ACCURATE AND RELIABLE

INSIGHT PAPER · FINANCIAL REPORTING

Preparing for IFRS 18

New subtotals, new categories and a single note for management-defined performance measures. What replaces IAS 1, and when.

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SUBJECT
IFRS 18, replacing IAS 1

PREPARED FOR
Preparers of IFRS financial statements

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01 — THE CHANGE

New subtotals, new categories

A significant change will be the introduction of new subtotals in the Income Statement, and recording income and expenses into newly specified categories.

To improve the comparability and transparency of companies' performance reporting, the IASB is anticipated to release **IFRS 18**, a new Standard, in 2024. Scheduled to take effect in 2027, IFRS 18 will replace **IAS 1 Presentation of Financial Statements** and establish guidelines for the presentation and disclosure of financial statements. The changes, primarily affecting the income statement, entail the following requirements:

1

Categorise income and expense items

Items are classified into operating, investing and financing categories.

2

Present new subtotals

Subtotals for operating profit or loss, and profit or loss before financing and income tax.

IFRS 18 replaces IAS 1 and reshapes the face of the income statement — with knock-on effects for the statement of cashflows.

REPLACES	ANTICIPATED RELEASE	EFFECTIVE
IAS 1 Presentation of Financial Statements	**2024** By the International Accounting Standards Board	**1 January 2027** Applied retrospectively

Furthermore, IFRS 18 introduces enhanced requirements for the **aggregation and disaggregation of expenses**, and new disclosure requirements for management-defined performance measures.

02 — CASHFLOWS

The effect on the statement of cashflows

In addition to these new subtotals and categories, IFRS 18 will have an impact on the statement of cashflows. As a result of specifying that operating profit will now be a subtotal in the statement of profit or loss, this will change the statement of cashflows for many entities. Those entities using the **indirect method** for reporting cashflows from operating activities will now be required to use the operating profit subtotal as its starting point.

> **There will no longer be a specific requirement to disclose unusual income and expenses.**

There is also further clarification on cashflow items where judgment previously existed. For businesses **without a specified main business activity**, such as providing finance to customers:

INTEREST AND DIVIDENDS

Paid

Now classified as a **financing activity** in the statement of cashflows.

INTEREST AND DIVIDENDS

Received

Now classified as an **investing activity** in the statement of cashflows.

03 — DISCLOSURES

Material classes, and what replaces them

A change from IAS 1 is that there is **no longer the requirement to present separately each material class of similar items**, with no reference to material classes in IFRS 18. The primary aim of disaggregating the information in the statement of profit or loss by introducing the new categories is to ensure useful information is produced and potentially to improve comparability between entities.

While the requirement of presenting material classes of items separately is no longer stated, there are two requirements that it is hoped will achieve the same outcome:

1. **Disclose any disaggregation of items if the resulting information is material**
The materiality of the resulting information, rather than the class of item, drives the disclosure.

2. **Present items so the primary statements give a useful structured summary**
Covering the entity's assets, liabilities, equity, income and expenses.

04 — PERFORMANCE

Management-defined performance measures

The IASB has been looking closely at management performance measures to make the primary financial statements and associated disclosures more useful to the stakeholders. The proliferation of alternative performance measures within annual reports is a significant issue, leading to confusion as to which figures users should focus on as the 'correct' or 'important' ones.

The aim is a single, comparable set of subtotals — and one place to explain anything management adds on top.

IFRS 18 will define management-defined performance measures as measures of subtotals of income and expenses that **communicate management's view** of an aspect of an entity's financial performance. It will be made clear that totals and subtotals specified by IFRS Standards (including operating profit before depreciation, amortisation and specified impairments) are **not** management-defined performance measures.

> **What counts as a communication**
>
> There is a rebuttable presumption that subtotals used in communications outside of financial statements is covered by this, as it represents management's view of an aspect of the entity's financial performance. The scope of these communications has been narrowed: oral communications, transcripts and social media posts are not included.

05 — THE NOTE

Specific disclosures

Under IFRS 18, entities will be required to disclose information about management-defined performance measures in a **single note** to the financial statements. If the measures are the same as part of the operating segment information disclosed under IFRS 8 *Operating Segments*, then this can be included within the same note as the operating segment information.

- The note should include an explanation of how the measure is calculated and how it provides useful information about the entity's performance.
- The entity will be required to provide a reconciliation between the measure and the most directly comparable subtotal, or total specified in IFRS Standards.
- This reconciliation will disclose the income tax effect and any effect on non-controlling interests of items within it. As the tax impact could become complex, application guidance will be provided.

Changing, adding or removing a measure

If an entity changes the calculation of the measure, introduces a new measure or removes a previously disclosed measure, there must be an **explanation to understand the change and the reasons behind this**. Comparative information should be provided unless it is impracticable to do so — and if this is the case, the entity must disclose that.

2027

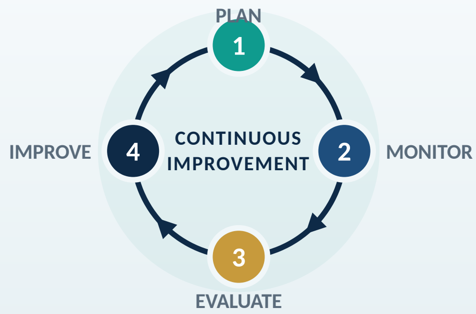
Applicable for annual periods beginning on or after 1 January

IAS 1

The standard IFRS 18 replaces

Retrospective

Entities must apply the principles retrospectively



Retrospective application means comparative periods will need restating — the work begins well before the effective date.

Getting ready for IFRS 18?

To learn more about the upcoming IFRS changes and what they will mean for your reporting, please contact us.

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