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IFRS 18 AND YOUR BUSINESS

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On 9 April 2024 the IASB released IFRS 18 **Presentation and Disclosure in Financial Statements**, the most significant change to the requirements on financial statements' presentation in the last 20 years. The new standard supersedes IAS 1 Presentation of Financial Statements and is mandatory for reporting periods beginning on or after 1 January 2027, with early application available.

The changes introduced by IFRS 18 aim to help investors make better decisions, by providing more transparency and comparability of information from entities about their financial performance. While significant sections of the new standard are consistent with the requirements in IAS 1 they replace, there are three key areas of difference to be aware of.

Statement of Profit or Loss

The most significant change introduced by the IFRS 18 is the disaggregation of the statement of profit and loss into five different categories. This will result in a presentation not dissimilar to the cash flow statement that is broken into three different categories. The required categories are:

- Operating – results from a specified main business activity.
- Investing – income and expenses from assets that generate returns separately from a company's business activities. This includes results from investments in associates, JVs and unconsolidated subsidiaries accounted for using the equity method and cash and cash equivalents.
- Financing – results related to the raising of finance, interest on other liabilities such as leases, and defined benefit pensions.
- Income Taxes.
- Discontinued operations.

There are specific rules for those entities with 'specified main business activities' such as providing financing to customers, and investing in specific types of assets, which permits items that would typically be classified as investing or financing being classified as operating. In addition, guidance is provided for various types of income and expenses, such as requiring foreign exchange differences to be split between categories based on the underlying items to which they relate.

Entities will also be required to present two new subtotals:

- Operating Profit
- Profit before Financing and Income Taxes (effectively EBIT)

Potential layout of a statement of profit and loss

	Statement of Profit and loss
Operating	Revenue Cost of sales *Gross profit* Other operating income Selling expenses Research and development expenses General administrative expenses Goodwill impairment loss Other operating expenses
	Operating Profit
Investing	Share of equity accounted profit Loss on disposal of associate Interest income
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities Interest expenses on provisions and employee liabilities
	Profit before income taxes
Income tax	Income tax expense
	Profit from continuing operations
Discontinued operations	Gain from discounted operations
	Profit

The additional subtotals required by IFRS 18 aim to give investors a consistent starting point when analysing and comparing companies' performance and formalises subtotals such as profit before financing and income taxes, that investors often demand.

Management-Defined Performance Measures

Entities will now be required to disclose Management-Defined Performance Measures (MPMs). MPMs are any subtotal of income and expenses not listed elsewhere in IFRS. These are used to communicate Management's view of an aspect of the financial performance to investors and the public outside of the financial statements, for example in investor presentations or earnings analysis. Entities must explain why MPMs are reported and how they are calculated and reconcile these to the most directly comparable IFRS-defined subtotal. This will extend to earnings per share calculations when alternative Earnings Per Share (EPS) may be calculated based on an MPM.

Previously, if entities presented alternative profit measures, there was criticism that they did not provide sufficient information on how such measures were calculated and connected to the Statement of Profit or Loss. The new requirements for MPMs are intended to improve the discipline and transparency around calculating these alternative profit measures. Including them within IFRS will also make them subject to audit in many jurisdictions, further enhancing their quality.

Aggregation and Disaggregation

IFRS 18 gives more guidance on how to aggregate or disaggregate information in order to address situations where financial statements are too detailed or too summarised. This guidance has been introduced due to complaints from users about the inconsistent level of aggregation historically and to provide greater clarity about what should be included in the primary financial statements, what details should be included in the notes, and when information can be excluded altogether. While it may result in significant changes for preparers of financial statements, the increased clarity and guidance should lead to more consistency of disclosures and greater clarity for preparers.

Implementation Challenges

While IFRS 18 undoubtedly brings significant benefits to stakeholders, we see some potential challenges ahead:

1. Performance measures to increase variety as opposed to comparability

As MPMs are not listed in the standard, it is unlikely that comparable information is going to be presented by entities. The lack of comparability will be an interesting challenge for investors and other users to navigate until sector practices develop.

In preparing MPMs, further engagement may be required with tax teams in the entity, if the tax calculations are prepared by a different team to the financial statements. Entities are required to disclose how the entity determined the income tax effect of MPMs which might add to a list of annual calculations to be performed by the tax teams.

2. More judgement may lead to reduced comparability

More judgement will be required by Management to establish what information is material to investors and other stakeholders, not only about accounting policies, but also specific line items in the primary financial statements and corresponding disclosure notes. Once these decisions have been made, presentation needs to be consistent from one period to the next unless a change is justified. As we saw with the recent change in IAS 1 from significant to material accounting policies, there are significant differences between jurisdictions and even individual companies within the same jurisdiction as to what is considered a 'material accounting policy'. Similarly, making a judgement on what disclosures and sub-totals are material for stakeholders may also result in entities producing significantly different financial statements. However, it is likely that within a couple of years of implementation, there will more consistency as more entities report and refine their disclosures.

3. The speed of technology could dictate the speed of adoption

Many companies now use specialised software to prepare their financial statements. Entities that manually prepare financial reports can implement IFRS 18 at their own timing, however most entities will be reliant on software providers providing updates before they can adopt the new standard. Once the updated software is available, all adopters may require significant resources and effort to implement the new standard due to the need to remap the Statement of Profit or Loss and consider MPMs.

Next Steps

Implementing IFRS 18 will require a significant investment by entities. Accordingly, it is important that you start thinking about the implementation of this standard now to ensure that there is a smooth transition, before mandatory implementation starting from 2026. Finance teams need to ensure that even with competing priorities, including implementing projects such as sustainability reporting, that this project is given sufficient attention.

We recommend that you consider the following activities now:

- Educate your Board or governing body about the potential implications.
- Begin discussions on what MPMs might need to be included and refine their definition.
- Develop a project plan for implementation including identifying who is responsible for any changes that are required in reporting software and understand the length of this project.
- Consider the need to engage with investors and broader stakeholders on the impacts of the changes.

Moore is strongly placed to help with all these steps, from planning through to final implementation. For more information please contact your local Moore member firm or Tony Caldwell.

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