

OPINION

IFRS 18: A NEW ERA FOR FINANCIAL REPORTING WHAT YOU MUST KNOW BEFORE 2027



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“Here's a wake-up call for every finance team: the way you present your financial statements is about to change fundamentally and the clock is already ticking.”

On 9 April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 - Presentation and Disclosure in Financial Statements. It's the biggest shake-up of financial statement presentation in a generation. Every company reporting under IFRS must apply it for annual periods beginning on or after 1 January 2027. This standard replaces IAS 1 and changes how companies tell their financial story to investors.

THE LANDSCAPE SHIFT: WHAT'S ACTUALLY CHANGING?

Quiet a lot. And it's not just cosmetic.

New Structure of the Statement of Profit or Loss

The old flexibility is gone. Every item of income and expense must classify to one of five categories: operating, investing, financing, income taxes, and discontinued operations. This forces companies to think hard about the true nature of their activities not just where things used to sit.

- » Investing covers income and expenses from associates, joint ventures, unconsolidated subsidiaries, cash and cash equivalents, and assets that generate returns on their own.
- » Financing includes income and expenses from liabilities tied to raising finance — like interest on bank loans, lease liabilities, and the effects of interest rate changes.
- » Operating becomes the residual category for all income and expenses not classified in investing and financing activities.
- » Income taxes cover all tax-related income and expenses, including current and deferred tax, presented separately so tax effects are never buried in operating results.
- » Discontinued operations captures the results of disposed or held-for-sale components of the business, kept apart so investors can clearly see what's continuing versus what's ending.

Two new mandatory subtotals

Two new required subtotals emerge: *operating profit* and *profit or loss before financing and income taxes*. For the first time, "operating profit" will represent the similar thing for every IFRS reporter. Companies that used to show items like "share of profit of associates" above operating profit will need to move them into investing. No more cherry-picking.

Management-defined performance measures (MPMs)

This is arguably the biggest shift. Think adjusted profit, EBITDA, and other non-GAAP measures. Under IFRS 18, if you use these in public communications, you must disclose them in a single note; explaining how they're calculated, why they're useful, and how they reconcile to IFRS defined subtotals. And because that note is part of the audited financial statements, these measures will now face auditor scrutiny. That's a seismic change for metrics that historically lived only in press releases.

Cash flow statement changes

If you use the indirect method, you'll now start from operating profit rather than total profit or loss. And the old accounting policy choices for classifying interest and dividend cash flows are gone for the consistency.

WHY DOES IFRS 18 MATTER?

The rationale behind IFRS 18 is straightforward: investors have long struggled to compare financial performance across companies because of inconsistent presentation practices. The result has been an explosion of non-GAAP metrics, often opaque and inconsistent.

- » By mandating consistent definitions of categories and subtotals, IFRS 18 provides investors with a level playing field.

- » The MPM requirements pull back the curtain on management adjustments. Investors will finally understand what adjustments companies make, why they make them, and how they reconcile to the audited financial statements.

Financial reporting is designed to help users assess an entity's financial performance. IFRS 18 achieves this by ensuring that the operating profit and MPMs are presented consistently and transparently.

THE ROAD AHEAD: HOW TO IMPLEMENT IFRS 18

This is not a year-end exercise. It needs planning, system changes, and a phased approach.

1. Assessment and Mapping

Figure out how your current income and expenses will be reclassified into the new categories. Look at the nature of each item — don't just rely on old labels. Identify your MPMs too, and separate the IFRS-specified subtotals from those needing disclosure.

2. System and Data Readiness

IFRS 18 demands much more granularity. One account code for all impairments won't cut it. You need to trace items to their

source for correct classification. Update your chart of accounts, ERP systems, and automated processes. Build a sustainable plan, don't rely on manual workarounds and last-minute scrambles.

3. Retrospective Application

Yes, that means restating 2026 comparatives. You'll need historical data that may not be easy to find. Aim to have IFRS 18-compliant figures by the end of 2026 so you're not caught out.

4. Stakeholder Engagement

Investors, lenders, auditors — bring them along. Early communication helps them understand the implications and makes for a smoother audit.

PITFALLS TO AVOID: COMMON IMPLEMENTATION MISTAKES

Underestimating the change

The most common mistake is thinking IFRS 18 is just a formatting update. Even seasoned accountants fall into this trap. Treat it as a year-end task and you risk insufficient data, system gaps, and unreliable comparatives.

Late Identification of MPMs

Early identification lets you coordinate with investor relations and get your disclosures right. Delay, and you'll be rushing definitions and reconciliations.

Overlooking complexity in financial instruments

Group structures with complex treasury and intercompany arrangements, foreign exchange differences on intercompany loans, fluctuating bank balances, cash pooling etc. all need careful analysis to classify correctly.

CONCLUSION: THE TIME IS TO ACT NOW

IFRS 18 isn't just a presentation update. It's a strategic shift in how financial performance is measured, reported, and governed. The effective date is approaching fast, and retrospective application is required. The question isn't whether to prepare, it's whether to prepare now or scramble later.

Those that engage early will implement IFRS 18 in a controlled way, manage expectations, and emerge with clearer, more comparable financial reporting. The time to act is now.

How can we help

At RAA Auditing, we take pride in delivering audit and assurance services which go beyond regulatory requirements. We provide expertise by, enhancing transparency, and support informed decision-making by providing reliable assurance. We offer extensive expertise and a commitment to quality, ensuring that your stakeholders can rely on your financial reporting.

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Our teams are internationally trained, certified auditors, who bring a breadth of skills and expertise, coupled with a personalized approach and a commitment to service excellence.

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