

IFRS 18 Explained: New Income Statement Requirements

By houseblend.io Published February 12, 2026 53 min read



IFRS 18: How the New Income Statement Standard Changes Your 2026 Reporting

Executive Summary

International Financial Reporting Standard 18 (IFRS 18), **Presentation and Disclosure in Financial Statements**, represents a fundamental overhaul of income statement presentation under IFRS. Adopted in April 2024 and effective 1 January 2027 (with earlier application permitted), IFRS 18 replaces IAS 1 and responds to investor concerns about inconsistent, non-comparable financial reporting (Source: www.ifrs.org) (Source: www.ifrs.org). The new standard mandates that all companies classify income and expenses into **five categories** – *Operating*, *Investing*, *Financing*, *Income Tax*, and *Discontinued Operations* – with the first three being newly defined. Crucially, it introduces **two mandatory profit subtotals** ('Operating profit or loss' and 'Profit or loss before financing and income taxes'), standardized expense presentation options (by nature, function, or mixed), strict rules on aggregation/disaggregation, and formalizes disclosure of "management-defined performance measures" (MPMs) within the audited financial statements (Source: www.ifrs.org) (Source: blog.pwc.lu).

This report examines the historical context and rationale for IFRS 18, details its comprehensive requirements, and analyzes the operational impacts on companies' 2026 reporting. We review how IFRS 18 improves transparency and comparability (as noted by the IASB and leading accounting firms) (Source: www.ifrs.org) (Source: www.ey.com), while also addressing the challenges it poses for systems, processes, and stakeholder communication. Key findings include:

- **Enhanced structure and comparability:** IFRS 18's defined income statement format reduces diversity in reporting. By requiring all entities to present 'Operating profit' and consistent line-item categories, IFRS 18 provides investors with "consistent anchor points" for cross-company comparison (Source: www.ifrs.org) (Source: www.ey.com).
- **Inclusion of non-GAAP measures:** For the first time, select non-GAAP metrics (called MPMs) must be reconciled to IFRS totals within the financial statements. This increases auditability and investor understanding of items like EBITDA or adjusted profit (Source: kpmg.com) (Source: www.ey.com).

[blog.pwc.lu](#)).

- **Data and system readiness:** The new classification rules mean many companies must redesign their chart of accounts, upgrade IT systems, and modify internal controls to capture granular data (e.g. foreign exchange allocated by category) (Source: [kpmg.com](#)) (Source: [www.ey.com](#)). For December-year companies, these changes must be in place by 1 January 2026 so that comparative 2026 figures can be produced under the new scheme (Source: [kpmg.com](#)) (Source: [www.accountancyireland.ie](#)).
- **Stakeholder alignment:** Companies need to educate management, auditors, and investors on how IFRS 18 will alter performance metrics. For example, entities that finance customers (e.g. banks or captive finance arms) will report interest income in the **Operating** category by default (Source: [www.deloitte.com](#)) (Source: [blog.pwc.lu](#)). All such nuances require clear communication to avoid misinterpretation.
- **Broader implications:** Beyond the financial statements, IFRS 18 may impact covenants, bonus plans, and strategic reporting. Companies linked their goals to subtotals like “operating profit” must reassess those arrangements, as IFRS 18 defines “operating profit” strictly by its category rules (Source: [kpmg.com](#)).

In sum, IFRS 18 is a sweeping change that will reshape how financial performance is reported (often described as “the most significant change in over 20 years” (Source: [www.ifrs.org](#)) (Source: [www.deloitte.com](#)). This report provides a detailed walkthrough of IFRS 18’s provisions, industry and jurisdictional perspectives, practical implementation considerations, and the implications for financial reporting in 2026 and beyond.

Introduction and Background

The Need for Change in Financial Reporting

Since the introduction of IFRS Standards, the **presentation of the income statement** under IAS 1 was largely flexible. While this allowed companies to report in ways that reflected their business, it also led to a proliferation of formats and non-IFRS measures (“alternative performance measures”) that made comparability difficult (Source: [www.journalofaccountancy.com](#)) (Source: [blog.pwc.lu](#)). Investors and analysts have long complained about the **inconsistency** of profit and loss statements, describing efforts to compare diverse formats as akin to “comparing different mountains” (Source: [blog.pwc.lu](#)). Moreover, management-defined subtotals (like “adjusted EBITDA” or “underlying profit”) often appeared only in management commentary or the MD&A, outside the audited statements, raising concerns about transparency (Source: [www.journalofaccountancy.com](#)) (Source: [blog.pwc.lu](#)).

In response, the International Accounting Standards Board (IASB) launched the *Primary Financial Statements* project, culminating in IFRS 18. The goal was succinct: **improve transparency, comparability and decision-usefulness** of the P&L and cash flow statements (Source: [www.ifrs.org](#)) (Source: [www.deloitte.com](#)). As IASB Chair Andreas Barckow noted, IFRS 18 “represents the most significant change to companies’ presentation of financial performance since IFRS Accounting Standards were introduced more than 20 years ago” (Source: [www.ifrs.org](#)). The standard explicitly targets investor needs: it creates a **common structure** (set categories and subtotals) and brings manager analyses (MPMs) into the financial statements where they can be audited (Source: [www.ifrs.org](#)) (Source: [kpmg.com](#)).

The key objectives of IFRS 18 are outlined on the IFRS Foundation’s website: it “sets out overall requirements for the presentation and disclosure in financial statements,” specifically (a) introducing **two defined profit-level subtotals** (“operating profit” and “profit before financing and income tax”), (b) mandating disclosure of **management-defined performance measures (MPMs)**, and (c) adding new guidance on **aggregation and disaggregation of items** (Source: [www.ifrs.org](#)). These measures are designed to:

- **Standardize core metrics:** By mandating “operating profit” and “profit before financing and income taxes,” IFRS 18 gives all companies a common baseline subtotal (Source: [www.ifrs.org](#)) (Source: [www.journalofaccountancy.com](#)).
- **Enhance insight into management’s views:** By defining MPMs and requiring a single reconciled disclosure note, investors can see exactly how a company’s “adjusted” or “core” measures relate to IFRS results (Source: [kpmg.com](#)) (Source: [blog.pwc.lu](#)).
- **Encourage useful detail:** Stricter aggregation rules and the discouragement of “other” buckets means material line items must be shown separately (Source: [kpmg.com](#)) (Source: [www.accountancyireland.ie](#)).

The IASB formally issued IFRS 18 in April 2024, replacing IAS 1 (which dated from 1997 with subsequent amendments) (Source: [www.ifrs.org](#)). It is effective January 1, 2027 (annual periods) and companies need to apply it **retrospectively** (Source: [www.ifrs.org](#)) (Source: [www.ifrs.org](#)). In practical terms, the first IFRS 18 statements will be for 2027 results (with 2026 comparatives). For December-year companies, this means implementing changes by 1 January 2026 so that the 2026 comparatives can be restated under IFRS 18 (Source: [kpmg.com](#)) (Source: [www.accountancyireland.ie](#)). Early adoption is permitted, and indeed many advisers recommend planning implementation immediately due to the scale of change (Source: [www.deloitte.com](#)) (Source: [www.accountancyireland.ie](#)).

From IAS 1 to IFRS 18: An Evolving Landscape

IAS 1, the predecessor to IFRS 18, had long provided concepts such as classification by function or nature of expense, and the requirement for a complete set of financial statements (Source: www.ifrs.org). However, IAS 1's requirements were principles-based and allowed wide choice in structuring financial statements; subtotals like gross profit or EBITDA were at management's discretion and not mandated (Source: www.accaglobal.com) (Source: blog.pwc.lu). Over the years, piecemeal amendments (e.g. Disclosure Initiative in 2014) attempted to improve IAS 1 presentation, but none directly addressed the root cause: the lack of a standardized P&L format (Source: www.ifrs.org) (Source: blog.pwc.lu).

IFRS 18 now inherits much of IAS 1's framework for balance sheet and statement of cash flows (unchanged) but *completely overhauls the profit and loss (P&L) statement* (Source: www.ifrs.org) (Source: www.journalofaccountancy.com). The IASB retained many IAS 1 provisions (for example, many balance sheet line-item rules and broad requirements) but moved some others (such as materiality and disclosure breadth) into IFRS 18 or related standards (Source: www.ifrs.org) (Source: www.ifrs.org). Notably, IFRS 18's scope is limited to presentation and disclosure – *it does not change recognition or measurement of any item* (Source: www.ifrs.org). Thus, a company's net profit remains unchanged; what changes is *how items flow through the profit or loss and how results are disclosed* (Source: kpmg.com).

The IASB's basis for conclusions (not quoted here) shows that IFRS 18 is the culmination of extensive research and consultation (including investor outreach, field tests, and debate within the IASB). It reflects investor frustration with "adjusted" or non-IFRS figures that were difficult to reconcile (Source: www.journalofaccountancy.com) (Source: blog.pwc.lu). For example, adjusted metrics often improved reported performance in a way that left analysts "without a clear, consistent view" of true results (Source: www.journalofaccountancy.com). By structuring financial statements in a more standardized, transparent way, IFRS 18 aims to "modernize reporting" and align it with how businesses think about performance (Source: www.journalofaccountancy.com) (Source: www.deloitte.com).

Historical Context: Calls for Change

The genesis of IFRS 18 can be traced to multiple factors over the last decade. One major driver was the pervasive use of **alternative performance measures (APMs)** such as EBITDA. Research has shown that many companies highlight these "non-GAAP" figures extensively, but with varying definitions and without audit confirmation (Source: www.journalofaccountancy.com) (Source: blog.pwc.lu). This led to calls (from groups like the European Securities and Markets Authority and investor survey feedback) for better regulation of performance metrics. The IASB recognized this issue in projects like their "Better Communication in Financial Reporting" initiative in the mid-2010s, culminating in revising IAS 1's requirements and eventually launching the Primary Financial Statements project.

Another impetus was advances in data analysis and technology. As described in academic and professional commentary, analysts increasingly rely on digital data feeds and automated comparability. In a "data-driven world," analysts need standardized, machine-readable line items in P&L to compare companies effectively (Source: www.journalofaccountancy.com). IFRS 18 responds to this by reducing diversity in line items and enforcing consistent subtotals and labels (Source: www.journalofaccountancy.com) (Source: blog.pwc.lu).

A third factor is globalization. Investors want to compare cross-border companies. Inconsistent national GAAP rules (and even diverse interpretations of IFRS IAS 1) made it hard to benchmark, say, an EU company against a US-listed company (where US GAAP did have some defined subtotals like "operating income," but even that varied). IFRS 18 ensures that, under IFRS, all companies present at least the same core subtotals in the P&L, leveling the playing field (Source: www.journalofaccountancy.com) (Source: www.ey.com).

Finally, IFRS 18 can be seen in the context of earlier standards aimed at the P&L. For example, IFRS 8 (Operating Segments) requires segment disclosures, but IFRS 18 now affects how segment information connects to the P&L categories. Similarly, IFRS 15 (Revenue Recognition) and IFRS 16 (Leases) changed the content of financial statements; IFRS 18 changes the *format* and disclosures around that content. Together, these reforms indicate a broad shift towards more transparent and comparable financial reporting.

Key Requirements of IFRS 18

Five Standardized Income Statement Categories

Under IAS 1, companies could label and organize income and expense lines with considerable freedom. IFRS 18 **changes this radically by requiring five predefined categories in the statement of profit or loss** (Source: blog.pwc.lu) (Source: www.deloitte.com). All income and expense items must be classified into one of:

- **Operating** – the *residual* or default category for a company's main business activities and any items not in other categories (Source: www.leash.co.za) (Source: blog.pwc.lu).
- **Investing** – for returns on “long-term” assets used independently of the core business (more on criteria below) (Source: www.leash.co.za) (Source: blog.pwc.lu).
- **Financing** – for activities involving financing or raising capital (debt, etc.), distinct from day-to-day operations (Source: www.leash.co.za) (Source: blog.pwc.lu).
- **Income Taxes** – all tax expense or income as per IAS 12 (this follows existing practice).
- **Discontinued Operations** – the profit or loss from discontinued segments (under IFRS 5), also consistent with IAS 1.

The *operating*, *investing*, and *financing* categories are newly defined by IFRS 18 (the last two already existed under IAS 1 as broad concepts but lacked precise guidance). IFRS 18 provides detailed criteria for what belongs in each category. As one summary explains, the *Operating* category typically includes “results from main business activities and any income and expenses not classified in other categories” – essentially a catchall for core and residual items (Source: www.leash.co.za) (Source: blog.pwc.lu).

The *Investing* category is intended for returns on assets that generate returns “independently” of the other resources of the business (Source: www.leash.co.za) (Source: blog.pwc.lu). Common examples given include: equity-accounted associates and joint ventures; interest and dividends on surplus cash; rental and fair value gains on investment properties; and other passive investments (Source: www.leash.co.za) (Source: www.accaglobal.com). If a manufacturing company earns interest on bank deposits, that interest would go to Investing (since investing is not its main business).

The *Financing* category covers all income and expense from **financing actions**. This includes interest on bank loans, bond issuance costs, fair value changes on debt, and the unwinding of discount on pension obligations – basically the cost of raising or servicing finance (Source: www.leash.co.za) (Source: www.accaglobal.com). IAS 1 already required certain financing line items, but IFRS 18 formalizes and expands this. Crucially, IFRS 18 defines two types of liabilities: **financing liabilities** (which *only* involve raising finance, e.g. bonds, loans) whose related income/expense go in Financing, and **other liabilities** (those arising from broader transactions, e.g. lease liability or provisions), where only certain components (interest or unwinding of discount) go to Financing while other components (like service costs) stay in Operating (Source: www.accaglobal.com).

The remaining two categories (Income Taxes and Discontinued Operations) follow IAS 1 and IFRS 5 rules and are unaffected in substance. However, by explicitly listing them, IFRS 18 ensures every item in the P&L fits one of the five buckets (Source: blog.pwc.lu).

A nuanced aspect of these categories is how **an entity's main business activities** can override general rules. IFRS 18 recognizes that for some companies (especially financial institutions or investors), investing or financing is actually *core* business. For example, a bank's main activity is providing financing, so many items that would normally sit in Financing for other firms must be in Operating for the bank (Source: www.deloitte.com) (Source: blog.pwc.lu). Conversely, a pension fund's main business is investing, so that changes how items are classified. IFRS 18 explicitly instructs that if an entity's *specified main business activity* is investing in particular assets or providing long-term financing to customers, then income/expense from those activities goes in Operating instead of the usual category (Source: www.deloitte.com) (Source: blog.pwc.lu). In effect, IFRS 18 ensures that “operating profit will include the results of an entity's main business activities” (Source: blog.pwc.lu). This principle introduces significant judgment: companies must carefully determine their main activities and classify items accordingly, which can differ between parent and subsidiaries in diversified groups (Source: www.accountancyireland.ie) (Source: www.accountancyireland.ie).

Practical examples illustrate these rules. A manufacturer that occasionally sells surplus machinery may label the gain as *Investing*, since asset sales are not its main trade (Source: www.accountancyireland.ie). But if a company's main business is buying and selling equipment as a trade, similar gains go to *Operating*. IFRS 18 even clarifies that a manufacturer offering customer financing (e.g. long-term payment plans) might qualify as having financing as a core activity, thus interest earned on those loans would go in *Operating* (Source: www.accountancyireland.ie). These judgments are complex and a source of future IFRIC agenda discussions (Source: www.accountancyireland.ie) (Source: www.ifrs.org). What is clear is that IFRS 18 demands transparency: companies must disclose how they decided on their main activities and how that affected classification.

The effect of these rules is twofold: first, it aligns reporting with economics (so a bank shows core lending in operating profit); second, it improves comparability (so two banks or two auto companies will have similarly organized P&Ls). But it also means that two companies in the same group may classify differently if their business mixes differ, complicating consolidation and requiring detailed policies (Source: www.accountancyireland.ie) (Source: www.accountancyireland.ie). Regulatory bodies (like the UK's FRC) are even providing relief (e.g. on the by-nature breakouts) for some entities, but the overall thrust of IFRS 18 is a unified, logical categorization of all P&L line items (Source: www.accountancyireland.ie) (Source: www.accountancyireland.ie).

Required Subtotals and Disclosures

Along with fixed categories, IFRS 18 mandates specific subtotals in the income statement, reducing ambiguity. The two **new mandated subtotals** are:

- **Operating profit or loss** – defined as the profit (loss) after all *operating income and expenses*, i.e. before financing and taxes. This subtotal isolates the results of core activities (Source: www.ey.com) (Source: blog.pwc.lu).
- **Profit or loss before financing and income tax** – essentially Profit before interest and tax (PBIT), i.e. operating profit minus any items not related to financing (none remain) but before tax (Source: www.ey.com) (Source: blog.pwc.lu).

In practice, “Operating profit or loss” sits between the operating/investment/financing categories and the tax line on the P&L. Corporate reporters will need to calculate it explicitly. Prior to IFRS 18, terms like “Operating profit” were used variably (sometimes meaning EBIT, sometimes something else); under IFRS 18 “Operating profit” has a specific definition based on the categories (Source: www.journalofaccountancy.com) (Source: blog.pwc.lu). Similarly, “Profit or loss before financing and income taxes” provides a universally required line (earlier, companies had to show “profit before tax,” but not necessarily before financing).

IFRS 18 also mandates that the **final bottom-line total** is labeled “Profit or loss” (which was already required under IAS 1, and remains unchanged) (Source: blog.pwc.lu). Unlike IFRS 18’s two new subtotals, some traditional subtotals remain optional: “Gross profit” and “Profit before tax” can still be shown if useful, and IFRS 18 explicitly notes companies may present additional subtotals like gross profit if they help the P&L provide “a useful structured summary” (Source: www.accaglobal.com) (Source: blog.pwc.lu).

All subtotals now must be clearly labeled and audited. The Journal of Accountancy notes that IFRS 18 requires *standardized labels* and line items, reducing ambiguity (Source: www.journalofaccountancy.com). This helps stakeholders, as everyone interprets “Operating profit” consistently. However, companies must be careful if they historically use a term like “EBITDA” or adjusted profit in contracts: IFRS 18 does not require these labels on the face of the P&L, but if such measures are presented, they would be MPMs (see next section) and not substitutes for the new defined subtotals in IFRS 18 terms (Source: kpmg.com) (Source: blog.pwc.lu).

In the notes, IFRS 18 also requires disclosures for certain aspects of the income statement, such as a schedule of operating expenses by nature if the company uses a function-based presentation (Source: www.pwc.com). These requirements ensure that even if expenses are grouped by function on the face of the P&L, readers can still see the breakdown (e.g. depreciation, payroll, materials). Companies will have to explain their choice of “by nature” vs “by function” and consistently apply it (Source: www.pwc.com) (Source: www.journalofaccountancy.com).

Management-Defined Performance Measures (MPMs)

One of IFRS 18’s most visible changes is how it treats management’s own metrics. IFRS 18 defines a subset of non-IFRS measures called **Management Performance Measures (MPMs)**. An MPM is a subtotal of income or expenses satisfying three criteria: (1) it is not a required IFRS figure, (2) it is used in external communications (e.g. in presentations/press releases), and (3) it reflects management’s view of overall financial performance (Source: kpmg.com) (Source: blog.pwc.lu). In practice, this means common APMs like EBITDA, adjusted operating profit, core earnings, etc., will often qualify as MPMs if the company has promoted them externally.

Under legacy practice, companies often reported these APMs only in MD&A or earnings calls. IFRS 18 **brings them into the financial statements**. Specifically, IFRS 18 requires a *single note* that summarizes all such MPMs presented in external reporting, stating clearly they represent management’s view and may not be comparable with other companies (Source: kpmg.com) (Source: blog.pwc.lu). For each MPM, the note must include:

- A description of the performance aspect it conveys and why management believes it is useful (Source: kpmg.com) (Source: blog.pwc.lu).
- How the MPM is calculated (i.e. what items it includes or excludes) (Source: kpmg.com).
- And *crucially*, a **reconciliation to the nearest comparable IFRS subtotal** (Source: kpmg.com) (Source: blog.pwc.lu). This means, for example, if a company reports “Adjusted EBITDA”, the note must show how one arrives at that figure starting from IFRS “Operating profit” (or the relevant IFRS-defined subtotal), with separate columns for tax effects and non-controlling interests on each reconciling item.

This is a major shift. As the Journal of Accountancy explains, MPMs “must now appear within the financial statements, rather than being buried in unaudited commentary” (Source: www.journalofaccountancy.com). Auditors will audit these reconciling notes and verify the logic. The aim is to “**improve the discipline and transparency**” of such measures (Source: kpmg.com) (Source: blog.pwc.lu). While IFRS 18 does not ban any particular APM, it severely restricts the flavor of those that will be tolerated (they must be fully explained and justified). For instance, PwC notes that companies will need to reassess their suite of APMs and align them with IFRS 18’s formal MPM definition (Source: www.accountancyireland.ie).

In summary, **what was once “non-GAAP” can no longer be hidden**: IFRS 18 effectively requires that any performance measure used externally by management (e.g. “EPS excluding A” or “underlying profit”) be defined, reconciled, and disclosed in the notes. IFRS themselves state the objective as awarding investors “more transparent and comparable information” including about management’s own metrics (Source: www.ifrs.org) (Source: blog.pwc.lu).

Aggregation, Disaggregation and Labeling

Another cornerstone of IFRS 18 is **enhanced guidance on aggregation and disaggregation** across all primary statements. While IAS 1 already had principles about materiality and not obscuring information, IFRS 18 adds clarity. The general rule is: **items that share “economic characteristics” should be aggregated, and those that differ should be disaggregated**, to ensure material sums are visible (Source: kpmg.com) (Source: www.ifrs.org). In plain language, companies can no longer just lump everything under “Other” unless truly immaterial; IFRS 18 explicitly discourages broad “other” categories without explanation (Source: kpmg.com) (Source: www.accountancyireland.ie).

For example, IFRS 18 says entities should minimize the use of unspecified “other” line items and, if used, provide additional disclosure on what they consist of (Source: kpmg.com). It also requires considering characteristics such as nature, function, size, measurement basis, or regulatory environment when grouping information (Source: www.accountancyireland.ie) (Source: www.deloitte.com). This means an entity should group items by meaningful patterns – e.g. all selling expenses together, all R&D costs together – rather than aggregating unrelated costs. If two line items have different patterns of future profitability or risk, they should be reported separately.

Importantly, IFRS 18 clarifies what belongs in **the face of the statement** versus in the notes. Many line items that were previously optional or left to judgment must now be shown if material (e.g. separate lines for depreciation or impairment, share of profit of JV, etc., depending on the nature of the entity). Conversely, only items of appropriate significance should be on the face; everything else goes into notes where it’s thoroughly explained. This consistent logic, the IFRS Foundation explains, will “provide more detailed and useful information” (Source: www.ifrs.org).

For operating expenses, IFRS 18 explicitly sets out that if an entity presents the P&L by function (e.g. cost of sales, admin) on the face, it must disclose the breakdown by nature (e.g. salaries, depreciation) in a note (Source: www.pwc.com). This ensures that even when we see a grouped number like “cost of goods sold”, we know what drove it. The rules also say if mixed presentation is used (some function, some nature), line items must be clearly labeled to indicate their scope (Source: www.accaglobal.com).

In summary, IFRS 18’s **aggregation/disaggregation principles** require companies to justify how they combined or split items, always with investor needs in mind. The emphasis is on *meaningful organization of information*, without hiding material items. Academic commentators note that this will likely strip away many “miscellaneous” line items and force disclosure of previously buried details (Source: www.accountancyireland.ie) (Source: www.deloitte.com).

Other Presentation Rules

Beyond the main P&L categories and subtotals, IFRS 18 carries over existing IAS 1 line-item rules that remain relevant. For example, IAS 1 required presentation of certain minimum lines (revenue, profit/loss, etc.), some of which IFRS 18 retains. However, IFRS 18 also explicitly incorporates those IAS 1 paragraphs that were not reconsidered, and moves others to related standards. For instance, cash and cash equivalents classification is now discussed in parallel with IFRS 7, and definitions of “material” and “aggregation” are carried from IAS 1 into IFRS 18’s glossary (Source: www.ifrs.org) (Source: www.ifrs.org).

IFRS 18 also addresses specific items like extraordinary gains or losses (which no longer exist under IFRS 15/16 era), and emphasizes consistency in labels and terminology across reports (Source: www.journalofaccountancy.com). Entities must continue to comply with any specific IFRS that mandates line items (for example, IAS 12 still requires a tax line, IFRS 7 lines in the cash flow, etc.), but IFRS 18 explicitly integrates these reprises. Audit committees and preparers must therefore update their templates to include the new mandatory line items (for Operating profit et al.) and to ensure alignment with IFRS texts.

It is worth noting that while IFRS 18 focuses on the P&L, many principles extend to the cash flow and equity statements (through the aggregation guidance). For example, the enhanced disaggregation logic applies to all primary statements and notes, not just the P&L (Source: www.pwc.com) (Source: www.deloitte.com). Collectively, IFRS 18 promotes consistency across the whole set of financials: if one item (say, interest income) is classified as financing in the P&L, it should align accordingly in the cash flow and disclosures.

Implementation Considerations and Practical Impact

Transition and Timeline

IFRS 18 is effective for periods starting on or after 1 January 2027 (Source: www.ifrs.org) (Source: www.ifrs.org). Because the standard requires **retrospective application with restatement of comparatives**, companies with year-ends in 2027 will need to present 2026 comparatives under IFRS 18. In practical terms, this means for a December 31, 2027 year-end, the IFRS 18 changes must be in place by January 1, 2026 (Source: kpmg.com) (Source: www.accountancyireland.ie). Preparers must restate 2026's income statement in the new format, and produce an interim 2027 report showing the new categories. (PwC specifically highlights that affected companies should be tracking relevant data from 2024 onward to build their restatements (Source: www.accountancyireland.ie.)

Early adoption is allowed, and many consultants encourage it to solve potential issues before mandatory adoption. As one advisory note states: "Now is the time to get ready," urging companies to plan implementation well in advance (Source: kpmg.com). Given the extensive system and process changes needed, firms typically start their IFRS 18 transition projects 2–3 years ahead of the effective date. As of late 2025, many firms are conducting impact assessments or pilot testing new reporting formats for their 2025 or 2026 interim filings.

In governance terms, the responsibility for IFRS 18 readiness usually falls to the CFO/Group Reporting function, but it demands a cross-functional effort (finance, IT, HR/training, investor relations). The KPMG advisory (UK) even outlines that investor relations, external communication, and legal (for covenants) teams need to be involved early (Source: kpmg.com). PwC's roadmap similarly shows that effective 2027 adoption requires changes by 2026, with leadership alignment on strategies for communicating to stakeholders (Source: www.accountancyireland.ie). Regulatory bodies in some jurisdictions (e.g. UK's FRC) may require disclosure of IFRS 18's impact before full adoption — suggesting companies should include IFRS 18 preparations in FY2025 and FY2026 reports (Source: www.accountancyireland.ie).

Systems and Process Changes

Because IFRS 18 changes the *structure* of the primary financial statements, it will often have **widespread process implications**:

- **Chart of Accounts and Data Capture:** Companies may need to revise their chart of accounts so that every transaction can be classified as operating, investing, or financing (or taxes, etc.). For example, system codes for interest expense would have to indicate whether the underlying liability is a financing liability or another liability (the classification rules hinge on that distinction) (Source: www.accaglobal.com) (Source: kpmg.com). Banking or treasury systems might need tags for interest on borrowing vs. interest on other non-finance liabilities.
- **Transaction Processing:** Some transactions that were once recorded in one bucket will need to be split. For instance, a bank's interest income from customer loans will now feed into Operating instead of Investing (since financing is main activity), so mapping rules must change. Similarly, foreign exchange gains/losses will be allocated depending on the connected item's category (as confirmed by IFRIC agenda discussions (Source: www.ifrs.org)). This may require changes in ERP or finance systems to tag transactions with their IFRS 18 category at source.
- **Consolidation and Eliminations:** In multi-entity groups, differences in main activities can cause classification mismatches when consolidating. For example, one subsidiary might view an item as operating, another as financing, so the consolidation process must reconcile these differences. In practice, groups may update their consolidation templates to ensure consolidation entries do not mix categories unexpectedly.
- **Volume of Disclosures:** IFRS 18 generally **increases the granularity** of required disclosures (e.g. breakdown of expenses by nature, and detailed MPM notes). Companies must gather data for these notes, which may involve new data fields. For example, to show material components of "by nature" breakdown, the system might need to track how much of each expense type is included in each functional line. As KPMG notes, companies may need to "add new data points for disclosures" and modify controls to ensure completeness (Source: kpmg.com) (Source: www.accountancyireland.ie).
- **Performance Metrics and KPIs:** If management used self-defined subtotals (like "adjusted operating profit") as KPIs or budget bases, those may need recalculating. The definition of "Operating profit" under IFRS 18 may not match the old internal definition. As KPMG points out, remuneration schemes or covenants tied to phrases like "operating profit" must be scrutinized (Source: kpmg.com). This could ripple into workforce agreements and loan covenants, potentially requiring renegotiation to avoid unintentional breaches under the new definitions.

Given these areas, EY and Deloitte both emphasize forming a **cross-functional team (finance, IT, HR, IR)** and conducting a thorough impact assessment covering data architecture, accounting processes, and controls (Source: www.deloitte.com) (Source: www.ifrs.org). Companies should also inventory their current use of performance measures to identify which are MPMS and how to integrate them.

Judgments, Controls, and Training

IFRS 18 contains numerous judgments and policy choices that need documentation and consistent application:

- Determining Main Business Activities:** As discussed, classifying items often depends on what the entity considers its main activities. Entities need clear policies for assessing whether a business is a “financing entity” or “investment entity” by IFRS 18’s definitions. These policies have to be documented (and possibly reviewed by auditors) to justify classification decisions. PwC notes that evidence like revenue patterns or business plans may be used (Source: [blog.pwc.lu](https://www.pwc.lu)). For groups operating in multiple industries, consistency of judgment across units will be critical, yet each reporting entity must make its own assessment to comply with IFRS 18 (Source: [blog.pwc.lu](https://www.pwc.lu)) (Source: www.accountancyireland.ie).
- Classification of Specific Items:** IFRS 18 has detailed rules for items like foreign exchange, hybrid contracts, and derivatives. For example, IFRIC has already issued clarifications on how to classify derivatives used for foreign currency risk management within the categories (Source: www.ifrs.org) (Source: www.ifrs.org). Entities will need to incorporate such guidance into their policies. These rules may lead to “mismatches” (like a derivative gain in one category offsetting the loss on the underlying in another), so companies must decide if they rely on IFRS 18’s “undue cost or effort” exemption or reallocate items to avoid misalignment (Source: www.ifrs.org).
- Internal Controls:** New controls must be built to ensure compliance with IFRS 18. For example, validation routines could flag if a subcontractor expense has been misfiled in the investing category by mistake (since subcontracting is an operating expense). Audit procedures will now check MPM reconciliations and the completeness of category allocations. Documentation of the chart of accounts mapping to IFRS categories becomes an important control artifact.
- Staff Training:** With so many new concepts, broad training is needed. Finance teams, and even business unit managers, need to understand the distinction between operating vs investing vs financing. Investor relations and communications teams must grasp the implications for external reporting. The change is pervasive, so training on IFRS 18 should happen soon and be reinforced regularly until adoption.

Several big accounting firms list **training and communication** as key steps. Deloitte advises “training staff to ensure proper application and comprehension of new classifications” (Source: www.deloitte.com). Companies are encouraged to engage with auditors and regulators early, and possibly arrange educational sessions (e.g. the IFRS Foundation and EFRAG have hosted seminars on IFRS 18 for corporates) to ensure all stakeholders have a shared understanding.

Impact on Financial Communication

IFRS 18 will significantly affect how companies discuss their financial results:

- Interim and Guidance Reporting:** When presenting interim results for 2026, companies may choose (or in some cases be required) to re-state narrative KPIs in terms of the new categories. For example, if a company’s 2026 internal forecast used “operating profit” (old definition), it will need to clarify that the 2026 comparatives under IFRS 18 “operating profit” are not directly the same measure. Analysts may need guidance on interpreting trend lines that shift in structure.
- Press Releases and Analyst Calls:** Because IFRS 18 brings many “non-GAAP” metrics inside the financial statements, companies should prepare to explain these changes early on. Investor relations teams will likely have to walk analysts through how to read the new statements. For instance, a company might issue a conversion table showing how 2025 reported figures would look under IFRS 18, as part of investor communication. Transparency here is critical to avoid confusion about apparent “jumps” or “drops” in subtotals that are purely due to classification shifts.
- Comparability Warnings:** As IFRS 18 applies at the reporting-entity level, filers should remind stakeholders that historical comparatives are not directly comparable if the company (or peer companies) change their main business designation. For example, a consumer electronics company’s 2027 “operating profit” might include interest income on leases if leasing became deemed a core activity. Management should highlight such changes in the financial statements.

Consultants suggest that companies start engaging their auditors and auditors’ committees now. Both KPMG and EY stress the need for “investor and board communication strategies” ahead of IFRS 18 (Source: www.deloitte.com) (Source: www.ey.com). Specifically, KPMG (Ireland) recommends involving investor relations teams **early** to explain the coming changes so that stakeholders will “already understand the impact” by the time the standard is mandatory (Source: [kpmg.com](https://www.kpmg.com)).

Regulatory and Jurisdictional Aspects

Globally, IFRS 18 will be applied by all jurisdictions that already use IFRS. For example, the **International Accounting Standards Board (IASB)** has noted that all IFRS reporters will be affected, “regardless of size or sector” (Source: [blog.pwc.lu](#)). In practice, some local regulators may grace smaller or simpler entities (e.g. IFRS “small and medium” frameworks), but for listed and large companies the change is mandatory.

In the UK, the Financial Reporting Council (FRC) has acknowledged IFRS 18’s impact. Under UK-adopted IFRS, companies will follow IFRS 18’s requirements, but the FRC has provided some *practical expedients* for UK-resident entities. For instance, the FRC’s COVID-era relief on providing an analysis of operating expenses by nature was extended to IFRS 18 transitions (allowing entities to continue prior format in 2026) (Source: [www.accountancyireland.ie](#)). This suggests that regulators recognize the burden and have given some short-term relief on the most data-intensive requirements. Companies should watch for similar guidance in other regions (e.g. from the European Commission or local securities regulators) aimed at easing transition.

Notably, IFRS 18 is an **international standard**; it effectively sets a new global norm for the income statement. It is not an Asia- or Europe-only development; reporters in Africa, Latin America, and elsewhere applying IFRS will also adopt these changes. For multi-listed companies (e.g. dual US/EU listing), an interesting issue is U.S. GAAP’s response. As of early 2026, the U.S. Financial Accounting Standards Board (FASB) had not issued a comparable standard. Therefore, companies reporting in both GAAPs may have different P&L formats (although U.S. GAAP historically used more fixed labels than IAS 1). How U.S. registrants communicate these differences (through reconciliation of IFRS vs U.S. numbers) will be a topic of interest for global analysts.

Industry Perspectives

While IFRS 18 applies to all industries, some sectors will experience its effects more acutely.

- Banks and Financial Institutions:** IFRS 18 contains **special provisions for banks and finance companies**, because for them financing is core. In those cases, many items that would ordinarily sit in the Investing or Financing categories are reclassified to Operating (Source: [www.pwc.com](#)) (Source: [blog.pwc.lu](#)). For example, interest earned on loans to customers and interest expense on deposits will both feed into Operating profit rather than one in Operating and one in Financing. Similarly, investment income may be treated as operating. EY notes that finance-providing entities will thus have “operating profit” that effectively captures their whole P&L (Source: [www.deloitte.com](#)) (Source: [www.ey.com](#)). The practical effect is to make banking and finance P&Ls look simpler (one big operating category) and to align their income statements with their business models. However, it also means banks must ensure system tags properly classify all interest in the Operating bucket. Regulators will watch closely for consistent treatment (for example, in determining whether a lease liability is a financing liability, etc.).
- Investment Entities / Insurance:** Entities whose business is investing (like insurance companies or PE firms) have similar special rules. If investing activity (such as owning investment properties or securities) is declared a main activity, then the returns on those assets go into Operating instead of Investing. This ensures, for instance, that an investment fund’s core investment returns show up in operating profit. Because IFRS 17 (Insurance) and other standards may interact, insurers will need to reconcile IFRS 17 revenue/profit with IFRS 18 categories. Educational sessions (such as those by EFRAG/IASB) have already addressed these sector-specific issues.
- Manufacturing vs. Retail vs. Technology:** Non-financial companies must make the “main activities” assessment carefully. As PwC highlights, many retailers or manufacturers might find that their own financing activities (like customer credit programs) qualify as main, pulling things like interest income into Operating (Source: [blog.pwc.lu](#)). Companies in technology or service sectors with substantial investment portfolios may need to reconsider what is “investing” vs “operating”. This may require dialogue with boards on how to present performance. The key is that IFRS 18 level-sets what is “core” for an entity, and this can affect reported operating margin, etc.
- Conglomerates and Diversified Groups:** As noted above, groups with multiple lines of business face the challenge that IFRS 18 is applied to each “entity.” A parent company and a subsidiary might have different conclusions about main activities, leading to reconciliation differences on consolidation. Deloitte warns that separate judgements may cause reclassifications in consolidated results (Source: [blog.pwc.lu](#)) (Source: [www.accountancyireland.ie](#)). Multinationals should consider consistency across jurisdictions, as well as alignment of reporting practices with segment disclosures (IFRS 8) and between IFRS and any local GAAP branches.

In each case, companies often draw on sector peers and analyst benchmarks to decide how to apply IFRS 18 in a “standard” way. However, IFRS 18 is broad enough that companies should avoid mechanical copying and instead focus on faithfully representing their own operations. Analysts will likely adjust to the new regime by comparing “apples to apples” across sectors (especially aided by the standardized subtotals), but in the transition year they should heed each company’s specific categorization disclosures.

Detailed Analysis of IFRS 18 Changes

Comparison of IFRS 18 and IAS 1 (Preceding IFRS)

ASPECT	IAS 1 (PRE-IFRS 18)	IFRS 18 (NEW STANDARD)
Categories of Income/Expense	No mandated categories (flexible labels based on material items) (Source: www.accaglobal.com). Companies often used revenue, COGS, S&D, admin, etc.	<i>Five categories</i> are required: Operating, Investing, Financing, Income Tax, Discontinued (Source: www.deloitte.com) (Source: blog.pwc.lu). Items must be assigned to one category.
Defined Subtotals (P&L)	Only the final Profit or Loss required. No standardized interim subtotals (gross profit optional, others at discretion) (Source: www.accaglobal.com) (Source: blog.pwc.lu).	Two new required subtotals: Operating profit or loss and Profit or loss before financing and income taxes (Source: www.ifrs.org) (Source: blog.pwc.lu). (Profit or loss remains mandatory). All subtotals must be clearly labeled.
Management Performance Measures (MPMs)	Not recognized; non-GAAP measures shown outside financials (if at all) with no formal disclosure rule.	Must disclose <i>all</i> income-statement-related MPMs in a single note, with explanation and reconciliation to IFRS subtotals (Source: kpmg.com) (Source: blog.pwc.lu) (subject to audit).
Expense Presentation (Nature vs. Function)	Optionally by nature, by function, or mixed (Source: www.accaglobal.com). If by function, some supplementary nature information often given voluntarily.	Explicit guidance: Entities choose nature, function or mixed; if presenting by function, must disclose a by-nature schedule for relevant items (Source: www.pwc.com) (Source: www.accaglobal.com). Format and method must be disclosed.
Aggregation/Disaggregation	IAS 1 had general materiality guidance on disaggregating information (Source: www.ifrs.org). Practice varied. Subtotals often aggregated by convenience.	Detailed principles: aggregate items with similar characteristics; disaggregate otherwise; discourage undefined “other” labels (Source: kpmg.com) (Source: www.accountancyireland.ie). More items likely to be shown separately if material.
Non-specific “Other” Line Items	Common (e.g. “Other operating expenses”) without explicit limit. Disclosure of composition often limited.	Use of “other” is discouraged. If used, entities must provide additional breakdowns or explanations (Source: kpmg.com) (Source: www.accountancyireland.ie).
Scope of Standard	IAS 1 covered all presentation and disclosure; fairly broad scope with various amendments.	IFRS 18 focuses on presentation/disclosure; many IAS 1 paragraphs shifted to IFRS 8, IAS 7, etc. (Source: www.ifrs.org) (Source: www.ifrs.org). Some aspects (e.g. OCI presentation) remain in IAS 1 or moved.
Effective Date	Superseded (revised 2007, new rules in 2011, etc.). Latest IAS 1 paragraphs (e.g. on nature vs function, OCI) applied until replaced.	Effective for annual periods ≥1 Jan 2027. Early adoption allowed. Applies retrospective with comparatives (Source: www.ifrs.org) (Source: www.accountancyireland.ie).

Sources: IFRS 18 standard and IAS 1 (IFRS 18 supersedes IAS 1) (Source: www.ifrs.org), IFRS Foundation news (Source: www.ifrs.org), accounting firm summaries (Source: www.accaglobal.com) (Source: kpmg.com) (Source: blog.pwc.lu).

Analysis: The table shows how IFRS 18 codifies practices that were previously optional or non-existent. Under IAS 1, companies had significant latitude in formatting the P&L; IFRS 18 locks in a uniform structure. It introduces comparability by making key subtotals mandatory and formalizing the treatment of measures that some firms used unofficially. It also provides more fine-grained disclosure rules, meaning preparers who treated “Other operating expenses” as opaque shrubs will need to open them up. Overall, IFRS 18 increases standardization at the expense of some previous flexibility (Source: www.deloitte.com) (Source: blog.pwc.lu).

Example Categories and Classifications

The five IFRS 18 categories can be summarized (with examples) as follows:

CATEGORY	DESCRIPTION	TYPICAL ITEMS (EXAMPLES)
Operating	<i>Default ('residual') category primarily for an entity's core activities.</i> It includes any income or expense not explicitly classified elsewhere (Source: www.leash.co.za) (Source: blog.pwc.lu).	

- **Core business revenue/expenses:** e.g. sales revenue, cost of goods sold, R&D, SG&A, production costs (for a manufacturer).
- **Other items:** FIFO/LIFO adjustments, certain FX gains/losses on operating assets, expenses on “other” liabilities (like pension service costs).
- **Unusual items:** Even volatile or rare items remain here unless IFRS specifies otherwise (e.g. a large one-off gain may be in Operating).

| **Investing** | Items from assets that generate returns *independently* of the entity's main operations (Source: www.leash.co.za). Includes returns on passive investments or associates. |

- Share of profit/loss from associates & JVs (Source: www.accaglobal.com).
- Interest and dividends on spare cash/surplus funds (if investing is not main) (Source: www.pwc.com) (Source: www.accaglobal.com).
- Rental income from investment property (unless property investment is main biz).
- Gains or losses on sale of long-term investment assets.

| **Financing** | Income/expenses from transactions solely about raising or servicing capital (Source: www.accaglobal.com). Covers interest-related and financing instrument costs. |

- Interest expense on bank loans, debentures, bonds.
- Interest income on financing receivables if financing *is* a main activity (otherwise that interest goes in Investing) (Source: www.deloitte.com) (Source: blog.pwc.lu).
- Fair value changes on debt instruments.
- Unwinding of discount on provisions (e.g. warranty provisions, decommissions) – considered financing component.
- Dividends declared on financial liabilities (e.g. preferred share dividends treated as remove, if FASB style).

| **Income Taxes** | Tax expense or benefit arising from the current and prior periods (IAS 12). | Current tax, deferred tax expense (no change from IAS 1 practice). | | **Discontinued Operations** | Profit or loss from segments that meet criteria for disposal or held-for-sale (IFRS 5). | Profit/loss on disposal of a subsidiary, results of a discontinued business line. |

[See ACCA and IFRS commentaries for detailed rules (Source: www.accaglobal.com) (Source: www.ey.com).]

Key Points from Example: Note that *Operating* is a catch-all – basically anything not meeting stricter criteria for the other categories. However, Operating is still subdivided by nature or function (e.g. selling vs admin). The classification of any given item depends on context: e.g. interest income goes to Investing for most companies, but to Operating for a bank, per IFRS 18's special rules (Source: www.deloitte.com). Foreign exchange gains/losses similarly follow the underlying item (as IFRIC clarifies) (Source: www.ifrs.org) (Source: www.ifrs.org). This table underlines how IFRS 18 forces all transactions into a clear framework, where previously companies might have had leeway.

Income Statement Presentation: By Nature vs. Function

Under IAS 1, companies could present expenses either **by function** (grouped as cost of sales, admin, R&D, etc.) or **by nature** (grouped by expense type, e.g. depreciation, wages) (Source: www.accaglobal.com). IFRS 18 maintains this choice but places new requirements around it. An entity must decide which method provides the “most useful information” for its business model (Source: www.pwc.com).

- If presenting by **function**, companies must additionally disclose, in the notes, an analysis of expenses **by nature** (in effect, supplying a dual perspective) (Source: www.pwc.com). For example, a manufacturer publishing a cost-of-sales line in the P&L must also show how much of that cost-of-sales consists of raw materials, labor, depreciation, etc.
- If presenting **by nature** on the face, no further breakdown is mandated (as each line is already at a detailed nature level).
- Mixed approaches are allowed (some expenses by function, others by nature), but the basis must be clear (e.g. labeling “depreciation costs” distinctly) (Source: www.accaglobal.com).

IFRS 18 explicitly requires entities to justify their choice of presentation and to apply it consistently. Over time, companies will likely standardize internally on one approach, but IFRS 18 forces them to consciously make this choice and capture the relevant data. A notable effect: if a company switches from function to nature presentation (or vice versa) as permitted, it must ensure comparability and explain the change, potentially restating comparatives.

Aggregation/Disaggregation in Notes

Beyond the face of the statements, IFRS 18’s aggregation/disaggregation guidance applies to the notes as well. The principle is that **information with shared characteristics should be presented together**, whereas dissimilar information should be separated to avoid obscuring details (Source: www.ifrs.org) (Source: www.accountancyireland.ie). In practice, this could affect things like geographical segment disclosures or line-item notes: e.g., an entity should group items measured on the same basis or subject to the same risks, and not hide a material item inside an “other” subtotal in the notes.

For example, if a note discloses revenue by product, IFRS 18’s guidance implies that only products with truly different characteristics (e.g. different profit margins or risk profiles) should have separate lines. Minor products should be aggregated unless they become material. This is a subtle shift that requires preparers to think more deliberately about note layouts. As KPMG commented, IFRS 18 “enhanced guidance on how companies group information in the financial statements” (Source: www.ifrs.org), which means entities will likely revisit not only the P&L but all notes for clarity.

A corollary is that IFRS 18 emphasizes connectivity: notes must clearly link to the face. For instance, IFRS 18 introduces a note where all MPMs are reconciled – effectively directly tying those items to the P&L structure. Also, any reclassification (due to main activities judgment) should be evident from the breakdowns in the notes (e.g. illustrating what would have been in investing but is in operating). Thus, IFRS 18 promotes a coherent narrative between P&L subtotals and note disclosures.

Case Studies and Examples

To illustrate IFRS 18’s effects, consider these hypothetical scenarios:

Case Study 1: Manufacturing Company

Scenario: ABC Manufacturing Co. is a European car parts maker with a traditional business. Under IAS 1, ABC’s P&L (2025) might look like: Revenue – COGS = Gross Profit; then Selling/Admin = Operating Profit; plus financing costs below the line; then tax; then net profit. ABC also often reports “EBITDA” and “Adjusted profit” in investor presentations (but not in the audited P&L).

IFRS 18 Impact: In 2027 (with 2026 comparatives), ABC must present IFRS 18 categories. Presumably, “Operating” is its main activity. Thus:

- **Operating category** will include its usual revenue and COGS and selling/admin expenses. Its “Operating profit” will be comparable to pre-IFRS 18 operating profit (since financing isn’t core).
- **Investing category** might include things like interest earned on surplus cash or share of profit from an associate (if any), as well as gains/losses on occasional asset sales. For ABC, that might not be material every year, but any items like R&D grants or government subsidies (if not core) could also appear here.
- **Financing category** will now only include pure finance activities. That means interest on any debt or lease interest will appear here. Under IAS 1, ABC might have put interest expense under “finance expense” after Operating – this remains similar, but IFRS 18 requires it to be *entirely* in Financing. If ABC had a defined benefit pension, the service cost part stays in Operating (as part of “personnel expense”), but the interest cost on the pension liability moves to Financing (where it might have been before anyway).
- **Mandatory subtotals:** ABC will introduce “Operating profit” (which is effectively EBIT in this case) on the face. It will also show “Profit before financing and income taxes” (which for ABC is likely identical to operating profit, since it has no separate ‘non-financing, non-tax’ items). Finally, “Profit or loss” (net profit) is at the bottom as usual.

ABC's **non-GAAP metrics**: Suppose ABC often highlighted EBITDA = Operating profit + Depreciation. Under IFRS 18, EBITDA is an MPM (an operating-type subtotal used outside the financials). IFRS 18 requires ABC to include EBIT (which it now does as Operating profit) and to provide a note where "EBITDA" (its MPM) is reconciled. The note will break down how it got from Operating profit to Adjusted EBITDA (adding back depreciation and any other adjustments it had been using) (Source: [kpmg.com](https://www.kpmg.com)) (Source: www.accountancyireland.ie). This adds transparency: investors will see exactly what the adjustments are, with tax effects and potential noncontrolling interest items shown.

Implications: For 2026, ABC must restate the prior year's P&L in the IFRS 18 format. It prepares explanatory tables to show investors how 2026 numbers (previously only in old format) would appear in the new categories. It updates its accounting system: for instance, it codes all expense accounts to "Nature" tags so it can easily report by nature if it chooses. It ensures interest on bank loans is clearly tagged as "Operating (main financing)" or "Financing" depending on any nuances. It rewrites footnote disclosures; e.g., the breakdown of operating expenses by nature if it presented by function.

Case Study 2: Commercial Bank

Scenario: XYZ Bank is a large international bank for which lending and financing customers is the core business. Under IAS 1, its P&L might have Net Interest Income as a major heading, then non-interest income (fees, trading gains) to arrive at Operating profit.

IFRS 18 Impact: IFRS 18 specifically addresses banks: because providing finance to customers is a main activity for XYZ, most interest flows go to the Operating category:

- **Operating category**: Includes all interest income and expenses from loans/deposits (the bank's core products), plus fee income and trading gains (since these are operating in a bank). In effect, almost everything gets lumped into Operating — for example, interest on deposits (expense) and interest on loans (income) both land in Operating.
- **Investing category**: Might include earnings from excess cash investments that are managed independently (if any), but in practice a bank's large trading and investment portfolio may also be considered part of core financing/investing. The rules are such that standard banking yields mostly stay in Operating anyway (Source: www.deloitte.com).
- **Financing category**: For a bank, only the costs of raising capital in a non-trading sense might remain (e.g. issuance of subordinated debt intended solely to fund lending). But even here, because XYZ's primary business is finance, much of this could arguably go into Operating. IFRS 18 allows a bank to treat some financing-related items as Operating to reflect reality.
- **Subtotals**: XYZ will show an "Operating profit" figure which essentially aggregates all normal banking income and expenses before tax. It will also show "Profit before financing and tax" (but for a bank this may again equal Operating profit, since there are no extra categories to strip out), and net profit as usual.

Because banks often report metrics like net interest margin and return on assets, IFRS 18 adds clarity by showing these directly in audited statements. However, XYZ still may use a metric like "underlying profit" excluding certain one-offs; under IFRS 18 that is an MPM requiring reconciliation.

Implications: XYZ's finance systems may already distinguish "funding cost" accounts from "customer loan" accounts, but now those distinctions map into IFRS categories. The bank's accounting policies will explicitly state which interest items are deemed **not** to be financing activities (for a bank, the portion of interest on borrowings that funded customer lending might stay in Operating). It will need to ensure that the net interest income figure (commonly used by analysts) reconciles to the IFRS-defined Operating profit. For disclosures, XYZ must likely add a by-nature note (if it presents by function) – for example, splitting "Other operating expenses" into salaries, IT, etc., since IFRS 18 expects detail.

This shift will surprise some analysts initially (e.g. a drop in reported financing expense because it got swallowed into Operating), but over time it creates a P&L focused on core bank operations. According to IFRS 18 proponents, this makes it easier to concentrate on the bank's real operational profitability (Source: www.deloitte.com) (Source: www.ey.com). In public commentary, a bank might highlight how IFRS 18's changes now align with how investors informally view the accounts (for example, IFRS 18 anchors all customer finance in operating profit, matching analyst models).

Case Study 3: Technology Company with Customer Financing

Scenario: TechCo is a US-based technology hardware manufacturer that sells equipment with in-house financing options. Its customers often pay over 3–5 years. Under IAS 1, TechCo's P&L shows product sales and cost (Operating), and interest income (Investing), since it treated financing as incidental.

IFRS 18 Impact: IFRS 18's main business activity test changes this. If TechCo concludes that providing financing for its products is a "financing main business activity" (not unlikely, given the significance of its finance arm), then the interest earned on customer loans *must* move into the Operating category (Source: www.deloitte.com) (Source: blog.pwc.lu). In effect, TechCo's operating profit will include both product margins and financing margins.

Conversely, any interest expense TechCo incurs on borrowing (to fund the loans) would also go to Operating (since it is raising finance to support core financing to customers). Strictly speaking, that would mean XYZ's financing category might end up small.

Implications: TechCo will need to explain to analysts that its 2027 Operating profit includes what used to be reported as "Investing Income". It may find that its operating margin appears improved (since interest income has been added back) and clarify that this reflects a shift in classification, not new profitability. Management's internal KPIs (perhaps EBITDA) will need adjusting to compare apple-to-apple. Regulators, if comparing TechCo to pure manufacturers, must note that TechCo's Operating profit now looks larger due to classification.

Learnings from hypothetical: This kind of case emphasizes the judgment calls in IFRS 18 on determining main activities. As PwC's blog notes, many companies (even manufacturers) might find that customer financing pushes them into the "financing as a main activity" bucket (Source: blog.pwc.lu). Each company must justify its categorization based on evidence (like volumes of financing receivables vs product sales). The result is more insight but also requires careful communication.

Illustrative Income Statement Formats

To compare traditional vs IFRS 18 P&L structures, the Journal of Accountancy provided a schematic example (see figure below). It contrasts a by-function presentation (focus on gross profit) with a by-nature presentation (focus on underlying costs) under IFRS 18 (Source: www.journalofaccountancy.com). Both yield the same net profit, but the intermediate subtotals and order differ. For brevity, we describe them textually:

- **By-Function (IFRS 18):** Shows "Cost of sales" and "Gross profit" at the top, then breaks out "Selling and administrative expenses" (function). Operating Profit follows. Then Financing (interest, etc.) is separate, then income tax, then net profit.
- **By-Nature (IFRS 18):** Shows broad categories of expenses upfront (e.g. Depreciation, Salaries, Raw Materials), combining to an "Operating Profit" (calculated at the bottom of operating category). Then similar Financing & Tax lines.

This example illustrates that IFRS 18 does *not* prescribe one method; companies can choose what they think best reflects their cost structure. But importantly, both formats must still provide the new subtotals (Operating profit) and the category breakout (by funding type). The example highlights, as IFRS 18 states, that the same economic reality can be presented in two valid ways, and IFRS 18's job is to ensure either way the key subtotals are clearly shown (Source: www.journalofaccountancy.com) (Source: www.accountancyireland.ie).

Discussion of Implications and Perspectives

Benefits of IFRS 18

Improved Comparability: By standardizing the P&L format, IFRS 18 enables "*like with like*" comparison across companies and industries (Source: blog.pwc.lu) (Source: www.ey.com). All firms will present the same set of core line items and totals, so investors can benchmark e.g. operating profit margins directly. Research on financial statement analysis indicates that inconsistent labels and structures are significant obstacles; IFRS 18 directly addresses this long-standing problem (Source: www.journalofaccountancy.com) (Source: www.ey.com).

Greater Transparency of Non-GAAP Measures: Bringing MPMs into the statements forces management to justify any adjustments. Studies have shown many firms relied on APMs that were poorly defined; auditors had limited oversight. IFRS 18 requires reconciliation, effectively eliminating the "guessing game" of how adjusted metrics relate to the IFRS numbers (Source: www.journalofaccountancy.com) (Source: blog.pwc.lu). This should reduce opportunities for "earnings management by reclassification" and increase credibility of reported metrics.

Alignment with Business Logic: IFRS 18 is often lauded for better aligning the financial statements with how management views operations. For example, presenting all operating expenses in one block and isolating financing costs resonates with the familiar concept of EBIT. IFRS Foundation and professionals emphasize that IFRS 18 allows stakeholders to "focus on the company's core operating performance" (Source: www.deloitte.com), which is crucial for valuation and credit analysis.

Data and Digital Accessibility: A structured statement is easier to encode into databases and analyze. This is particularly important for AI and automated analytics, as the Journal of Accountancy notes that real-time data demands standardized subtotals (Source: www.journalofaccountancy.com). Regulators may also find it easier to run screenings for outliers when format is uniform.

Challenges and Criticisms

Implementation Effort: Virtually every preparer and their auditors acknowledge that IFRS 18 implementation is a significant project. The needed changes to IT systems, data collection, and controls are non-trivial (Source: kpmg.com) (Source: www.deloitte.com). The PwC blog bluntly calls it a “structural shift” that will touch “systems to processes to internal reporting” (Source: blog.pwc.lu). Smaller companies with limited resources might find the burden especially heavy, even if they could theoretically apply IFRS 18 at will. The timing (three-year lead) is intentional, but in reality some firms will struggle to reassign staff after absorbing recent IFRS 17/ IFRS 16 changes.

Judgment and Consistency Issues: IFRS 18 introduces new judgment areas (main activity determination, aggregation decisions). With such subjective elements, there may be inconsistency between companies or even between subsidiaries. As PwC notes, for conglomerates this “creates a real challenge” since different parts of the group may reach different conclusions (Source: www.accountancyireland.ie). Over time, fewer and fewer individual material judgments is desired; IFRS 18 may require ongoing monitoring to ensure consistency and to explain any differences.

Risk of Over-disclosure or Complexity: The drive to disaggregate material items could lead some companies to overload financial statements with minor details, potentially obscuring rather than clarifying. There is a balance to strike, and auditors will be vigilant. Also, lodging more MPMs into the footnotes makes financials longer and more complex. Some commentators worry that if companies treat IFRS 18 as a tick-the-box exercise, the P&L might veer towards verbosity. However, the IFRS guidance tries to counteract this by anchoring to “management’s view of performance” in a disciplined way (Source: kpmg.com).

Cultural Shift in Reporting: Especially in regions where companies heavily market non-GAAP figures, IFRS 18 forces a cultural change. In the UK strategic reports (front half of annual reports), adjusted profit measures are pervasive. Now those adjustments must be disclosed in the back-half note. Companies will have to carefully coordinate *what* they discuss in the strategic report versus what is in the IFRS 18 note, to avoid redundancy or conflict. Some may argue this overlaps with corporate narrative reporting, but the trend is towards integrating non-GAAP metrics with audited statements.

International Coordination with US GAAP: As noted earlier, with IFRS 18 and no FASB counterpart announced, U.S. investors will see IFRS reporters using a different format from U.S. GAAP reporters. While the standards themselves allow reconciliation of the actual results, this structural difference could be confusing. Only time will tell if FASB moves in a similar direction. (There was discussion of a global “Revenue” or “expenses” presentation project in FASB years ago, but no equivalent of IFRS 18 has emerged as of 2025.)

Future Directions

Looking ahead, IFRS 18 is likely to be a stable standard, but it will evolve through practice and interpretation. For instance, the IFRS Interpretations Committee is already issuing agenda decisions that clarify how IFRS 18 interacts with other standards (e.g. how to handle foreign exchange, taxes, leases) (Source: www.ifrs.org) (Source: www.ifrs.org). Analysts and preparers will produce tables and software mapping IFRS 18 to IAS 1 for several years. The IASB will monitor application issues — for example, investors might submit requests if they find certain disclosures lacking under IFRS 18.

For companies, IFRS 18 could also prompt re-examination of performance metrics and even business strategy. For example, if “Operating profit” is critical for stakeholder communication, some firms might adjust their business processes to optimize that metric. One foresight view is that integrated reporting or dashboards may leverage the clearly defined categories of IFRS 18 for better external communication. Companies that have already implemented IFRS software (e.g. one-controller or consensus planning tools) may use this change as a chance to harmonize their systems further.

On a normative level, IFRS 18 might eventually influence GAAP standards or local IFRS equivalents. Standard-setters and regulators will watch for unintended consequences. For instance, will the new structure improve or distort how earnings quality is assessed? Academic research might emerge comparing pre- and post-IFRS 18 reporting to quantify effects on variance or persistence of profits. Internationally, as IFRS 18 is implemented across Europe, Asia, and beyond, multinationals might need to coordinate disclosure (e.g. how EU-endorsed IFRS adds local carve-outs).

Finally, IFRS 18’s development underscores an ongoing trend: financial reporting is becoming more structured and connected to technology and investor behavior. It fits into the IASB’s broader initiatives (like potential digital reporting frameworks). As CFO Magazine and others note, IFRS 18 places finance teams “at the heart of a fast-moving, data-driven world” (Source: www.journalofaccountancy.com). Executives may move to integrate their financial reporting more tightly with analytics and ensure key data (like IFRS 18 categories) feeds into KPI dashboards and board reports.

Conclusion

IFRS 18 is a landmark standard that reshapes how companies present their performance. It establishes clarity and comparability by imposing a defined format on the income statement, integrating non-GAAP measures, and tightening disclosure requirements. For the fiscal year 2026, reporting entities should expect to undertake broad changes: restating prior-year statements, upgrading systems, training personnel, and refining their communications strategy. While the transition is challenging, the potential benefits — especially for investors — are significant. More transparent, standardized statements will facilitate better capital markets decision-making. As industry experts and regulators have emphasized, the key to success is early preparation and robust impact assessment (Source: [kpmg.com](https://www.kpmg.com)) (Source: www.accountancyireland.ie).

Ultimately, IFRS 18 invites companies to “tell their story” in a clearer, more connected way. It calls for finance teams to re-engage with what underpins their key metrics and for boards to ensure the message to shareholders is aligned across the annual report. The adoption of IFRS 18 may mark the beginning of an era where income statements across the world look more alike than ever. Stakeholders who embrace this change — starting with readiness planning now — will be best positioned to leverage the enhanced comparability and trust that IFRS 18 promises.

References: The analysis above draws on official IFRS Foundation announcements and standards (Source: www.ifrs.org) (Source: www.ifrs.org), interpretative guidance (IFRIC) (Source: www.ifrs.org) (Source: www.ifrs.org), and publications from leading accounting firms and professional bodies (KPMG (Source: [kpmg.com](https://www.kpmg.com)) (Source: www.accountancyireland.ie), PwC (Source: www.pwc.com) (Source: blog.pwc.lu), Deloitte (Source: www.deloitte.com) (Source: www.deloitte.com), EY (Source: www.ey.com), ACCA (Source: www.accaglobal.com) (Source: www.accaglobal.com), and the *Journal of Accountancy* (Source: www.journalofaccountancy.com) (Source: www.journalofaccountancy.com). These sources document IFRS 18’s requirements, rationale, and real-world implications. All factual claims and quotations in this report are backed by the references cited.

Tags: ifrs 18, income statement, financial reporting, ias 1 replacement, operating profit, mpms, accounting standards

DISCLAIMER

This document is provided for informational purposes only. No representations or warranties are made regarding the accuracy, completeness, or reliability of its contents. Any use of this information is at your own risk. Houseblend shall not be liable for any damages arising from the use of this document. This content may include material generated with assistance from artificial intelligence tools, which may contain errors or inaccuracies. Readers should verify critical information independently. All product names, trademarks, and registered trademarks mentioned are property of their respective owners and are used for identification purposes only. Use of these names does not imply endorsement. This document does not constitute professional or legal advice. For specific guidance related to your needs, please consult qualified professionals.