



## Newsletter

# New Presentation and Disclosure Standard for Financial Statements: 10 Key Points That Will Transform Financial Reporting

On April 9, 2024, the IASB issued the new IFRS 18 – Presentation and Disclosure in Financial Statements, a standard that replaces the long-standing IAS 1 and modifies related standards, mainly IAS 7 – Statement of Cash Flows.

Its effective date will be mandatory for periods beginning on or after January 1, 2027, with early application permitted depending on local requirements.

IFRS 18 represents one of the most significant revisions in presentation requirements since the initial adoption of IFRS. Its purpose is to enhance clarity, consistency, and comparability among entities, strengthening the usefulness of financial statements for investors, analysts, supervisory bodies, and other users.

## Overall Objective of IFRS 18

The new standard redefines how entities must present and explain their financial information by establishing:

- Clear and differentiated roles between primary financial statements and the notes.
- Mandatory structural guidelines for presenting income and expenses.
- Stricter criteria for aggregating and disaggregating information.
- Standardized requirements for Management-Defined Performance Measures (MPMs).

The standard seeks to mitigate inconsistent practices, non-comparable subtotals, and lack of clarity in financial performance currently disclosed under IAS 1.

## The 10 Key Points Explained

### Point 1 — Role of the Financial Statements

IFRS 18 maintains the set of financial statements required under IAS 1 but **redefines their functions**:

#### Primary Financial Statements

They must provide a structured and understandable summary of assets, liabilities, equity, income, expenses, and cash flows.

#### Their objectives are:

- To offer a clear overview of performance.
- To ensure comparability across periods and between entities.
- To highlight lines that require further explanation in the notes.

#### Notes to the Financial Statements

They must provide relevant detail, including:

- Breakdowns.
- Methods.
- Significant judgments.
- Additional information needed to understand the figures presented.

### Point 2 — Mandatory Structuring of the Statement of Profit or Loss

IFRS 18 introduces a major structural change: for the first time, entities are required to classify income and expenses into predefined categories.

Mandatory categories:

1. Operating.
2. Investing.
3. Financing.
4. Income taxes.
5. Discontinued operations.

### **New mandatory subtotals**

- Operating profit.
- Profit before financing and income taxes.

Additional subtotals are permitted as long as they:

- Do not obscure relevant information.
- Remain consistent across periods.
- Follow a logical structure within the statement of profit or loss.

### **Point 3 — Operating Category**

The operating category functions as the core of the statement of profit or loss. It includes all income and expenses from main activities and those that do not fit into other categories.

### **Presentation of operating expenses**

Entities must justify whether expenses are presented:

- By nature.
- By function.
- Using a mixed approach.

IFRS 18 requires additional disclosures when presenting by function (e.g., explaining the nature-based composition of cost of sales, selling, administrative expenses, etc).

### **Non-recurring items**

The standard does not introduce a formal definition of “unusual income or expenses” but relies on the aggregation/disaggregation criteria to determine when they should be disclosed.

### **Point 4 — Investing Category**

This category includes all income and expenses arising from assets that generate returns independently, such as:

- Investments in associates and joint ventures.
- Financial investments.
- Debt instruments.
- Investment properties.
- Cash and cash equivalents that generate their own return.

## Objective

To separate operating performance from financial returns generated by investments, facilitating more homogeneous comparisons among companies.

## Point 5 — Financing Category

Includes only income and expenses related to liabilities whose purpose is to obtain financing.

### Examples:

- Bank loans.
- Debt instruments.
- Obligations to issue equity instruments classified as liabilities.

### This category includes:

- Interest expense.
- Fair value changes of financial liabilities.
- Transaction costs related to debt.

For other liabilities (provisions, leases, employee benefits), only interest and discounting effects are classified as financing.

## Point 6 — Specific Main Activities

IFRS 18 introduces a differentiated approach for sectors such as:

- Banks.
- Insurers.
- Real estate entities.
- Asset managers.

When an entity's main activity is financing customers or investing in specific assets, certain items that would normally fall under Investing or Financing are reclassified as Operating.

This ensures operating performance truly reflects their core business.

## Point 7 — Aggregation and Disaggregation

One of the most important changes is the requirement for strong and justifiable criteria to group or separate items.

The standard requires consideration of characteristics such as:

- Nature.
- Function.
- Persistence.
- Measurement basis.
- Risks and uncertainty.

It also restricts the use of the term “Other,” requiring explanatory notes when used.

## Point 8 — Management-Defined Performance Measures (MPMs)

IFRS 18 regulates alternative performance measures for the first time.

An MPM is a subtotal of income and expenses used in external communications (presentations, management reports, press releases), such as:

- Adjusted EBITDA.
- Recurring profit.
- Profit before non-operating effects.
- Pro-forma profit.

### Entities must:

- Explain why the MPM is useful.
- Define and describe how it is calculated.
- Reconcile it with comparable IFRS subtotals.
- Show tax effects and non-controlling interests.

This increases transparency and limits the use of ambiguous metrics.

## Point 9 — Changes to the Statement of Cash Flows

IFRS 18 modifies IAS 7 in key areas:

### Required starting point

Entities must begin with operating profit, not net profit.

### Classification of interest and dividends

For entities without a specific main activity:

- Interest and dividends paid → **Financing**
- Interest and dividends received → **Investing**

For banks, insurers, and similar entities, the classification will follow the category used in the statement of profit or loss.

## Point 10 — Transitional Provisions

IFRS 18 must be applied retrospectively, requiring:

- Restatement of the comparative period.
- Reconciliation between restated and previous figures.
- Disclosure of expected impacts prior to the initial application.

Early adoption is permitted if allowed by the jurisdiction.

## Expected Impacts for Entities

- Changes to information systems and internal reporting.
- Redefinition of operating and financial metrics.
- Adjustments to accounting policies.
- Restructuring of the statement of profit or loss.
- New narratives for investors and stakeholders.

## Conclusion

IFRS 18 marks an important step toward more structured, comparable, and transparent presentation. Entities should begin diagnostic and planning processes now to ensure a proper implementation by 2027.

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