

IFRS 18

10 key points from the new standard on presentation of financial statements

forvis mazars

IFRS 18 – *Presentation and disclosure in financial statements* is mandatory for reporting periods beginning on or after 1 January 2027

On 9 April 2024, the International Accounting Standard Board (IASB) completed its project to improve the quality of financial reporting with the publication of a new standard, IFRS 18 – *Presentation and Disclosure in Financial Statements*.

IFRS 18 will replace IAS 1 – *Presentation of Financial Statements* and will amend other standards, mainly IAS 7 – *Statement of Cash Flows*.

The new provisions introduced by IFRS 18 are designed to provide users of financial statements with clearer, more transparent and more comparable information about a company's financial performance.

IFRS 18 incorporates many of the provisions of IAS 1 unaltered. However, it improves the presentation of financial performance with key changes to three main areas:

- structuring the statement of profit or loss with three new separate categories (Operating, Investing and Financing) and requiring entities to present specified subtotals, including operating profit or loss;
- introducing rules and guidance on how to aggregate and disaggregate financial information, both in the primary financial statements and in the notes; and
- improving the way entities report on certain performance indicators (Management-defined Performance Measures - MPMs).

IFRS 18 also introduces provisions for entities with specified main business activities (such as banks and insurers) requiring them to classify as operating profit or loss income and expenses that, under the general requirements of IFRS 18, would have had to be classified in the Investing or Financing categories.

IFRS 18 will be applied retrospectively for reporting periods beginning on or after 1 January 2027 (subject to any endorsement process required locally, with early application permitted (again subject to the completion of any local endorsement process).

The new provisions and clarifications in IFRS 18 apply to all entities reporting under IFRS. It is important to identify the impacts as early as possible, both to prepare for the transition and to anticipate any consequence on entities' financial reporting as a whole.

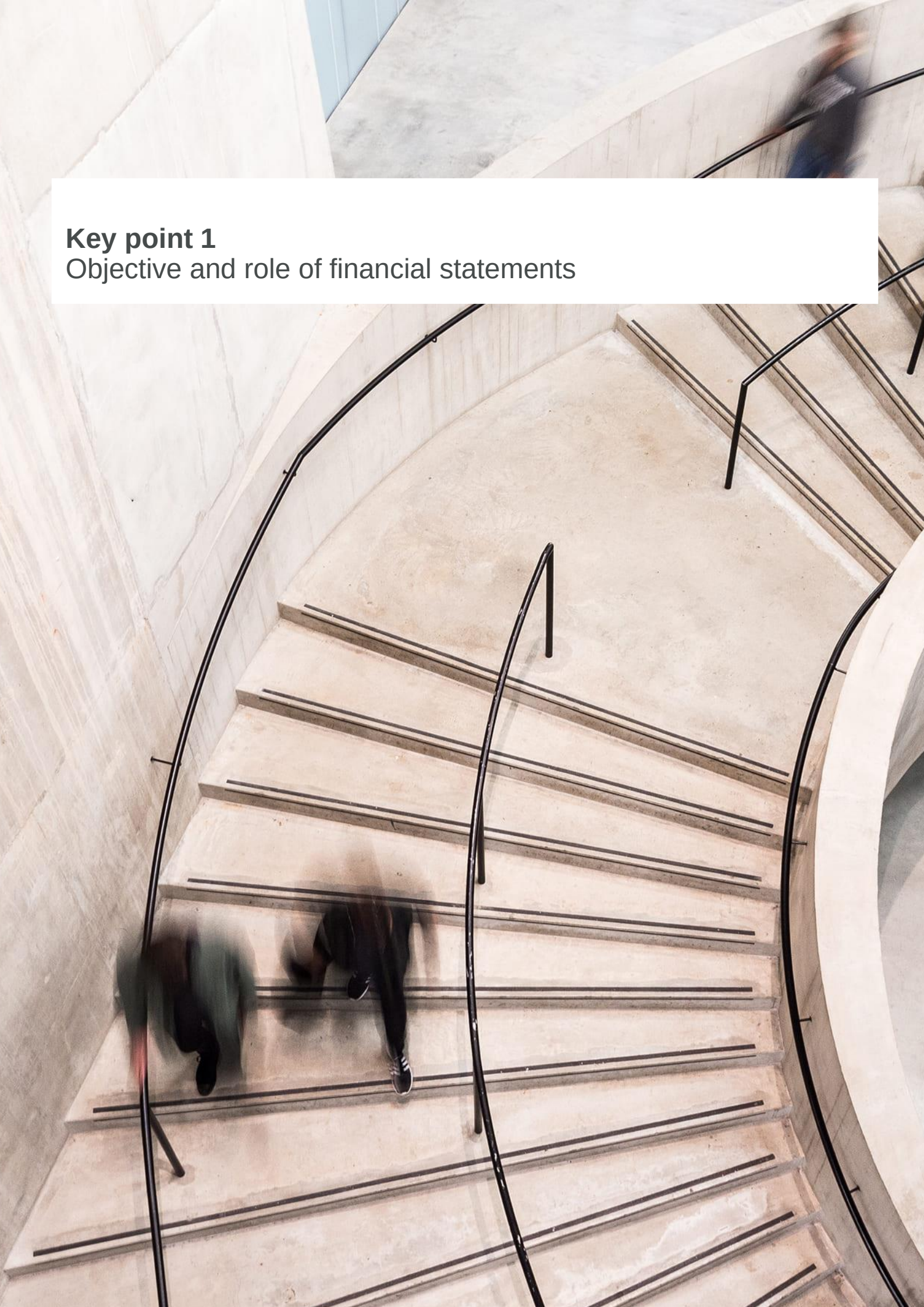
The effects of applying IFRS 18 will vary from one entity to another. They will depend on the way in which financial reporting is currently presented and on entities' ability to develop their information systems.

We address the changes introduced by IFRS 18 in 10 key points outlining what will change compared to the presentation of financial statements under the current Standard, IAS 1.

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Key point 1
Objective and role of financial statements



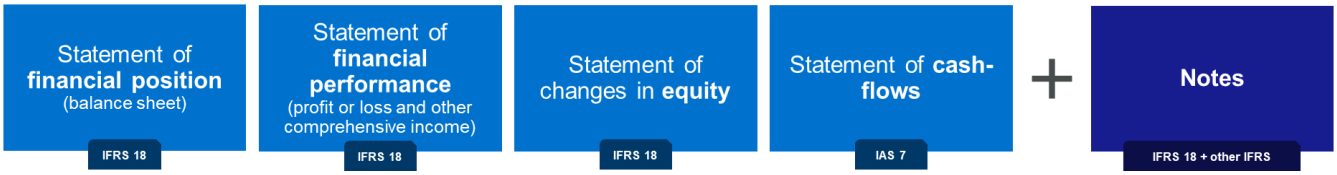
Key point 1: Objective and role of financial statements

The objective of financial statements is to provide their users with "*financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful:*

- *in assessing the prospects for future net cash inflows to the entity, and*
- *in assessing management's stewardship of the entity's economic resources."*

To meet this objective, the primary financial statements and the notes have distinct and complementary roles in terms of financial reporting.

IFRS 18 does not change the structure of a complete set of financial statements required by IAS 1:



However, the Standard clarifies and defines the roles of the primary financial statements and of the notes as follows:

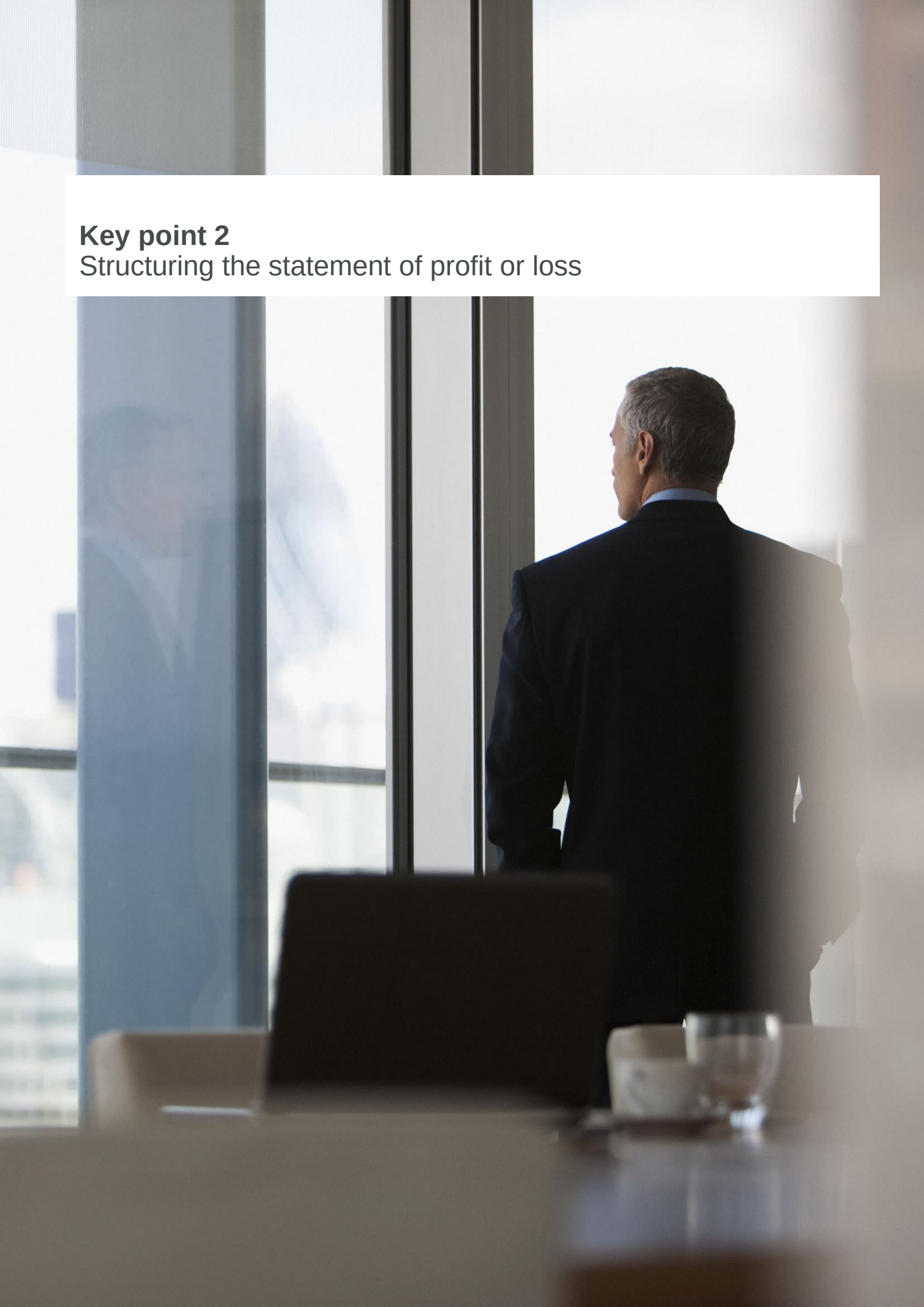
- the role of the **primary financial statements** is to provide **useful structured summaries** of a reporting entity's assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:
  - obtaining an understandable overview,
  - ensuring comparability from one year to the next and between entities operating in the same business sector, and
  - identifying items about which users of financial statements may wish to seek additional information.
- the role of the **notes** is to provide **material information** necessary to enable users of financial statements to understand the line items presented in the primary financial statements and to provide additional information to achieve the objective of financial statements.
  For example, they may present a breakdown of items grouped together in an income statement line and/or describe their characteristics.

The clarifications provided by IFRS 18 as to the respective roles of the primary financial statements and the notes are intended to help entities determine whether to include information in the primary financial statements (for example, by introducing additional lines) or in the notes. Making this choice will require entities to exercise their own judgment.

Summary

- The primary financial statements provide useful structured summaries of a reporting entity's assets, liabilities, equity, income, expenses and cash flows;
- The notes to the financial statements present more detailed disclosures, highlighting material information.

Key point 2
Structuring the statement of profit or loss



Key point 2: Structuring the statement of profit or loss

IFRS 18 aims to make the presentation of statements of profit or loss more comparable across entities by introducing for the first time a required overall structure. IAS 1 contained few prescriptive provisions concerning the presentation of the income statement, apart from a minimum list of items that must appear.

The main provisions relate to the requirement to present income and expense items within categories defined by the Standard, and the mandatory presentation of certain subtotals.

What are the categories required by IFRS 18 for the statement of profit or loss?

The statement of profit or loss is structured into five categories (which will be described in more detail in the next key points):

- the **Operating category,**
- the **Investing category**,
- the **Financing category,**
- the Income Taxes category, *and*
- the Discontinued Operations category.

Certain income and expenses of the same nature may be presented in two different categories. Take, for example, the impairment of financial assets for an industrial or service company: an impairment loss on a trade receivable will be classified in the Operating category, whereas an impairment loss on a bond recognised at amortised cost will be classified in the Investing category.

Focus on... the cash flow statement

As a reminder, the statement of cash flows, as defined by IAS 7, presents the cash flows during the period classified by operating, investing and financing activities. IAS 7 sets out which cash flows should be presented in each of these categories. It is important to note that the categories of income and expense defined in IFRS 18 and the cash flow categories defined in IAS 7 are not aligned, either in terms of definition or classification.

Example: entity A, whose main activity is the manufacture of food products, has sold certain tangible assets (handling tools: forklift truck, pallet truck, etc.) during the period. In its statement of profit or loss. The gain or loss on disposal will be presented in the Operating category, while the cash inflow resulting from the sale of these assets will be included in the Investing category of the cash flow statement.

What totals and subtotals are required by IFRS 18?

Mandatory totals and subtotals

In addition to the profit or loss line item already required by IAS 1, IFRS 18 introduces two new mandatory subtotals:

- **Operating profit or loss,** comprising all income and expenses classified in the Operating category. This subtotal is very widely used by entities today but is not defined by the current standards (hence the application inconsistencies that IFRS 18 aims to reduce).
- **profit or loss before financing and income taxes,** comprising operating profit or loss, and all income and expenses classified in the Investing category. It should be noted that IFRS 18 introduces no subtotals for the investing or financing result.

Authorised subtotals

The Standard also permits the use of five optional additional subtotals:

- **gross profit or loss** (revenue minus cost of sales) and similar subtotals;

Industry-specific adaptations

The Standard also provides a list of subtotals similar to gross profit adapted for certain business sectors (banks, insurance companies, property companies, etc.):

- net interest income;
- net fee and commission income;
- insurance service result;
- net financial result (investment income minus insurance finance income and expenses);
- net rental income.

- **operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36**. This sub-total is close to EBITDA, a performance measure commonly used by some entities;
- **operating profit or loss and income and expenses from all investments accounted for using the equity method**;
- **profit or loss from continuing operations;**
- **profit or loss before income taxes**.

These subtotals (whether mandatory or permitted) do not meet the definition of management-defined performance measures (**MPM**) for which additional disclosures are required (see Key Point 8).

IFRS 18 permits the presentation of **additional subtotals** (other than those listed above) provided that they comply with the requirements on the presentation of the statement of profit or loss (in particular, they must contribute to a useful structured summary and follow the structure required by IFRS 18).

Where these additional subtotals correspond to performance measures used outside the financial statements, they are likely to be MPMs.

In practice

It is no longer possible to present a “net finance costs” (or similarly described) line item in the profit or loss statement, as this subtotal comprises items from both the Financing and Investing categories.

Note: where an entity uses such a measure of its performance outside its financial statements, this performance measure might qualify as an MPM.

Focus on... calculation of earnings per share

When an entity calculates and presents, in addition to the basic and diluted earnings per share required by IAS 33, an amount per share based on another performance measure:

- the numerator used must be a total or subtotal (mandatory or permitted) taken from the statement of profit or loss, as defined in IFRS 18, or a measure of performance defined by management (MPM);
- if the numerator is an MPM, it is subject to the presentation and reconciliation requirements applicable to these performance measures; and
- the amount per share calculated in this way cannot be presented in the primary financial statements. It must be presented in the notes.

In our opinion, these per share amounts should be included in the earnings per share note when such note exists. Where the numerator is an MPM, a reference to the new note on MPMs would be appropriate.



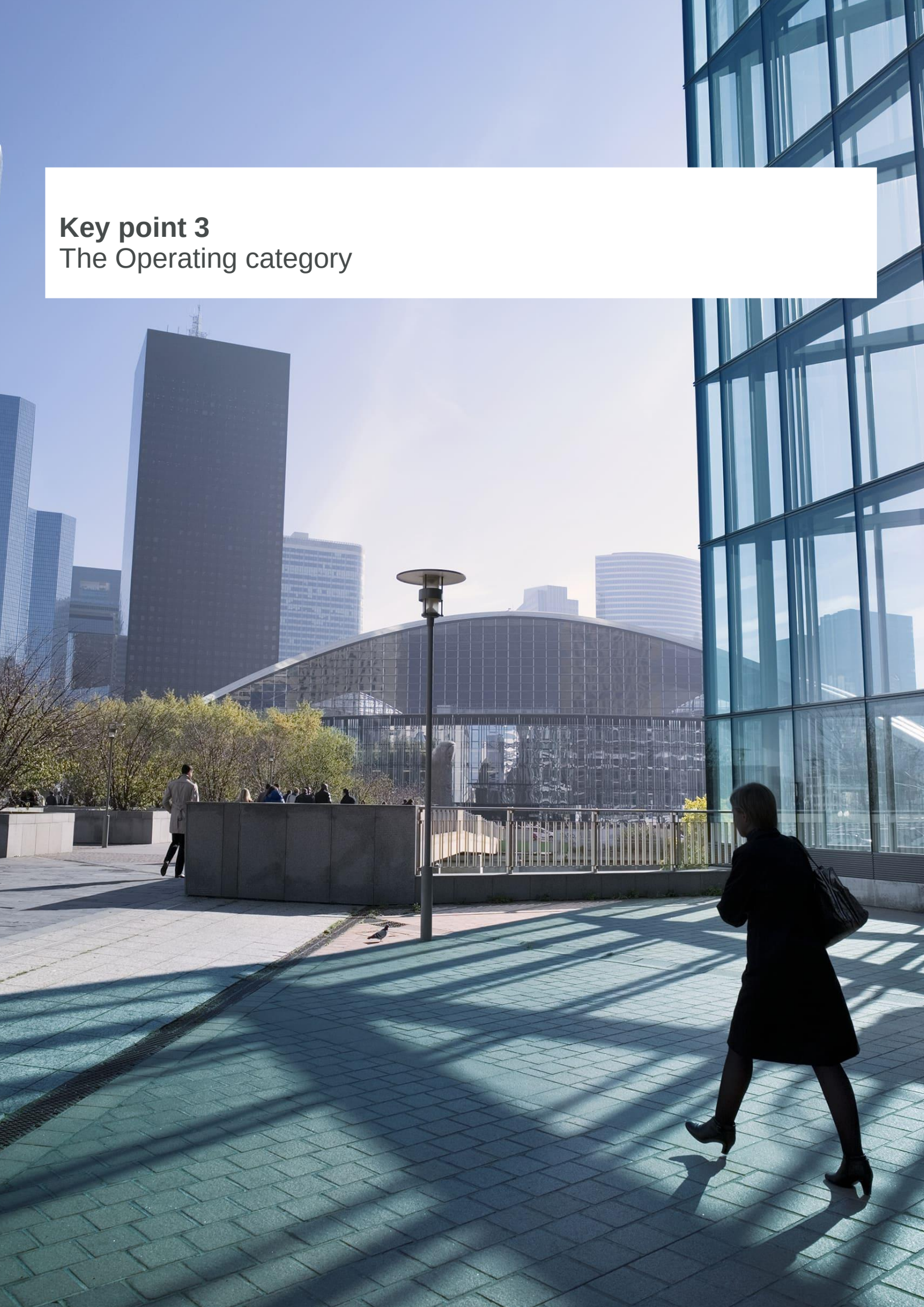
Illustrative example: simplified statement of profit or loss for an industrial and trading entity presenting its operating expenses by nature and function (mixed presentation)*

PROFIT OR LOSS	CATEGORIES
Revenue	Operating
Cost of sales	
Gross profit or loss	
Selling expenses	
Research and development expenses	
General and administrative expenses	
Depreciation and impairments	
Gains or losses on disposal	
Remeasurement of earnouts on acquisitions	
Other operating revenues	
Other operating expenses	
Operating profit or loss	
Share of profit or loss of associates and joint ventures	Investing
Operating profit or loss and income and expenses relating to investments accounted for using the equity method	
Income from cash and cash equivalents	
Net investment income	
Profit or loss before financing and income tax	
Interest expenses on loans	Financing
Net interest expenses on provisions for pension plans	
Interest expenses on lease liabilities	
Other interest expenses	
Profit or loss before income taxes	
Income tax expense	Income tax
Profit or loss from continuing operations	
Profit from discontinued operations	Discontinued operations
PROFIT OR LOSS	
Profit or loss - Group share	
Profit of loss - Non-controlling interests	
Earnings per share from continuing operations	
Diluted earnings per share from continuing operations	
Earnings per share	
Diluted earnings per share	

Key

Authorized subtotals
Mandatory subtotals

* More information on the presentation of operating expenses can be found in Key point 3.



Key point 3
The Operating category

Key point 3: The Operating category

The operating category is defined by default, i.e. it comprises all the income and expenses not included in the other four categories. In practice, it includes all income and expenses arising from the **entity's main business activities**, including the **income or expenses that are volatile or non-recurring** arising from these activities.

How should operating expenses be presented?

IFRS 18 requires operating expenses to be presented in a useful structured summary that is as relevant as possible to users of financial statements. Operating expenses may therefore be presented:

- by nature;
- by function; or
- by nature and by function (mixed presentation)

Entities are not left with a totally "free" choice, since they will have to justify the presentation of operating expenses by considering a set of factors included in the Standard. Specifically, entities will need to ask themselves the following questions:

- do the line items presented in the statement of profit or loss provide information on the factors driving the entity's performance?
- do these line items reflect the way the business is managed and how management reports internally?
- does the presentation reflect standard industry practice?
- is the allocation of particular expenses to functions arbitrary to the extent that the line items presented do not provide a faithful representation of the functions? In such cases, an entity must classify these expenses by nature.

For entities presenting their operating expenses by function (including mixed presentation), IFRS 18:

- requires an entity to present a line item for its cost of sales, separate from other line items showing operating expenses by function;
- clarifies that this “cost of sales” line item must include the total of inventory expense for the period;
- requires additional disclosures about the nature of the operating expenses included in the “function line items” of operating profit or loss.

Entities will therefore be required to disclose **in a separate note** the total amounts relating to the following items and their allocation to the lines of the operating profit or loss to which they relate:

Depreciation	Amortisation	Employee benefits	Impairment loss	Write-down of inventories
IAS 16 *IAS 40* *IFRS 16*	*IAS 38*	*IAS 19* *IFRS 2*	*IAS 36*	*IAS 2*

These amounts by nature will reconcile with the items in the notes relating to these types of expenses (e.g., the amount of IAS 38 amortization will reconcile with the amortization of intangible assets for the year, taken from the intangible assets table).

If any part of depreciation, employee benefits, impairment losses or write-downs of inventories for the period is not recognised in operating profit or loss, because it is included in another category of the statement of profit or loss (for example, in discontinued operations) or in the carrying amount of an asset (e.g., capitalisation to inventories or to property plant and equipment), these expenses by nature can be allocated to the operating line items in two ways:

First method

For each nature of expenses listed above, the entity discloses the amount recognized as an expense for the period for each line of the operating profit or loss and indicates, where applicable, that a portion of the expenses has been either capitalized in the carrying amount of an asset or recognized as an expense in another category of the income statement (without disclosing the amounts).

Second method

The company does not disclose the amounts of depreciation, amortization, employee benefits, impairment losses, and inventory write-downs recognized as **expenses for the period** for each line item in the operating profit or loss. It presents the **total amount** of these costs according to the line item in the operating profit or loss to which they relate.

For example, a company that capitalizes part of its depreciation and personnel expenses in the cost of its inventories will present, for each line of the operating peofit or loss by function, an amount that includes, for each nature of expense, both the items recognized as expenses for the period and those capitalized in the cost of assets. In this case, the amounts capitalized in the cost of inventories will be allocated to the “Cost of sales” function, as they relate to this function: inventories recorded on the balance sheet at the end of the period are intended to contribute to the cost of sales for the following period. In this case, it should be specified that the amounts shown include items capitalized in the valuation of inventories.

Illustrative example: disclosures of expenses by nature in the notes to the financial statements where the operating section has been presented by function (second method)

(in currency units)	**20X1**
Depreciation (a)	**200**
Cost of sales	110
General and administrative expenses	30
Depreciation and impairments	60
Amortisation (a)	**150**
Research and development expenses	150
Employee benefits (a)	**375**
Cost of sales	50
General and administrative expenses	150
Selling expenses	100
Research and development expenses	75
Impairment of assets	**80**
Depreciation and impairments	80
Inventory write-downs	**50**
Cost of sales	50

(a) **Including amounts capitalised and recognised in the carrying value of inventories at 31/12/20X1**

What does IFRS 18 say about unusual items?

IFRS 18 does not define the income and expenses that could be defined as unusual or non-recurring. It simply states that the Operating category includes all income and expenses that do not meet the definition of one of the

other four categories, including those that might be thought of as ‘volatile’ and/or ‘non-recurring’. The concept of non-recurring income and expenses will need to be reviewed in light of IFRS 18's new provisions on the **aggregation and disaggregation of information**.



Key point 4
The Investing category

Key point 4: the Investing category

Subject to industry specific adaptations (see Key Point 6), the Investing category comprises the income and expenses from:

- investments in associates and joint ventures;
- unconsolidated subsidiaries measured at fair value through profit or loss (investment entities);
- cash and cash equivalents;
- financial investments that do not meet the definition of cash equivalents (e.g. investments in certain debt instruments, equity instruments or certain collective investment schemes); and
- other assets if they generate a return individually and largely independently of the entity's other resources (for example, investment properties, and lease receivables generated by those properties).

Focus on... separate financial statements

In separate financial statements, income and expenses from investments in subsidiaries, associates and joint ventures are presented in the Investing category, regardless of how they are accounted for under IAS 27 (cost, equity method, IFRS 9).

The IASB's objective is to feed this category with the return on these investments, which are currently considered separately from operating profit or loss by analysts.

Income and expenses include:

- the income generated by these assets (interest, dividends, rental income);
- the income and expenses that arise from the **initial and subsequent measurement** of the assets, including on **derecognition** (e.g. depreciation and impairment losses, changes in fair value, impairment losses arising on measurement at fair value less costs to sell for assets classified as held for sale, gains or losses on disposal of these assets); and
- **the incremental expenses directly attributable to the acquisition and disposal** of the assets (for example, transaction costs and costs to sell).

Income and expenses that will not be classified in the Investing category include the following:

- income and expenses from financing used in the acquisition of one of the assets listed above. These are presented in the **Financing category**;
- income and expenses relating to assets that do not generate a return individually and largely independently of the entity's other resources, such as assets used for production or the provision of services (property, plant and equipment or trade receivables). These are presented in the **Operating category**;
- income and expenses arising on a business combination (such as a gain on a bargain purchase and remeasurements of contingent consideration). These are also presented in the **Operating category**.

In practice

Some items currently classified by certain entities as financial income or expense will have to be 'reclassified' to the Investing category, including interest and dividends received from financial investments, capital gains and losses on the disposal of financial assets, and changes in the fair value of financial assets.

Focus on... income and expenses from investment property

Income and expenses from investment properties are classified in the Investing category (including depreciation charges when the investment property is measured at cost) unless the investment property is held **as part of the entity's main business activity.** In this case, income and expenses relating to investment property are classified in the Operating category.

How should the share of profit or loss of associates and joint ventures accounted for using the equity method be presented?

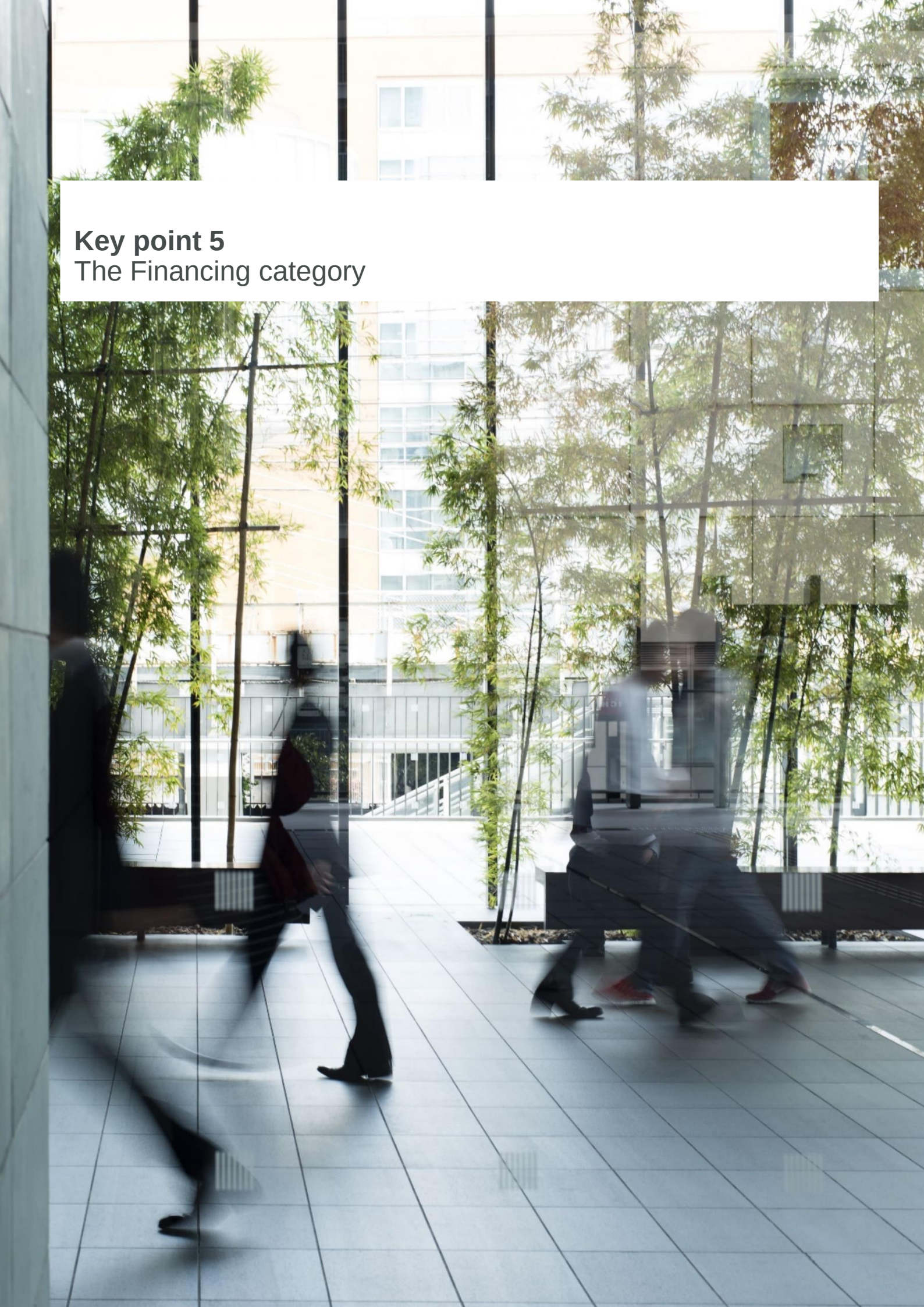
Whatever an entity's main business activity, all **income and expense from equity-accounted associates and joint ventures** must be accounted for in the Investing category.

IFRS 18 allows entities to introduce the subtotal 'operating profit or loss and income and expenses from all investments accounted for using the equity method'. This subtotal therefore presents an operating profit or loss that includes the result of **all** the investments accounted for using the equity method. This subtotal could be particularly relevant for entities that presented these items as part of their operating profit or loss previously.

In practice

Entities currently presenting part of their investments accounted for using the equity method in operating profit or loss, and part outside operating profit or loss, will no longer be able to do so under IFRS 18.

Lastly, entities with a **specified main business activity** that are eligible for the provisions of IAS 28.18 (venture capital organisation, mutual fund, open-ended investment company or similar entity such as an investment-linked insurance fund) will have the option, under the transitional provisions of IFRS 18, to elect to measure their investments currently accounted for using the equity method at fair value through profit or loss. However, it will not be possible to change for equity method for investments currently recognized at fair value through profit or loss. For these entities, the income and expenses of investments recognised at fair value through profit or loss (IFRS 9) should be presented in the Operating category (and not under the Investing category).



Key point 5
The Financing category

Key point 5: The Financing category

The **Financing category** differs from the other categories in that it only includes income and expenses arising from liabilities.

To determine what income and expenses to classify in the Financing category, an entity must distinguish between:

- liabilities that arise from transactions that involve only the raising of finance; and
- other liabilities.

Transactions that involve only the raising of finance are those for which an entity:

- receives financing in the form of cash, settlement of a financial liability or the receipt of its own equity instruments; **and**
- at a later date, will deliver cash or its own equity instruments in exchange.

Examples: debt instruments settled in cash, liabilities under a supplier finance arrangement where the amount payable for the goods or services is derecognised (reverse factoring), obligations to be settled by the delivery of the entity's shares, obligations for an entity to purchase its own equity instruments, etc.

Subject to industry specific adaptations (see Key Point 6) all income and expenses relating to these liabilities are recognised in the Financing category. This includes:

- income and expenses arising from the initial and subsequent measurement (including derecognition) of these liabilities (interest expense, fair value gains and losses, dividends on shares issued and classified as liabilities); and
- expenses directly attributable to the issue and extinguishment of these liabilities (for example, transaction costs).

The **other liabilities** are those that do not solely involve the raising of finance (for example, under a lease contract, an entity records (and receives) a right of use and not a cash amount against a lease liability).

Examples: trade payables, lease liabilities, contract liabilities (under IFRS 15), defined benefit plan liabilities, provisions for asset decommissioning or restoration, provisions for litigation, etc.

In general, these liabilities have both an operating and a financing component. In other words, these liabilities generate income and expenses, some of which fall into the Operating category and others into the Financing category.

Only the following will be classified in the **Financing category**:

- interest income and expenses, including the unwinding discounting effect for provisions; and
- income and expenses arising from a change in interest rates.

Other income and expenses relating to these liabilities will be classified in the **Operating category**. Examples include purchases of goods and services, current and past service cost under a defined benefit plan, and the difference arising from remeasuring a contingent consideration liability at fair value in the case of a business combination.

Focus on... the financing component under IFRS 15

If the application of IFRS 15 has led the entity to identify a significant financing component (**see Forvis Mazars Insight IFRS 15 - question 32**), the transaction price must be adjusted to take account of the time value of money. This interest income or expense is only recognised if a contract asset (or a receivable – **questions 82 and 84**) or a contract liability (**question 83**) is recognised when accounting for a contract with a customer. IFRS 15 stipulates that the effects of financing (interest income or expense) must be presented separately from revenue.

IFRS 18 has clarified the classification of this interest income and expense. Interest expenses on a **contract liability** should be presented in the Financing category (IFRS 18.B54b).

Interest income attached to a **contract asset** cannot be classified in the Financing category. By analogy with the classification of income and expenses linked to a trade receivable, we believe that interest income on a contract asset should be presented in the Operating category.





Key point 6
Industry-specific adaptations

Key point 6: Industry-specific adaptations

The notion of a **specified main business activity** applies in particular to financial institutions and similar entities (banks, insurance companies, real estate companies, asset managers, investment entities etc.). Entities with a specified main business activity will have to classify some of their income and expenses as operating profit or loss whereas, under the general classification rules described above, they would be classified in the Investing or Financing categories.

Entities will therefore have to assess whether they have a specified main business activity, i.e. a main activity relating to:

- providing financing to customers (e.g. banks); or
- investing in particular assets (e.g. real estate or insurance entities).

Entities involved in one (or both) of these specified main business activities should report this fact in their notes to the financial statements.

Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. This assessment will require judgement and will need to be based on evidence. Therefore:

- in general, an entity that uses subtotals as important indicators of its operating performance (i.e. indicators used externally to explain its operating performance or internally to assess and monitor that performance) is likely to have a specified main business activity if those subtotals are similar to gross profit and include income and expenses that would be classified in the Financing and Investing categories if the entity did not have a specified main activity - for example: metrics such as ‘Net interest income’ or ‘Insurance service result’, in the case of banks and insurers;
- if a reportable segment under IFRS 8 comprises the single activity of providing financing to customers or investing in assets, this indicates that activity of the reportable segment **is** a specified main business activity of the entity. If an operating segment is not a reportable segment, its single business activity **might be** a specified main business activity.

Identifying the specified main business activities is done at reporting entity level. Accordingly, for its own accounting purposes, a subsidiary may identify a specified main business activity which will not necessarily be classified as such for the purposes of the consolidated financial statements of the group to which it belongs.

Finally, any change in the identification of specified main business activities must be treated prospectively, without any restatement of amounts presented before the date of the change. The fact that such a change has taken place must be disclosed. Disclosures on the effect of this change will also be required to facilitate analysis of the operating result by users of the financial statements.

The table below summarises the classification of income and expenses depending on the specified main business activity.

Sources of income and expenses	Entities with no specified main business activity (General model)	Entities that invest in particular assets as part of their specified main business activity (Examples: insurance companies, real estate entities, asset management entities)	Entities that provide financing to customers as part of their specified main business activity (Example: banks)
Associates and joint ventures accounted for using the equity method	Investing	Investing	Investing
Associates, joint ventures and unconsolidated subsidiaries measured at fair value or at cost	Investing	**Operating[1] or Investing[2]**	Investing
Cash and cash equivalents	Investing	**Operating[3] or Investing[4]**	Income and expenses directly related to financing activities **Operating** Income and expenses not directly related to financing activities **Accounting policy choice: Investing or Operating** Entity cannot distinguish **Operating**
Financial investments that do not meet the definition of cash equivalents and Other assets generating a return individually and largely independently of the entity's other resources	Investing	**Operating[5] or Investing[6]**	Investing
Liabilities arising from raising finance	Financing	Financing	Income and expenses directly related to financing activities **Operating** Income and expenses not directly related to financing activities **Accounting policy choice: Financing or Operating** Entity cannot distinguish **Operating**
Other liabilities	Financing[7]	Financing	Financing

[1] If the entity invests in associates, joint ventures, or unconsolidated subsidiaries measured at fair value or cost as part of its specified main business activity.
[2] If the entity does not invest in associates, joint ventures, or unconsolidated subsidiaries measured at fair value or cost as part of its specified main business activity.
[3] If the entity invests in **financial assets** as part of its specified main business activity.
[4] If the entity does not invest in financial assets as part of its specified main business activity. For example, investing in investment property as part of the specified main business activity will result in the classification of income and expenses related to cash and cash equivalents in the investing category.
[5] Assets that generate a return largely individually and largely independently of the entity's other resources, in which the entity invests as part of its specified main business activity.
[6] Assets that generate a return largely individually and largely independently of the entity's other resources, in which the entity invests as part of an activity that is not its specified main business activity.
[7] Interest income and expenses, including the effect of any change in the discount rate on provisions, and income and expenses arising from changes in interest rates (other income and expenses arising from these liabilities are classified in the Operating category).

Further notes on the table

Entities that grant financing to their customers must classify **any income and expenses not directly related to the financing activity** in the same way. Either these are:

- **all** presented in the **Operating category**; or
- classified in the **Investing and Financing categories**, depending on the nature of the underlying item (cash and cash equivalents or liabilities arising from raising finance).

The subtotal ‘Net profit or loss before financing and taxes’ does not apply to an entity whose main business is providing financing to customers and that elects to classify all income and expenses relating to financing activities within the Operating category.

Focus on… conglomerates

The Standard does not specifically address the case of conglomerates (for example, a banking and insurance group). Nevertheless, illustrative example IE11 shows how an entity that, as part of its main business, carries on a manufacturing activity and provides financing to its customers should present its statement of profit or loss. This example recommends the presentation of two aggregates within operating profit or loss (‘Gross profit from the sale of goods' and 'Net interest income').

Accordingly, the entity will need to adapt the presentation of its statement of profit or loss to appropriately reflect its different main business activities.



Key point 7
Aggregation and disaggregation



Key point 7: Aggregation and disaggregation

How to aggregate and disaggregate the information in the financial statements?

IFRS 18 introduces new requirements for the aggregation and disaggregation of information, applicable both in the primary financial statements (not only for the presentation in the statement of profit or loss) and in the notes.

The aggregation and disaggregation of financial information will require the use of judgment.

Entities will need to ensure that the choices they make do not result in the omission of useful information by giving insufficient detail or, alternatively, in the obscuring of useful information by providing too much detail. These principles will be applied to ensure that the primary financial statements and notes fulfil the role assigned to them in IFRS 18.

To help entities apply these requirements, the Standard sets out:

- the bases for aggregating and disaggregating information;
- a description of the items to be presented in the financial statements

The bases for aggregating and disaggregating information

Entities will classify assets, liabilities, equity, income, expenses and cash flows into items based on shared characteristics.

In order to be aggregated in the **primary financial statements**, these items must share **at least one common characteristic.**

The primary financial statements must provide useful structured summaries. Certain lines may aggregate items with dissimilar characteristics as long as they share at least one common characteristic.

If the resulting information is material, a **single dissimilar characteristic** will be enough to justify disaggregation in the **notes** of the various items that make up a line of the primary financial statements.

A decision then has to be made as to whether to maintain this line in the primary financial statement and provide disaggregated information in the notes on material items, or to disaggregate the information directly in the primary financial statement.

The Standard sets out a number of characteristics to be considered when carrying out these analyses, while leaving entities free to identify others.

The characteristics listed in IFRS 18 include the nature, function and persistence of certain income and expense, the measurement bases, uncertainties or risks associated with an item, size, geographical location or regulatory environment, and so on.

Items to be presented in the primary financial statements

The Standard identifies certain items to be presented separately in the primary financial statements. For example:

- the statement of profit or loss will have to present separate lines for revenue, operating expenses and the profit or loss of equity-accounted investments. Write-downs of inventories, impairment losses for property, plant and equipment, and restructuring costs may also be presented separately in the statement of profit or loss;
- the statement of financial position must present property, plant and equipment, investment property, intangible assets, **goodwill**, provisions, etc. separately.

The items listed in the Standard are intended to help structure the primary financial statements.

Nevertheless, entities will be able to make any adjustments they consider necessary to ensure that their financial statements comply with the objectives and role outlined in IFRS 18.

In practice, entities will be able to present additional line items within the primary financial statements, as well as other subtotals, as long as they comply with the principles of aggregation and disaggregation of information and

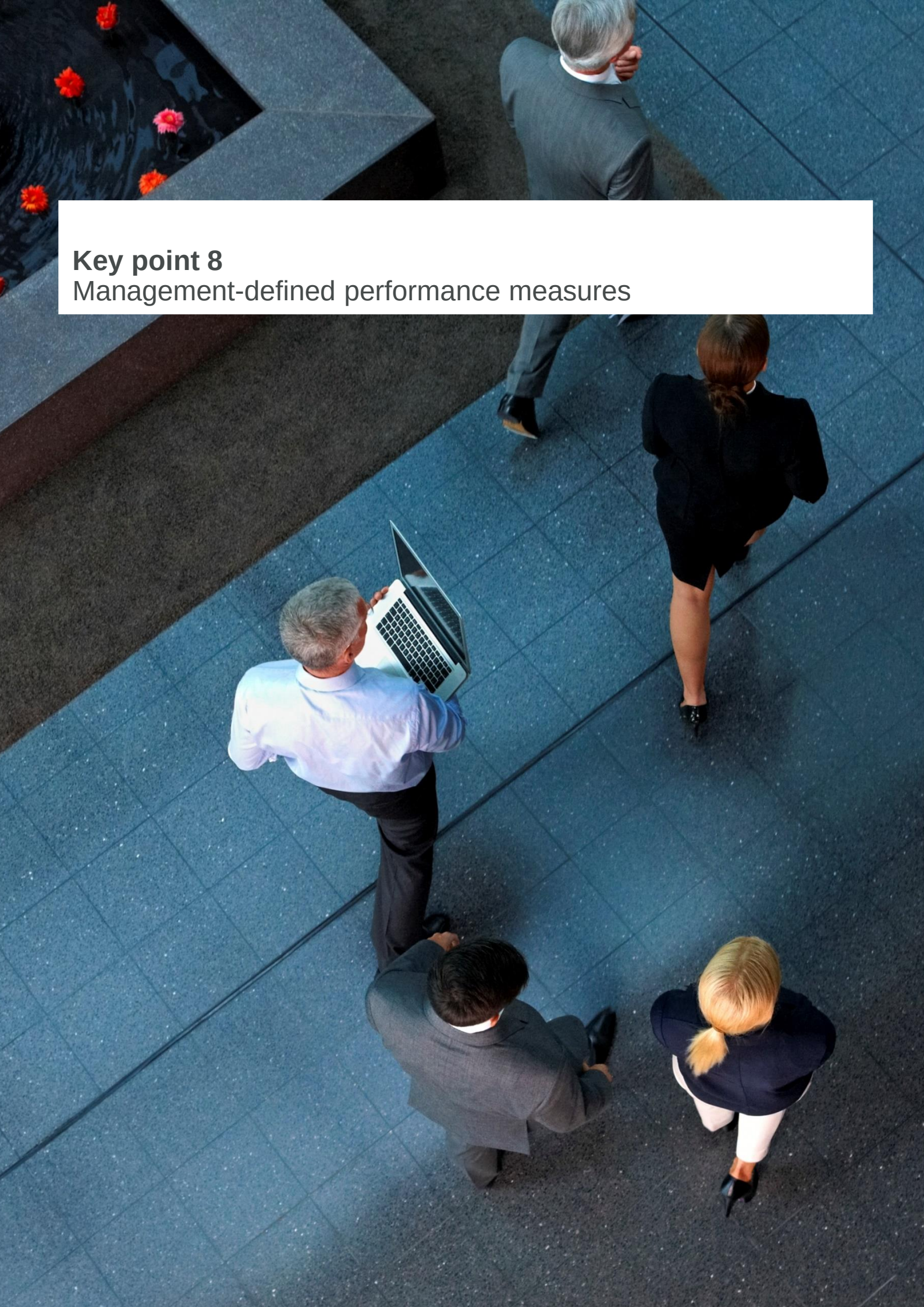
meet the objectives set out in IFRS 18. Conversely, entities will not be required to present all the lines ordinarily required (by either IFRS 18 or another IFRS Accounting Standard) if they are unnecessary for the purposes of presenting useful structured summaries.

How should the line items be labelled?

The Standard requires the use of labels that are as precise as possible and that faithfully represent the characteristics of the items contained in the line items and subtotals. Entities are urged to avoid using labels that are not self-explanatory. In practice, this means that an entity should present items as ‘Other’ only if it cannot find a more informative label. For example, if a line item contains items with a shared characteristic, it would be better to use wording that reflects this shared characteristic, rather than using the label ‘Other’.

When an entity does present an 'Other' line item:

- if the line item contains one or more material items, disaggregated information should be presented in the notes;
- if it consists of items that are not material, but the total amount is sufficiently large for a user of the financial statements to imagine that it does contain one or more material items, additional disclosure is required (for example, indicating the immateriality of the items individually considered, their nature, etc.).



Key point 8
Management-defined performance measures

Key point 8: Management-defined performance measures

The performance measures reported by entities are useful information for readers of the financial statements in order to better understand how the entity is managed and how management views the entity's performance.

The provisions of IFRS 18 governing these performance measures are intended to compensate for the lack of transparency that can sometimes accompany the publication of 'non-GAAP' indicators. The IASB has therefore sought to improve the quality of the information associated with these performance measures.

What is a management-defined performance measure (MPM)?

A management-defined performance measure is **a subtotal of income and expenses that**:

- is used in **public communications outside financial statements** in financial communications intended for users (e.g. press releases, investor presentations, etc.), excluding oral statements, transcripts of oral statements and social media posts;
- communicates **management's view** of an aspect of the financial performance of the **entity as a whole.** There is a rebuttable presumption that a subtotal of income and expenses included in financial communications outside financial statements represents management's view of an aspect of the entity's financial performance; and
- **is not a** total or subtotal (optional or mandatory) **defined in IFRS 18** or required in other IFRS.

Therefore, subtotals of only income or only expenses are not management-defined performance measures.

Other measures such as financial position or cash flow measures (free cash flow, net debt, etc.) are not MPMs. Nevertheless, these are alternative performance measures that are usually referred to in the publications of stock market regulators (e.g. ESMA guidelines).

IFRS 18 does not specify any disclosures in the notes on these metrics but does not prohibit their presentation in the financial statements.

By extension, a subtotal that is the numerator or denominator in a financial ratio disclosed outside the financial statements is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure subject to the disclosure requirements below.

Focus on... the rebuttable presumption

In general, unless it can be shown otherwise, an entity that discloses a sub-total of income and expense outside its financial statements is seeking to present management's view of an aspect of its performance. This presumption can be rebutted if there is tangible evidence to show that:

- the sub-total does not reflect management's view of an aspect of the financial performance of the entity as a whole. To determine this, entities will need to ask themselves the following questions:
  - is the metric used internally to assess and monitor performance?
  - does the entity communicate on this metric without prominence?
- the entity has a reason for reporting this metric, for example it is:
  - required in a public communication by law or regulation;
  - used in a public communication to satisfy a request from an external party (ratings agency, bank); or
  - required by another accounting framework.

What information must entities disclose about their management-defined performance measures?

Entities will be required to present information on their MPMs in a dedicated note, designating them using clear and transparent labels.

This note will include:

- a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with similar measures presented by other entities;
- a description of the aspect of financial performance that management believes is communicated through the MPM and why it provides useful information about that aspect of the company's performance;
- the definition of the MPM and its calculation method, including the explanation of any changes in its definition or calculation method, where applicable;
- a reconciliation between each MPM and the most directly comparable IFRS total or subtotal. This reconciliation should present the tax impact and the share of non-controlling interests for each reconciling item (see the illustration below);
- the method used to calculate the tax effect for each reconciling item (if more than one method is used, specify which).

Given the operational difficulties involved in calculating the tax effect, the Standard allows several methods:

- at the statutory tax rate applicable to the transaction in the tax jurisdiction concerned;
- a reasonable pro rata allocation of the entity's current and deferred tax in the tax jurisdiction concerned; or
- by using any another method that achieves a more appropriate allocation.

Some groups already present some of the disclosures required by IFRS 18 concerning MPMs in their management report.

IFRS 18 explicitly requires this information to be presented in a single note to the financial statements and contains no provisions permitting for the disclosures to be given by means of reference to another document instead. Therefore, we do not believe that it is possible to simply refer to the management report or to any other document that presents this information in lieu of providing the disclosures in the notes to the financial statements.

Illustration: Reconciliation of MPMs with the most directly comparable IFRS subtotal*

		Line in the statement of profit or loss						
		Research and development expenses	General and administrative expenses	Depreciation and impairments	Remeasurement of earnouts on acquisitions	Total	*Tax impact*	*Share of non-controlling interests*
	IFRS: Operating profit or loss					**30 000**		
Reconciling items	**Restructuring costs**			400		**400**	*-40*	
	Impairment of intangible assets	200	-	1 200	-	**1 400**	*-280*	*200*
	Expenses related to share-based compensation		800	-	-	**800**	*-160*	*150*
	Effects of business combinations		-		-1 000	**-1 000**	*150*	-
	MPM: Current operating income					**31 600**		

*This table will be incorporated into the note, which will also include the other disclosures required (see above).

Key point 9
Statement of cash flows



Key point 9: Statement of cash flows

The Standard introduces some targeted changes to the cash flow statement.

What is the starting point for entities using the indirect method to present their cash flow statements?

Entities that present cash flows from operating activities using the indirect method generally make their adjustments starting from net income, as currently permitted by IAS 7. However, as IAS 7 is not prescriptive as to the level of profit or loss that should serve as the starting point for the indirect method, differences have been observed in practice. IFRS 18 amends IAS 7 so as to require entities to make adjustments based on **operating profit or loss** (and no longer on net income). The aim of this change is to limit the number of adjustments currently made by entities and to standardise practices.

How should interest and dividends be classified in the cash flow statement?

IAS 7 has removed the choices previously available to preparers in terms of classifying cash flows relating to interest and dividends.

Therefore, for corporates (i.e. those with no specified main business activity):

- interest and dividends paid will be classified as cash flows arising from financing activities; and
- interest and dividends received will be classified as cash flows arising from investing activities.

For entities with specified main business activities (e.g. banks, insurers, etc.):

- dividends paid will be classified as cash flows arising from financing activities;
- interest received, interest paid and dividends received will be classified in the same way as the corresponding income and expenses in the statement of profit or loss. Entities must classify each of these three cash flows in its entirety in a single category of the cash flow statement (as an operating cash flow, investing cash flow or financing cash flow):
    - for example, if an entity classifies all its interest expenses in the Financing category of the statement of profit or loss, the entity will classify all its interest paid as cash flows from financing activities;
    - an entity that classifies its interest expense partly in the Operating category and partly in the Financing category of the statement of profit or loss will have to make an accounting policy choice to classify all cash flows from interest payments either as operating cash flows or as financing cash flows in the statement of cash flows.

Key point 10
Transitional provisions



Key point 10: Transitional provisions

IFRS 18 is mandatory for financial periods commencing on or after 1 January 2027. It must be applied **retrospectively**. Early application is also permitted. However, in Europe, it can only be applied once it has been endorsed by the European Union. EFRAG now expects the Standard to be endorsed before 1 January 2027. Other jurisdictions may have similar endorsement procedures that must be completed before the Standard can be applied.

Retrospective application of IFRS 18 means that entities will have to restate comparative periods in their primary financial statements.

IFRS 18 also requires entities to disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:

- the restated amounts presented applying IFRS 18; and
- the amounts previously presented applying IAS 1 – *Presentation of Financial Statements*.

An entity is permitted, but not required, to disclose these reconciliations for the current period or earlier comparative periods.

Finally, for financial years prior to the first application of the Standard, entities will have to disclose in their financial statements the main impacts expected from the application of this new Standard, in accordance with the requirements of IAS 8.

Focus on... interim financial statements

When applying IAS 34, an entity will have to present the following items in its condensed interim financial statements for the first year of application (for example, in its 30 June 2027 interim financial statements, where the entity closes its accounts on December 31 and did not early adopt the Standard):

- the headings (line items and subtotals) that it expects to use in its annual financial statements in application of IFRS 18 (notwithstanding the requirements in paragraph 10 of IAS 34, which requires the use of the headings presented in the most recently published financial statements); and
- a reconciliation for each line item in the statement of profit or loss for the comparative period between:
    - the restated amounts presented applying IFRS 18; *and*
    - the amounts previously presented under IAS 1.

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