

From IAS 1 to IFRS 18: what you need to know

IFRS 18 becomes effective for periods beginning on or after 1 January 2027. Are you prepared?

Financial statements aim to provide a clear picture of a company's assets, liabilities, equity, income, and expenses. They support comparability across entities and periods, highlighting areas where further insight is required.

Previously, IAS 1 Presentation of Financial Statements set out requirements for presenting primary financial statements. However, over time, it has faced criticism from key users particularly investors who raised concerns about:

- Limited comparability of profit or loss across companies in the same sector
- Inconsistent structures and sub-totals
- Inappropriate levels of aggregation and disaggregation
- Lack of transparency around alternative performance measures used by management

IFRS 18 Presentation and Disclosure in Financial Statements

In response to these concerns, IAS 1 is being replaced by IFRS 18 Presentation and Disclosure in Financial Statements, which will be effective for annual periods beginning on or after 1 January 2027.

While IFRS 18 incorporates many aspects of IAS 1, significant changes have been introduced in three areas:

1) Structure of the profit or loss statement

IFRS 18 requires the profit or loss statement to be structured into three categories of income and expenses: operating, investing, and financing. In addition, two mandatory subtotals in the statement have been introduced: operating profit or loss, and profit or loss before financing and income taxes. The standard also permits the use of certain optional additional sub-totals and provides a list of sub-totals adapted for certain business sectors.

2) Aggregation and disaggregation

New requirements for the aggregation and disaggregation of information in the primary statements and notes have been introduced. The Standard sets out the bases for aggregating and disaggregating information and a description of the items to be presented in the financial statements.

To be aggregated items must share at least "one common characteristic". Similarly, if the resulting information is material a "single dissimilar characteristic" will be enough to justify disaggregation in the notes. The Standard sets out several characteristics to be considered when carrying out these analyses.

3) Management Defined Performance Measures (MPMs)

An MPM is a sub-total of income and expenses which is not specified by IFRS, used outside the financial statements in external communications and reflects management's view of one aspect of the financial performance of the entity. Entities will be required to present information on their MPMs in a single dedicated note which will include:

- Statement that MPM reflects management's view
- Definition of MPM and how it is calculated
- Explanation of why it is reported
- Reconciliation with IFRS defined total or sub-total
- Explanation of any changes to MPM

Additional changes to IFRS 18

IFRS 18 will introduce amendments to IAS 7 *Statement of Cash Flows* aimed at improving consistency and comparability:

1. The sub-total “operating profit or loss” will become the new starting point for presenting the cash flow statement when using the indirect method.
2. The previous policy choice regarding the classification of cash flows related to interest and dividends has been removed. Instead, specific guidance is provided for entities based on whether they have a specified main business activity (e.g. banks, insurers) or not.

Transitioning to IFRS 18

IFRS 18 will become mandatory for reporting periods beginning on or after 1 January 2027, with retrospective application required.

Entities may choose to adopt the Standard early, and UK endorsement is anticipated before the effective date. Retrospective application means that entities will need to restate comparative figures in their primary financial statements. Additionally, for the comparative period immediately preceding first-time application, IFRS 18 requires a reconciliation for each line item in the statement of profit or loss, showing:

- The restated amounts under IFRS 18; and
- The previously reported amounts under IAS 1 Presentation of Financial Statements.

Finally, for financial years prior to initial application, entities must disclose in their financial statements the expected impact of adopting IFRS 18.

The next steps for your business

The transition from IAS 1 to IFRS 18 is more than just a technical accounting update, it marks a fundamental shift in how financial performance is communicated.

With mandatory adoption right around the corner and the added requirement of retrospective application, companies cannot afford to delay planning for the change. A successful transition will require coordinated efforts across multiple areas, including:

- Review current presentation mapping of income and expenses, and identify future changes required including the appropriate level of aggregation and disaggregation.
- Updates to financial reporting systems and processes to ensure they capture the necessary information with sufficient detail for IFRS 18 compliance.
- Assess whether entities within the group engage in “specified main business activities”, as this will impact certain requirements.
- Evaluate current performance metrics to determine which qualify as MPMs under the new standard and what changes may be required.
- Review presentation of the cash flow statement to ensure alignment with the changes.
- Analyse existing remuneration arrangements and debt covenants linked to IAS 1 performance metrics, as these may require renegotiation.
- Communicate anticipated impacts to stakeholders to manage expectations and maintain transparency.
- Consider training and change management for finance teams to build familiarity with new concepts and requirements.

How our accounting advisory professionals can help

Navigating the transition to IFRS 18 can be complex. Our team of experienced advisors can support with:

- Assessing the impact of IFRS 18 on your financial statements and disclosures.
- Planning and implementing the transition, including restating comparatives and preparing reconciliations.

- Providing practical guidance on applying the new presentation and classification requirements effectively.

IFRS 18 FAQs

What is IFRS 18?

IFRS 18 Presentation and Disclosure in Financial Statements is a new standard that will replace IAS 1 Presentation of Financial Statements.

When will IFRS 18 come into effect?

IFRS 18 will be effective for annual periods beginning on or after 1 January 2027.

What is the difference between IFRS 18 and IAS 1?

IFRS 18 incorporates many elements of IAS 1 however three significant additions have been made.

- Structure of the profit or loss statement
- Aggregation and disaggregation
- Management Defined Performance Measures (MPMs)

IFRS 18 will introduce amendments to IAS 7 *Statement of Cash Flows* aimed at improving consistency and comparability.

When should businesses start preparing for IFRS 18?

With mandatory adoption right around the corner and the added requirement of retrospective application, companies cannot afford to delay planning for the change. A successful transition will require coordinated efforts across multiple areas so it's important to start preparing ahead of time.

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