IFRS UNPACKED

IFRS 18 Presentation and Disclosure
in Financial Statements
(as at 30 June 2026)

Contents

1 Overview

IFRS 18 Presentation and Disclosure in Financial Statements was issued by the IASB in April 2024 and replaces IAS 1 Presentation of Financial Statements. The standard applies to annual reporting periods beginning on or after 1 January 2027, with early adoption permitted.

IFRS 18 represents a significant change to how entities present and disclose financial performance. Whilst the recognition and measurement of assets and liabilities remains unchanged, the standard introduces a more defined structure for the statement of profit or loss, new subtotals, and enhanced disclosure requirements.

The changes introduced by IFRS 18 are intended to improve the comparability, transparency and consistency of financial reporting, particularly in relation to how entities communicate their financial performance. In doing so, IFRS 18 addresses long-standing diversity in practice under IAS 1, particularly in the presentation of operating profit and the use of entity-specific performance measures.

Given the breadth of these changes, entities should not view IFRS 18 as a simple presentation update. Implementation may require significant judgement, changes to systems and processes, and engagement across multiple stakeholders.

1.1 Overview of key changes

IFRS 18 Introduces three core areas of change:

In addition to the above, IFRS 18 introduces a number of other changes, including:

- New requirements for the presentation of operating expenses by nature, function, or a mixed approach;
- Consequential amendments to other standards, including IAS 7 *Statement of Cash Flows*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*; and
- New requirements affecting the presentation of information relating to associates and joint ventures.

Whilst some of these changes are more targeted, they may still have a material impact on particular entities depending on their circumstances.

1.2 What remains unchanged

Despite the extent of the changes introduced, it is important to note that IFRS 18 does not change many fundamental aspects of financial reporting.

In particular:

- **Recognition and measurement**
  IFRS 18 does not change how assets, liabilities, income or expenses are recognised or measured. These continue to be governed by other IFRS Accounting Standards.

- **Total profit or loss**
  The total profit or loss for the period is unaffected by IFRS 18. The changes relate to how that profit or loss is presented and analysed.

- **Underlying economic performance**
  IFRS 18 does not change the underlying economics of transactions. However, it may change how those transactions are presented, which could affect how performance is interpreted.

- **Many principles from IAS 1**
  A significant number of principles previously contained in IAS 1 (for example, materiality, going concern and fair presentation) have been retained, although in some cases they have been relocated or articulated in more detail.

Accordingly, whilst the financial position and performance of an entity will not change as a result of IFRS 18, the presentation, communication and interpretation of that performance may change significantly.

1.3 Overall implications

The adoption of IFRS 18 represents a significant change to financial reporting, particularly in how performance is presented and communicated to users.

Entities will need to:

- Apply judgement in classifying income and expenses;
- Reassess how performance is measured and communicated internally and externally; and
- Consider the implications for systems, processes and controls.

In practice, the implementation of IFRS 18 is likely to be a cross-functional exercise, requiring coordination between finance, systems, investor relations and other stakeholders.

2 Income statement

2.1 Categorisation in the income statement

IFRS 18.47 IFRS 18 requires income and expense in the income statement to be classified into 5 different categories:

- Operating category
- Investing category
- Financing category
- Income tax category
- Discontinued Operations

In addition, entities are required to provide the following subtotals (see section 2.3)

- Operating profit
- Profit or loss before financing and income taxes
- Total profit or loss

The income statement may be presented as follows:

Operating (section 2.1.3)	Revenue
	Cost of sales
	Gross Profit
	Other operating income
	Research and development expenses
	General administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating Profit
Investing (section 2.1.1)	Share of equity accounted profit
	Loss on disposal of associate
	Interest income
	Profit before financing and income taxes
Financing (section 2.1.2)	Interest expense on borrowings and lease liabilities
	Interest expense on provisions and employee liabilities
	Profit before income taxes
Income Tax (section 2.1.4)	Income tax expense
	Profit from continuing operations
Discontinued Operations (section 2.1.5)	Profit from discontinued operations
	Profit for the Period

When determining the classification of an income or expense item, the classification is typically going to be driven by the nature of the underlying asset or liability that gives rise to that income or expense and in some instance the main business activity of the entity (see section 2.1.6). The categories in the income statement are:

2.1.1 Investing category

IFRS 18.53

Income and expenses can be categorised in the investing category only if they are specific types of income and expenses relating to certain types of assets. Specifically, the assets must be:

- An investment in associate, joint venture or unconsolidated subsidiary
- Cash and cash equivalents
- Other assets if they generate a return individually and largely independent of the entity's other resources.

If an entity has a specified main business activity that involves investing in assets, separate rules apply that may see some income and expense items classified in the operating category that would otherwise be categorised as investing (see 2.1.6 below).

IFRS 18.54, 47

Not all income and expense relating to these items can be classified in the investing category. IFRS 18 permits the following items to be included in the investing category if they relate to the relevant assets:

Specific item of income or expense	Examples
Income generated by these assets	• Interest • Dividends • Rental income • Share of associates profits
Income and expense that arise from the initial and subsequent measurement of the assets, including derecognition of the assets	• Fair value gains and losses • Impairment losses and reversals • Depreciation of investment properties
Incremental expenses directly attributable to the acquisition and disposal of the assets	• Transaction costs not captured in the carrying amount at initial recognition • Costs to sell assets • Income or expenses from the derecognition of the asset, or its classification and remeasurement as held for sale. (see 2.1.5)

2.1.1.1 Assets generating largely independent returns

Consideration needs to be given as to whether an asset generates returns individually and largely independent of the entity's other assets and resources, to allow categorisation of the associated income and expense in the investing category. If the assets are instead used in combination with other assets and resources of the group to generate returns, the associated income and expenditure will be classified as operating.

IFRS 18.B46 The types of assets that are considered to generate largely independent returns include

- Debt instruments
- Equity instruments
- Investment properties (and associated rental receivables)
- Net investments in finance leases

If an entity's main business activity involves investing in these types of assets, such items would be classified as operating (see section 2.1.6 below)

2.1.1.2 Incremental expenses

Incremental income and expenses related to these assets can only be classified as investing if they are:

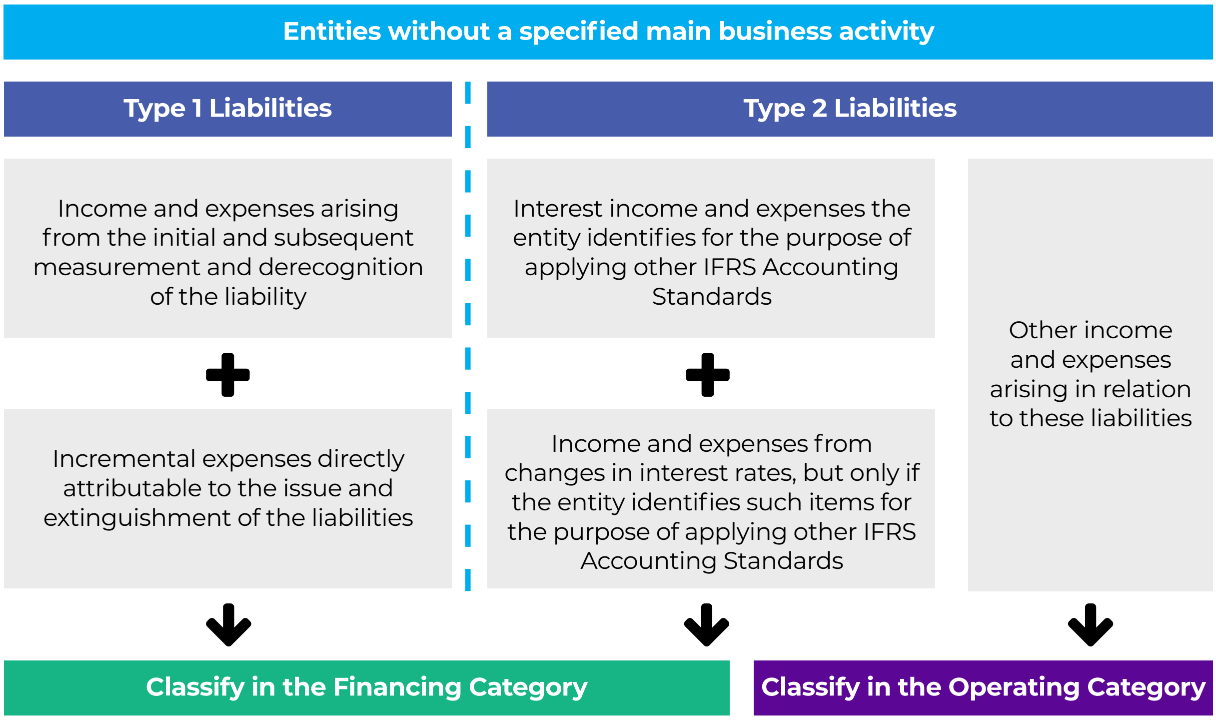
- Income and expenses that arise from the initial and subsequent measurement of the assets, including derecognition of the assets
- Incremental expenses directly attributable to the acquisition and disposal of the assets

This will mean that there will be some income and expense items associated with these items that will not meet the requirements for classification in the investing category and instead will need to be categorised as operating (See section 2.1.3 below). This generally relevant for costs associated with holding these types of assets and are incurred through the assets life including:

- Maintenance costs of investment properties
- Property Rates
- Ongoing general advisor / manager fees etc.

2.1.2 Financing category

The income and expenses to be classified as financing for entities without a specified main business activity (see 2.1.6 below) can be summarised as follows:



The types of income and expense that can be categorised as financing is dependent on the type of liability.

2.1.2.1 Type 1 liabilities

IFRS 18.B50 Type 1 Liabilities are those liabilities that arise from transactions that only involve the raising of finance. That is liabilities that arise from the receipt of cash or extinguishment of a financial liability or receipt of the entity's own equity instruments and at a later date the entity will need to return that in exchange for cash or their own equity instruments.

IFRS 18.B51 These are arrangements that are purely financing in nature and do not also provide the entity with additional benefits. It may include liabilities such as:

- Loans and mortgages, and other debt instruments to be settled in cash
- Bonds settled through the delivery of shares
- Obligation to purchase its own equity instruments.
- Supplier financing arrangements where the underlying trade payable has been derecognised

The inclusion of supplier financing arrangements on this list, does not provide any additional guidance on whether a supplier financing arrangement requires the underlying trade payable to be derecognised and a financing arrangement recognised on the statement of financial position. It only notes that if derecognition does occur and a new financing liability is recognised, the resulting interest expense etc, will be classified as financing in the income statement.

IFRS 18.60 The types of income and expenses relating to these instruments that will be classified as financing in relation to these assets are items that relate to the initial recognition, ongoing measurement and derecognition of the liabilities, including associated transaction costs. This will include

- Interest expense calculated using the effective interest rate
- Fair value gains and losses
- Dividends payable on preference shares classified as a liability
- Gains or losses on derecognition of the liability
- Transaction costs

The explicit inclusion of transaction costs means that all transaction costs, whether captured in the effective interest rate for instruments carried at amortised cost or recognised immediately in the income statement because the liability is measured at fair value through profit or loss, will be captured in the financing category.

There may still be some facility fees and other similar costs, associated with financing arrangements that are not directly attributable to a specific liability. As the classification of items into the financing category is based on the associated liability, if a cost cannot be linked to a liability, it will not be able to be classified in the financing category and will need to be categorised as operating. This may include costs such as debt advisory fees that are not linked to a specific borrowing.

2.1.2.2 Type 2 liabilities

IFRS 18.B53 Type 2 liabilities are those liabilities that arise from transactions that do not involve only the raising of finance and also have another purpose.

These may include liabilities such as:

- Trade and other payables
- Contract liabilities
- Provisions
- Lease liabilities
- Defined benefit obligations

IFRS 18.61 Not all income and expenses relating to these items are recognised in the financing category. It is only amounts that relate to interest income and expense (or changes in interest rates) that are identified as such in applying the requirements of other IFRS Accounting Standards.

IFRS 18.B54 This includes amounts such as:

- Interest expense on trade payables or contract liabilities
- Interest expense on lease liabilities
- Net interest expense on defined benefit plans
- Increases in provisions attributable to the passage of time and changes in discount rates

IFRS 18.BC167

However, if interest amounts are not required by other IFRS Accounting Standards to disaggregate interest components, then they should not be disaggregated for the purpose of classification in the income statement. For example, IFRS 2 *Share-based Payment* does not require the expense relating to the change in a cash-settled share-based payment liability into the interest expense/ time value of money and other changes in the liability. Accordingly, this amount would not be disaggregated in the income statement and instead would be classified in its entirety as an operating expense.

2.1.2.3 Hybrid contracts containing a liability host

It is not uncommon for entities to issue hybrid instruments consisting of a liability (debt) host instrument and an embedded derivative, which may or may not be separately accounted for in accordance with IFRS 9 *Financial Instruments*. This may include instruments such as convertible notes and some preference shares. The classification of the income and expense will depend on the accounting treatment as follows:

Type of instrument	Classification of income and expenses
Embedded derivative is separated from Host debt instrument	Host debt instrument – apply the general rules for classification of liabilities per section 2.1.2 above. This will typically result in classification in the financing category, unless they relate to liabilities that do not involve only the raising of finance or the entity has a specified main business activity (see section 2.1.6 below), in which case the classification follows the relevant IFRS 18 requirements for such liabilities. Separated derivative – apply the rules applicable to hedging instruments – see section 2.1.7.2 below
Embedded derivative is not separated from the host debt instrument, and the instrument involves only the raising of finance	Classify in the financing category
Embedded derivative is not separated from the host debt instrument, and the instrument does not involve only the raising of finance	If the host debt instrument, is a financial liability in the scope of IFRS 9 and carried at amortised cost, classify based on the rules for type 1 Liabilities In all other instances, apply the general classification rule of IFRS 18, which is likely to result in the income and expenses being classified in the operating category.

2.1.2.4 Presentation of items within the Financing Category

IFRS 18.75(b)
IFRS 18.BC242

Besides general requirements to present items required by IFRS 9 *Financial Instruments* on the face of the income statement, there is no specific guidance on how to present the item within the financing category in the income statement, which has replaced the requirement to present a single 'finance cost' line item under IAS 1. Preparers are now just required to consider the role of the primary financial statements in determining what is a useful summary of information in the financing category (see section 4.2 below) to determine the appropriate line items to present.

One potential disaggregation of expenses in the financing category might be to disclose separately

- Expenses relating to type one liabilities (financing liabilities)
- Expenses relating to type two liabilities (other liabilities)

However, another classification of the income and expenses may be more appropriate in different scenarios.

2.1.3 Operating category

IFRS 18.B42

The Operating category is broader than just those income and expenses relating to an entity's main business activity. The operating category is the residual category and all income and expenses that do not meet the requirements for recognition in any of the other categories should be presented in the operating category. This would include income and expense that are non-recurring or unusual in nature.

The only time there are specific requirements for what is included in the operating category is when an entity has a specified main business activity, as discussed in section 2.1.6 below.

IFRS 18.B48 – B49

Due to the definition of what is included in the investing category, where assets are used in combination to produce or supply goods or services, these are not considered in the investing category and should instead be classified in the operating category. This will include items such as depreciation of property, plant and equipment and related impairment charges on it.

Specific areas for consideration include:

2.1.3.1 Business combinations

IFRS 18.B49

Whilst Business combinations may appear to be investing in nature, and the associated cash flow are presented as investing in the statement of cash flows, in the income statement income and expenses associated with a business combination should be classified in the operating category. This is on the basis that the assets acquired are to be used in combination with other assets to generate future incomes.
This will include income and expense items such as:

- Gains on bargain purchases
- Remeasurements of contingent consideration
- Associated transaction costs

2.1.3.2 Employee related costs

Costs associated with employees will generally be operating in nature, although normal analysis should apply to determine categorisation. There are some employee expenses that are specifically addressed in the standard:

IFRS 18.B55(b)

- Current and past service costs arising from a defined benefit plan are operating in nature.

IFRS 18.B54(d)

- Net interest expense (income) on a net defined benefit liability (asset) are categorised as financing.

IFRS 18. BC164 – BC 168

- Movements in share-based payment expenses are not required by IFRS 2 *Share-based Payments* to be disaggregated into the interest component (time value of money) and other changes in value and accordingly, the whole amount would be recognised as an operating expense and not be disaggregated with a component categorised as financing.

2.1.3.3 Revenue contracts and trade receivable related amounts

As trade receivables and contract assets are recognised as a result of sales from customers, they are considered to be assets that are used in combination with other assets to generate returns and are not largely independently of other assets, and accordingly, the following amounts will be recognised in the operating category:

- Impairment charges against trade receivables and contract assets
- Reversals of previously recognised impairments

Where revenue contracts have significant financing elements, and interest related to them the treatment is more complex. Where there is interest expense payable on contracts where revenue is received in advance, the interest expense is categorised as financing. Where revenue contracts have significant financing elements because of deferred finance terms and interest income is recognised, this income would need to be categorised as operating, because the receivable does not meet the requirements to be classified as investing.

2.1.4 Income tax category

IFRS 18.67

Entities classify income and expenses in the income tax category if they are tax expense or tax income calculated in accordance with IAS 12 *Income Taxes* and are recognised in profit or loss including any related foreign exchange gains or losses. As the amounts must be calculated in accordance with IAS 12 to be classified as income tax, tax amounts that are not calculated based on taxable profits, such as value added taxes will not be classified in the income tax category under IFRS 18.

This is currently being explored by the IASB, who as at their May 2026 meeting, deferred their decision to endorse the IFRIC Agenda decision that confirmed this position and are currently considering whether any minor amendments to IFRS 18 are required.

2.1.5 Discontinued Operation category

IFRS 18.68

Entities classify income and expenses in the discontinued operation category, in respect of amounts that are determined in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as relating to discontinued operations. Consistent with the requirements of IFRS 5 this category in the income statement should only have a single line item being the net profit or loss from discontinued operations

IFRS 18.68

The categorisation of gains and losses on disposal of assets or a group of assets in the income statement will depend on where the gains and losses arise.

- If the disposal group constitutes a discontinued operation – the gains and losses are classified in the Discontinued Operation category
- If the disposal group does not constitute a discontinued operation, the gains and losses follow the classification of the assets immediately prior to their classification as 'held-for-sale'. Gains and losses will be classified as
  - Operating if the disposal group would otherwise be categorised as operating
  - Investing if the disposal group would otherwise be categorised as investing

IFRS 18.B64(a)

IFRS 18.B64(b)

2.1.6 Specified main business activities

Whilst the operating category is a residual category, the intention of the IASB was that the operating profit should represent the entity's operating performance. Therefore, the normal classification of items discussed above would not be appropriate for entities whose main business activities are:

- investing in assets; or
- providing financing to customers.

Accordingly specific rules are provided for these specified main business activities, to ensure that the operating category reflects the main operations of these types of entities.

2.1.6.1 Identifying main business activities

IFRS 18.B32 Whether investing in assets or providing finance to customers is a main business activity is a matter of fact and not merely an assertion.

IFRS 18.B30 IFRS 18.B41 There is no threshold for when an activity becomes a *main* business activity, professional judgement will be required. It is possible for an entity to have more than one main business activity. As facts change over time the assessment of whether a business activity is a main business activity may change, such changes in classification would be made prospectively from the date the change occurred and amounts prior to that date are not reclassified.

IFRS 18.B34 An activity is likely to be a main business activity, if the entity uses a subtotal relating to that activity as an indicator of operating performance, similar to a gross profit subtotal where the items making up that subtotal would otherwise be categorised as investing or financing.

IFRS 18.B23 Examples of subtotals that might be used to reflect performance include

- Net interest income
- Net fee and commission income
- Insurance service result
- Net financial result
- Net rental income

These subtotals may be used in external communications, including investor presentations or segment reporting in accordance with IFRS 8 *Operating Segments* or just be used for internal decision making. Any place that indicates that the entity considers the subtotal an indicator of operating performance.

IFRS 18.B36 Where an entity prepares segment reports in accordance with IFRS 8 then:

- Reportable segments that comprise a single business activity indicate that the performance of that reportable segment is an important indicator of performance and the business activity of that reportable segment *is* a main business activity of the entity
- Where an operating segment (That is not separately reportable) comprises a single business activity this *might* be a main business activity, but further consideration would be required to determine if the entity uses it as a main indicator of performance.

2.1.6.1.1 Level of assessment

IFRS 18.B40 If an entity has a main business activity of investing in one type of asset, it does not mean that the rules for investing being a specified main business activity, applies to income and expenses relating to all assets that it holds. It is important to distinguish those which are part of that main business activity and those which are not. When assessing what assets are part of its main business activity, entities shall assess individual assets or groups of assets with shared characteristics. When assessing investments in financial assets this should be at the level of a class of financial instrument that the entity identifies when applying IFRS 7 *Financial Instruments: Disclosures.*

If the assets are not part of the main business activity, then the normal classification rules apply to the related income and expenses as discussed in 2.1.1 above.

2.1.6.1.2 Consolidated vs standalone financial statements

Assessment of whether an activity is a main business activity should happen at the
IFRS 18.B37 reporting entity level. Accordingly different conclusions can be reached at a consolidated and standalone account level.

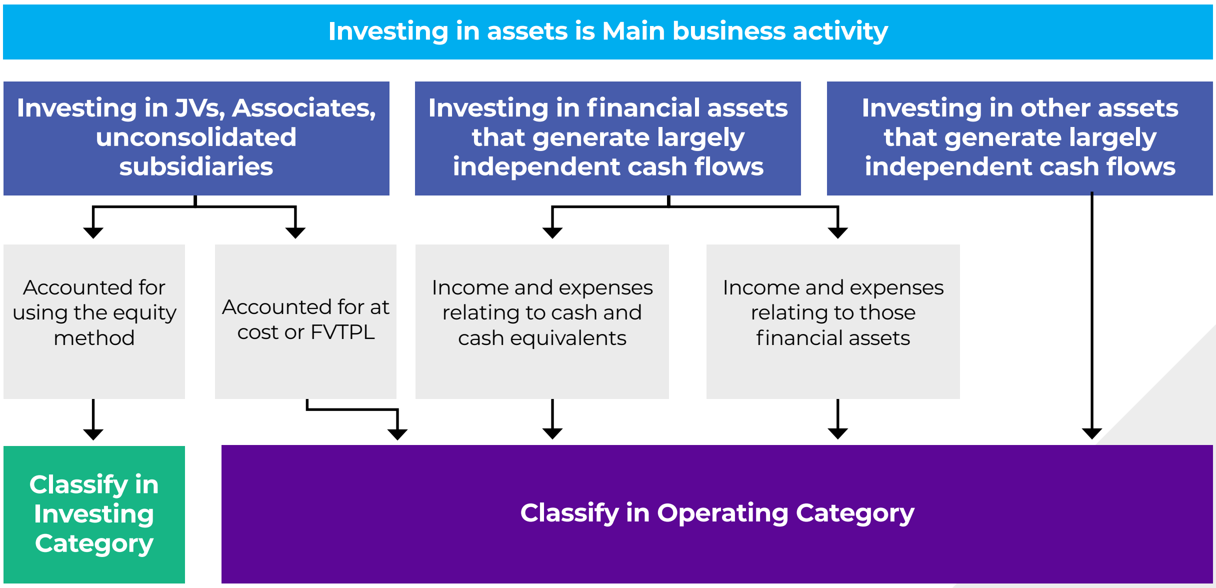
For example, a car company sells cars to their customers and has a small subsidiary that also provides financing to the customers. It may be possible to conclude at the consolidated level that customer financing is not a main business activity, as the financing results are not separately reported and monitored at the consolidated level, but if the financing subsidiary was to prepare standalone financial statements, it would conclude that providing financing to customers was its main business activity and would need to classify its income and expenses accordingly.

IFRIC Update 26-03 For Parent entities that prepare standalone financial statements, that are holding companies that hold investments in operating subsidiaries, their main business activity is likely to be investing in unconsolidated subsidiaries, but will depend on the specific facts and circumstances, especially if the parent also has other operations within the entity.

It is not appropriate to conclude that the parent entity has no main business activity, and to only present the income (Dividend distributions) and any related expenses in the investing category and have no operating category. It is not envisaged that an entity would not have a main business activity and would not have an operating category in the income statement.

2.1.6.2 Implications of investing in assets being a main business activity

Where an entity has investing in a class of assets being a main business activity specific rules apply for determining whether income and expenses relating to those specific assets are classified as investing or operating. The implications will depend on what of assets the entity invests in as its main business activity.



Income and expenses relating to other assets, that are not considered to be part of the main business activity, continue to apply the general rules as outlined in 2.1.1.

2.1.6.3 Implications of customer financing being a main business activity

Where an entity provides financing to a customer as a main business activity. This has implications on the categorisation of income and expense with both the liabilities associated with providing the financing and the cash and cash equivalents associated with providing the finance.

Providing financing to customer is main business activity

Income and expenses from Liabilities relating to the provision of finance to customers	Interest income and expenses from Type 1 liabilities that do not relate to the provision of finance to customers
+	+
Income and expenses from cash and cash equivalent relating to the provision of finance to customers	Income and expenses from cash and cash equivalent that do not relate to the provision of finance to customers
↓	↓
Classify in the Operating Category	**Accounting Policy Choice**

Income and expense relating to all Liabilities that do not involve only the raising of finance (Type 2 liabilities) the general classification rules in 2.1.2.2 continue to apply.

Accounting policy choice

IFRS 18.56(b)
IFRS 18.65(a)
An accounting policy choice exists but must be applied consistently to the income and expenses associated with both the type 1 liabilities and the cash and cash equivalents that do not relate to the provision of finance to customers. Entities may elect classify these income and expenses in either:

- All in the Operating category
- Investing category for income and expense relating to the cash and cash equivalent and Financing category for type liabilities.

IFRS 18.57
If the entity cannot distinguish between the cash and cash equivalents that relates to the provision of finance to customers and the cash and cash equivalent that does not relate to the provision of finance, all income and expenses relating to cash and cash equivalents shall be classified in the operating category.

2.1.7 Classification of specific expenses

IFRS 18 provides specific guidance for the following items of income and expenses which could be classified in a number of different categories.

2.1.7.1 Foreign exchange gains and losses

IFRS 18.B65

Foreign exchange gains and losses are classified consistently with the income or expense to which they relate, reflecting that foreign exchange differences are a measurement effect of underlying transactions, assets or liabilities rather than a separate source of performance.

This requires identifying the underlying item that gives rise to the foreign exchange difference and classifying the gain or loss in the same category as the related income or expense. Foreign exchange differences arising on items associated with revenue-generating activities, such as trade receivables or payables, are classified in the operating category. Foreign exchange differences on liabilities arising from financing activities, such as borrowings, are classified in the financing category. Where foreign exchange differences relate to assets that generate returns independently and the related income and expenses are classified in the investing category, those foreign exchange gains or losses are also classified in the investing category.

IFRS 18.B67

Where foreign exchange differences relate to items that fall within more than one category or cannot be directly linked to a single underlying item, judgement is required to determine a classification that best reflects the nature of the underlying exposures.

IFRS 18.B68

Where separating or allocating foreign exchange gains and losses to different categories would require undue cost or effort, the foreign exchange gains or losses are classified in the operating category. Undue cost or effort does not mean that entities can put in no effort and default to categorising the foreign exchange gains and losses in the operating category. It is likely that in order to be able to appropriately classify the foreign exchange gains and losses systems changes will be required, including potentially creating separate accounts for different types of foreign exchange gains and losses and remapping the foreign exchange movements. See section 6.1 below on implementation for further discussion.

2.1.7.1.2 Foreign exchange gains and losses on Intragroup monetary items

IFRIC Update 26-03

In consolidated financial statements where intercompany loans have been made between entities with different functional currencies, whilst the loans eliminate on consolidation, the resulting foreign exchange gains or losses do not. When determining where in the income statement to categorise those gains and losses, entities have an accounting policy choice to either:

- Categorise in the operating category by default; or
- Categorise it in the category that gave rise to the foreign exchange gain or loss before the consolidation elimination.

Example: Foreign exchange gains or losses on intragroup monetary items

Parent X has an EUR functional currency, and the consolidated financial statements also have an EUR presentation currency. During the year Parent X made two intragroup loans

- Loan in EUR to Subsidiary Y, who has a GBP functional currency.
  There is a 500EUR FX gain on this loan for the year
- Loan in USD to subsidiary Z, who has a USD functional currency
  There is a 200EUR FX loss on this loan for the year.

Applying accounting policy option 1

Net 300 FX gain would be recognised in the operating category.

Applying accounting policy option 2

The 500 EUR gain on the intercompany loan to Subsidiary Y would be recognised in financing, as it arose in Subsidiary Y who was borrowing in a currency other than their functional currency and the foreign exchange gain or loss therefore relates to an item that would be categorised in the financing category.

The 200 EUR loss on the intercompany loan to Subsidiary Z would be recognised in investing, as it arose in Parent X who was lending in a currency other than their functional currency and the foreign exchange gain or loss therefore relates to an item that would be categorised in the investing category.

Complexities may arise in applying accounting policy option 2 where the assessment of specified main business activities is different between the consolidated and standalone financial statements. In such scenarios, the specified main business activities from the view of the consolidated financial statements would be the one that is relevant in determining the appropriate classification.

2.1.7.1.3 Hyperinflationary entities

IFRS 18.B69

Where an entity is applying IAS 29 *Financial Reporting in Hyperinflationary Economies* if the entity does not present the gain or loss on the net monetary position with the associated income and expense, it shall classify the gain or loss in the Operating category.

2.1.7.2 Hedging instruments

Derivatives can be used to manage identified risks (for example, interest rate or foreign currency risks) or use for other purposes (for example, derivatives held for trading purposes or embedded derivative in a convertible loan that requires separation). Classification of gains and losses from such instruments can be split into the following groups:

Instrument	Classification of gains and losses
Designated hedging instruments under IFRS 9	Classified in the same category as income and expenses affected by the designated risks the instrument is used to manage. This includes the gains and losses relating to undesignated components or any ineffectiveness.
Derivatives used to manage identified risk but not designated as a hedging instrument	Classified in the same category as the income and expenses as the instrument is used to manage.
Derivatives not used to manage identified risks and do not relate to raising of finance	Classified in the operating category.
Derivatives not used to manage identified risks and relate to the raising of finance	Classified in the financing category. Unless an entity is providing financing to customers as a specified main business activity where the guidance for classification of specified main business activities shall be applied (See section 2.1.6.3 above).

IFRS 18.B70 For Designated hedging instruments and other derivatives used to manage identified risks, if classifying gains or losses into a particular category will result in the grossing up of gains and losses, then the gains and loss should instead be presented in the operating category.

Grossing up of gains and losses means allocating the same total gain or loss on a derivative across multiple categories of the statement of financial performance to reflect different risks being managed, thereby resulting in amounts recognised in each category that, in aggregate, exceed the actual total gain or loss on the derivative (for example, derivative used to hedge currency risk on revenue and interest expense).

Example: Grossing up of hedged gains and losses

Co X has an EUR functional currency and has the following USD Exposures

- Trade payables (inventory purchase) USD 100 (operating category)
- Bank loan USD 80 (financing category)

X therefore has a net USD Payable exposure of USD 20. It enters into a forward contract to buy 20 USD to manage this net FX exposure. X does not apply hedge accounting.

During the period the following FX gains and losses arose:

- FX loss on payable (50)
- FX gain on loan 40
- Gain on forward contract 10

The FX position is therefore perfectly managed and there is no overall FX gain or loss.

	FX Gains and losses	
	Gross Up	No Gross Up
Operating Category		
FX loss on Payable	(50)	(50)
FX Gain on Derivative	50	10
Net Operating FX Gain/ Loss	*NIL*	*(40)*
Financing Category		
FX gain on loan	40	40
FX loss on derivative	(40)	-
Net Financing Gain/Loss	*NIL*	*40*
Net Total FX gain/Loss	**NIL**	**NIL**

The Gross up approach is not permitted in accordance with IFRS 18, and Co X would need to present the FX gains and losses on the derivative in the operating category as shown in the 'no-gross up' approach because allocating the derivative gain between operating and financing would require grossing up amounts beyond the actual gain on the derivative.

2.2 Presentation of operating expenses

IFRS 18 has introduced changes to the method of analysis and presentation of expenses in the operating category in the income statement, bringing the classification more in line to what entities were doing in practice. Entities are permitted to present their operating expenses either:

IFRS 18.80 -81, B81

Nature	Function	Mixed Presentation
Operating expenses are aggregated based on the nature of the economic resources consumed, no matter where in the entity the consumption occurs	Operating expenses are aggregated based on the activity to which the consumed resources relate. It will combine expenses of different nature	Some expenses are classified by nature and other expenses by function, where it provides the most useful structured summary
Depreciation, salaries and wages, materials consumed	Cost of Sales, Research and Development, Occupancy expenses, Administration expenses	

IFRS 18.78

Entities do not have a free choice in how they present their operating expenses. They must select a method that provides the most 'useful structured summary' of the operating expenses. This will require judgement. To assist with this the IASB have provided the following indicators that may be considered:

IFRS 18.B80

Consideration	Example
Main components or drivers of entity's profitability	Entities that sell goods are likely to find that classification by function, allowing for a cost of sales and selling expenses, may be the most relevant explanation of the driver of profit. Entities that are service based organisations may find that information about nature of expenses such as employee costs are more relevant for the understanding of the driver of performance.
How the business is managed and internal management reports	The way management views the business is likely to be a useful starting point, as it is reflective of how management consider their expenses.Where entities have multiple different major functions, categorisation by function may be more useful.However, if there is a simpler operating model, allocating by function may be less relevant and therefore it may be more useful to disclose by nature.
Industry practice	An approach to classifying expenses is likely to be consistent across an industry and will also allow for greater comparability between entities.

IFRS 18.B80(d)

Where allocation of an expense to a particular function would be arbitrary, those expenses should be classified by nature rather than function.

2.2.1 Classification of expenses by nature

IFRS 18.B84

Where an entity elects to classify expenses by nature the amounts presented and disclosed in the line items need not be the actual expense amount for the period. It could include amounts that have been recognised as part of an asset for the period. This amount capitalised into the asset will then be disclosed separately.

This approach is most likely to be relevant for costs capitalised into inventory but may also be related to installation costs capitalised into property, plant and equipment, or costs capitalised as research and development.

Example: Employee costs disclosed by nature

Co X is disclosing all employee costs by nature. During the year, the total payroll was 500. Of this payroll amount:

- 100 related to factory staff involved in the manufacturing of inventory and has been capitalised into inventory
- 50 related to research and development costs that met the requirements for capitalisation.

In addition, X had depreciation expense of 200, 80 of which related to the depreciation of manufacturing plant and the cost is capitalised into inventory.

Assuming there are no other expenses, the operating category of their income statement may look as follows:

Revenue	1000
Employee benefits	(500)
Depreciation	(200)
Change in inventories	180
Change in Development asset	50
Operating Profit	**530**

Additional explanations would also be required to be provided in the notes.

This approach may be beneficial as it allows the expenses disclosed to be directly agreed to the underlying support, such as for example agreeing the amount of the employee benefits expense back to the total payroll for the period.

Alternatively, entities may continue to present the expenses consistently with how they currently present expense by nature and continue just to present the net expense amount.

2.2.2 Classification of expenses by function

When classifying expenses by function, the IASB have not defined what 'function' means but consider it to be a well understood longstanding term.

IFRS 18.82 When using a functional classification, it is required that a cost of sales function be one of those functional lines, which includes the costs of inventories expensed during the period. In the notes a qualitative description should be provided of the nature of the expenses included in each function.

IFRS 18.83 Where entities present any expenses classified by function on the face of the income statement, similar to existing requirements, disclosures are required regarding the following expenses by nature:

- Depreciation including amounts calculated in accordance with IAS 16 *Property, plant & Equipment,* IAS 40 *Investment Property,* IFRS 16 *Leases*
- Amortisation (IAS 38 *Intangible Assets*)
- Employee benefits including both amounts from IAS 19 *Employee benefits* and IFRS 2 *Share-based Payments*
- Impairment losses or reversals (IAS 36 *Impairment of Asset)*
- Write-downs or reversals of write downs (IAS 2 *Inventories*)

The disclosure should show which line items in the operating category that the expense is included in, and a list of any line item outside of the operating category that is included in that total. This is similar to the process discussed in section 2.2.1 above in relation to expenses categorised by nature, where the total may include amounts that are not recognised as an expense.

Example: Reconciliation of expenses by nature

Co X has classified its operating expenses by function on the face of the income statement. To meet the requirements to provide the relevant total expenses disclosed by nature in the notes, X provides the following disclosure:

Nature of expense	Cost of sales	Selling & distribution	Administrative	Total recognised in operating	Total
Employee benefit expense	320	90	120	**530**	**545**[a]
Depreciation	80	15	20	**115**	**125**[b]
Amortisation of intangible assets	20	5	10	**35**	**35**
Inventory write-down	980	–	–	**980**	**980**
Impairment losses (and reversals)	10	–	5	**15**	**20**[c]

[a] Amounts recognised outside of the Operating category include employee benefits capitalised into inventory and Research and Development assets

[b] Amounts recognised outside of the operating category include depreciation on investment properties categorised as investing, and depreciation capitalised into the cost of inventory

[c] Amounts recognised outside of the operating category include impairment recognised against investment properties and categorised as investing

2.3 Required subtotals in the income statement

IFRS 18.69

There are only 3 required totals and subtotals required in the income statement

- Operating profit or loss
- Profit or loss before financing and income taxes
- Profit or loss

Entities may elect to provide additional subtotals, such as profit from continuing operations or profit before tax as long as these subtotals meet the general requirements for additional subtotals as discussed in section 4.2.1 below.

2.3.1 Required subtotals – financing to customers specified main business activity

IFRS 18.73

If an entity has the main business activity of providing financing to customers, different subtotals are required. If such entities apply the accounting policy choice to recognise the income and expenses relating to liabilities that are not related to the provision of financing to customers in the operating category (See section 2.1.6.3 above), then they shall not provide a 'Profit or loss before financing and income taxes' subtotal. This is on the basis that some financing elements are included in the operating category.

IFRS 18.74

If such entities wish to provide a subtotal that includes all income and expenses in the operating and investing categories, the subtotal should be labelled in such a way that does not imply that it excludes financing, and faithfully represents what is included. This may be:

- Profit or loss from operating and investing activities

3 Management Defined Performance Measures

IFRS 18 introduces a new disclosure regime for Management Defined Performance Measures (MPMs). The disclosures are designed to bring discipline, transparency, and comparability to measures often already provided outside of financial statements and known as alternative performance measures (APMs) or non-GAAP measures amongst other terms.

Historically, these measures were often presented in investor presentations, earnings releases and annual reports with inconsistent definitions and little reconciliation to IFRS numbers.

IFRS 18 now requires qualifying MPMs to be identified; reconciled; explained; and disclosed in a single note to the financial statements. Bringing these MPMs into the financial statements will also mean that they now become subject to audit procedures and a higher level of scrutiny.

3.1 Identifying MPMs

IFRS 18.117

An MPM is derived from the statement of profit or loss and is a subtotal of income and expenses that:

- is used in public communications outside the financial statements;
- communicates management's view of an aspect of the financial performance of the entity as a whole; and
- is not specifically required by IFRS Accounting Standards

3.1.1 Subtotals of income and expense

IFRS 18.B116

As MPMs are required to be a subtotal of income and expense not all APMs, or non-GAAP measures will be considered to be MPMs. For example, the following items are not considered to be MPMs as they are not subtotals of income and expense:

- revenue alone
- cash flow measures, e.g. free cash flow
- balance sheet measures, e.g. net debt
- ratios, e.g. return on capital employed (ROCE), EPS, EBITDA margin %, working capital ratios
- non-financial KPIs.

IFRS 18.B117

However, although ratios themselves may not be MPMs, the numerator or denominator of a ratio itself is a subtotal of income and expense that subtotal may be an MPM.

Example: Ratios and MPMs

Co X discloses its interest coverage ratio in investor reports to demonstrate its ability to service its debt.

The interest coverage ratio is calculated as: $\dfrac{\text{Adjusted EBITDA}}{\text{Total interest Expense}}$

When considering what measures might be MPMs X concludes that:

Interest Coverage Ratio	✗	Ratio
Total Interest expense	✗	Subtotal of only expenses
Adjusted EBITDA	✓	Potential MPM

Assuming that the Adjusted EBITDA met the other aspects of the definition of an MPM, the relevant MPM disclosures (see section 3.2 below) would need to be provided for it.

IFRS 18.20

Whilst MPMs are a defined term, there is nothing explicit in IFRS 18 that would stop entities from providing other non-IFRS measures, such as free cash flow, in the notes to the financial statements as well. Entities are permitted to disclose information that is not required under IFRS, if it facilitates the users' understanding of the financial statements.

IFRS 18.B132

However, the disclosure requirements of MPMs requires that any other measures that do not meet the definition of an MPM is clearly distinguished from the MPMs. Entities should also be mindful that including these additional non-IFRS measures in the notes to the financial statements would bring those measures into the scope of any audit procedures. Local Regulators may also have views over the appropriateness, or not, of including such measures in the financial statements.

3.1.1.1 Excluded subtotals

IFRS 18.118

Not all subtotals of income and expense are considered to be MPMs. Certain measures are excluded from the MPM definition, including subtotals required or specifically permitted by IFRS Accounting Standards. This is on the basis that these are widely understood measures. These include the following subtotals:

- gross profit or loss and similar subtotals
- operating profit or loss before depreciation, amortisation and impairments (in scope of IAS 36)
- operating profit or loss and all income and expense of equity accounted investments
- subtotal of operating and investing categories if an entity has a specified main business activity of providing financing to customers and classifies all income and expenses from type 1 liabilities as operating.
- profit or loss before income taxes

IFRS 18.B123

- profit or loss from continuing operations

Subtotals similar to gross profit are excluded when they depict the difference between a type of revenue and directly related expenses incurred in generating that revenue. For example, net interest income or net insurance service result. As these should be well understood terms, limited judgement should be required in determining what should be included in these subtotals. However, if adjustments are being made from numbers calculated in accordance with IFRS Accounting Standards, to these subtotals, these would become MPMs

3.1.2 Public communications

MPMs only include measures that are used in public communications outside of the financial statements. Public communications are not explicitly defined within IFRS 18, but the standard does provide the following examples of what is considered public communications.

IFRS 18.B119

Public Communications	Not Public communications
• Management commentary • Press releases • Investor presentations	• Oral communications • Transcripts of oral communication • Social media posts

Other examples of public communications could therefore also include:

- annual reports
- stock exchange announcements
- websites
- bond offering memoranda
- Prospectuses for new capital raisings
- Reports lodged with a regulator that can be accessed by public

Entities will need to carefully consider that they have considered the complete population of public communications, to ensure that all potential MPMs have been appropriately considered and assessed.

3.1.3 Management's view of financial performance

IFRS 18.130

IFRS 18 creates a strong presumption that if a subtotal of income and expenses is used in public communications, it is presumed to communicate management's view unless there is reasonable and supportable information to rebut that presumption.

IFRS 18.B124 Entities can rebut that presumption if

- The measure does not relate to an aspect of the entity's performance as a whole (see section 3.1.3.2 below)
- The measure is included in the public communications for a reason other than communicating management's view of performance

3.1.3.1 Not communicating management's view of performance

IFRS 18.B129 Measures might be included in public communications, because they are required by a local regulator or because it has been requested by an external party. Alternatively, it may be reported with no prominence and not be used internally by management to assess performance.

Judgement will be required when determining whether a measure does not communicate an aspect of the entity's performance. As it is a rebuttable presumption that the measure does communicate an aspect of the entity's performance, the level of evidence to rebut the presumption would need to be reasonably sufficient.

3.1.3.2 Not reflecting performance of the entity as a whole

The measure should relate to the entity in its entirety and not just to a single business line. Therefore, performance measures that relate to reportable segments under IFRS 8 *Operating Segments* are unlikely to meet the definition of an MPM as they don't reflect the operation of the business as a whole. This would include items such as:

- Retail division EBITDA
- Shipping segment normalised profit.

However, in some circumstances reportable segment results may meet the definition of an MPM if they represent as single main business activity and the subtotal of associated income and expense are presented on the face of the income statement, would suggest that the entity considers it to be relevant to understanding an aspect of the entity's performance as a whole. Judgement will be required when considering whether segment or other business line specific performance measures can be excluded from being considered an MPM.

Overall, the typical types of performance measure that are likely to be considered MPMs include:

Likely MPM	Reason
Adjusted EBITDA	Management-adjusted subtotal
Underlying operating profit	Non-IFRS subtotal
Core earnings	Management-defined
Recurring EBIT	Management judgement
Adjusted net income	Non-IFRS subtotal
Normalised profit	Subjective adjustments

The following types of performance measures are unlikely to be considered to be MPMs include:

Usually NOT an MPM	Reason
Revenue growth %	Ratio
ROCE	Ratio
Net debt	Balance sheet metric
Free cash flow	Cash flow metric
Retail segment underlying profit	Does not reflect business as a whole
Headline EPS	EPS metric
Occupancy rate	Operational KPI
Carbon emissions	Non-financial KPI

3.2 Disclosing MPMs

3.2.1 MPM note disclosures

IFRS 18.122 Disclosures are required for all MPMs in a single note. Entities cannot scatter reconciliations throughout other areas of their annual reporting suite such as:

- MD&A;
- investor sections;
- alternative performance appendices.

The note must include a statement that the MPMs provide management's view of an aspect of financial performance and are not necessarily comparable with similarly named measures used by other entities.

For each of the MPMs presented entities must provide the following:

- A description of the measure
- Calculation Methodology
- Reconciliation to most directly comparable subtotal

3.2.1.1 Description of the measure and calculation methodology

The description of the measure and the calculation methodology are closely linked.

IFRS 18.122 The entity must explain:

- what aspect of performance the MPM communicates;
- IFRS 18.B134 – B135 why management believes it provides useful information.

The MPM should also be labelled in such a way that it is not misleading to users and clearly represents what is included in it. This would include explaining if amounts are calculated based on a method other than in accordance with IFRS Accounting Standards as applied in the rest of the financial statements. Where the entity uses terminology such as 'non-recurring expenses' it should clearly explain what is meant by that term, as different entities will likely have different interpretations of what that means.

Example: Disclosure of description and calculation methodology

Co X uses an underlying operating profit as an MPM. In the MPM note disclosure it provides the following disclosures:

Adjusted operating profit is used by management to assess the underlying operating performance of the Company as it excludes items that management does not consider reflective of recurring trading performance. It is calculated as operating profit excluding amounts that arise outside of the normal day-to-day operation of the Company and are non-recurring in nature. These adjustments consist of restructuring costs, impairment charges and acquisition-related expenses.

3.2.1.3 Reconciliation to most directly comparable subtotal

IFRS 18.B136

Entities are then required to provide a reconciliation of the MPM to either the closest total or subtotal required to be presented by IFRS Accounting Standards, generally IFRS 18, or one of the subtotals listed in 3.1.1.1 above.

The reconciliation shall include an explanation of how the reconciling item has been calculated and why it provides useful information. The tax impact and effect of non-controlling interest should also be shown for each reconciling item.

IFRS 18.B141

When determining the tax effect entities have a choice of using any of the following methods

- applicable statutory tax rates
- pro rata allocation of the current and deferred tax of the entity
- another method that achieves a more appropriate allocation

Another alternative approach might be to use the effective tax rate of the entity.

Example: MPM reconciliation

Following on from the example above, in determining the underlying profit, Co X has made the following adjustments to operating profit: restructuring costs 12,000; impairment charges 8,000; acquisition-related expenses 5,000.

The statutory tax rate is 25% and NCI holds a 20% economic interest in the group.

The reconciliation could be potentially presented as:

	Gross	Tax Effect @25%	NCI Share @20%	Notes
	€'000	€'000	€'000	
Operating Profit	352,000			
Restructuring costs	12,000	(3,000)	(1,800)	A
Impairment charges	8,000	(2,000)	(1,200)	B
Acquisition-related expenses	5,000	(1,250)	-	C
Total Adjustments	**25,000**	**(6,250)**	**(3,000)**	
Underlying Operating Profit (MPM)	**377,000**			

A Costs relate to a workforce rationalisation program announced in Q3 2026. Management considers these one-off in nature and not representative of the ongoing cost base.

B Relates to write-down of plant and equipment due to flood damage. The charge is non-cash and does not affect future operational cash flows.

C Transaction costs incurred on the acquisition of a subsidiary in H1 2026, including advisory and due diligence fees. These are non-recurring and excluded from management's assessment of underlying business performance. The acquisition did not relate to the subsidiary that the NCI has an interest in.

The tax effects have been calculated based on the statutory tax rate.

Note: the same disclosures would be required for the comparative year as well.

IFRS 18.B140

Where an entity reconciles the MPMs to one of the specified subtotals in IFRS 18 (see section 3.1.1.1 above) and this subtotal is not presented on the face of the income statement, then a two-step reconciliation is required. The disclosures noted above including, explanations, tax effects and non-controlling interest share, are required to be disclosed for the reconciliation back to the specified subtotal, but that additional information is not required to then reconcile that specified total to a total that is presented on the face of the income statement.

Example: MPM two-step reconciliation

Similar to above Co X uses underlying profit as its MPM, it makes the same adjustments for restructuring, impairment and acquisition related expenses, but excludes amortisation and depreciation as well. In this instance it concludes that the closest subtotal to reconcile the MPM back to is Operating profit before depreciation, amortisation and impairments, which is not presented on the face of the income statement, but is an eligible subtotal per IFRS 18.118. A potential layout for the reconciliation may be:

	Gross	Tax Effect @25%	NCI Share @20%	Notes
	€'000	€'000	€'000	
Underlying Operating Profit	**402,000**			
Restructuring costs	(12,000)	3,000	1,800	A
Acquisition-related expenses	(5,000)	1,250	-	B
Total Adjustments	(17,000)	4,350	1,800	
Operating Profit before depreciation, amortisation and impairments	**385,000**			
Depreciation	(23,000)			
Amortisation	(10,000)			
Impairment	(8,000)			
Operating Profit	**352,000**			

A Costs relate to a workforce rationalisation program announced in Q3 2026. Management considers these one-off in nature and not representative of the ongoing cost base.

B Transaction costs incurred on the acquisition of a subsidiary in H1 2026, including advisory and due diligence fees. These are non-recurring and excluded from management's assessment of underlying business performance. The acquisition did not relate to the subsidiary that the NCI has an interest in.

3.2.2 Presenting MPMs on the face of the income statement

MPMs are permitted to be presented on the face of the income statement but only if they meet the specific requirements of IFRS 18 as they relate to additional subtotals (see section 4.2.1 below), specifically:

- Comprise of amounts calculated in accordance with IFRS Accounting Standards;
- Be compatible with the income statement structure as required under IFRS 18;
- Be consistent from period to period; and
- Be displayed no more prominently than the required totals and subtotals

These requirements will severely limit the number of MPMs that it is possible to present on the face of the income statement, especially once combined with the specific subtotals that are excluded from being MPMs such as operating profit before depreciation, amortisation and impairment (See section 3.1.1.1 above).

Even if such amounts were presented on the face of the income statement, they would still need to be provided in the MPM note with all the required disclosures as discussed above.

3.2.3 Changes to MPMs

IFRS 18.124

To ensure that information on MPMs is consistent, comparable and transparent, and to prevent entities from changing the definitions of MPMs opportunistically, IFRS 18 has specific disclosure requirements when there is a change in an MPM. Changes will include if an entity:

- changes how an MPM is calculated;
- introduces a new MPM;
- stops using an MPM; or
- changes how tax effects are determined.

In all instances, the entity must disclose an explanation enabling users to understand the change and its effect. This explanation should include the reason for the change, and restating the comparative periods of MPMs consistent with the new MPMs unless it is impracticable to do so.

4 General principles of financial reporting

Whilst there are many consistencies with IAS 1, IFRS 18 provides additional clarity and specificity around many principles that were generally implicitly implied by many in applying IAS 1. The inclusion of these specific requirements will hopefully mean that there is greater consistency in the application of these requirements.

4.1 Materiality and the financial statements

Whilst always included in IAS 1, IFRS 18 expands on and makes the requirements around materiality and financial statements more explicit.

IFRS 18.A The definition of material information has not changed and it is *still Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*

IFRS 18.15 What has changed is that the specificity around the requirement to only present or disclose material information has increased. This includes specific requirements that

- IFRS 18.19 Specific disclosures are not required even if described as minimum requirements if they do not provide material information
- IFRS 18.23 Specific line items are not required in the primary financial statements if they are not necessary for a useful structured summary (see section 4.2 below), even if they are described as minimum requirements.

Material information defines *what* needs to be included in the general purpose financial statements. The roles (see section 4.2 below) explain where that information should be provided.

4.2 Role of the primary financial statements and the notes

IFRS 18 defines the roles of the primary financial statements and the notes. The role of each will be a key driver of *where* information will be disclosed. This will be key in considering the level of aggregation and disaggregation (see section 4.3 below) required.

Primary Financial Statements

IFRS 18.16 The key role of the primary financial statements is to provide a *useful structured summary* of the entity's assets, liabilities, equity, income, expenses and cash flows. It allows users to

- Obtain an overview of the financial position, performance and cash flows
- Make comparisons between entities and overtime
- Identify areas where they may wish to refer to the notes for additional details

Judgement will be required to determine what information is required to provide a useful structured summary in the primary financial statements. Whether information is required to be disclosed on the face of the primary financial statements will depend on the specific facts and circumstances of an entity.

Notes to the Financial Statements

The key role of the notes to the financial statements is to provide other material information required for general purpose financial statements to meet their objectives. The
IFRS 18.B6 -B7 notes provide:

- Disaggregation of the line items presented in the primary financial statements
- Descriptions of the line items
- Details of the methods, assumptions, inputs and judgements used in determining items in the primary statements
- Supplementary additional information such as related party disclosures, subsequent events, financial risk management disclosures etc. required to meet the objectives of general purpose financial statements

4.2.1 Use of additional subtotals

IFRS 18.24 Not only does IFRS 18 permit the use of additional subtotals in the primary financial statements that are not specifically required by an IFRS Accounting Standard, it requires them if the subtotal is necessary to provide a useful structured summary. Judgement will be required to determine if an additional subtotal is required to provide a useful structured summary.

Where an entity uses additional subtotals, it must ensure that they:

- only include amounts recognised and measured in accordance with IFRS Accounting Standards
- are compatible with the required structure of the primary financial statements in IFRS 18
- are provided consistently over time
- are presented no more prominently than the required subtotals or totals.

Where entities wish to present subtotals that do not meet the above requirements, whilst they would not be permitted to do so on the face of the primary statements, if they present them elsewhere in their public communications, it should be considered as to whether these measures would meet the definition of an MPM (see section 3 above)

4.2.1.1 Operating profit before non-recurring items

A common additional sub-total that entities may consider including would be an operating profit before non-recurring items. We consider that such a subtotal would be permissible under IFRS 18 on the following basis

IFRS 18.B78(c)

- It is permissible to disaggregate the non-recurring items out from other expenses, if considered it is required to provide a structure useful summary, no matter whether the expenses are otherwise categorised by either function or nature (see section 2.2 above). Disaggregating expenses on persistence (recurring vs non-recurring) is permitted by the standard (see section 4.3 below) and is specifically noted as a potential basis for disaggregating line items in the income statement.
- The non-recurring items would need to be amounts that are determined in accordance with IFRS Accounting Standards, for example impairment determined in accordance with IAS 36 *Impairment of Assets* and not another non-IFRS measure.
- The sub-total would need to be operating profit before non-recurring items, and all the items included in that operating profit figure, and the non-recurring items, would be items permitted to be classified in the operating category of the income statement (see section 2.1.3 above). Therefore, it would not be possible to have a total profit before non-recurring items, because in such an instance the non-recurring items wouldn't be appropriately classified into the categories as required by IFRS 18.

IFRS 18.BC407

If presenting operating profit before non-recurring items, judgement will be required to determine what is considered to be non-recurring. In developing IFRS 18, the IASB discussed and ultimately decided not to define 'unusual items' as different jurisdictions have significantly different interpretations of what the term meant.

4.3 Grouping of information

IFRS 18 provides specific guidance around the basis for aggregation and disaggregation of information, which formalises a number of the principals that are already generally applied in practice. Having this guidance provides a useful starting point when considering whether information can be grouped together (aggregated) or shown separately (disaggregated).

Ensuring the correct level of aggregation and disaggregation is necessary to ensure that material information is not obscured by either not providing a sufficient level of detail (too high a level of aggregation) or providing too much information (too low a level of disaggregation).

Information should be aggregated based on shared characteristics and disaggregated based on characteristics that are not shared. IFRS 18 provides a list of characteristics that should be considered when considering whether information should be aggregated or disaggregated.

IFRS 18.B78, B110

- Nature
- Function
- Measurement basis
- Timing - initial recognition/ subsequent change in estimates
- Liquidity
- Type (eg revenue stream)
- Restrictions on an asset or liability
- Persistence (recurring/ non-recurring)
- Measurement uncertainty
- Size
- Geographical location/ regulatory environment
- Tax effect
- Duration/ timing of recovery (current/ non-current)

When considering the level of aggregation or disaggregation:

IFRS 18.41(c)

- On the face of the primary financial statements, the ultimate driver to consider is what level of detail is required to provide that useful structured summary.

IFRS 18.41(e)

- In the notes, the ultimate driver is to ensure that material information is not obscured.

Further guidance is provided as to when information that has been aggregated together would need further disaggregation in the notes. Where the types of information aggregated together are:

IFRS 18.B24, B26(b)

	Material information	Immaterial Information
Material Information	Each separate piece of material information would need to be disclosed separately in the notes.	Disaggregation only required if immaterial information obscures material information.
Immaterial Information		Disaggregation is not required except if the total is so large that users might expect it to be material. In which case entities should either: • Provide an explanation that there are no material amounts included; or • Explain that it comprises several items and provide an indication of the nature or amount of the largest item.

4.4 Labelling

Entities are required to label information in both the primary financial statements and the notes in a way that faithfully represents the characteristic of the item.

Using accurate descriptors is particularly important in the income statement, where an entity presents some expenses by function and other expenses by nature (See section 2.2 above). It is important that the descriptors explain both what is included and what is excluded from a particular line item.

Example: Descriptors of employee benefits line items

IFRS 18.B82

Co X is a manufacturing entity that produces large complex machines that it installs on customers sites. In the income statement it provides a 'cost of sales' functional classification, but other expenses are classified by nature.

It has employees that undertake the following roles:

- Factory staff – wages are capitalised into inventory
- Installation staff – wages are included in cost of sales
- Sales staff – wages are classified by nature below gross profit
- Office and administrative staff – wages are classified by nature below gross profit.

In determining the appropriate descriptor for the employee benefits presented by nature, X has noted that 'employee benefits' is not an appropriate description as the line item does not include all employee benefits, as the factory and installation staff's employee benefits are included in the 'cost of sales' line item. Instead, to provide a more accurate description that more faithfully represents the characteristics of the line item, X describes that line item as 'employee benefits other than those included in cost of sales', or some other similar description.

4.4.1 Use of the 'other' label

IFRS 18 explicitly notes that describing a line item as 'other' can only be used if a no more informative label can be found. This would extend to other similar terms such as sundry, miscellaneous, residual etc. The use of 'other' does not provide users with sufficient details of what is included in that item.

IFRS 18.B25 When considering whether a more useful descriptor can be found, entities should consider:

- If some of the information that is aggregated together is material and other items are immaterial, use the description of the item that is material
- If all the information that is aggregated together is immaterial, describe them in a way which describes the shared characteristics of the basis on which they have been aggregated

IFRS 18.B26(a) Where entities cannot find a more useful descriptor than 'other' for a particular line item, still aim for the description to be as precise as possible such as 'other operating expenses' rather than just 'other expenses'

We do not consider that this will eliminate the use of 'other' as a descriptor in general purpose financial statements, and consider that especially on the face of the primary statements, to provide a useful structured summary, smaller line items are likely to still need to be aggregated together in such a way that describing them as 'other' will still be appropriate.

5 Impacts on other IFRS Accounting Standards

5.1 Statement of cash flows

IFRS 18 introduces consequential amendments to IAS 7, which include the following main changes aimed at reducing diversity in the classification and presentation of cash flows and improving comparability between entities:

- The Operating profit subtotal is used as the starting point for determining cash flows from operating activities under the indirect method
- Elimination of the options for classifying interest and dividend cash flows

5.1.1 Indirect method

IAS 7.18(b)
IAS 7.20

When presenting operating cash flows using the indirect method, entities will now be required to use the operating profit subtotal as the starting point. In doing so, the operating profit is adjusted for:

- Changes during the period in inventories and operating receivables and payables;
- Non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses classified in the operating category;
- Income or expenses classified in the operating category in the statement of profit or loss for which cash effects are investing and financing cash flows; and
- Cash flows from operating activities for which the associated income or expenses are not classified in the operating category of the statement of profit or loss (eg: income tax)

5.1.2 Classification of interest and dividend amounts

To ensure consistency with the income statement, IAS 7 has been amended to clarify how interest and dividends both paid and received shall be classified in the cash flow statement. Classification will be dependent on whether the entity has a specified main business activity (see section 2.1.6 above)

IAS 7.33A

- All entities shall classify dividends paid as cash flows from financing activities.

IAS 7.34A

- Entities that do not have specified main business activities shall classify the interest paid as cash flows from financing activities, and interest and dividends received as cash flows from investing activities.

IAS 7.34B

- Entities with specified main business activities, either investing in assets or providing finance to customers, shall classify the cash flows from dividends received, interest received and interest paid following the classification of related income and expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows into a single category in the statement of cash flows.

5.2 Statement of financial position

There have been minimal changes to the requirements relating to the statement of financial position and the existing requirements have generally been carried over unchanged from IAS 1.

The key change is that Goodwill is now required to be presented separately on the face of the statement of financial position and cannot be aggregated with other intangible assets.

Other changes to the statement of financial position are likely to arise due to the enhanced guidance around aggregation and disaggregation (see section 4.3 above) which will have a pervasive effect on all aspects of the financial statements.

5.3 Earnings per share

IAS 33.73B

Historically entities have been permitted to but not required to provide an additional earnings per share (EPS) disclosure using a reported component of the statement of comprehensive income as the earnings amount. However, IFRS 18 amends this requirement, and now only permits entities to disclose additional EPS calculations if they are either:

- A total or subtotal required to be presented in the statement of comprehensive income
- A Management Defined Performance Measure (MPM)

IAS 33.73C

- A subtotal listed in IFRS 18.118 specifically determined not to be an MPM (see section 3.1.1.1 above)

It clarifies that these additional EPS amounts cannot be presented on the face of the income statement and must be presented in the notes, and not be given greater prominence than the basic and diluted EPS.

5.4 Interim reporting

IAS 34 *Interim Financial Reporting* has been updated to align with the requirements of IFRS 18. Therefore, the condensed statements of financial performance will need to follow the same layout as required by IFRS 18, and the principles of aggregation and disaggregation still apply.

IAS 34.16A(m)

In addition, MPMs now become a required disclosure in the interim financial report, including all the reconciliations and associated note disclosures required in the annual financial statements (See section 3.2 above).

MPM disclosures in the interim financial statements relate only to performance of the interim period. Accordingly, if an entity only discloses the MPM measure on its annual performance in communicating its annual results but does not communicate that same measure of performance for its interim period, then that measure would not need to be included as an MPM in the interim period. Alternatively, measures might be included in the reporting of interim results, such as seasonally adjusted results that are considered MPMs in the interim report, that are not reported as part of reporting on an annual basis.

Example: MPMs that only exist in interim reporting

Co X is a retailer that experiences significant increases in sales during the Christmas period. When preparing their interim reporting for investors for the December quarter, Management provided the following commentary *"The entity reported December Quarter profit of $4.9m; however, after adjusting for the normal seasonal uplift associated with the Christmas trading period, underlying quarterly profit was approximately $1.4m."*

The quarterly underlying profit would represent an MPM that would require disclosure in the quarterly interim financial statements prepared in accordance with IAS 34. However, in the annual financial report, as there would be no need to make seasonal adjustments to the profit figure, there is likely to be no equivalent MPM to include in the annual financial statements.

Example: MPMs that only exist in annual reporting

Co X undertakes a significant multi-year strategic transformation program that includes systems implementation, store closures and workforce restructuring. The program is approved and assessed by Management late in the year. In the annual financial report, Management provided the following commentary:

"The entity reported statutory profit for the year of $32.0m. After excluding $8.5m of costs associated with the Group's strategic transformation program, underlying profit for the year was $40.5m."

The underlying profit figure represents an MPM in its annual financial communications to explain performance. However, this MPM would not be necessary in the interim financial reports prepared in accordance with IAS 34 if management did not disclose the similar underlying profit in the interim period.

For more information about the impact of transition on interim financial reports see section 6.1.1 below.

5.5 Investments in associates and joint ventures

Post the issuance of IFRS 18, subsequent amendments have been made to IAS 28 *Investments in Associates and Joint Ventures* to clarify that entities that have a main business activity of investing in entities, are included in the type of entities that are exempt from applying the equity method, and may elect to measure their investments in Associates and Joint Ventures at fair value through profit or loss. This election can be made separately for each associate and joint venture. These amendments are applicable at the same time that an entity applies IFRS 18 for the first time.

5.6 Implications for IAS 8

There have been no technical changes to the requirements in IAS 8, however, there have been significant structural changes. On issuance of IFRS 18 IAS 8 name changes from *Accounting Policies, Changes in Accounting Estimates and Errors* to IAS 8 *Basis of Preparation of Financial Statements*.

A number of the existing requirements from IAS 1 have been relocated into the new IAS 8 including requirements relating to:

- Fair Presentation and Compliance with IFRS Accounting Standards
- Going Concern
- Accrual basis of accounting
- Disclosure of accounting policies
- Disclosures of estimation uncertainty and judgements

As a result of IFRS 18, and to clearly distinguish the financial reporting standards from the sustainability reporting standards, all standards issued by the IASB are now required to be referred to as IFRS Accounting Standards.

5.7 IFRIC Agenda Decisions

A number of IFRIC Agenda Decisions that previously referred to IAS 1 have been reviewed by the IFRS Interpretations Committee and have predominately been reissued, with the references updated to IFRS 18 and whilst the overall intention of the agenda decisions may not have been impacted, they have been aligned with the new principles included in IFRS 18.

The IFRS Interpretations Committee is continuing to deliberate a number of new IFRIC Agenda Decisions relating to the application of IFRS 18. Preparers should continue to monitor the IFRIC Updates for details on these agenda decisions.

6 Transition and implementation

IFRS 18 is applicable for years beginning on or after 1 January 2027, with early adoption available.

6.1 Transitional requirements

IFRS 18 is applied retrospectively in accordance with IAS 8 which will require the comparative periods to be restated, in line with the IFRS 18 structure. However, entities are not required to provide the usual IAS 8 quantitative disclosures of the amount of the adjustment for each financial statement line item or the effect on basic and diluted earnings per share in the current period. Instead, for the comparative period presented immediately preceding the date of initial application, the entity must disclose a reconciliation between the restated amounts presented applying IFRS 18 and the amounts previously presented applying IAS 1 for the statement of profit or loss.

The reconciliation required on transition is permitted, but not required, for the current period and for earlier comparative periods beyond the immediately preceding comparative period. This matters in jurisdictions that require two comparative periods, because the earliest comparative period may be adjusted under other IFRS requirements or local rules, but IFRS 18 only mandates the specific statement of profit or loss reconciliation for the immediately preceding comparative period.

Whilst this reconciliation requirement appears straightforward, given the potential extent of the restructuring of the income statement, this reconciliation may be more complex than expected. A potential layout for this reconciliation may be:

Example: Reconciliation on Transition to IFRS 18

The following table provides a potential layout for the reconciliation of the income statement. For illustrative purposes only the operating category is provided but in practice the reconciliation would need to be provided for the full income statement

	Previously reported line item (IAS 1)	**Adjustments**	**Current reported line item (IFRS 18)**	**Notes**
	€'000	€'000	€'000	
Revenue from contracts with customers	2,153	-	2,153	
Rental income	250	(250)	-	A
Total revenue	*2,403*	*(250)*	*2,153*	
Cost of Sales	(543)	-	(543)	
Gross Profit	**1,860**	**(250)**	**1,610**	
Other Operating income	348	(159)	189	B
Occupancy Expenses	(253)	95	(158)	C
Administration expenses	(152)	-	(152)	
Impairment of Property, Plant and Equipment	-	(95)	(95)	C
Foreign exchanges differences	-	(68)	(68)	D
Operating Profit	**1,803**	**(477)**	**1,326**	

A Rental income was previously included as part of revenue but has been reclassified to investing.

B Other operating income previously included gains on the disposal of an investment property and as such that has been reclassed to investing

C The impairment of the property, plant and equipment, has been presented separately on adoption of IFRS 18 as it was deemed appropriate to provide a useful structured summary

D All foreign exchange differences used to be presented as part of finance income and expense. On adoption of IFRS 18 the gains and losses relating to operating items have been reclassified to the operating category

6.1.1 Interim reporting

IFRS 18.C4

If an entity prepares interim financial statements in accordance with IAS 34, in the first year applying IFRS 18 the interim condensed financial statements shall be presented using the heading, subtotals and totals that the entity expects to apply in the first full set of financial statements prepared in accordance with this standard rather than the same headings, subtotals and totals that were presented in their most recent annual financial statements.

IFRS 18.C5

In addition, entities are expected to provide similar reconciliations between previously reported line items in the comparative period's condensed income statement consistent with the requirements for the annual reports outlined above.

6.1.2 Elections for associates and joint ventures

IFRS 18.C7

As part of transitioning to IFRS 18, entities have been given the option to reassess the measurement elections made under IAS 28 *Investments in Associates and Joint Venture* to measure investments in associates or joint ventures, if the entity is a venture capitalist or similar organisation.

Such entities may wish to do this if their specified main business activity is investing in these types of assets. Given the requirement of IFRS 18 that if an investment is accounted for using the equity method it will always be classified in the investing category, even if investing in those assets is the specified main business activity, they may wish to change the measurement to measure them at fair value through profit or loss in order to be able to classify these in the operating category.

The IASB has released amendments to IAS 28 that are applicable at the same time as IFRS 18 to clarify that the types of entities that have the option to measure the investments in associates or joint ventures at fair value are those entities that have a main business activity of investing in particular types of assets.

6.2 Implementation considerations

Whilst IFRS 18 does not impact the recognition and measurement of amounts in the financial statements, implementation efforts should not be overlooked. Determining main business activities for groups in consolidated financial statements and the need to identify and disclose MPMs, as well as certain areas of judgement relating to classification, add complexity to the implementation.

6.2.1 Stakeholder management

The introduction of IFRS 18 will impact how financial performance is presented and communicated. Accordingly, it is important that these changes are appropriately explained and communicated to the relevant stakeholders as there could be changes in various arrangements that are needed as a result of IFRS 18.

Given the breadth of the changes, entities may benefit from a structured communication approach, including early engagement with key stakeholders and consistent messaging throughout the transition period. This will be particularly important where changes to reported performance measures may affect how performance is interpreted.

Implementation will require coordination across finance, management and systems teams. In addition, those responsible for performance reporting and external communications will need to understand the changes to key reported metrics and the implications of the increased transparency over performance measures including MPMs. Ensuring a consistent understanding across the organisation will support both implementation and communication.

6.2.1.1 Debt covenants and financing arrangements

The reclassification of income and expenses and changes to income statement subtotals may affect metrics used in financing arrangements, including profit-based ratios and EBITDA-style measures, can impact covenant calculations. In some cases, these changes in presentation may result in a breach of covenant thresholds despite no change in the entity's underlying economic performance.

Entities should:

- Review how covenant measures are defined, including whether they are based on specific line items, defined formulas, or accounting standards in force at the time of agreement;
- Assess whether changes in classification under IFRS 18 could result in changes to reported covenant metrics without any change in underlying performance; and
- Consider whether MPMs or adjusted measures are incorporated into covenant calculations, and how increased transparency over these measures may affect their use.

Where the impact is significant, entities may need to engage with lenders to clarify how covenant measures should be calculated post-adoption or seek to amend covenant definitions to ensure they continue to reflect the intended basis of measurement.

Early engagement is particularly important to avoid unintended breaches or disputes arising purely from changes in presentation.

Example: Impacts on debt covenants

Co X has a financing arrangement that includes a covenant based on an EBITDA measure derived from profit before finance costs.

Under IAS 1, certain income and expenses were presented within finance income and expense. On adoption of IFRS 18, some of these items are reclassified to the operating category.

As a result:

- EBITDA decreases due to changes in classification rather than underlying performance; and
- The reported covenant ratio deteriorates despite no change in the entity's economic position.

This has resulted in Co X being in breach of their debt covenant.

Accordingly, X engages with its lenders to clarify how the covenant should be calculated post-adoption of IFRS 18, including whether adjustments or amendments are required, including the definition of what is included in the covenant calculation, and whether the target covenant ratio threshold is still appropriate. As in this scenario, the change in outcome arises solely from changes in presentation rather than underlying performance.

6.2.1.2 Remuneration and incentive arrangements

Many remuneration arrangements are linked to profit-based metrics or performance targets. The changes introduced by IFRS 18 may affect both the calculation of these metrics and how performance outcomes are assessed.

Entities should consider:

- Whether key measures used in remuneration frameworks (for example operating profit or EBITDA-style metrics) are impacted by reclassification within the income statement;
- Whether incentive targets may be met or missed due to changes in presentation rather than underlying performance; and
- The interaction with MPMs, particularly where remuneration is linked to adjusted or "underlying" measures that will now be subject to greater transparency and scrutiny.

Where changes in reported measures do not reflect underlying economic performance, entities may need to revise definitions used in incentive arrangements and clearly communicate how performance has been assessed in the period of transition, including whether there have been any adjustments made to neutralise the impact of IFRS 18.

Entities may also need to reassess how performance targets are set for future periods to ensure that they remain comparable across reporting periods following adoption of IFRS 18. Failure to address these impacts may lead to unintended remuneration outcomes or reduced alignment between reported performance and reward.

6.2.1.3 Investors and other stakeholders

For investors and other users, IFRS 18 may reduce comparability between reporting periods, particularly on initial adoption. This may be compounded by:

- Changes in the classification of income and expenses between categories; and
- Increased transparency over MPMs, including the disclosure of adjustments and reconciliations.

Entities should consider how to clearly communicate the nature and extent of changes in the income statement and what impact that will have on key performance measures, including MPMs and how to direct the users to the most appropriate and most comparable measure under the new IFRS 18 structure.

In practice, this may involve more than just the transitional disclosures provided in the financial statement in the year of transition, but also a clear and consistent messaging across investor presentations and other communications to ensure a clear message is delivered. Without clearly communicating the message, entities risk users misinterpreting movements that arise solely from changes in presentation. Users may continue to focus on previously used performance measures that are no longer comparable under the IFRS 18 presentation. Entities may therefore need to actively guide users towards the most relevant and comparable measures under the new income statement structure.

6.2.2 Systems changes

Whilst IFRS 18 does not change the recognition or measurement of items in the financial statements, it introduces significant changes to the presentation, classification and disclosure of financial performance. Accordingly, the implementation of IFRS 18 will require entities to modify systems and capture additional data in order to support the new requirements.

Entities will need to consider whether existing systems are capable of:

- Classifying income and expenses into the required categories (operating, investing, financing);
- Supporting the required level of aggregation and disaggregation in both the primary financial statements and the notes; and
- Producing the required disclosures, including those relating to MPMs.

For many entities, implementation will involve a combination of chart of accounts redesign, enhanced data capture, updated mappings and changes to reporting systems, rather than purely a presentation overlay. If systems are not updated, entities may be unable to produce consistent or supportable classifications required under IFRS 18.

6.2.2.1 Chart of accounts and mapping

The introduction of defined categories in the income statement requires entities to reconsider how income and expenses are captured and mapped within their general ledger.

Entities may need to:

- Create new accounts to distinguish items that will be presented in different categories; and
- Update mapping tables used in consolidation or reporting systems to align existing accounts with IFRS 18 classifications.

However, classification under IFRS 18 is not always driven solely by the account balance. In many cases, classification depends on the nature of the underlying asset or liability and whether the item relates to a specified main business activity.

As a result, entities may need to consider whether classification can be achieved through the chart of accounts itself; or through adding additional dimensions or attributes (for example, tagging transactions based on their underlying characteristics).

Where a single general ledger account captures transactions that fall into multiple IFRS 18 categories, a simple remapping exercise may not be sufficient, and more fundamental changes to data capture may be required, including for example creating multiple Foreign exchange gains and losses accounts that can be mapped to each of the categories of the income statement based on the nature of the underlying asset or liability it is associated with.

6.2.2.2 Data capture and granularity

IFRS 18 increases the level of disaggregation required in both the primary financial statements and the notes. This may necessitate capturing more detailed information at the transaction level than is currently available.

Entities should consider whether their systems capture sufficient information to:

- Distinguish between different types of liabilities (for example, liabilities that only involve the raising of finance and those that do not);
- Identify components of income and expenses that must be separately classified (for example, interest components of certain liabilities); and
- Support disaggregation of expenses by both nature and function where required.

Where this information is not currently captured, entities may need to:

- Introduce new data fields or dimensions;
- Update source systems or transaction processing; or
- Develop allocation methodologies supported by appropriate controls.

Entities should be cautious of relying on manual processes to derive this information, as these are not one-off transition requirements, but will be required each reporting period into the future. This should be implemented in a controlled system-driven and managed process, that minimises the chance of error, which is more likely to arise from a manual process.

Entities should engage with their software providers to understand how the software is being updated and how much customisation will be required to fully implement the requirements for IFRS 18.

6.2.2.3 Consolidation and group reporting

For groups, consistent classification across entities will be critical to ensure compliance with IFRS 18. Differences in systems across entities within a group will make it difficult to ensure consistent treatments to classifications, unless it is carefully managed centrally.

This may require:

- Updating consolidation systems to incorporate IFRS 18 categories and subtotals;
- Establishing group-wide mapping rules and classification policies; and
- Ensuring consistent application across subsidiaries, including where different local charts of accounts are used.

Additional complexity may arise where classification depends on facts and circumstances at the group level, such as the identification of specified main business activities. In these cases, group-level adjustments may be required within the consolidation process.

6.2.2.4 Financial reporting and disclosures

IFRS 18 introduces new subtotals, new categories and enhanced disclosure requirements, all of which will impact financial reporting systems.

Entities should assess whether their reporting tools are capable of:

- Producing the revised income statement structure, including required subtotals;
- Supporting enhanced disclosures, including disaggregation of expenses and additional note information; and
- Maintaining consistency between the primary financial statements and the notes.

In many cases, entities may need to update their:

- Financial statement templates;
- Disclosure management systems; and
- Data flows between underlying systems and reporting outputs.

Particular attention should be given to ensuring that data used in disclosures is consistent with that used in the primary financial statements, and that the link between the two is clear and auditable.

Changes to the income statement classification may also impact other financial statements, including the statement of cash flows, as the classification of certain cash flows is now linked to the presentation in the income statement. Entities may therefore need to update related reporting models to ensure consistency.

6.2.2.5 Management Defined Performance Measures (MPMs)

The introduction of mandatory disclosures for MPMs represents a significant change for many entities, particularly where such measures have historically been prepared outside core financial systems.

As an initial step, entities should undertake a review of all external communications to identify reported disclosures that may meet the definition of an MPM. This may reveal more MPMs than management expects. Once concluding which of these reported measures does meet the definition of a MPM, it will then be important that entities critically assess the appropriateness and relevance of these measures. Given the level of detail and scrutiny that the MPMs will be subject to, it is important that entities ensure that the MPMs they disclose, are relevant and necessary to achieve management's desired purpose.

Once all MPMs have been identified, entities will need to implement systems that are able to:

- Capture and track adjustments used in their calculation;
- Produce reconciliations to IFRS-defined subtotals; and
- Ensure consistency and auditability of these measures across reporting periods.

Where MPMs are currently calculated using spreadsheets or other manual processes, entities may need to implement more robust system-based solutions to support the increased level of scrutiny and audit requirements. The existing reconciliations that entities currently prepare outside of the financial statements, to meet local regulators requirements for non-GAAP measures, are unlikely to be sufficient for IFRS 18 purposes.

6.2.2.6 Controls and governance

Finally, changes to systems and data structures should be considered in conjunction with the entity's control environment.

IFRS 18 introduces increased judgement throughout the financial reporting process. Accordingly, entities should ensure that:

- Appropriate controls are implemented over classification decisions and mappings;
- Changes to systems are subject to appropriate governance and testing; and
- Audit trails are maintained to support disclosures and reported amounts.

Failure to align systems changes with the control environment may result in inconsistencies or challenges in supporting the amounts presented in the financial statements.

For more information, get in touch with your local firm or email info@moore-global.com

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