IFRS 18 at a glance

Presentation and Disclosure in Financial Statements
A revision summary with paragraph references

Core Knowledge

Classify
Every income and expense goes into exactly one of five categories. **IFRS 18.47**

Subtotal
Three required totals: operating profit, profit before financing and income taxes, profit. **IFRS 18.69**

Explain
Management-defined performance measures are reconciled in one note. **IFRS 18.117, 122-123**

1 The five categories: a decision flow

Ask the questions in this order for each income or expense. The first YES decides. What passes none of them is operating.

Is it tax expense or income under IAS 12, or a related exchange difference?
No: next question

YES → **Income taxes**
IFRS 18.67

Does it come from a discontinued operation as IFRS 5 defines it?
No: next question

YES → **Discontinued operations**
Not re-sorted. IFRS 18.68

Does it come from an investing asset? Associates, joint ventures and unconsolidated subsidiaries; cash and cash equivalents; or an asset that earns a return on its own (for example investment property, a small equity stake).
Includes income, remeasurement gains and losses, and direct acquisition or disposal costs. **IFRS 18.54**

YES → **Investing**
IFRS 18.53

Does it come from a liability? If the liability only raises finance (loan, bond): all its income and expenses. If it is another liability (lease, pension, provision, trade payable): only interest and the effect of changing rates.
Service cost and the cost of goods used stay operating. **IFRS 18.B55**

YES → **Financing**
IFRS 18.59-61

None of the above? Main business results, one-off and volatile items with no other home.

Operating
The residual.
IFRS 18.52, B42

Before you start: check for a specified main business activity IFRS 18.49

Investing in assets as a main activity (for example an investment entity or an insurer): income from those assets moves to operating. Equity-method results always stay in investing. **IFRS 18.55, 56(a), 58**

Providing finance to customers (for example a bank or lender): funding costs related to customer lending move to operating; other funding is a policy choice. **IFRS 18.65** If it chooses operating, profit before financing and income taxes is not shown. **IFRS 18.73**

Exchange differences

Follow the item that caused them: a trade payable gives an operating difference, a bank loan a financing one. **IFRS 18.B65**

Disposal gains and losses

Follow the asset: a delivery van is operating, an investment property is investing. **IFRS 18.B60**

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2 The required subtotals IFRS 18.69-72

OPERATING	
Revenue	50,000
Cost of sales	(30,000)
Selling and administrative expenses	(10,000)
Operating profit IFRS 18.70	**10,000**
INVESTING	
Share of profit of associate, interest and dividends	1,300
Profit before financing and income taxes IFRS 18.71	**11,300**
FINANCING	
Interest on borrowings and leases, unwinding of a provision	(1,500)
INCOME TAXES	
Income tax expense	(2,000)
Profit for the year IFRS 18.72	**7,800**

Northgate Retail (worked example E1 in the course), fictional, $000. No specified main business activity.

Build them in this order

- **Operating profit** = the total of the operating category.
- **Profit before financing and income taxes** = operating profit plus the whole investing category.
- **Profit** = income less expenses in all five categories.

Watch for

- A lender that chooses operating for funding not related to customer lending must not show the second subtotal, and must not label a replacement subtotal as if financing were excluded. **IFRS 18.73-74**
- IAS 1's single "finance costs" line goes: interest is shown by its source. **IFRS 18.75**
- Extra subtotals must use IFRS amounts, fit the categories and be no more prominent than the required totals. **IFRS 18.24, B9**

3 Is it a management-defined performance measure (MPM)? IFRS 18.117

All four must be true. If one fails, it is not an MPM.

1. A subtotal of income and expenses
Not a ratio, cash-flow, balance-sheet or non-financial measure.
IFRS 18.B116

2. Used in public communications
Outside the financial statements, for example results releases and investor slides.
IFRS 18.B119

3. Gives management's view
Presumed when used publicly; rebuttal needs reasonable and supportable information.
IFRS 18.119-120

4. Not a listed subtotal
For example gross profit, profit before income taxes, operating profit before depreciation, amortisation and impairment.
IFRS 18.118

The MPM note: one note for all MPMs IFRS 18.122-123

- Statement that MPMs give management's view and may not be comparable with other entities.
- For each MPM: a clear label and description, why it is useful and how it is calculated.
- A reconciliation to the most directly comparable listed or required subtotal.
- The income tax and non-controlling interest effect of each reconciling item, and how the tax effect was found. **IFRS 18.B141-B142**

Quick sort

Adjusted operating profit, quoted in the results release	**Likely MPM**
Gross profit	**No: listed**
Free cash flow	**No: cash**
Customer retention rate	**No: not financial**
A subtotal used only in internal reports	**No: not public**

Changes to an MPM need an explanation and restated comparatives, unless impracticable. **IFRS 18.124-125**

4 Notes, aggregation and labels

Face or notes?

The primary statements give structured summaries; the notes give the material detail. Use these roles to decide where information goes. **IFRS 18.16-18**

Group and split

Group items that share characteristics; split those that do not. Disaggregate whenever the result is material, in the notes if not on the face. **IFRS 18.41-42**

"Other" is a last resort

Use it only when no more informative label exists, and then make it as precise as you can. **IFRS 18.B25-B26**

Operating expenses: nature, function or both IFRS 18.78-81

- Choose the presentation that gives the most useful summary, for example by what drives profitability. **IFRS 18.B80**
- Showing a cost of sales function? Present cost of sales separately. **IFRS 18.82**
- Any function line in operating? Disclose in one note the totals of depreciation, amortisation, employee benefits, impairment losses and inventory write-downs, and the amount in each line. **IFRS 18.83**

Do not offset

Assets and liabilities, and income and expenses, are not offset unless a standard requires or permits it. **IFRS 18.44-45**

Label faithfully

Every total, subtotal, line and note item is labelled and described so that it represents what it contains. **IFRS 18.43**

Cash flows follow

The indirect method now starts from operating profit. **IAS 7.18(b)** Dividends paid are financing. **IAS 7.33A** Without a main business activity, interest paid is financing; interest and dividends received are investing. **IAS 7.34A**

5 Transition checklist

- [ ] **Effective date:** annual periods beginning on or after 1 January 2027. Earlier use is allowed and disclosed. **IFRS 18.C1**
- [ ] **Apply retrospectively:** restate the comparative year; the per-line effect under IAS 8.28(f) is not required. **IFRS 18.C2**
- [ ] **Reconcile the comparative year:** each profit-or-loss line as restated, against the IAS 1 amount. **IFRS 18.C3**
- [ ] **First-year interims:** show the headings and subtotals you expect to use, and reconcile the comparative periods. **IFRS 18.C4-C5**
- [ ] **Before adoption:** disclose the expected effects of a standard issued but not yet effective. **IAS 8.30-31**
- [ ] Decide whether you have a specified main business activity, and record the evidence. **IFRS 18.49, B33**
- [ ] Map every chart-of-accounts line to one category; list the judgements.
- [ ] Collect the data for the restated comparative year during that year.
- [ ] List every subtotal used in results releases and investor material; test each one as a possible MPM.
- [ ] Plan the expenses-by-nature note if you present by function.
- [ ] Update the cash-flow statement starting point and the interest and dividend classifications.

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