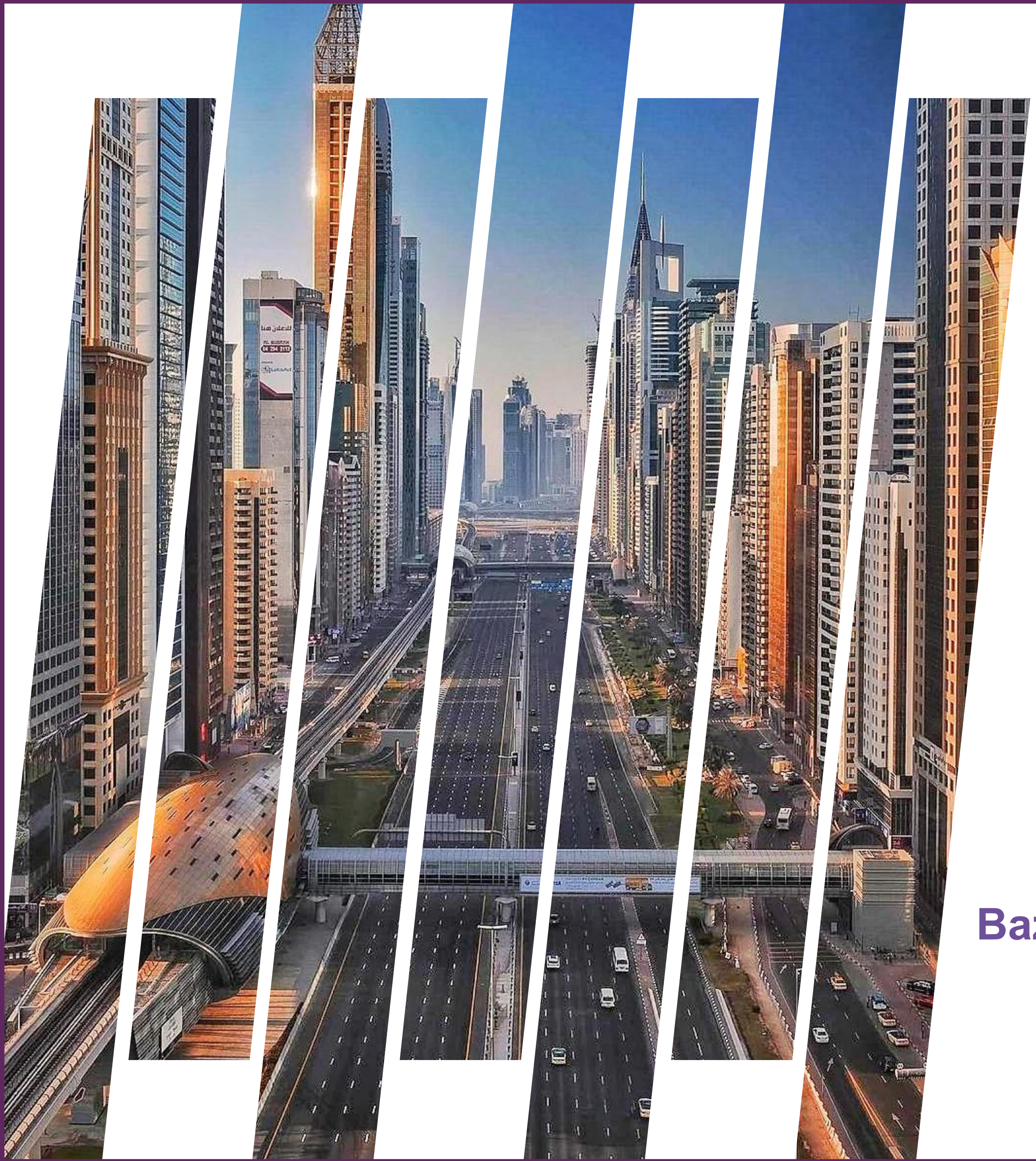

IFRS 18: Navigating the New Era of Financial Statement Presentation

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IFRS 18

Presentation and Disclosure in Financial Statements

Objective

The Strategic Shift In Financial Transparency.

New Architecture

The New Architecture of the Statement of Profit or Loss

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MPMs

Management Defined Performance Measures (MPMs).

Transition

Transition, Effective Date, and Regulatory Focus.

Application

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The Strategic Shift In Financial Transparency

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 Presentation and Disclosure in Financial Statements, a landmark standard that officially supersedes IAS 1.

This shift represents the most significant overhaul of financial performance reporting in decades, addressing long-standing investor grievances regarding the lack of standardized subtotals and the "flexibility" that previously obscured cross border comparability.

Objective

The objective of IFRS 18 is focused: it mandates a disciplined structure to help users assess an entity's prospects for future net cash inflows and evaluate management's stewardship of economic resources. By moving from the relatively loose framework of IAS 1 to a highly structured architecture, the IASB has essentially brought "management's story" into a rigorous, audited regulatory fold.

For leadership, this transition is not a mere compliance exercise; it is a fundamental change in how profitability is communicated to the market. The days of bespoke performance narratives are being replaced by a standardized "language" of profit or loss, requiring CFOs to re-evaluate how they present their business model to global stakeholders.

The New Architecture of the Statement of Profit or Loss

The core of IFRS 18 is the requirement for all entities to categorize income and expenses into five distinct categories within the statement of profit or loss. This standardization is designed to eliminate the significant diversity in practice that has historically hindered peer-to-peer analysis.

- **The Five Categories of Income and Expenses**
- **Mandatory Subtotals**

Adaptation for Specified Main Business Activities

The "architecture" changes for entities that have investing in assets or providing financing to customers as a main business activity (such as banks, insurers, or investment entities)

These entities are required to classify into the operating category certain income and expenses that would otherwise be in the investing or financing categories

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The Five Mandatory Categories

Operating Category | Investing Category | Financing Category | Income Taxes Category | Discontinued Operations Category

Operating Category
This is the default category.
It includes all income and expenses not classified elsewhere. Critically, it is intended to capture the results of an entity's main business activities.

Investing Category
This includes returns (both income and expenses) from assets that generate returns individually and largely independently of the entity's other resources.

Financing Category
This captures income and expenses from transactions that involve only the raising of finance (e.g., loans, bonds), alongside the interest effects on other liabilities like lease liabilities or pension obligations.

Income Taxes Category
Consists of taxes recognized under IAS 12 and related foreign exchange differences.

Discontinued Operations Category
Discontinued Operations as required by IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations).

Mandatory Subtotals

IFRS 18 introduces **two new mandatory subtotals** to the statement of profit or loss in addition to the final profit or loss for the period, which was already required under the previous standard (IAS 1).
To ensure consistency, IFRS 18 mandates three specific subtotals:

Operating Profit or Loss	Operating Category Income and Expenses
Profit or Loss before Financing and income taxes	Operating profit or loss , plus investing category income and Expenses
Profit or Loss	The final total representing all income less all expenses across all categories

By standardizing these headers, the IASB ensures that "Operating Profit" is no longer a management-defined figure but a strictly IFRS-governed metric. Management must critically evaluate their classification logic, particularly as many metrics previously kept in "management commentary" will now reside within these audited categories.

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Management Defined Performance Measures (MPMs)

One of the most transformative elements of IFRS 18 is the codification of Management Defined Performance Measures (MPMs). For the first time, "alternative performance measures" move from the unaudited management review into the audited notes of the financial statements.

Management Defined Performance Measures

An MPM is a **subtotal of income and expenses** that meets three specific criteria :

01

Public Communication :

It is used in public communications outside the financial statements, such as press releases, management commentary, or investor presentations However, oral communications, transcripts of speeches, and social media posts are excluded

02

Management's View :

It is used to communicate management's view of an aspect of the entity's financial performance as a whole

03

Not an IFRS-Defined Measure :

It is not a subtotal specifically required by IFRS 18 or other IFRS Accounting Standards

Presumption of Management View

If an entity uses a subtotal in its public communications, it is presumed to represent management's view of performance. This presumption can only be rebutted with reasonable and supportable information, such as evidence that the subtotal is communicated without prominence or is only provided to satisfy a specific external request

Exclusions from MPMs

It is vital to note that not all subtotals are MPMs

Certain measures are explicitly excluded from the definition of MPMs, even if used in public communications.

Standard Subtotals: Gross profit, operating profit or loss, profit or loss before financing and income taxes, and profit or loss from continuing operations.

Non-Subtotal Measures: Items that are not subtotals of income and expenses, such as financial ratios (e.g., return on assets), measures of liquidity or cash flow (e.g., free cash flow), and non-financial measures.

Segment-Only Measures: A subtotal that relates only to a specific reportable segment and does not represent the performance of the entity as a whole

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MPMs Disclosure Requirements

All information regarding MPMs must be disclosed in a single note to the financial statements. This note must include :

Useful Information Statement

A description of why management believes the MPM provides useful information and the aspect of performance it communicates

Calculation Method

A description of how the measure is calculated.

Reconciliation

A reconciliation between the MPM and the most directly comparable IFRS-defined subtotal (e.g., reconciling "Adjusted Operating Profit" to "Operating Profit").

Tax and NCI Effects

For every reconciling item, the entity must disclose the income tax effect and the effect on non-controlling interests. The tax effect must be calculated using the statutory tax rate in the relevant jurisdiction or another reasonable pro rata allocation

Comparability Warning

A statement that the measures may not be comparable to similar measures provided by other entities.

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Presentation of expenses classified in the operating category

The standard clarifies that the role of primary financial statements is to provide "useful structured summaries," while the notes provide "material information." A central directive is that material information must not be obscured by either excessive aggregation or inappropriate disaggregation.

IFRS 18 is centered on providing the most useful structured summary of an entity's expenses. An entity must choose between presenting expenses by using one or both of these characteristics: their nature or their function.

01 By Nature

The logic behind presenting expenses by nature is to provide information about the economic resources consumed to accomplish an entity's activities.

Focus

It categorizes expenses based on what they are, without referring to the specific activity for which they were used.
Type of resource (e.g., raw materials, employee benefits, depreciation,)

Strategic Consideration

This is often preferred when the relationship between revenue and specific activities is less direct. Often simpler for service-based entities.

02 By Function

The logic for presenting by function is to aggregate expenses according to the activity to which the consumed resource relates

Focus

It combines multiple "natures" of expenses into functional line items, such as cost of sales, research and development, or administrative activities.

Strategic Consideration

This is often selected when it aligns with how the business is managed and how performance is reported internally. It is typically the most useful summary for retail or manufacturing entities where the cost of sales is a primary driver of profitability.

An entity that presents one or more line items comprising expenses classified by function within the operating category of the statement of profit or loss shall also disclose, in a single note, the total amounts for depreciation, amortization, employee benefits, impairments, and inventory write-downs.

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Practical Implications and Application Challenges

01

For Preparers

The strategic imperative is a General Ledger redesign.

Capturing the "investing" and "financing" split and the five mandatory nature items for those using the "Function" method requires robust system updates and a rigorous audit trail for MPMs used by Investor Relations

02

For Auditors

The audit scope expands as MPMs, and their tax/NCI reconciliations move into the audited notes.

Expect increased scrutiny over the "main business activity" assessment.

03

For Stakeholders

Standardized subtotals will enhance cross border modeling, but analysts must be prepared for a period of transition where historical "Operating Profit" may not align with the new IFRS 18 definition.

04

Specified Main Business Activity Accounting Policy Choices

For financial institutions, insurers, and lessors, IFRS 18 introduces critical accounting policy choices. Entities that provide financing to customers as a main business activity must choose whether to classify income/expenses from cash and cash equivalents and certain liabilities in the "Operating" category or the "Investing/Financing" categories. This choice must be applied consistently and represents a major implementation decision for the Board.

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Transition, Effective Date, and Regulatory Focus

The effective date for IFRS 18 is annual reporting periods beginning on or after 1 January 2027.

Retrospective Application

Entities must apply the standard retrospectively in accordance with IAS 8. This ensures that financial information is comparable across reporting periods.

Mandatory Reconciliations

In the first year of application, entities must provide a reconciliation for each line item in the statement of profit or loss for the comparative period. This reconciliation must show the bridge between the amounts previously presented under IAS 1 and the restated amounts under IFRS 18.

Interim Reporting

If an entity prepares condensed interim financial statements (applying IAS 34) during its first year of IFRS 18 application, it must present the new mandatory headings and subtotals required by the standard, even if it has not yet issued its first annual report under IFRS 18.

The transition to IFRS 18

The transition to IFRS 18 is a marathon, not a sprint.

Early preparation is essential, as the data requirements for the 2026 comparative year must be captured in real-time starting 1 January 2026.

As your strategic technical partner, we offer the expertise required to navigate this multi-year transition without disrupting your market narrative.

We invite you to contact our Financial Reporting Advisory team today for a specialized consultation to secure your firm's reporting excellence in this new era.

Strategic Advisory for IFRS 18

How **BAM** can assist you

Impact Assessment and P&L Restructuring

Identify the specific gaps between the current reporting and the new requirements of transition to the new five-category structure for the statement of profit or loss: operating, investing, financing, income taxes, and discontinued operations

Financial Statement Redesign

Guide the drafting of the new five-category statement of profit or loss and the complex "Nature" expense disclosures. Preparing both standalone and consolidated Financial Statements as per IFRS 18

Transition and Comparative Data Support

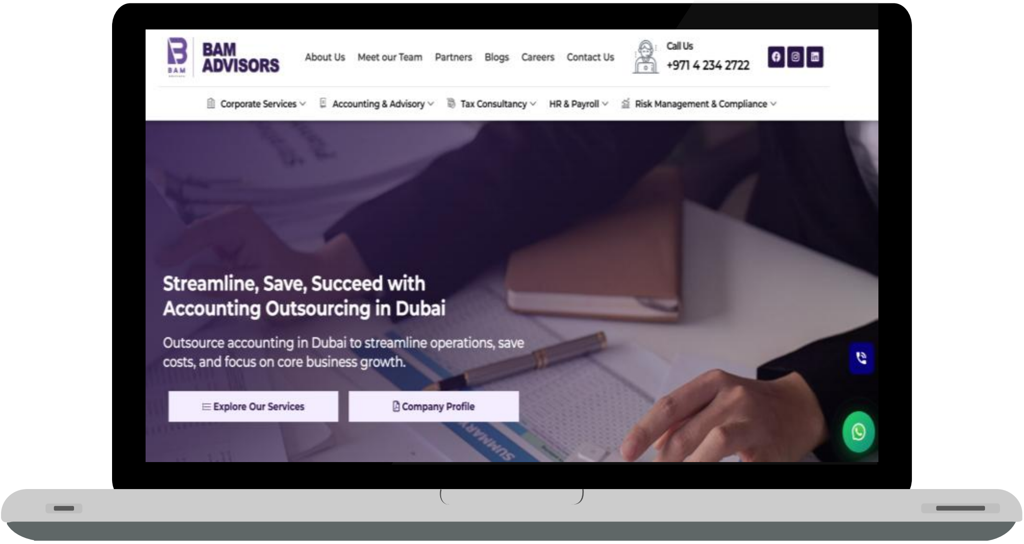
Assist the transition to IFRS 18 by restating the comparative period's financial statements in the new format and preparing the required reconciliations that clearly show how each line item has moved from its previous IAS 1 presentation to its updated IFRS 18 classification.

Interim Reporting Readiness

Assist in preparing interim reports in the first year of IFRS 18 adoption (2027) by ensuring their condensed financial statements comply with the standard's requirements, including the incorporation of all mandated IFRS 18 headings and subtotals.

Management Defined Performance Measures (MPMs) Compliance

Assist in formalizing your management metrics, ensuring all public communications are supported by the robust reconciliations now required for audit.



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