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IFRS® ACCOUNTING STANDARDS

Presentation and Disclosure — IFRS 18

What every Chartered Accountant needs to know before the 2027 effective date

CA Members' Knowledge Session

Source: KPMG International Standards Group — First Impressions, June 2024

SESSION ROADMAP

Agenda

01 **Why IFRS 18**

Rationale, scope and the case for change

02 **Income statement structure**

Five categories, new subtotals, expense analysis

03 **Management-defined performance measures**

Definition, disclosure and audit implications

04 **Aggregation & disaggregation**

Roles of the primary statements and notes

05 **Other changes**

Cash flow statement, balance sheet, EPS

06 **Effective date, transition & sector notes**

2027 timeline, banks and insurers, action checklist

SETTING THE SCENE

Why IFRS 18 — Re-shaping financial statement presentation

Investors want more comparability and consistency in how companies present and communicate financial performance.

- IFRS 18 replaces IAS 1 Presentation of Financial Statements
- Requires a more structured income statement and greater disaggregation of information
- Brings management-defined performance measures (MPMs) into the audited financial statements for the first time
- Net profit is unchanged — but the structure of the income statement will change for most entities. It standardizes presentation of income statement and encourages transparency across any non –IFRS metrics.
- No live benchmark yet — comparability builds over time as entities transition

1 Jan 2027

Effective date for annual periods beginning on or after — earlier application permitted

All industries

IFRS 18 impacts every entity — manufacturing, EPC, banking, insurance and more — though net profit itself is unchanged

The Core Principle

What changes under IFRS 18 — and what doesn't

0

Change in reported
net profit for any entity

3

Mandatory categories:
Operating, Investing, Financing

2

New required subtotals on
the face of the P&L

IFRS 18 never changes how much an entity earned.

It changes where each income and expense line sits, forces adjusted (non-GAAP) metrics into the audited notes as Management-Performance Measures, and requires cost disclosure by nature alongside the primary statement. The impact is structural and industry-specific — a manufacturer, an EPC contractor, a bank and an insurer each feel it differently, as the next slides show.



INDUSTRY 01

Manufacturing

Net profit impact

Unchanged

₹250 Cr profit stays ₹250 Cr — only the ₹12 Cr forex loss moves between categories.

Illustrative example

Forex loss on foreign-currency term loan for plant machinery

IAS 1: Other income (unclassified) → **IFRS 18: Financing category**

Interest earned on short-term surplus fund deposits

IAS 1: Operating income → **IFRS 18: Investing category**

Government export incentive income

IAS 1: Varied by company → **IFRS 18: Operating category (defined)**



INDUSTRY 02

EPC & Engineering

Net profit impact

Unchanged

Contract profit is unchanged; Group Treasury must now tag every financing line consistently across entities.

Illustrative example

Interest income on customer mobilization advances

IAS 1: Operating income (project-linked) → **IFRS 18: Investing category**

Interest cost on project-specific working capital loans

IAS 1: Operating expense (some entities) → **IFRS 18: Financing category**

"Core operating EBITDA" excluding claims/LD provisions

IAS 1: Unregulated MIS metric → **IFRS 18: Disclosed Management-Performance Measure**



INDUSTRY 03

Banking

Net profit impact

Unchanged

Net Interest Margin is untouched; only the non-lending investment book shifts classification.

Illustrative example

Interest income and expense on lending book

IAS 1: Operating (industry practice) → **IFRS 18: Operating (now codified)**

Income from proprietary investment portfolio

IAS 1: Sometimes operating, sometimes other → **IFRS 18: Investing category**

Dividend income from strategic equity stakes

IAS 1: Other income → **IFRS 18: Investing category**

INDUSTRY 04

Insurance

Net profit impact

Unchanged

Embedded value and reported profit are unaffected; only surplus-fund income relocates.

Illustrative example

Investment income backing policyholder liabilities

IAS 1: Operating (industry practice) → **IFRS 18: Operating category (retained, entity-specific)**

Investment income on shareholders' surplus capital

IAS 1: Operating or other income → **IFRS 18: Investing category**

Finance cost on subordinated debt / policy loans

IAS 1: Varied treatment → **IFRS 18: Financing category**

One Standard, Four Different Maps

What moves under IFRS 18 — net profit is column-zero in every row

Industry	What typically reclassifies	Net profit change
Manufacturing	FX gains/losses on borrowings → Financing	None
EPC / Engineering	Advance & working-capital interest → Investing / Financing	None
Banking	Non-lending investment income → Investing	None
Insurance	Shareholder surplus-fund income → Investing	None

CHAPTER 1 · IFRS 18 AT A GLANCE

Four pillars of change

1

Structured income statement

Five categories of income and expenses — three new: operating, investing, financing — plus two newly required subtotals.

2

MPMs defined & disclosed

Management-defined performance measures are now part of the audited financial statements, disclosed in a single note.

3

Aggregation & disaggregation

New defined roles for primary statements and notes, with enhanced principles for grouping information.

4

Other statement changes

Cash flow statement starting point, goodwill on the balance sheet, and additional EPS disclosures.

CHAPTER 1 · KEY ACTIONS

Getting ready for implementation

1	**Income statement structure**	Determine main business activities, classify income/expenses into the three new categories, choose an expense-analysis method, present operating profit and consider additional line items/subtotals.
2	**MPMs**	Revisit 'non-GAAP' measures used in public communications, ensure completeness of MPMs identified, and prepare for new note disclosures and reconciliation formats.
3	**Aggregation & disaggregation**	Decide where material information belongs — primary statements or notes — apply judgement on shared/non-shared characteristics, and revisit items labelled 'other'.
4	**Cash flow statement**	Use the operating profit subtotal as the indirect-method starting point; reconsider classification of interest and dividend cash flows.
5	**Balance sheet**	Present goodwill as a separate line item on the face of the balance sheet.

CHAPTER 2 · INCOME STATEMENT STRUCTURE

Five categories of income and expenses

All entities classify income and expenses into five categories — three of which are new. The operating category is the key premise: it aims to give a complete picture of an entity's main business activities.

NEW

Operating

Income and expenses from main business activities, plus anything not classified elsewhere.

NEW

Investing

Returns from investments made independently of other resources — e.g. equity-accounted investees, other investment income.

NEW

Financing

Costs of raising finance — interest on borrowings, leases and pension liabilities.

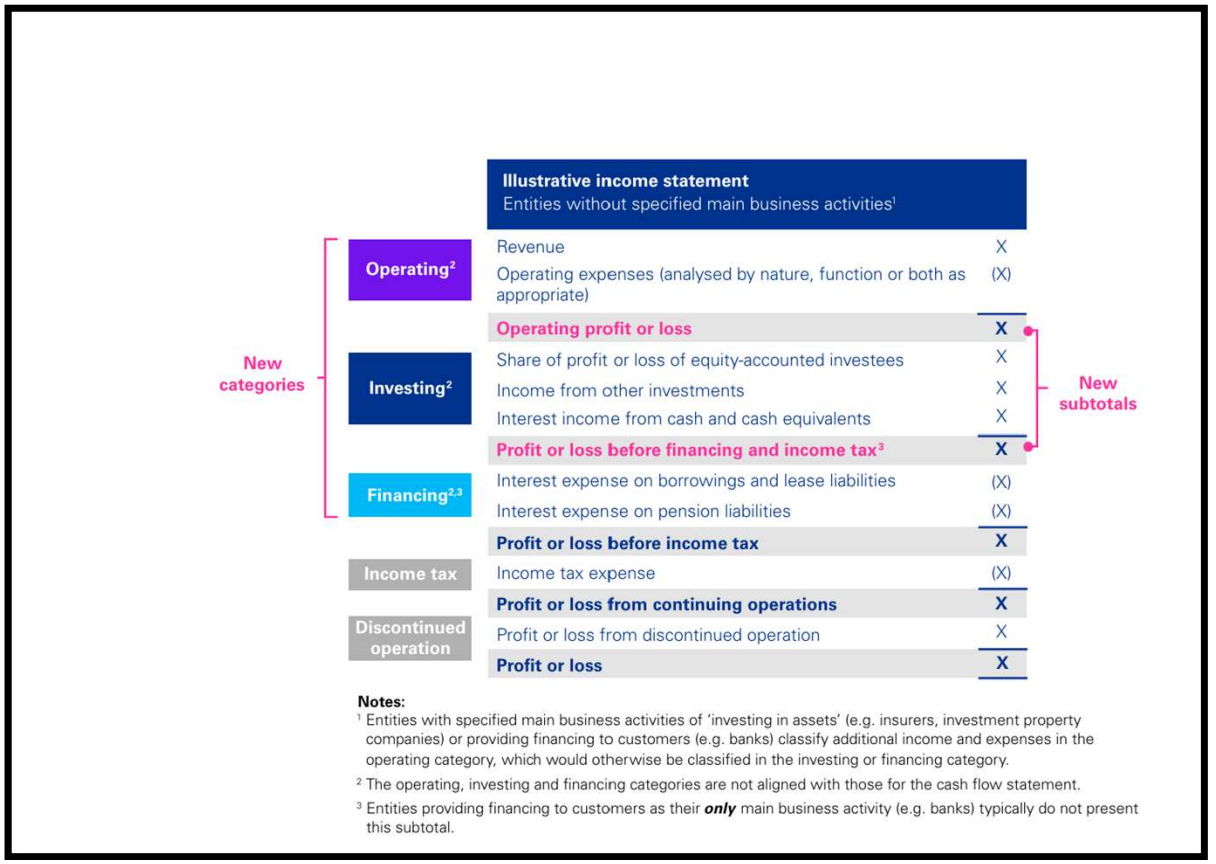
Income tax

Income tax expense — largely unchanged in principle from current practice.

Discontinued operations

Profit or loss from discontinued operations, presented as its own category.

Standard Format for preparation of Financial statements as per IFRS -18.



Illustrative income statement
Entities without specified main business activities[1]

Operating[2]	Revenue	X
	Operating expenses (analysed by nature, function or both as appropriate)	(X)
	Operating profit or loss	**X**
Investing[2]	Share of profit or loss of equity-accounted investees	X
	Income from other investments	X
	Interest income from cash and cash equivalents	X
	Profit or loss before financing and income tax[3]	**X**
Financing[2,3]	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities	(X)
	Profit or loss before income tax	**X**
Income tax	Income tax expense	(X)
	Profit or loss from continuing operations	**X**
Discontinued operation	Profit or loss from discontinued operation	X
	Profit or loss	**X**

New categories

New subtotals

Notes:

[1] Entities with specified main business activities of 'investing in assets' (e.g. insurers, investment property companies) or providing financing to customers (e.g. banks) classify additional income and expenses in the operating category, which would otherwise be classified in the investing or financing category.

[2] The operating, investing and financing categories are not aligned with those for the cash flow statement.

[3] Entities providing financing to customers as their ***only*** main business activity (e.g. banks) typically do not present this subtotal.

CHAPTER 2.1 · CLASSIFICATION

Main business activities drive classification

Entities with specified main business activities apply additional specific requirements — classifying some income and expenses in operating that would otherwise fall in investing or financing.

General entities

e.g. manufacturers

No specified main business activity of investing or financing — apply the general classification requirements only.

Investing in assets

e.g. insurers, investment property companies

Additional requirements apply to classify related income/expenses in the operating category.

Providing financing to customers

e.g. banks

Additional requirements apply — interest income/expense typically sits in operating, not financing.

Assessed at the reporting-entity level — a group's specified main business activities may differ from individual entities, requiring additional consolidation adjustments.

CHAPTER 2.2 · OPERATING EXPENSES

Three ways to present operating expenses

Entities choose the method that provides the most useful structured summary of operating expenses on the face of the income statement.

1 By nature

Raw materials, employee benefits, depreciation & amortisation — expenses grouped by the type of economic resource consumed.

2 By function

Cost of sales, distribution costs, administrative expenses — expenses grouped by their role in the business.

3 Mixed basis

A combination of nature and function line items, where this gives the most useful summary.

New disclosure trigger

If any operating expenses are presented by function (i.e. under the by-function or mixed method), new note disclosures apply — including an analysis by nature of certain function line items.

Standard Format for Classification of expenses as per IFRS -18.



CHAPTER 2.3 · SUBTOTALS

Two newly required subtotals on the face

Operating profit or loss

The result of the operating category — arguably the new standard's headline number, intended to give a complete picture of core operations.

Profit before financing and income tax

Operating profit plus the investing category — struck before financing costs and tax. Typically not presented by entities whose only main business activity is providing financing to customers.

Plus: entities may still present additional line items and subtotals where they comply with IFRS 18's requirements for such subtotals (e.g. not obscuring required totals).

CHAPTER 3 · MANAGEMENT-DEFINED PERFORMANCE MEASURES

MPMs enter the audited financial statements

For the first time, 'non-GAAP' style measures used in investor communications must be explained, reconciled — and audited.

1

Used externally

In management commentary, press releases or investor presentations

2

Reflects management's view

Of an aspect of the entity's financial performance as a whole

3

A subtotal of income & expenses

Not a required total, or a common IFRS 18 subtotal like gross profit

All three conditions must be met for a subtotal to be an MPM — captures some, but not all, 'non-GAAP' measures.

CHAPTER 3.1 · SCOPE

What falls outside the MPM definition?

Only subtotals of income AND expenses qualify. Several common 'non-GAAP' measures are outside the scope of MPMs:

Income-only or expense-only subtotals	e.g. adjusted revenue, cash-paid salary costs
Balance sheet items	Assets, liabilities, equity or combinations of these
Financial ratios	e.g. return on assets — unless built from an income/expense subtotal
Oral communications & social media	Not treated as 'public communications' for MPM purposes

CHAPTER 3.3 · DISCLOSURES

What must be disclosed for each MPM

State

- That MPMs provide management's view of an aspect of financial performance
- That MPMs are not necessarily comparable with similarly-labelled measures at other entities

Describe

- The aspect of performance the MPM communicates, and why it is useful
- How the MPM is calculated, including any difference from IFRS accounting policies

Reconcile

- Between the MPM and the most directly comparable IFRS total/subtotal
- Amount and calculation of each reconciling item, incl. tax and NCI effects

Plus specific disclosures whenever an entity changes its MPM calculation, adds a new MPM, ceases an MPM, or changes its tax-effect determination.

CHAPTER 4.1 · ROLES

Complementary roles: primary statements vs. notes

Materiality still drives what is presented or disclosed. IFRS 18 adds defined, complementary roles to guide where information belongs.

Primary financial statements

More aggregated

- Understandable overview of assets, liabilities, equity, income, expenses and cash flows
- Comparisons between entities and reporting periods
- Identify items where more detail is disclosed in the notes

Notes

More disaggregated

- Enable understanding of line items presented in the primary statements
- Supplement the primary statements with additional material information

CHAPTER 4.2 · PRINCIPLES

A three-step process for grouping information

1

Identify

Assets, liabilities, equity, income, expenses or cash flows arising from individual transactions or events.

2

Aggregate

Group items based on shared (similar) characteristics into presented line items.

3

Disaggregate

Break out items based on characteristics that are not shared, wherever the resulting information is material.

Guardrail: aggregation and disaggregation must never obscure material information — balancing enough detail against a cluttered, hard-to-read statement.

CHAPTER 4.3 · LABELS

Retiring the catch-all 'other'

IFRS 18 discourages labelling items as 'other'. Entities must determine whether a more informative label exists — and disclose more when it doesn't.

If the item contains one material component

Label by describing the material item — this alone may give an informative label without resorting to 'other'.

If the item is all immaterial components

Use a label describing the shared or dissimilar characteristics of the grouped items. If still no informative label exists, apply the additional 'other' disclosure guidance in IFRS 18.

CHAPTER 5 · OTHER STATEMENT CHANGES

Cash flow statement, balance sheet & EPS

Statement of cash flows

- Indirect method now starts from the operating profit subtotal
- Accounting policy choices for classifying interest/dividend cash flows are eliminated for most entities

Balance sheet

- Goodwill must be presented as a separate line item on the face of the balance sheet

Earnings per share

- Additional per-share amounts permitted — numerator restricted to a required subtotal, a common IFRS 18 subtotal, or a disclosed MPM
- Disclosed only in the notes, with equal prominence to basic/diluted EPS

CHAPTER 7 · EFFECTIVE DATE & TRANSITION

The transition timeline

Now

Assess impacts, engage systems & controls, monitor local landscape

Comparative period

Retrospective application under IAS 8; reconciliation of each income statement line required

1 Jan 2027

IFRS 18 effective for annual periods beginning on/after this date (early application permitted)

Transitional relief: eligible entities (e.g. venture capital organisations, mutual funds, some insurers) may elect to move investments in associates/JVs from equity method to fair value through profit or loss on first application.

CHAPTER 8 · SECTOR CONSIDERATIONS

Special considerations for banks & insurers

Banks

- Providing financing to customers and/or investing in assets is typically a main business activity
- Each bank must assess its own facts and circumstances — including treasury holdings of debt/equity instruments
- This assessment determines which income and expenses sit in the operating category

Insurers

- Often have a specified main business activity of investing in assets
- Interaction with IFRS 17 Insurance Contracts adds complexity to classification decisions
- Illustrative income statement formats are provided for these sector-specific fact patterns

WRAP-UP

Key takeaways for practising CAs

- ✓ Start the main-business-activity assessment early — it drives income statement classification, cash flow presentation and disclosure
- ✓ Inventory every 'non-GAAP' measure used in client/company communications and test it against the MPM definition
- ✓ Revisit systems and controls — MPMs and the new disclosures will be subject to audit
- ✓ Map current income statement line items to the five new categories and two new subtotals
- ✓ Plan the transition: retrospective restatement, comparative reconciliations and communication with investors/audit committees

Thank you

Questions & discussion

IFRS 18 Presentation and Disclosure in Financial Statements
Effective for annual periods beginning on or after 1 January 2027