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**IFRS 18 – *Presentation
and Disclosure in
Financial Statements***

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1. Executive summary

IFRS 18 *Presentation and Disclosure in Financial Statements* applies to annual reporting periods beginning on or after 1 January 2027.

The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in financial statements to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses (IFRS 18.1).

The approach in IFRS 18 is that the primary financial statements and the notes have separate but complementary roles:

- the primary financial statements offer a structured summary of the entity's recognised assets, liabilities, equity, income, expenses, and cash flows, assisting users in understanding the entity's financial status, and
- the notes supplement these primary financial statements by providing additional, necessary, material information to ensure comprehension of line items and advance the overall objective of financial reporting.

IAASA believes that in planning for and adopting IFRS 18, entities should seize the opportunity to re-evaluate their extant financial reporting treatments and consider whether those processes can be improved to provide users of the financial statements with more relevant and reliable information.

In particular, IAASA believes issuers could further consider:

- the materiality thresholds applied by the entity in preparing its financial statements,
- the best way in which to present exceptional items (e.g., on the face of the Income Statement or in the notes to the financial statements),
- the need for adopting a columnar approach to the presentation of exceptional items in the Income Statement, and
- the presentation of Management Performance Measures (MPMs) or Alternative Performance Measures (APMs).

2. Overview of IFRS 18

This new IFRS, which replaces IAS 1 – *Presentation of Financial Statements*, will be effective for reporting periods beginning on or after 1 January 2027. Earlier application is permitted.

What's new in IFRS 18?

Requirement

Three new defined categories and two new sub-totals in the statement of profit or loss

Entities to provide explanations of entity-specific measures (MPMs)

Requirements for the aggregation and disaggregation of information in financial statements

Objective

To address stakeholders' concerns about variations in the content and structure of entities' statements of profit or loss.

To aid stakeholders' understanding of how MPMs are measured

To address stakeholder concerns about the absence of detailed relevant information and the obscuring of information by providing too much detail

The three defined categories are:

- operating
- investing
- financing

The two sub-totals are:

- operating profit
- profit before financing and income taxes

The Appendix to this Paper provides more detail on the IFRS 18 requirements.

3. Current practices

In their reporting financial performance, issuers frequently present exceptional items. Those exceptional items vary hugely in nature and amount.

The information value to users of the presentation of exceptional items is not always apparent. Often, items of a recurring nature are presented as exceptional items year after year. The adoption of a columnar layout in the Income Statement, resulting in multiple performance measures (e.g., profit before tax before exceptional, profit before tax after exceptionals) may not necessarily be helpful to users.

The inclusion of relatively minor amounts as exceptional items may indicate that issuers do not have a deeply developed policy for determining materiality.

The more common items presented as exceptional by entities within IAASA's corporate enforcement remit are: (i) re-organisation/restructuring/transformation costs, (ii) business acquisition costs, (iii) gain/loss on disposal of business activities/operations, and (iv) impairments.

The majority of issuers describe exceptional items as such (i.e., "exceptional items"). Some issuers use alternative labels such as "non-recurring items", "non-trading items", or "adjusting items".

Certain issuers disclose that, depending on their nature and amount, items are disclosed separately to enable users understand the financial information¹. However, it is not apparent that they provided any quantitative or qualitative detail as to how materiality was determined.

¹ For example, "By virtue of their nature and amount are disclosed separately in order for the user to obtain appropriate understanding of the financial information" and "Judgement is required in determining which items by virtue of their nature and size are considered exceptional and separately disclosed in the Consolidated Income Statement. The Group has outlined significant items which it believes are exceptional, due to both their nature and size, within the accounting policy for exceptional items"

4. Conclusions

IAASA believes that IFRS 18 provides an ideal opportunity for entities to open a conversation looking at how they present financial statements that best meet the information needs of a wide range of users in making economic decisions (or, under IFRS 18 parlance, in providing financial information that is useful to users in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of its economic resources)².

Relegation of exceptional items to the notes to the financial statements might, in some cases, reduce the risk of obscuring important information by reducing clutter in the Income Statement.

Some areas, in addition to the detailed IFRS 18 provisions as outlined in Section 2 and the Appendix, that IAASA feels are worth consideration by preparers, Audit Committees and auditors are:

Materiality

The adoption of IFRS 18 provides preparers, Audit Committees and auditors with the opportunity to explicitly consider materiality in the preparation of financial statements.

Entities should consider:

- providing explicit disclosures in respect of how quantitative and qualitative thresholds are determined, and
- disclosing those thresholds.

Exceptional items

Entities should use the adoption of IFRS 18 as an opportunity to refine their practices as to how exceptional items are presented. For example, entities might consider adopting a hierarchy under which exceptional items would be prioritised as to whether they warrant highlighting on the face of the Income Statement or whether they should be presented only in the notes.

In addition, entities should consider how items which were treated as exceptional in the prior period and are immaterial in the current period should be presented.

Income Statement presentation

The use of a columnar approach in presenting exceptional items in the Income Statement is used by a minority of issuers. This columnar presentation results in a plethora of earnings measures on the face of the Income Statement (such as profit before tax (PBT) and exceptional items, PBT after exceptional items, profit after tax (PAT) before exceptional items, PAT after exceptional items). This approach can reduce comparability between entities.

The adoption of IFRS 18 provides preparers, Audit Committees and auditors with the opportunity to reconsider how best to present exceptional items to aid users understanding of the entity's performance and allow comparability over time and between entities.

MPMs and APMs

The IFRS 18 requirements regarding MPMs and the ESMA requirements, set out in the [ESMA Guidelines on Alternative Performance Measures](#), regarding APMs differ. Entities should consider how these differing requirements can be met while providing useful, relevant and reliable information to users on the performance, financial position and cash flows of the entity.

² Paragraph 9 of IAS 1 and paragraph 9 of IFRS 18

APPENDIX

1. Presentation in the statement of profit or loss

IFRS 18 requires entities to report two new defined sub-totals on the face of the statement of profit or loss:

- operating profit, and
- profit before financing and income taxes.

These sub-totals are designed to provide a consistent structure for the statement of profit or loss, with the aim of improving comparability. IFRS 18 does not, however, make any changes as to how entities measure their financial performance and overall profit figure.

IFRS 18 requires an entity to classify income and expenses into operating, investing and financing categories in the statement of profit or loss, and also income taxes and discontinued operations. IFRS 18 will be applied differently by entities with specific business activities, such as banks, insurers and investment property entities.

1.1 Operating category

The operating category provides an overall view of an entity's operations. Users of general-purpose financial statements use the operating profit sub-total to measure how an entity is performing in its business activities. This operating profit sub-total is the base for estimating an entity's future cash flows.

The operating category consists of an entity's income and expenses that are not classified in the investing, financing, income taxes or discontinued operations categories – income and expenses classified in those categories are items that stakeholders usually analyse separately. The operating category is the default category.

1.2 Investing category

The investing category enables investors to analyse returns from stand-alone investments separately from an entity's operations.

1.3 Financing category

The financing category and the sub-total for profit before financing and income taxes enables investors to analyse entities' performance before the effects of its financing. The financing category includes: income and expenses on liabilities such as bank loans and bonds (liabilities arising from financing transactions), and interest expenses on any other liability, e.g., lease and pension liabilities. Therefore, the financing category includes interest expenses on all liabilities.

1.4 Income taxes

The income taxes category consists of the income tax expense (or tax income) that is included in profit or loss in accordance with IAS 12 *Income Taxes*, and any related foreign exchange differences.

1.5 Discontinued operations

The discontinued operations category consists of income and expenses from discontinued operations recognised in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

1.6 Foreign exchange differences

Foreign exchange differences are classified in the same category in the statement of profit or loss as the income and expenses from the items giving rise to those foreign exchange differences (for example, foreign exchange differences on bank loans are classified in the financing category). If

classifying foreign exchange differences this way involves undue cost or effort, IFRS 18 permits their classification in the operating category.

1.7 Other items

IFRS 18 has specific requirements for classifying fair value gains and losses on derivatives and hedging instruments and for classifying income and expenses from hybrid contracts.

2. Disclosure of management-defined performance measures (MPMs)

An entity may report non-GAAP measures (also known as key performance indicators ('KPIs') or ('APMs')).

MPMs are those sub-totals of income and expenses used in public announcements to communicate management's view of an aspect of the financial performance of the entity as a whole.

In instances where those measures meet the definition of MPMs, IFRS 18 requires the entity to present reconciliations between those measures and sub-totals listed in IFRS 18 or totals or sub-totals required by IFRSs.

2.1 Requirements for grouping (i.e., aggregation and disaggregation) of information

IFRS 18 sets out requirements for entities to determine whether information about items should be in the primary financial statements or in the notes and provides principles for determining the level of detail needed. IFRS 18 also includes requirements for the presentation of operating expenses in the statement of profit or loss, the disclosure of specified expenses by nature, and further information on items grouped together and labelled 'other'.

2.2 Identification of management-defined performance measures

MPMs are alternative or non-GAAP performance measures (that is, measures that are not defined by IFRSs) that are related to the statement of profit or loss.

2.3 Management-defined performance measures

MPMs are used by stakeholders to understand how management views the entity's financial performance, how the entity is managed, and how its financial performance is evolving. IFRS 18 requires entities to disclose information about MPMs with the intention of increasing transparency and users' understanding as to how the measures compare with the measures defined by IFRS.

2.4 Sub-totals of income and expenses

A measure that is not a sub-total of income and expenses, for example, free cash flow, cannot be an MPM.

2.5 Public communications outside the financial statements

An MPM is a sub-total of income and expenses that an entity uses in public communications outside financial statements. Public communications include management commentary, press releases and investor presentations. An entity can assert that a sub-total does not communicate management's view (and, therefore, it is an MPM) only if it has reasonable and supportable information for the assertion.

2.6 MPM disclosures

An entity is required to provide disclosures for MPMs in a single note, including:

- a reconciliation between the measure and the most directly comparable sub-total listed in IFRS 18 or total or sub-total specifically required by IFRS Accounting Standards (including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation),

- a description of how the measure communicates management’s view and how the measure is calculated,
- an explanation of any changes in the entity’s MPMs or in how it calculates its MPMs, and
- a statement that the measure reflects management’s view of an aspect of financial performance of the entity as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other entities.

3. Grouping of information

3.1 Different roles of the primary financial statements and the notes

The primary financial statements comprise a number of statements:

- statement of financial position (or balance sheet),
- statement of profit or loss (or income statement),
- statement of comprehensive income,
- statement of changes in equity, and
- statement of cash flows (or cash flow statement).

The primary financial statements and the notes to the financial have complementary roles.

3.2 Grouping of information

Primary financial statements ...	Notes to the financial statements ...
<p>provide a structured summary of the entity’s assets, liabilities, equity, income, expenses, and cash flows, that is useful to users for:</p> <ul style="list-style-type: none"> • obtaining an understanding of the entity’s operations, financial position and cash flows • making comparisons between one entity and another, and between reporting periods for the same entity, and • identifying items or areas about which users may wish to seek additional information in the notes 	<p>provide material information necessary to:</p> <ul style="list-style-type: none"> • enable users to understand the line items in the primary financial statements, and • supplement the primary financial statements with additional information to achieve the objective of the financial statements

3.3 Principles for grouping (aggregation and disaggregation) of information

Users of financial reports can/may assert that the way in which entities currently group information in financial statements does not always provide the information they need (for example, some information is not shown in sufficient detail while other information is obscured with too much detail).

IFRS 18 provides guidance for entities on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. These principles generally require entities to:

- aggregate items that share characteristics, and disaggregate items that have different characteristics,
- group items in a manner that does not obscure material information or reduce the understandability of the information presented, and
- place items in either the primary financial statements or in the notes to fulfil the complementary roles of both.

3.4 Presentation of operating expenses

IFRS 18 requires entities to present expenses in the operating category in a way that provides the most useful structured summary of its expenses. To achieve this, an entity will present in the operating category expenses classified based on:

- either their nature (i.e., the economic resources consumed to accomplish the entity's activities such as raw materials, salaries, advertising costs), or
- their function (i.e., the activity to which the consumed resource relates, such as cost of sales, distribution costs, administrative expenses).

IFRS 18 requires entities to classify expenses in a way that provides the most useful information to users of financial reports. Entities should consider, for example,

- what line items provide the most useful information about the important components or drivers of the entity's profitability,
- what line items most closely represent the way the entity is managed and how management reports internally.

The entity might conclude that classifying certain expenses by nature and other expenses by function provides the most useful structured summary of its expenses.

IFRS 18 requires entities adopting the classification by function approach to disclose the amount of:

- depreciation,
- amortisation,
- employee benefits,
- impairment losses, and
- write-downs of inventories included in each line item in the operating category of the statement of profit or loss.

This information is disclosed in the notes and provides users of the financial statements with more granular information about operating expenses to assist them in estimating the entity's future cash flows as economic conditions change.

4. Other changes introduced by IFRS 18

IFRS 18 replaces IAS 1. Consequently, the requirements in IAS 1 have been:

- replaced by new requirements in IFRS 18,
- transferred to IFRS 18 with only limited wording changes, or
- moved to either IAS 8 *Basis of Preparation of Financial Statements* (previously: IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) or to IFRS 7 *Financial Instruments: Disclosures* with only limited wording changes.

IFRS 18 has also introduced changes to other IFRSs, some of the more significant of which are summarised below.

4.1 IAS 7 *Statement of Cash Flows*

IAS 7 is being amended so that an entity is required to use the operating profit sub-total as the starting point for reporting cash flows from operating activities using the indirect method. The existing presentation alternatives for interest and dividend cash flows for most entities is being removed. In future, dividends and interest paid will generally be classified in cash flows from financing activities, and dividends and interest received will generally be classified in cash flows from investing activities. It is expected that these changes will reduce diversity in presentation and aid comparability.

4.2 IAS 33 *Earnings per Share*

In addition to reporting basic and diluted earnings per share ('EPS'), entities were permitted under IAS 33 to calculate and disclose and calculate EPS based on any component of the statement of comprehensive income. The amendments made to IAS 33 by IFRS 18 permit an entity to disclose these additional EPS measures only if the numerator is either (i) a total or sub-total identified in IFRS 18, or (ii) an MPM.

4.3 IAS 34 *Interim Financial Reporting*

IAS 34 is amended by IFRS 18 to require entities to disclose information about MPMs in interim financial statements. Certain of the other changes (including those regarding sub-totals) also apply to condensed financial statements in interim reports.



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