UNDERSTANDING IFRS 18

(PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS):

Transforming Financial Statement Presentation And Disclosure

IFRS 18 represents a major advancement in financial reporting, issued by the International Accounting Standards Board to replace IAS 1.

Effective for annual reporting periods beginning on or after 1 January 2027, IFRS 18 introduces a more structured and consistent framework aimed at enhancing transparency, comparability, and clarity in financial statement presentation.

While IAS 1 has served as the foundation of financial reporting since 2001 and has undergone several amendments over time, challenges remained particularly around inconsistent presentation of financial performance and limited comparability across entities. IFRS 18 addresses these issues by establishing clearer guidance and greater discipline in how financial information is presented and disclosed.

Overall, the new standard requires organizations to reassess and align their reporting practices to improve the usefulness and consistency of financial statements for users.

WHY IFRS 18?

IFRS 18 was developed to address investor concerns over inconsistent reporting, lack of comparability, and reliance on Alternative Performance Measures (APMs). The IASB introduced it to improve transparency, ensuring financial statements clearly reflect performance, and to enhance comparability across entities.

By standardizing the presentation of profit or loss and management performance measures, IFRS 18 promotes discipline in reporting, reducing selective or misleading disclosures. Stakeholders including investors, regulators, and preparers benefit from clearer, more reliable information, making financial reporting more useful and decision-ready. In essence, IFRS 18 is a response to evolving reporting needs, providing a consistent framework that strengthens trust and clarity in financial performance reporting.

KEY CHANGES INTRODUCED BY IFRS 18

IFRS 18 introduces a fundamental reform to the presentation of financial performance by requiring income and expenses in the statement of profit or loss to be structured into clearly defined categories operating, investing, and financing. This replaces the more flexible approach under IAS 1 and aims to enhance consistency and comparability across entities.

The operating category is established as the default section, capturing results from core business activities, with operating profit or loss now mandated as a defined subtotal. This eliminates prior inconsistencies in how operating performance was calculated and presented.

IFRS 18 also strengthens the presentation of investing and financing activities, requiring clearer classification of income and expenses related to investments and financing arrangements. Additionally, it introduces a required subtotal for profit or loss before financing and income taxes, improving the distinction between operational performance and funding or investment effects.

A further key development is the introduction of formal requirements for Management-Defined Performance Measures (MPMs). Entities must now clearly explain, consistently apply, and reconcile these measures to IFRS-defined subtotals, enhancing transparency and limiting the risk of misleading or selective reporting.

Finally, the standard reinforces principles of aggregation and disaggregation, requiring entities to present financial information in a way that avoids obscuring material differences while ensuring clarity. Overall, IFRS 18 promotes more structured, transparent, and decision-useful financial statements.

PRACTICAL IMPLICATIONS FOR ENTITIES

The transition from IAS 1 to IFRS 18 creates operational and governance implications beyond presentation changes. Defined categories, mandatory subtotals and structured performance measure disclosures reduce flexibility, requiring account re-mapping, system upgrades, stronger controls, and possible restatement of comparatives to align with the new reporting structure.

Description	Notes	IFRS 18	IAS 1
		GH₵	GH₵
OPERATING CATEGORY			
Revenue from contracts with customers	3	10,000	10,000
Other operating income	4	5,000	7,150
Operating expenses (by nature/function):			
Cost of sales / Cost of goods sold	5	(6,000)	(6,000)
Distribution and selling expenses	6	(2,000)	(2,000)
Administrative expenses	7	(3,000)	(3,300)
Research and development expenses	8	(200)	(200)
Impairment losses on financial assets	9	-	-
Other operating expenses	10	(300)	(300)
OPERATING PROFIT (LOSS)		3,500	5,350
INVESTING CATEGORY			
Share of profit of associates and joint ventures	11	-	-
Dividends from investments	12	1,500	-
Gains (losses) on disposals of investments	13	500	-
Interest income from cash and cash equivalents	14	150	-
PROFIT (LOSS) BEFORE FINANCING AND INCOME TAXES		5,650	5,350
FINANCING CATEGORY			
Interest expense on borrowings	15	(600)	(600)
Unwinding of discount on provisions	16	-	-
Foreign exchange gains (losses) on financing activities	17	(300)	-
PROFIT (LOSS) BEFORE INCOME TAXES		4,750	4,750
INCOME TAX CATEGORY			
Income tax expense @ 25%	18	(1,188)	(1,188)
PROFIT (LOSS) FROM CONTINUING OPERATIONS			
DISCONTINUED OPERATIONS CATEGORY			
Profit (loss) from discontinued operations (net of tax)	19	-	-
PROFIT (LOSS) FOR THE YEAR		3,563	3,563

EXPLANATORY NOTES TO THE TABLE HIGHLIGHTING THE KEY DIFFERENCES.

IFRS 18 differs from IAS 1 by introducing a more structured classification of financial information into operating, investing, and financing categories without changing total profit, thereby improving clarity and comparability, requiring entities to prepare through gap analysis, system updates, control strengthening, and stakeholder training, and requiring auditors to focus on early engagement, assessment of classifications and performance measures, testing of controls, and application of strong professional scepticism during implementation.

IMPLEMENTATION CONSIDERATIONS

With IFRS 18 effective from 1 January 2027, early preparation is essential. Entities should conduct a structured gap analysis comparing IAS 1 requirements with the new IFRS 18 framework, engage auditors early regarding classification judgements and MPM disclosures, and communicate anticipated impacts to boards and investors. IFRS 18 may change reported subtotals without altering underlying economics, clear stakeholder communication will be critical. In addition, comparative information will need to be restated in accordance with IAS 1.38, requiring careful transition planning.

BENEFITS TO FINANCIAL STATEMENT USERS

Compared with the more flexible model under IAS 1, IFRS 18 enhances comparability, transparency and analytical usefulness. The introduction of defined operating, investing and financing categories reduces diversity in reporting practices. Mandatory subtotals improve clarity around core operating performance, while regulated MPM disclosures reduce confusion surrounding adjusted earnings measures. Collectively, these reforms strengthen confidence that financial statements more faithfully reflect how management generates and deploys resources.

RESEARCH-BASED EVALUATION OF IFRS 18

IFRS 18 represents a significant shift in financial reporting by replacing IAS 1 with a more structured framework that mandates the classification of income and expenses into operating, investing, and financing categories, alongside required subtotals and reconciliation of management-defined performance measures. These changes are intended to improve comparability, transparency, and analytical clarity.

Research by Oyedokun, Abdullahi, and Oyedokun (2025) finds that IFRS 18 addresses inconsistencies in presentation under IAS 1 by introducing structured categorisation and enhanced disclosures, thereby improving the usefulness of financial statements and reducing the risk of selective reporting. The study also highlights the need for system upgrades, stronger governance, and proactive stakeholder engagement to support effective implementation ahead of the 2027 effective date.

Similarly, Czajor (2024) notes that IFRS 18 enhances the relevance and usefulness of financial statements through mandatory subtotals and clearer aggregation principles. Overall, the research confirms that IFRS 18 moves financial reporting toward a more disciplined, consistent, and decision-useful framework.

CONCLUSION

IFRS 18 marks a significant transformation in financial performance reporting, replacing the flexibility of IAS 1 with a more structured and disciplined framework, while leaving the statement of financial position largely unchanged. By introducing defined operating, investing, and financing categories, mandatory subtotals, and regulated management-defined performance measures, the standard enhances comparability, transparency, and analytical clarity.

To prepare for implementation, entities must undertake gap analyses, update reporting systems and chart of accounts, strengthen internal controls and governance, and ensure adequate training and stakeholder engagement. Auditors, in turn, are expected to focus on early client engagement, assessment of classification judgements and performance measures, evaluation of disclosures and reconciliations, testing of systems and controls, and applying professional skepticism to mitigate bias.

Research by Oyedokun, Abdullahi, Oyedokun (2025) and Czajor (2024) supports that IFRS 18 improves the reliability and usefulness of financial statements by addressing prior inconsistencies. With an effective date of 1 January 2027, early preparation and strong governance are essential. Overall, IFRS 18 enhances investor confidence and strengthens the quality of financial reporting under IFRS.

References

Oyedokun, G. E., Abdullahi, I. O., & Oyedokun, P. O. (2025). IFRS 18 and the future of financial performance reporting: Challenges, implications, and roadmap for implementation. Journal of Finance and Accounting Research, 7(2), 38–59. https://doi.org/10.32350/jfar.72.02

Czajor, P. (2024). IFRS 18: Advancing the relevance and utility of financial statements for stakeholders. European Research Studies Journal, XXVII(S2), 265–275.

Article By: Clifford Frimpong

Kissi Consult

Allinial Global

