repec
Revista de Educação e Pesquisa em Contabilidade
Journal of Education and Research in Accounting
ABRACICON
Periódico Trimestral, digital e gratuito publicado pela Academia Brasileira de Ciências Contábeis | Available online at www.repec.org.br
REPeC, Brasília, v. 18, n. 3, art. 4, p. 427-436, Jul./Sep. 2024 | DOI: http://dx.doi.org/10.17524/repec.v18i3.3583 | ISSN 1981-8610

IFRS 18 – The Forthcoming Standard for Presentation in Financial Statements: main changes, practical implications, and research opportunities

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1. Introduction

The International Accounting Standards Board (IASB), the body responsible for the international accounting standardization process, issued IFRS 18, "Presentation and Disclosure in Financial Statements" (IASB, 2024), on April 9, 2024. This standard is the result of a project initiated in April 2016 and is now issued in its final form; its adoption is mandatory for fiscal years beginning in 2027. It mainly modifies the presentation format of Income Statements and requires new information related to the management-defined performance measures (MPMs).

Given this context, this editorial aims to explain, in general terms, this standard's main definitions, highlighting the most significant changes upon the current standard, established by IAS 1, "Presentation of Financial Statements" (*Pronunciamento Técnico* CPC 26 R2 in Brazil), as well as practical implications and research opportunities.

2. From Project to Standard – Phases of the Regulatory Process

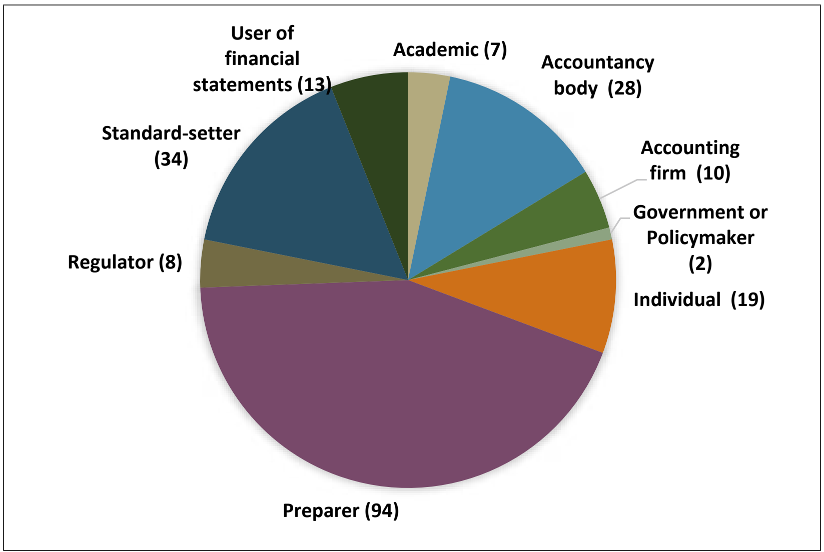
As mentioned in the introduction, IFRS 18 emerged from a project initiated in 2016 "Primary Financial Statements." There was already an initiative before that, in 2001, between IASB and FASB (the US accounting standards body) called "Joint Financial Statement Presentation."[1] This joint project promoted by IASB and FASB was intended to achieve the long-awaited international convergence of accounting standards (Pacter, 2013). This project's scope included propositions to structure the financial statements using the operational, investment, and financing categories, as it already occurs with the Cash Flow Statement. The project was discontinued in 2011, but five years later, its central ideas gave rise to the IASB's project (now without FASB participation).

1 Further details at: https://www.ifrs.org/projects/completed-projects/2011/joint-financial-statement-presentation-replacement-of-ias-1/.

Published in Portuguese and English. Original Version in Portuguese.

Round 1: Received in 9/1/2024. Accepted on 9/1/2024 by Gerlando Augusto Sampaio Franco de Lima, PhD (Editor). Published on 9/30/2024. Organization responsible for the journal: Abracicon.

The “Primary Financial Statements” project reached an important milestone in December 2019, when Exposure Draft ED/2019/7 “General Presentation and Disclosures” was issued. The deadline for comments had been initially set for June 2020. However, it was extended to September 2020 due to the COVID-19 pandemic, after which IASB received 215 comment letters[2] that were analyzed to refine the draft. Figure 1 presents the 215 letters organized according to the type of stakeholder:



Source: IASB (2020).

Figure 1. Analysis of comment letters to ED/2019/7 according to the type of stakeholder

Figure 1 shows that preparers comprise the most significant group of respondents (94 letters), followed by regulatory (34 letters) and accounting bodies (28 letters). On the other hand, the potential beneficiaries of changes, those using accounting information, totaled only 13 letters, approximately 6% of the total.

In addition to the letters, the IASB conducted 139 outreach events in more than 20 jurisdictions between January and October 2020, specific fieldwork in partnership with local accounting standard issuers, and an extensive literature review, including published and working papers (IASB, 2020a).

IASB led the discussion of the results of ED/2019/7 between 2021 and 2024 and proceeded to the project’s refinement phase, addressing it in virtually all meetings. The topics concerning the main changes introduced by IFRS 18 are discussed in the following section.

3. IFRS 18 Content and Main Changes in Accounting Standards

As previously mentioned, IFRS 18 aims to address the presentation of financial statements and will replace IAS 1 starting in 2027. Therefore, many of the IAS 1 current requirements in (*Pronunciamento Técnico* CPC 26 R2 in Brazil) will continue to apply but then as part of IFRS 18.

2 All comment letters are available at: *https://www.ifrs.org/projects/completed-projects/2024/primary-financial-statements/ed-primary-financial-statements/.*

Note that this standard comprises very detailed technical content: approximately 180 pages of the standard itself, another 180 pages of Basis for Conclusions, and almost 90 pages of Illustrative Examples. There are also several other reference materials, such as the Project Summary (17 pages), Effect Analysis (64 pages), Feedback Statement (31 pages), and Reference Material (31 pages). Therefore, there are almost 600 pages of content considering the official IASB material.

In addition to the IASB content, there are several educational materials from the big four (Deloitte, 2024; EY, 2024; KPMG, 2024; PwC, 2024). Note that no local version of this standard provided by CPC was available when writing this editorial.

The most relevant changes introduced by IFRS 18 concern the presentation of Income Statements and the requirement for specific disclosures related to management-defined performance measures. In addition to these two, specific adjustments are made to the other financial statements. Such changes are discussed in the following subsections.

But before that, it is worth noting that the IAS 1 general considerations remain in the new standard, though not in exactly the same format. Table 1 shows a comparison.

Table 1
General Considerations – IAS 1 vs. IFRS 18

General Considerations	IAS 1	IFRS 18
Fair Presentation and Compliance	Items 15-24	Transferred to IAS 8 - Items 6A-6J
Compliance	Items 25-26	Transferred to IAS 8 - Items 6K-6L
Accrual Basis	Items 27-28	Transferred to IAS 8 - Items 6M-6N
Materiality and Aggregation/Disaggregation	Items 29-31	Items 19-20 and 41-43 (updated)
Offsetting Amount	Items 32-35	Items 44-45
Frequency of Presentation of Financial Statements	Items 36-37	Items 28-29
Comparative Information	Items 38-44	Items 31-40
Consistency of Presentation	Items 45-46	Item 30

Source: developed by the author.

Table 1 shows that the first three general considerations (fair presentation and compliance, continuity, and accrual basis) were transferred to the IAS 8 standard, which is currently called "Accounting Policies, Changes in Accounting Estimates and Errors" (equivalent to *Pronunciamento Técnico* CPC 23 in Brazil). However, due to the IFRS 18 revision, it will be called "Basis of Preparation of Financial Statements." IASB explains in item BC3A of the revised IAS 8 Basis for Conclusions that this name was changed to reflect the revised content of IAS 8. Thus, the famous device True and Fair Override, previously provided for by IAS 1, is now included in the IAS 8 text.

In addition to the transfers from IAS 1 to IAS 8 previously mentioned, the concept of aggregation and disaggregation was significantly expanded, with the IASB establishing more explicit principles. According to these principles, companies must classify and aggregate assets, liabilities, equity, revenues, expenses, or cash flows into items based on common characteristics and disaggregate items based on characteristics that are not shared. Aggregation and disaggregation must not hide material information; disaggregation must be applied whenever it generates material information.

The following subsections discuss the primary changes imposed by IFRS 18.

3.1 Income Statement Presentation

Undoubtedly, the central scope of the project that culminated in issuing IFRS 18 is related to the format for presenting the Income Statement. The new standard generally organizes revenues and expenses into categories, similar to the Financial Statement, which will be presented in blocks of operational, investment, and financing results. There will also be two categories separate from the first three: profit tax and discontinued operations, the latter being applicable only in cases with income from discontinued operations.

The **operational category** includes the main results arising from the company's operations. Thus, for example, a business's all revenues and expenses, such as sales revenue, cost of goods sold, sales expenses, and general and administrative expenses, will be listed under this category. It is also important to highlight that the results not classified under the other categories (e.g., investment, financing, profit tax, and discontinued operations) will be residually classified in the operational category.

The **investment category** includes revenues and expenses from corporate and financial investments in general and the results arising from investment properties, such as appreciation, depreciation, or rent generated by these assets.

Finally, the **financing category** includes revenues and expenses from liabilities related to raising financing (e.g., bank loans and financing), interest income and expenses, and exchange rate variation from liabilities arising from transactions that do not involve only raising financing (e.g., lease liabilities or retirement benefit plan liabilities).

The **income tax category** records revenues and expenses from the application of IAS 12 (*Pronunciamento Técnico* CPC 32 in Brazil) and, likewise, the **discontinued operations category** records results from the application of IFRS 5 (*Pronunciamento Técnico* CPC 31 in Brazil).

Table 2 was extracted and adapted from example IE 7 presented in the Illustrative Examples of IFRS 18. Using a numerical example, it shows the presentation of the Income Statement for companies in general, using the categories previously described.

Table 2
Structure of the New Income Statement for companies in general according to IFRS 18

XYZ Group - Statement of Profit or Loss for the year ended in 31/12/20X2 (in thousands of CU)	Note	20x2	20x1	Categories
Revenue		367.000	353.100	Categories
Cost of Sales	1	(241.600)	(224.100)	
Gross Profit		**125.400**	**129.000**	
Other operating income	2	12.200	4.100	
Selling expenses	1	(28.900)	(27.400)	
Research and develoment expenses	1, 2	(25.100)	(25.900)	Operational
General and administrative expenses	1, 2	(20.900)	(22.400)	
Goodwill impairment loss	1, 2	(4.500)	—	
Other operating expenses		(1.200)	(5.600)	
Operating Profit	**2**	**57.000**	**51.800**	
Share of profit and gains on disposal of associates	2	5.300	7.300	Investiment
Profit before financing and income taxes		**62.300**	**59.100**	
Interest expenses on borrowings and lease liabilities		(13.000)	(13.200)	
Interest expenses on pension liabilities and provisions		(6.500)	(6.000)	Financing
Profit before income taxes		**42.800**	**39.900**	
Income tax expense	2	(10.700)	(9.975)	Non-Profit Taxes
Profit from continuing operations	**2**	**32.100**	**29.925**	
Loss from discontinued operations		—	(5.500)	Discontinued Operat.
Net Profit		**32.100**	**24.425**	
Profit attributable to:				
Owners of the parent		25.680	19.540	
Non-controlling interests		6.420	4.885	
		32.100	24.425	
Earnings per share from continuing operations:				
Basic and diluted		0,67	0,66	
Earnings per share:				
Basic and diluted		0,67	0,54	

Source: IE7 extracted and adapted from Illustrative Examples from IFRS 18.

The previous example shows that the categories are sequential. Each group of revenues and expenses classified in each category presents a subtotal of the result, which sequentially incorporates the remaining results. According to IFRS 18, the operating results subtotals, before financing and profit taxes and net results, are, as a general rule, mandatory.

Another interesting aspect is the presentation pattern of expenses classified in the operational category, which can be presented according to function or nature; note that the previous example concerns a presentation according to function.

This distinction already exists in IAS 1; however, there are two relevant aspects to highlight. The first is that income statements in Brazil usually do not present expenses according to their nature because the model established by corporate law (Law No. 6,404 from 1976) determines that the presentation of income statements is according to function. The second aspect refers to the change introduced by IFRS 18 concerning this topic. According to the standard, the choice of presentation should be based on the format that provides the most useful structured summary of an entity's expenses. Therefore, although this choice is based on a subjective judgment of the preparer of the financial statement, the choice of presentation according to nature would conflict with current Brazilian corporate law.

Another aspect important to note is that the presentation of the Income Statement for entities with a specific main business, such as investment companies, investment property companies, banks, lessors, insurance companies, etc., presents relevant modifications in the Income Statement presentation standard since these are businesses related to investments or financing.

3.2 Management-Defined Performance Measure

Another topic that IFRS 18 proposes is a significant novelty. A Management-Defined Performance Measure (MPM) is the subtotal of a company's revenues and expenses disclosed in public communications outside the financial statement to communicate its management's view on an aspect of its financial performance to the users of financial statements and is not required or disclosed by IFRS.

Item 118 from IFRS 18 also lists some excluded items, i.e., measures other than MPMs, such as:

a. gross profit (and similar subtotals);
b. operating income before depreciation, amortization, and impairment within the scope of IAS 36;
c. operating profit and investment results according to the equity method;
d. earnings before income taxes; and
e. income from continuing operations.

Obviously, item "b" listed above is very similar to the famous Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) measure. So why would this measure be excluded from the list of MPMs defined by the IASB?

IASB justifies this list of excluded items in its Basis for Conclusions document, where the purpose and relationship of the totals or subtotals defined by IFRS are explained to be well-known or often presented in the income statement. Hence, in IASB's view, disclosing these measures would not add valuable information to users. However, we should remember that, in most EBITDA disclosures in annual reports, management reports, earnings releases, and similar reports, management has discretionary power to adjust EBITDA and artificially modify its numbers (Barsky & Catanach, 2014). Therefore, cases of adjusted EBITDA undoubtedly meet the MPM definition; thus, they must comply with the new disclosure requirements.

Nevertheless, according to the Basis for Conclusions, IFRS 18 did not define EBITDA or even EBIT, as companies in some segments, such as banks and insurance companies, do not use these measures. Additionally, there was no consensus on what these measures represent besides being the starting point for several analyses.

Once an MPM or MPMs are identified and defined, entities must disclose several items in a single note, as described by item 123 of IFRS 18, such as:

a. why the management believes such an MPM provides valuable information about the company's financial performance;
b. how is the MPM calculated;
c. reconcile the MPM and the most directly comparable subtotal of the Income Statement;
d. report the effects of taxes on profit and calculation criteria used; and
e. the effects on the participation of non-controlling shareholders.

Additionally, the reasons for any changes, such as in calculation criteria, additions, or cessations, must be explained, and comparative information must be presented (unless impracticable). This requirement is very relevant in the context of disclosures of non-GAAP measures, such as EBITDA, because companies often change the measures adjustment criteria from one report to another without providing any detail, reconciliation, or explanation. Therefore, accounting consistency, which is required for information in general, will also be required for these measures after IFRS 18 is adopted.

Also noteworthy is that, in 2012, the Brazilian Securities and Exchange Commission (CVM in Portuguese) started regulating the voluntary disclosure of EBITDA and EBIT for reports released from 2013 onwards (CVM Instruction No. 527, of 2012, currently replaced by CVM Resolution No. 156, of 2022). This standard must be reviewed when IFRS 18 is applied in Brazil.

3.3 Changes in Other Financial Statements

The other financial statements will also undergo minor changes. For example, goodwill must be presented separately from intangible assets in a specific balance sheet account. Operating profit in the CFS will become the starting point for using the indirect method, which is the presentation method companies use the most in Brazil and globally (Lourenço *et al*., 2018).

Received and paid interest and dividends will no longer have a classification option in the CFS. They will now be presented in investment activities (received interest and dividends) and financing activities (paid interest and dividends). Note that exceptions are provided for entities with a specific main business.

4. Practical Implications

IFRS 18 is a general-purpose standard that will impact virtually all entities worldwide. In terms of costs and benefits, such impacts will be distributed across the entire chain of accounting information stakeholders: accountants, auditors, regulators, investors and creditors, employees, government, professors, researchers, etc.

From the perspective of preparing financial statements, accountants and auditors are the first to be affected, as they must prepare and audit information based on the new standard. This process will undoubtedly involve changes in systems and charts of accounts, implementation of new internal controls, training teams, demand more time to prepare financial statements, and increased communication costs, both internal and external, among other factors. How intense such an impact will be depends greatly on the size of companies and their existing systems and internal controls, the adaptability of their teams, their segment and business model, among other aspects. In any case, these are not trivial changes, and therefore, companies are recommended to use the implementation period (until 2027) to study the new standard and implement processes and controls to assist in this task.

Regulators will also be affected because as the standard for presenting financial statements changes, the way regulators view information from regulated entities changes. Furthermore, given the interactions and potential conflicts between accounting standards and corporate legislation in Brazil, especially Law No. 6,404 from 1976, there will be debates on how to deal with these situations. For example, according to art. 187 of the law mentioned earlier, operating income includes financial income and expenses, which does not match the concept of operating income in IFRS 18, presented in section 3.1 of this editorial. How will this and other conflicts be resolved? Stay tuned for the scenes in the following chapters.

From the users' perspective, especially investors and creditors, there will be costs to adapting their accounting information analysis systems. To be implemented from 2027 onwards, the new presentation standard will require companies to present comparative information in the same standard (according to item C2 of IFRS 18), i.e., from 2026 onwards. Additionally, in line with item C3 of IFRS 18, entities must reconcile each line of the Income Statement in the old standard compared to the new standard. Thus, users will be able to see, in an explanatory note, how IFRS 18 impacted the income statement's presentation format with the 2026 data presented in both standards.

Employees may also be impacted by the IFRS 18 adoption, especially in terms of establishing performance targets and remuneration, considering that the way companies disclose performance will take on a new format.

Governments may also be affected, as they use accounting information from entities with various purposes, the most obvious of which is corporate taxation. IFRS 18 changes the standards by which results are presented and classified; hence, such changes may impact taxes. For example, in Brazil, tax legislation differentiates operating profit from other components for specific purposes (e.g., PIS/COFINS taxation, transfer pricing calculations, offsetting of tax loss, etc.). Thus, IFRS 18 definitions have the potential to impact taxes in Brazil. Thus, this is another topic to be discussed while adapting to the new standard.

Much remains to be done in the academic milieu. Accounting and finance professors will play a fundamental role in disseminating new knowledge. Hence, they must study the new standard in-depth, adapt it to their courses, syllabuses, and curricular structures, and teach such content to the community. From a research perspective, significant impacts are also expected, as discussed in the following section.

In any case, adaptation efforts, translated into costs for all those involved, are expected to yield informational benefits. After all, the changes were designed and discussed by the IASB to improve company comparability and information transparency; ultimately, the main goal is to enable users to make better decisions.

5. Research Opportunities

As previously mentioned, the implementation of IFRS 18 will substantially change how companies in countries where IFRS is adopted communicate their performance. Therefore, given this significant "shock" in the reporting format, exciting research opportunities will arise, in addition to changes in databases widely used in archival research.

The literature review conducted by the IASB staff (IASB, 2020b) lists ten research topics related to the items discussed in the project that gave rise to IFRS 18. Such topics are listed below. These might be on the agenda of future research following the adoption of the new standard:

a. usefulness of operating profit as a performance measure and benefits arising from increased comparability;
b. usefulness of distinguishing between the operating and investment categories for investor decision-making;
c. usefulness of using the EBIT measure, represented by the subtotal profit or loss, before the financing category and profit taxes;
d. differentiation between investments in associates and joint ventures;
e. relationship between the level of disaggregation of accounts and the reliability of accounting information;
f. determinants of the choice between presenting expenses according to nature or function;
g. presentation of unusual revenues and expenses;
h. relevance of management performance measures;
i. use and relevance of EBITDA; and
j.]flexibility in classifying specific cash flows in the CFS.

The IASB staff collected and discussed the results of academic research for each topic, listing all the references at the end for a total of 121 studies.

Thus, several research questions related to these and other topics might arise following the implementation of IFRS 18. After all, if IASB expects, at least in theory, that IFRS 18 will improve the quality of accounting information following its effective implementation, this hypothesis can and should be tested in future empirical studies.

6. Final Considerations

This editorial seeks to draw attention to the main changes promoted by IFRS 18, particularly the new standard for presenting the Income Statement and the new disclosure requirements for management-defined performance measures.

At first glance, this new standard could be interpreted as a relatively simple change involving changes to the chart of accounts and presentation formats. However, such changes are much deeper than that and require careful analysis, interpretation, and discernment for the effective adoption of IFRS 18. For example, an entity's business model might impact how the income statement is presented.

Furthermore, this new standard is very extensive, including several details and exceptions, which will require much energy from those involved in the accounting process in the coming years.

It is human nature to maintain the *status quo*. Therefore, changes are never easy, as adapting to IFRS 18 will not be. Hence, the coming years will be very "hot" for accounting professionals and academic researchers alike.

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