Financial Reporting Update June 2026

Applying IFRS 18 for the first time

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Agenda

1. Overview
2. Case study
3. Management-defined performance measures
4. Other practical considerations
5. Recent developments
6. Closing

01

Overview

Overview of IFRS 18

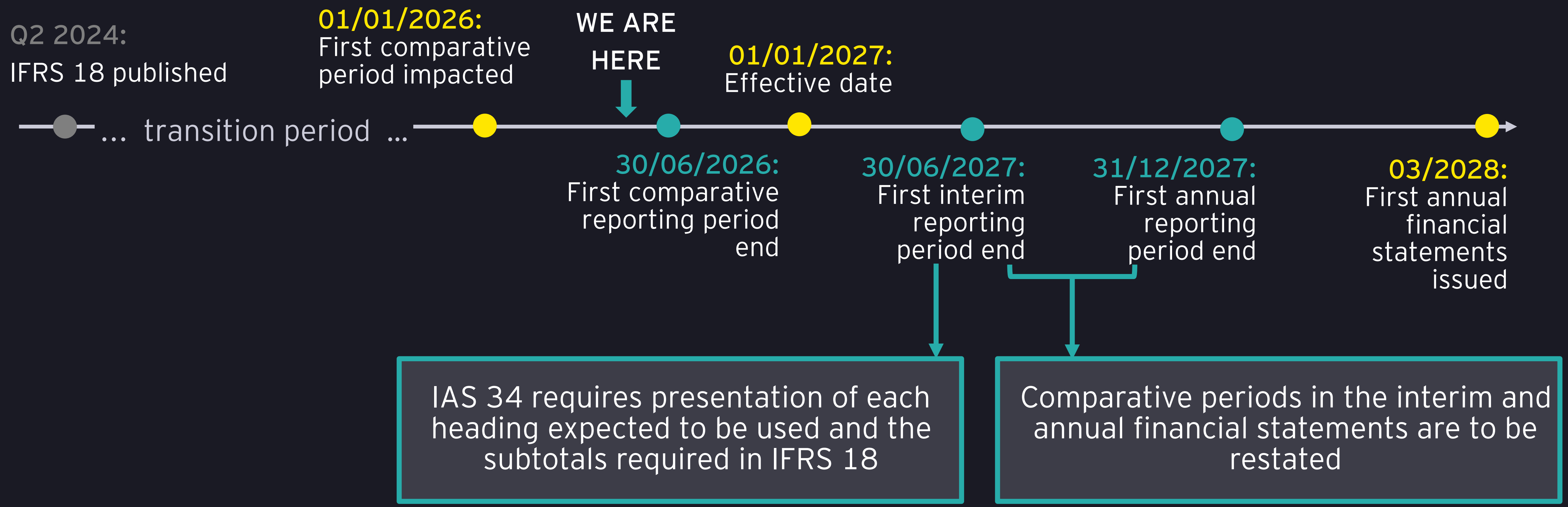
Key changes

Replaces IAS 1 *Presentation of Financial Statements*	New categories and required subtotals in statement of profit or loss	Enhanced requirements on labelling, aggregation and disaggregation	Disclosures about management-defined performance measures (MPMs)
⇆	1	2	3

Objective

- Improve how information is communicated with a focus on information about performance in the statement of profit or loss
- To reduce the presentation choices and remove inconsistencies in entities' reporting

Effective date and transition (December year-end reporter)



Reminder: Categories and subtotals

Revenue	Operating
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

Some companies, such as banks and investment property companies, will classify income and expenses in their operating profit that other companies would classify in the investing or financing categories.

This will allow such entities to report key performance metrics within the operating section.

New

Required

EY

New categories of income and expenses

Operating

- Income and expenses from an entity's main business activities
- Residual category
- Includes volatile or non-recurring items

Investing

Income and expenses from:

- Assets that generate returns individually & largely independently of other resources
- Cash & cash equivalents
- Associates, joint ventures and unconsolidated subsidiaries

Financing

Income and expenses from:

- Liabilities that involve only the raising of finance
- Interest expense and the effects of changes in interest rates from other liabilities

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- Provides a complete picture of the operations
- Works for all business models

- Rental income
- Impairments, fair value movements
- Interest and dividend income

- Interest expense on debt instruments and lease liabilities, IFRS 2 obligations
- Fair value gains/losses

02 Case study

Fact pattern: Group A Statement of profit or loss (IAS 1)

Revenue from contracts with customers	159 088
Rental income	1 377
Revenue	160 465
Cost of sales	(128 386)
Gross profit	32 079
Other operating income	2 548
Selling and distribution expenses	(12 964)
Administrative expenses	(12 011)
Other operating expenses	(353)
Operating profit	9 299
Share of profit of an associate or a joint venture	638
Finance costs	(1 268)
Finance income	144
Other income	67
Profit before income tax	8 880
Income tax expense	(2 233)
Profit from continuing operations	6 647
Discontinued operations	
Loss from discontinued operations	(188)
Profit	6 459

How will transition to IFRS 18 impact the statement of profit or loss?

Rental income

	IAS 1	Adjustments	IFRS 18	
Revenue from contracts with customers	159 088		159 088	Operating category
Rental income	1 377	(1 377)		
Revenue…	*160 465*	*(1 377)*	*159 088*	
Operating profit	…	…	…	
Rental income		1 377	1 377	Investing category
Profit before financing and income taxes	…	…	…	

IFRS 18.53(c)
[extract]

Except … for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses …from:
… ***(c) other assets if they generate a return individually and largely independently of the entity's other resources…***

Rental income from investment properties is classified in the investing category in the statement of profit or loss, as property rental operations are not a main business activity of the Group.

What about other income and expenses or if an entity has a specified MBA?

EY

Share of profit of an associate or joint venture

…	IAS 1	Adjustments	IFRS 18	
Share of profit of an associate or a joint venture	638	(638)	-	Operating category
Operating profit	…	…	…	
Share of profit of an associate or a joint venture		638	638	Investing category
Foreign exchange differences on cash and short-term deposits			254	
Rental income			1 377	
Change in fair value of investment properties			(300)	
Other income from investments			144	
Profit before financing and income taxes	…	…	…	

IFRS 18.53(a) [extract]

Except … for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses …from:
… ***(a) investments in associates, joint ventures and unconsolidated subsidiaries…***

Income and expenses from equity accounted investments in associates, joint ventures and unconsolidated subsidiaries are always classified in the investing category, regardless of an entity's MBA.

IFRS 18.53(a)

EY

Interest and fair value gains/losses on financial assets

...	IAS 1	Adjustments	IFRS 18	
Other income from investments		144	144	Investing category
Profit before financing and income taxes	...	...	...	
Finance income	144	(144)	-	Financing category
Other income ...			-	

Interest income from debt instruments, fair value gain on equity instruments, loss on sale of debt instruments and impairment loss on debt instruments are classified in the investing category as these financial assets generate returns individually and largely independent of the Group's other resources.

IFRS 18.53, 54 and B47

Interest expense

...	IAS 1	Adjustments	IFRS 18
Gross profit			31 142
Other operating income			2 548
Selling and distribution expenses	(12 964)	12 964	-
Selling expenses			(8 875)
Distribution expenses			(4 041)
Administrative expenses	(12 011)	591	(11 420)
Other operating expenses			(53)
Operating profit ...	...	...	...
Profit before financing and income taxes	...	...	...
Interest expenses on loans and borrowings		(1 020)	(1 020)
Interest expenses on other liabilities		(341)	(341)
Foreign exchange difference on interestbearing loans and borrowings			67
Finance costs	(1 268)	1 268	-
Finance income			-
Other income			-
Profit before income tax	...		....

Operating category

Financing category

- Interest on loans and borrowings and other liabilities are classified in the financing category.
- Unwinding of discount and effect of changes in discount rate on provisions are reallocated to interest expenses on other liabilities in the financing category.
- **Net interest expense on a net defined benefit liability** is classified in the financing category. Consequently, the associated amounts are excluded from selling and distribution expenses, as well as administrative expenses.

IFRS 18.59-61, B54

Foreign exchange differences

...	IAS 1	Adjustments	IFRS 18	
Gross profit			**31 142**	Operating category
Other operating income			2 548	
Administrative expenses	(12 011)	591	(11 420)	
Foreign exchange differences			(206)	
Other operating expenses			(53)	
	...	...	...	
Operating profit			**8 061**	
Foreign exchange differences on cash and shortterm deposit		254	254	Investing category
...				
Profit before financing and income taxes	...	...	...	
Interest expenses on loans and borrowings			(1 020)	Financing category
interest expenses on other liabilities			(341)	
Foreign exchange difference on interest-bearing loans and borrowings		67	67	
Finance costs			-	
Finance income			-	
Other income	67	(67)	-	
Profit before income tax	...		...	

Foreign exchange differences on cash and short-term deposits, previously included in administrative expenses, are classified in the investing category.

Foreign exchange differences on interest-bearing loans and borrowings, which were previously included in other income, are classified in the financing category.

IFRS 18.B65

EY

Aggregation and disaggregation

Unless it overrides specific aggregation or disaggregation requirements in IFRS Accounting Standards, an entity is required to: *[IFRS 18.41]*

- Classify and **aggregate** assets, liabilities, equity, income, expenses or cash flows into items based on **shared characteristics**
- **Disaggregate** items **based on characteristics that are not shared (dissimilar characteristics)**
- Aggregate or disaggregate items in order to **disclose material information in the notes**
- Aggregate or disaggregate items into line items that are presented in the primary financial statements so that they **provide useful structured summaries**
- Ensure that the aggregation and disaggregation of information in the financial statements **do not obscure material information**

EY

Selling and distribution expenses

...	IAS 1	Adjustments	IFRS 18
Selling and distribution expenses	(12 964)	12 964	-
Selling expenses		(8 875)	(8 875)
Distribution expenses		(4 041)	(4 041)
Administrative expenses			(11 420)
Other operating expenses			(53)
Operating profit	...	...	...

Operating category

Selling and distribution expenses have been disaggregated into selling expenses and distribution expenses.

Entities must disaggregate items that have dissimilar characteristics when the resulting information is ***material*** *and exercise* ***judgement*** *to determine how much detail is necessary to provide useful information by considering their activities and functions.*

IFRS 18.B85

Statement of profit or loss: IAS 1 vs. IFRS 18

	IAS 1	Adjustments	IFRS 18
Revenue from contracts with customers	159 088		159 088
Rental income	1 377	(1 377)	
Revenue/Revenue from contracts with customers	*160 465*	*(1 377)*	*159 088*
Cost of sales	(128 386)	440	(127 946)
Gross profit	**32 079**	**(937)**	**31 142**
Other operating income	2 548		2 548
Research and development expenses		(1 034)	(1 034)
Selling and distribution expenses	(12 964)	12 964	
Selling expenses		(8 875)	(8 875)
Distribution expenses		(4 041)	(4 041)
Administrative expenses	(12 011)	591	(11 420)
Foreign exchange differences		(206)	(206)
Other operating expenses	(353)	300	(53)
Share of profit of an associate or a joint venture	638	(638)	
Operating profit	9 937	(1 876)	8 061
Share of profit of an associate or a joint venture		638	638
Foreign exchange differences on cash and short-term deposits		254	254
Rental income		1 377	1 377
Change in fair value of investment properties		(300)	(300)
Other income from investments		144	144
Profit before financing and income taxes		237	10 174
Interest expenses on loans and borrowings		(1 020)	(1 020)
Interest expenses on other liabilities		(341)	(341)
Foreign exchange difference on interest-bearing loans and borrowings		67	67
Finance costs	(1 268)	1 268	
Finance income	144	(144)	
Other income	67	(67)	
Profit before income tax	**8 880**		**8 880**
Income tax expense	(2 233)		(2 233)
Profit from continuing operations	**6 647**		**6 647**
Discontinued operations			
Loss from discontinued operations	(188)		(188)
Profit/Profit for the year	6 459		6 459

Operating

Investing

Financing

Income taxes

Discontinued operations

EY

Statement of financial position

Statement of financial position: IAS 1 vs. IFRS 18

	IAS 1		IFRS 18
Assets		Assets	
Non-current assets		Non-current assets	
Property, plant and equipment	24 329	Property, plant and equipment	24 329
Investment properties	7 983	Investment properties	7 983
Intangible assets and goodwill	2 461	Intangible assets	2 211
		Goodwill	250
Right of use assets	2 732	Right of use assets	2 732
Investment in an associate and a joint venture	2 516	Investment in an associate and a joint venture	2 516
Non-current financial assets	2 816	Other individually immaterial financial assets	2 816
Deferred tax assets	365	Deferred tax assets	365
	XX		XX
Current assets		Current assets	
Inventories	23 830	Inventories	23 830
Other current financial assets	153	Other individually immaterial financial assets	153
Cash and short-term deposits	14 916	Cash and short-term deposits	14 916
	XX		XX
Total Assets	XXX	Total Assets	XXX

IFRS 18 now requires an entity to present in the statement of financial position a line item for goodwill.

IFRS 18.103(d)

EY

03

Management-defined performance measures

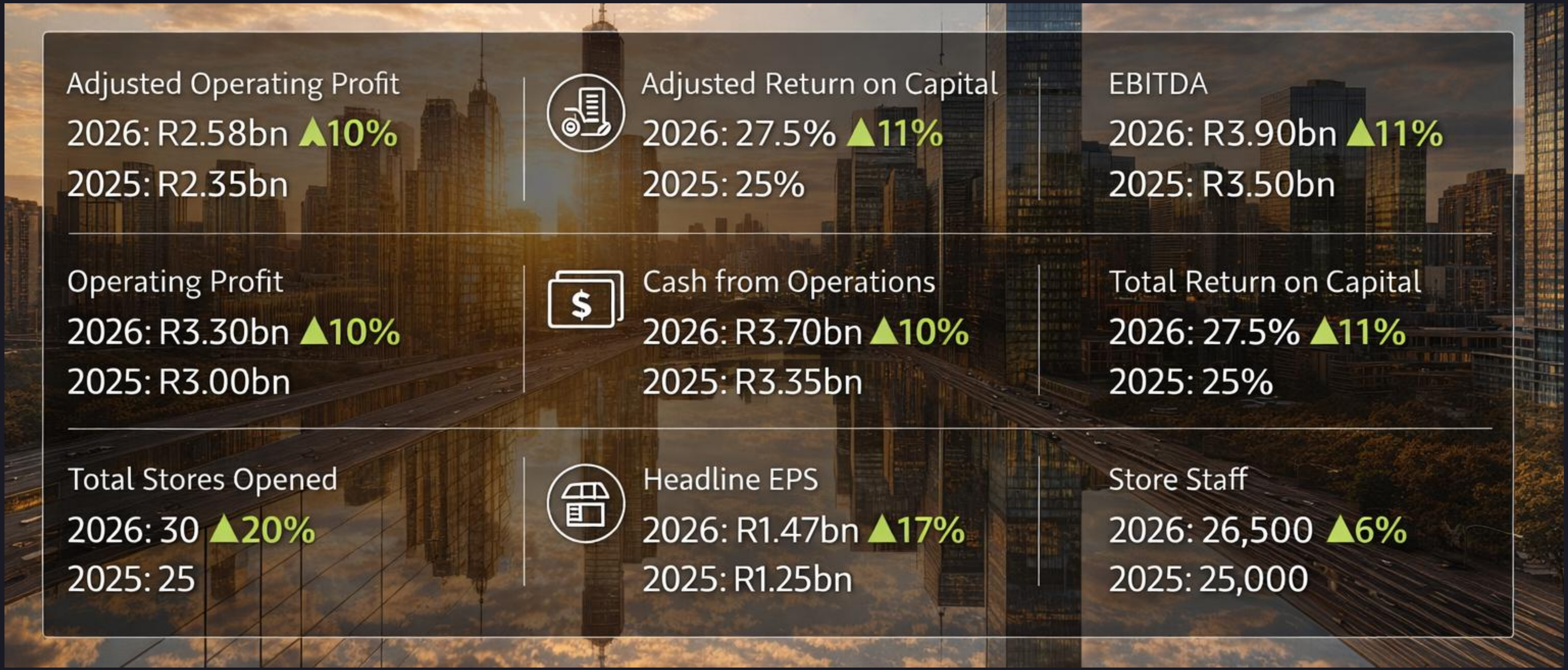
Management-defined performance measures ('MPMs')

Subtotals of income and expenses not listed in IFRS 18.118 or specifically required by IFRS Accounting Standards

Used in public communications outside financial statements

Measures that communicate management's view of an entity's financial performance

Applying the MPM definition



Q

Which (if any) of the above meet the definition of an MPM?

Which performance measures could be MPMs?

Performance measures

Financial performance measures

Subtotals of income & expenses

MPMs

- EBITDA
- Adjusted profit or loss
- Adjusted operating profit
- HEPS*
- Adjusted ROIC*

IFRS-defined / specified

- Operating profit
- Operating profit before depreciation, amortisation and specified impairments

Other measures that are not subtotals of income and expenses

- Total revenue
- Cash from operations
- Net debt
- Free cash flow

Non-financial performance measures

- Number of customers
- Total stores opened
- Store surface

Source: ifrs.org

* A financial ratio cannot be an MPM since it is not a subtotal of income and expenses. However, the numerator or denominator could be an MPM if it represents a subtotal of income and expense that would meet the definition of an MPM, had it not been part of a ratio.

04

Other practical considerations

Concept of 'individual and largely independent returns'

Income and expenses from assets that generate a return individually and largely independently ('I&LI') of the entity's other resources are included in the investing category *(if no MBA of investing in such assets)*

Assets that *typically* generate I&LI returns returns

- Investment property and receivables for rent generated by those properties
- Debt instruments
- Equity instruments

Assets that *do not* typically generate I&LI returns

- Property, plant and equipment
- Receivables arising from production or supply of goods or services
- Loans to customers when entity provides financing to customers as MBA

Judgement is required - *Consider nature, integration with other assets, origin of asset as well as business model.*

Fact pattern

- Entity C is a construction company
- The entity constructs and sells office complexes in the ordinary course of business
- The entity does not have a specified main business activity of investing in assets

- Entity C is considering the classification of the income and expenses from the following assets held at year end:

1. A brick making machine that is no longer needed and is now leased out to third parties
2. A piece of equipment that is leased out for a small portion of the year
3. An investment property that is still under construction by the entity

Income/expenses related to property, plant & equipment

Q

How is rental income from the brick making machine leased out under an operating lease classified in profit or loss by the lessor (assume no specified MBA)?

Investing.

In a lease situation, the operating lease income represents income generated by the asset independently.

A

EY

Rental income from equipment

Fact pattern:

- Entity C closes for two months during the festive period
- Equipment that is usually used in operations is leased out for this short period to earn extra income
- The lease is classified as an operating lease per IFRS 16 *Leases*

Q

How should Entity C classify the rental income from the equipment under IFRS 18?

EY

Rental income from equipment

- Although the lease income is generated independently of other resources, the **unit of account** when considering classification is the **asset** itself
- Majority of returns are generated by the asset **used in combination** with other resources

A

All the income and expenses from this asset must be classified in the operating category.

EY

Investment property under construction

Fact pattern

- The entity is considering the classification of the income and expenses from an investment property (i.e., held for capital appreciation and rental to others) measured at fair value applying IAS 40 *Investment Property* but still under construction by the entity itself.

Q

In which category is the fair value gains or losses on remeasurement of the investment property under construction classified?

Investment property under construction

- Despite still being under construction, the investment property generates separate returns in the form of capital appreciation
- While the entity’s own assets are used to construct the investment property, the property itself is not used in combination with other resources to produce goods or supply services

A

Investing category.

05

Recent developments

IFRS 18 Agenda Decisions

Assessment of a Specified Main Business Activity for the Purposes of the Separate Financial Statements of a Parent
Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset)
Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure
Scope of the Requirement to Disclose Expenses by Nature

EY

Specified MBA for separate financial statements of a parent

Fact pattern:

- Parent A is the **ultimate parent of a group** that holds investments in multiple group companies
- Parent A has **no substantive business activity apart from holding and managing investments in subsidiaries and distributing returns** on those investments to shareholders
- It is not an 'Investment entity' as defined in IFRS 10 *Consolidated Financial Statements*
- In its separate financial statements, Parent A recognises investments in unconsolidated subsidiaries at cost
- It does not provide any segmental analysis or use any subtotals related to its separate financial statements

Q

Can Parent A have a main business activity ('MBA') of investing in unconsolidated subsidiaries for the purpose of its separate financial statements?

Specified MBA for separate financial statements of a parent

A

When a parent has no other substantive activities, investing in unconsolidated subsidiaries is considered the MBA for purposes of separate financial statements.

In this fact pattern, the parent classifies income and expenses from investments in subsidiaries in the operating category

- *The lack of segmental analysis or operating performance subtotals does not negate this*
- *IFRS 18's indicators are not meant to be exhaustive.*

Forex from intragroup monetary liability/asset

Fact pattern:

- Parent B enters into a foreign currency loan with a subsidiary
- The loan is not part of the parent's net investment in the subsidiary (IAS 21 *Foreign Exchange Differences*)
- The intragroup monetary liability/asset that gave rise to the foreign exchange difference is eliminated on consolidation however, the foreign exchange difference in profit or loss remains

An entity shall classify foreign exchange differences *"…in the same category as the income and expenses from the items that gave rise to the foreign exchange differences…"* unless it would involve undue cost or effort.

IFRS 18.B65

[extract]

Q

How does Parent B classify the foreign exchange difference in the consolidated statement of profit or loss?

Forex from intragroup monetary liability/asset

A

Two possible views are acceptable for classification of the foreign exchange difference:

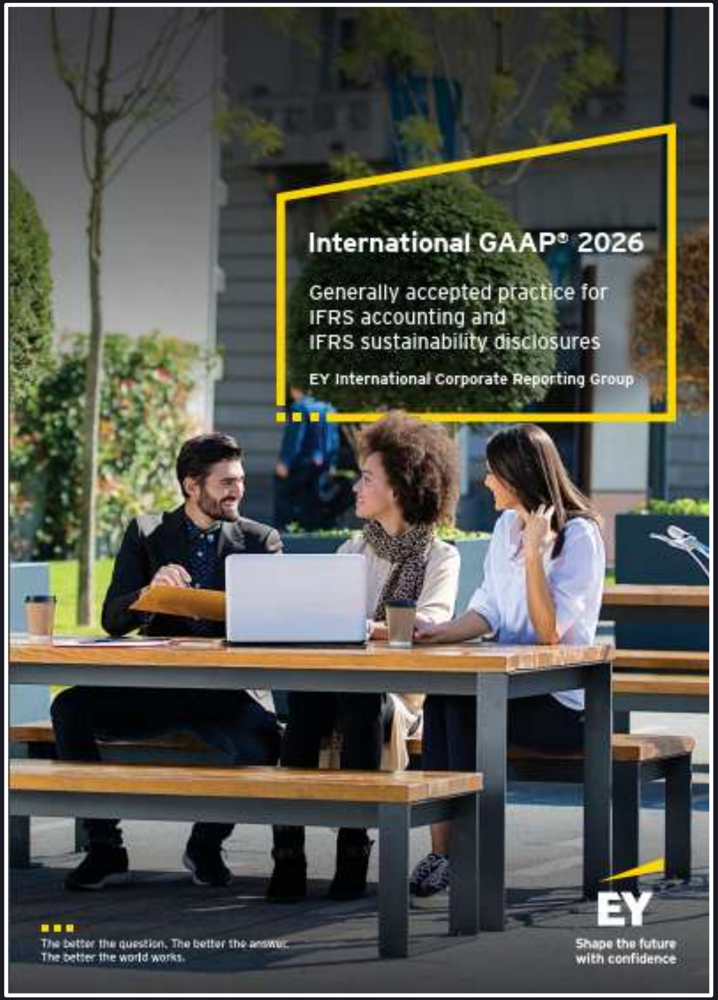
View 1 **Operating** category as the **default** category

View 2 **Same category** in which the income and expenses from the intragroup loan would have been classified **before their elimination** or, if doing so would involve **undue cost or effort**, the **operating** category

06

Closing

International GAAP



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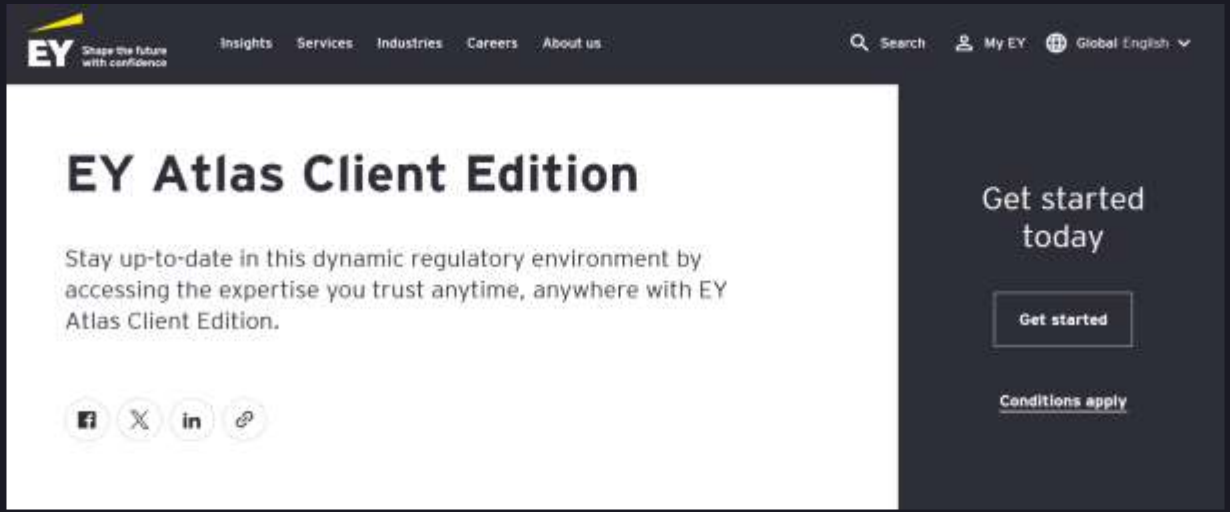

IFRS 18 resources

Roadmap to IFRS 18: Presentation and Disclosure in the Financial Statements

Applying IFRS: A closer look at IFRS 18

IFRS 18: Agenda decisions

Good Group: Illustrative AFS – IFRS 18

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