IFRS 18: An overview of changes

The IASB published IFRS 18 in April 2024. This standard replaces IAS 1 for annual reporting periods beginning on or after 1 January 2027. This article provides a high level overview of key aspects of the new standard.

The IASB published IFRS 18 *Primary Financial Statements* (**'IFRS 18'**) in April 2024. This standard replaces IAS 1, the current standard for presenting financial statements. Entities must apply IFRS 18 to annual reporting periods beginning on or after 1 January 2027. The standard may be adopted early. As entities and their advisors consider the standard, many questions about the finer nuances of applying it will arise.

As its effective date draws closer, I will write further articles that deal more deeply with specific aspects of the standard. This article briefly highlights some of the most significant changes introduced by IFRS 18.

Structure of the statement of profit or loss

IFRS 18 requires an entity to classify income and expenses in the statement of profit or loss (**'SOPL'**) into five categories. These categories are:

- Operating,
- Investing,
- Financing,
- Income taxes, and
- Discontinued operations category.

The standard and its application guidance deal comprehensively with classifying income and expenses, taking into account, among other things, the entity's type of business.

In addition to introducing the above categories, IFRS 18 requires an entity to present subtotals for *operating profit or loss* and *profit or loss before financing and income taxes* in the SOPL. The former includes all income and expenses classified into the operating category, while the latter consists of operating profit or loss and all income and expenses in the investing category.

Introducing management-defined performance measures into the financial statements

IFRS 18 introduced the concept of management-defined performance measures (**'MPMs'**). An MPM is a subtotal of income and expenses. This means MPMs are not, for example, financial ratios that reflect performance. The concept is more limited. For a subtotal of income and expenses to be an MPM, the entity must use it in public communications outside financial statements and to communicate management's view of an aspect of financial performance to users. The standard explicitly excludes certain subtotals in the SOPL from being MPMs. If an entity presents MPMs, IFRS 18 requires certain disclosures. This is for users to understand the aspect of performance communicated by the MPM, its calculation and a reconciliation to the most directly comparable SPOL subtotal.

Principles for aggregation and disaggregation

IFRS 18 provides explicit principles regarding aggregation and disaggregation. It determines that items should be classified and aggregated based on shared characteristics (and similarly, be disaggregated based on characteristics not shared). Aggregation or disaggregation must result in the primary financial statements and notes providing useful structured summaries to users. It should not obscure material information.

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