SFRS(I) 18/FRS 118

Guide

Volume 1: Overview of SFRS(I) 18/FRS 118

Contents

New structure for the statement of profit or loss

SFRS(I) 18 replaces SFRS(I) 1-1 and introduces a more structured approach to presenting financial performance.

SFRS(I) 18 introduces a new structure for the statement of profit or loss, requiring companies to classify income and expenses into five categories:

- Operating
- Investing
- Financing
- Income taxes
- Discontinued operations

Among these, the operating, investing and financing categories are newly defined for the statement of profit or loss. While these terms are familiar from the statement of cash flows, the classification requirements under SFRS(I) 18 differ and must be applied independently.

What is changing

Under SFRS(I) 18:

- **Operating becomes the default category**

  Income and expenses are classified as operating unless they meet the criteria for another category
- **Investing and financing categories are specifically defined**

  These categories apply only to certain types of assets and liabilities
- **Classification is driven by underlying assets and liabilities**

  Companies must assess the nature of the transaction rather than applying broad judgement
- **New mandatory subtotals are introduced, including:**
  - operating profit or loss
  - profit or loss before financing and income taxes

Key considerations

- The **scope of operating activities may be broader than expected**, as it captures all items not classified elsewhere
- The classification approach requires **greater discipline and consistency** across reporting periods
- In many cases, the structure of statement of profit or loss would differ from current practice

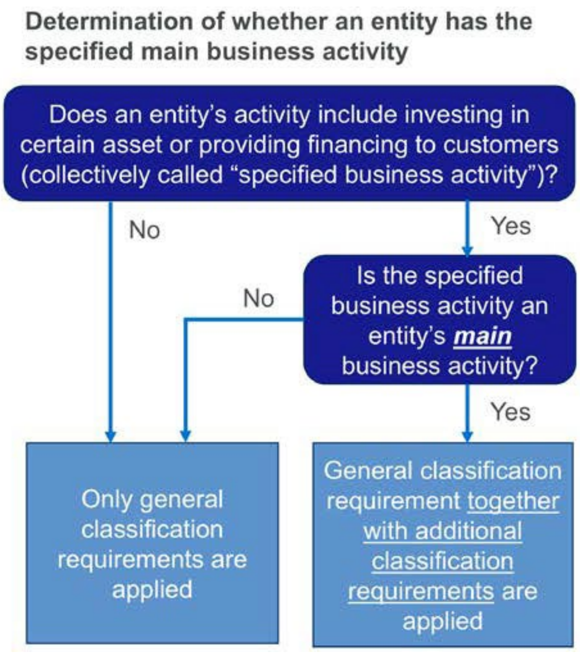
What this means for companies

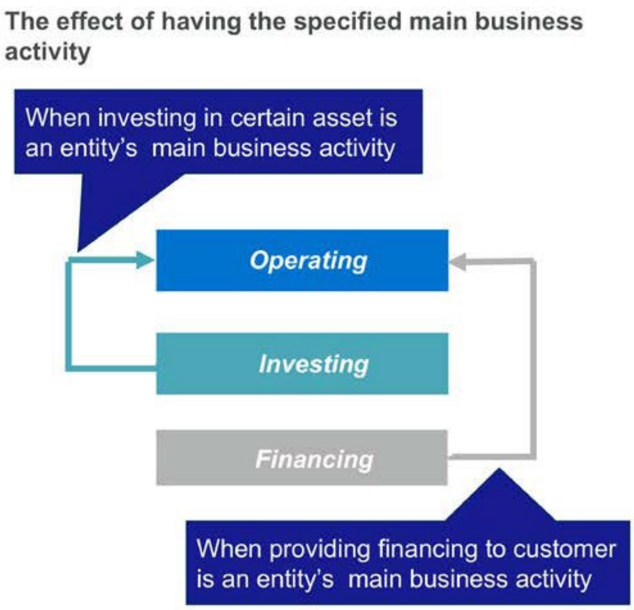
Companies will need to apply classification requirements and consider the structure of statement of profit or loss that well depicts the entity's performance.

Specified main business activity

In certain cases, classification depends on whether investing or financing activities form part of a company's main business.

Specified main business activity





What is changing	What this means for companies
▪ Certain items reclassified as operating	Companies need to: ▪ assess whether it has the specified main business activity from a reporting entity's perspective ▪ apply judgement in determining classification ▪ consider differences across entities within a group

Specified classification requirements

SFRS(I) 18 provides specific guidance for certain items.

- **Foreign exchange differences**

  Classified based on underlying transaction

- **Derivatives and hedging instruments**

  Classified based on risk being managed

What is changing

- Foreign exchange differences follow the classification of the underlying transaction
- Derivatives and hedging instruments follow the risk being managed

What this means for companies

Companies should review existing classifications to ensure alignment with the new requirements.

Statement of profit or loss: new
Specified main business activity
Mandatory subtotals
New disclosure requirements
Aggregation and disaggregation
Changes to other financial statement
Effective date and transition
Key considerations for companies

Mandatory subtotals

SFRS(I) 18 introduces mandatory subtotals in the statement of profit or loss to improve consistency in how financial performance is presented.

Companies are required to present at least the following subtotals:

- Operating profit or loss (Income and expenses included in the operating category)
- Profit or loss before financing and income taxes (Operating profit or loss together with income and expenses included in the investing category)

What is changing

Under existing practice, companies often present subtotals such as operating profit differently, with varying definitions and formats.

SFRS(I) 18 standardises this by:

- requiring specific subtotals to be presented
- linking these subtotals to defined categories (operating, investing, financing)
- reducing flexibility in how performance is structured

Key considerations

- Existing subtotals may not align with the new definitions
- Internal performance measures may need to be reassessed
- Presentation formats may require redesign

What this means for companies

Companies may need to:

- redesign the format of their statement of profit or loss
- reassess how existing subtotals are calculated and presented
- align internal performance metrics with the new required subtotals

This may also affect how financial performance is communicated to stakeholders, particularly where customised measures are currently used.

SFRS(I) 18 introduces enhanced disclosure requirements to improve transparency and consistency in how companies communicate financial performance.

These requirements focus primarily on:

- management-defined performance measures (MPMs)
- additional disclosures for operating expenses presented by function

What is changing

Management-defined performance measures (MPMs)

An MPM is a subtotal of income and expenses that:

- is used in public communications outside the financial statements;
- reflects management's view of financial performance; and
- is not specifically required by SFRS(I) 18 nor commonly used subtotals listed in SFRS(I) 18

This captures measures commonly referred to as:

- alternative performance measures
- non-GAAP measures and
- adjusted profit metrics

Companies using MPMs must disclose:

- what the measures represents;
- why management believes it provides useful information;
- how it is calculated;
- a reconciliation to the closest comparable subtotal; and
- the related income tax and non-controlling interest effects

These disclosures must be presented in a **single note** and will form part of the audited financial statements.

Expenses presented by function

Where operating expenses are presented by function (e.g. cost of sales, administrative expenses), companies must disclose additional information by nature for key expense categories, including:

- depreciation and amortisation
- employee benefits
- impairment losses and reversals
- inventory write-downs and reversals

Importantly, these disclosures may include amounts capitalised into assets, not just recognised as expenses.

Key considerations

- MPMs that were previously outside financial statements will now be subject to audit scrutiny
- The distinction between **MPMs and non-MPMs** becomes critical
- Additional disclosures may require new data capture processes
- Systems may not currently track information at the required level

What this means for companies

Companies will need to:

- identify all performance measures used in public communications
- assess whether they meet the definition of MPMs
- close coordination between investor relationship department and accounting department is necessary
- evaluate whether systems can support the required data

Enhanced aggregation and disaggregation principles

SFRS(I) 18 strengthens how information is grouped and presented in the primary financial statement or disclosed in the notes.

What is changing

The standard introduces clearer principles requiring companies to:

- **aggregate** items with similar characteristics
- **disaggregate** items with dissimilar characteristics where material
- determine whether information should be:
  - presented in the primary financial statements, or
  - disclosed in the notes

It also emphasises the roles of primary financial statements versus notes

Key considerations

- Overuse of broad categories (e.g. "other expenses") is discouraged
- Material items must be sufficiently visible
- Judgement is required where items have both similar and dissimilar characteristics

What this means for companies

Companies will need to:

- revisit how financial statement line items are structured
- assess whether current disclosures provide sufficient detail
- enhance note disclosures where aggregation in primary financial statements is necessary

Changes to other financial statements

While SFRS(I) 18 focuses on the statement of profit or loss, it also introduces targeted changes to other financial statements.

What is changing

Statement of cash flows

- Operating cash flows (indirect method) must start from **operating profit or loss**
- Classification choice for interest and dividends are removed and aligned with profit or loss classification (dividend paid must be classified in financing activity)

Statement of financial position

- Goodwill must be presented **as a separate line item.** Previously, it could be included within intangible assets

Key considerations

- Despite minimal changes, it is important to note that the classification of statement of profit or loss and statement of cash flows are not aligned.

What this means for companies

Companies should:

- review current presentation formats
- asses whether reclassification is required

Effective date and transition

SFRS(I) 18 introduces a new presentation framework that will require careful planning for implementation.

What is changing

Effective date

The standard applies to annual and interim reporting periods beginning on or after 1 January 2027, with early adoption permitted.

Transition approach

SFRS(I) 18 must be applied retrospectively, meaning:

- comparative periods must be restated
- prior year financial statements must be presented as if the new standard had always been applied

Additional requirements

Companies are required to provide a reconciliation for each line item in the statement of profit or loss between previously reported amounts and restated figures.

At the date of initial application of SFRS(I) 18, an eligible entity for fair value option under SFRS(I) 1-28 can elect to change its measurement of investment in associate or joint venture from the equity method to FVTPL in accordance with SFRS(I) 9.

For interim reporting, companies may need to apply the new requirements earlier in practice, depending on reporting cycles.

Key considerations

- Retrospective application requires reliable historical data
- Systems may not currently capture required information
- Interim reporting increases time pressure for implementation
- Significant effort may be required for restatement
- Decision on whether to apply the fair value option to investments in associates or joint ventures

What this means for companies

Companies should begin preparing early by:

- assessing availability and quality of historical data
- reviewing systems and reporting processes
- identifying areas requiring judgement under the new standard
- planning for changes to both annual and interim reporting
- assessing the eligibility for, and potential benefit of, fair value option

Key considerations for companies

With the effective date approaching, companies should begin assessing the impact of the following:

- classification of income and expenses
- presentation of statement of profit or loss
- mandatory subtotals
- MPM disclosures
- aggregation and disaggregation
- transition and comparative restatement
- systems, data and process readiness

What's next

In **Volume 2**, we will explore specific areas in more detail, including classification requirements in the statement of profit or loss.

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