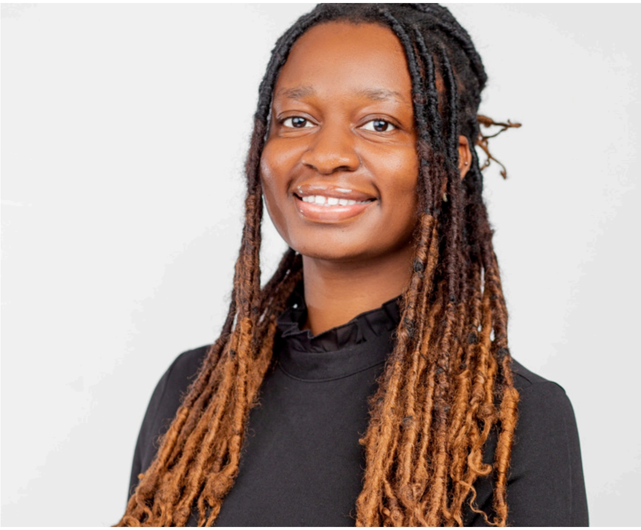
IFRS 18: SEEING THE BUSINESS THROUGH MANAGEMENT'S EYES

IFRS 18: Seeing the Business Through Management's Eyes

For more than two decades, IAS 1 has provided the foundation for how entities present their financial performance. But from 1 January 2027, IFRS 18 will reshape how financial performance is presented and communicated. And the change is about more than simply rearranging the income statement. At its core, IFRS 18 is designed to improve how users understand an entity's financial performance and enhance comparability between entities.



NONDE KAPUMBA - AUDIT JUNIOR,
BDO ZAMBIA

So, what changes?

1. New categories in the statement of profit or loss

Income and expenses will generally be classified into five categories:

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

This provides a more structured basis for understanding where income and expenses arise and what drives an entity's financial performance.

2. New required totals and subtotals

Entities will continue to present a statement of profit or loss, with three required totals/subtotals:

- Operating profit or loss
- Profit or loss before financing and income taxes
- Profit or loss

These requirements provide a more structured and comparable view of an entity's financial performance.

3. Management-defined performance measures (MPMs)

A management defined performance measure is a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate management's view of financial performance.

Where such a measure meets the criteria in IFRS 18, additional disclosures will be required, including a reconciliation to the most directly comparable IFRS-defined subtotal. This brings greater transparency to measures that management uses to communicate its view of financial performance

IFRS 18: Seeing the Business Through Management’s Eyes

4. **Greater focus on aggregation and disaggregation**

IFRS 18 strengthens the principles around how information is aggregated and disaggregated across the financial statements.Material information should not be obscured by excessive aggregation, and entities will also need to apply enhanced principles for labelling and describing items so that they faithfully represent their characteristics.

BLESSINGS MPONDA- AUDIT TRAINEE, BDO ZAMBIA

<u>What should finance teams be doing now?</u>

IFRS 18 requires full retrospective application. For a 31 December 2027 adopter, the 2026 profit or loss must be restated under IFRS 18, with a lineby-line reconciliation between the amounts previously presented under IAS 1 and the restated amounts under IFRS 18. IFRS 18 itself is mostly a profit or loss presentation change. It does not change the recognition or measurement of assets and liabilities, so for most entities it will not trigger a third statement of financial position on transition.

A third statement of financial position would be required where:

1. The change in aggregation or disaggregation of statement of financial position items has a material effect on the opening statement of financial position; or

2. Another retrospective change under IAS 8 occurring at the same time has a material effect.

Finance teams should therefore begin assessing:

- How current profit or loss line items will map to the new categories
- Whether existing subtotals will change
- Which MPMs may fall within IFRS 18
- What data and systems will be required
- How comparative information will be prepared

IFRS 18: Seeing the Business Through Management’s Eyes

What IFRS 18 does require on transition

For entities adopting IFRS 18 in 2027:

1. Restate comparative profit or loss retrospectively meaning the 2026 comparative is presented under IFRS 18.
2. Reconcile each line item in profit or loss between amounts previously presented under IAS 1 and the restated amounts under IFRS 18.
3. Where IFRS 18 changes aggregation or disaggregation, disclose the nature, amount and reason for the reclassification, including information as at the beginning of the preceding period where required.

Related changes to IAS 7

IFRS 18 also makes related amendments to IAS 7, including changes to the presentation of cash flows under the indirect method.Under the amendment, operating profit or loss becomes the starting point for the indirect method of reporting operating cash flows. The amendments also introduce changes to the classification requirements for certain interest and dividend cash flows.

OCI remains largely unchanged

IFRS 18 does not introduce new categories or mandatory subtotals in OCI. The new categories and mandatory subtotals apply only to the statement of profit or loss. The enhanced principles for aggregation and disaggregation, however, apply to all primary financial statements, including OCI and the statement of financial position.

Management defined performance measures are subtotals of income and expenses, which IFRS 18 limits to profit or loss. Measures that combine profit or loss and OCI, such as those based on total comprehensive income, therefore fall outside the MPM definition and are not subject to IFRS 18 MPM disclosure requirements.

Effective date

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted.

Conclusion

IFRS 18 is more than a change in the format of the statement of profit or loss. For preparers, the transition will require careful consideration of classification, aggregation and disaggregation, management defined performance measures, systems and data, and comparative information. With 2027 approaching, understanding these changes now can help finance teams prepare for a smoother transition and clearer communication of financial performance.