IFRS 18 Presentation and Disclosure in Financial Statements

Improved comparability in the statement of profit or loss

Currently, there is no standardized structure for the statement of profit or loss, allowing companies to select their own subtotals for inclusion. Frequently, companies report operating profit, but the calculation method for operating profit varies widely among them, diminishing comparability. An IASB study of 100 companies revealed that over 60 of them reported operating profit figures using at least nine different calculation methods.

In response, the IASB has introduced IFRS 18 with a primary focus on promoting consistency in statement of profit or loss presentation and enhancing the disclosure of disaggregated information. This initiative aims to provide investors with more transparent and comparable insights into companies' financial performance by establishing a uniform starting point.

IFRS 18 will impact all companies utilizing IFRS Accounting Standards in terms of how they present and disclose financial performance. However, it does not influence how companies measure financial performance.

"IFRS 18 represents the most significant change to companies' presentation of financial performance since IFRS Accounting Standards were introduced more than 20 years ago. It will give investors better information about companies' financial performance and consistent anchor points for their analysis".

- Andreas Barckow,
IASB Chair

Overview

The International Accounting Standards Board (IASB) released IFRS 18 Presentation and Disclosure in Financial Statements in April 2024. IFRS 18 becomes effective on January 1, 2027, with the option for early adoption, and it also applies to the comparative information.

IFRS 18 supersedes IAS 1 Presentation of Financial Statements. Requirements in IAS 1 that remain unchanged have been moved to IFRS 18 and other applicable Standards.

The objectives of IFRS 18 include enhancing financial reporting through the following means:

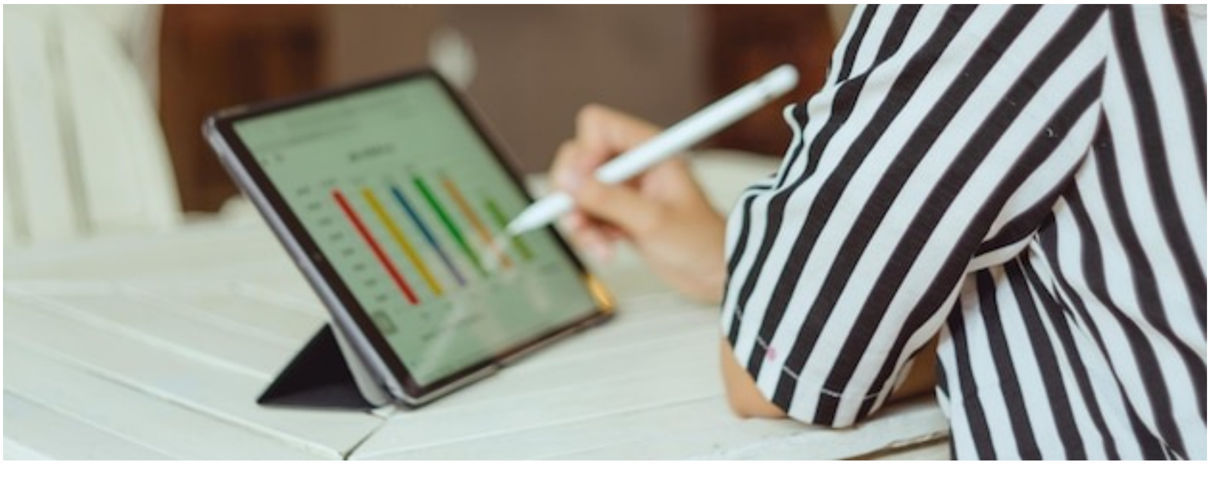
- Introducing a defined structure to the statement of profit or loss,
- Mandating disclosures regarding management-defined performance measures (MPM),
- Establishing enhanced principles for grouping (aggregation and disaggregation) of information, which are applicable to both the primary financial statements and the notes in general.

Structure of the Statement of profit or loss:

IFRS 18 aims to establishes a structured statement of profit or loss by implementing the following measures:

- It introduces three defined categories for income and expenses: operating, investing, and financing.
- It mandates to present new defined totals and subtotals, including operating profit, thereby enhancing the clarity and consistency of financial reporting.

Entities primarily engaged in investing in assets or providing finance to customers are subject to specific categorization requirements. This entails that additional income and expense items, which would typically be classified as investing or financing activities, are instead categorized under operating activities. Consequently, operating profit reflects the outcomes of an entity's core business operations. Identifying the main business activity involves exercising judgment based on factual circumstances.

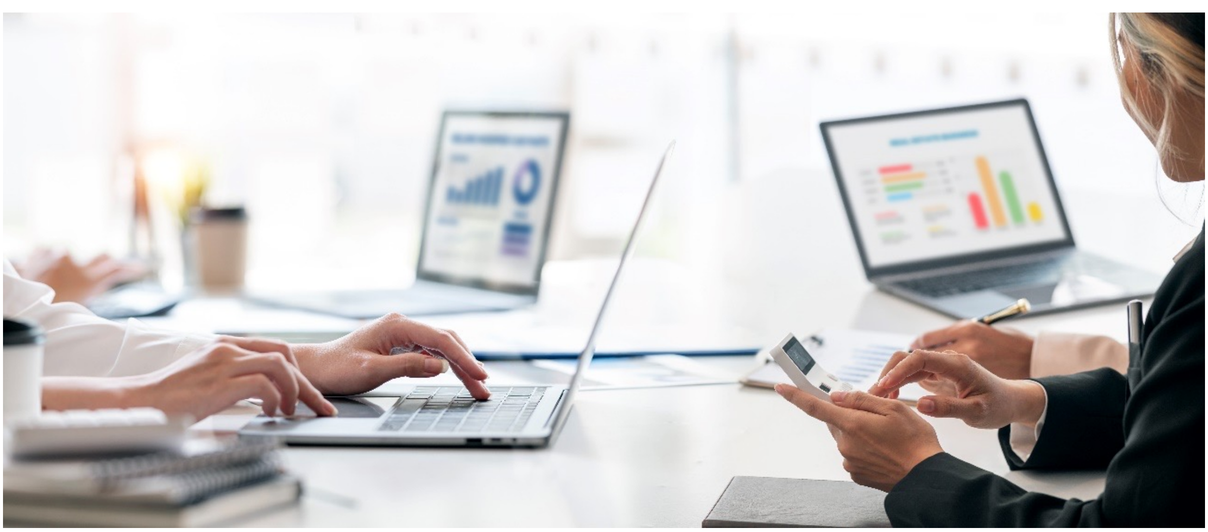


The Illustrative statement of profit or loss of a general corporate is as follows:

Categories	Statement of profit or loss
Operating	Revenue
	Cost of sales
	Gross Profit
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Operating Profit
Investing	Share of profit or loss of equity accounted investees
	Interest income from cash and cash equivalents
	Profit before financing and income tax
Financing	Interest expense on borrowings
	Interest expense on lease liabilities
	Interest expense on pension liabilities
	Profit before income tax
Income taxes	Income tax
	Profit from continuing operations
Discontinued operations	Profit or loss from discontinued operations
	Profit for the year

The operating category aims to encompass **income and expenses** from the entity's primary business activities. Nevertheless, IFRS 18 labels it as a **residual category**, implying that it includes all income and expenses not accounted for within other defined categories, regardless of their volatility or uniqueness. Notably, income or loss from investments accounted for using the equity method is presented within the investing category.

Entities must present expenses within the operating category either by nature, by function, or through a mixed presentation. When items are presented by function, entities must disclose information by nature for certain expenses. Consequently, specific disclosure requirements exist for entities that present the statement of profit or loss by function.



Management defined performance measures (MPMs):

IFRS 18 introduces the concept of management defined performance measures (MPM) and defines it as a

- subtotal of income and expenses
- that an entity uses in public communications outside financial statements,
- to communicate management's view of an aspect of the financial performance of the entity as a whole to users.

Public communications include management commentary, press releases, and investor presentations. However, for identifying Management Performance Measures (MPMs), oral communications, written transcripts of oral communications, and social media posts are excluded.

The standard clarifies that subtotals mandated by an IFRS accounting standard are not considered MPMs. Additionally, it explicitly mentions other subtotals, such as gross profit or loss, as not falling under the category of MPMs.

All MPMs must be disclosed in a single note, accompanied by explanations on their utility, calculation method, and reconciliation to the most comparable subtotal specified by IFRS 18 or another standard.

Location of information, aggregation and disaggregation (impacting all primary financial statements and notes):

IFRS 18 provides guidance on grouping of information in the financial statements, emphasizing the categorization of items based on their shared characteristics. This involves determining whether information should be presented in the primary financial statements or if further breakdown is necessary in the accompanying notes.

Moreover, IFRS 18 mandates additional disclosures for items categorized as "other" in the financial statements. Consequently, entities are discouraged from using generic labels and would be required to provide more detailed information

Key practical considerations:

- Classifying income and expenses into the relevant profit or loss categories and applying additional guidance on aggregation/disaggregation may necessitate judgment and may entail significant changes to systems, charts of accounts, and mappings
- Entities should also evaluate the repercussions of altering the profit or loss structure, such as the impact on income tax calculation or compliance with financial covenants or performance measures in ESOP policies.
- It is crucial for entities to reevaluate the purpose and relevance of Management Performance Measures (MPMs) used in their current communication with external users and capital markets.
- Entities should carefully evaluate and plan for audit-related considerations for MPMs and related disclosures.
- Entities to assess necessary changes needed to internal information systems.

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