

IFRS 18 Presentation & Disclosure in Financial Statement

A comprehensive guide to the new income statement, management-defined performance measures, aggregation and labelling, transition and what the changes mean for UK reporters.



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Foreword

IFRS 18 *Presentation and Disclosure in Financial Statements* is the most significant change to how companies present their financial performance since IFRS Accounting Standards were first adopted across Europe and the UK. It replaces IAS 1, gives every income statement a common structure, brings management's own performance measures inside the audited financial statements and tightens the discipline around how information is grouped and labelled. It does not change a single number in net profit, yet it will change how almost every IFRS reporter tells its performance story.

The standard is effective for annual reporting periods beginning on or after 1 January 2027 and applies retrospectively. For a December year-end, the 2026 comparative year is already behind us; for March, June and August year-ends the comparative year is well under way. Entities that have not yet started their impact assessment are, in practical terms, already late.

This guide is written for finance directors, financial controllers, audit committee members, trustees and finance teams of UK entities reporting under UK-adopted IFRS or FRS 101, and for their advisers. It works through the whole standard in the order a preparer would meet it: the general requirements, the new structure of the statement of profit or loss, the specific rules for difficult items, the presentation of operating expenses, the other primary statements, management-defined performance measures, the consequential amendments to other standards and transition. It then sets out what IFRS 18 means in the UK, including

for entities reporting under FRS 101 and FRS 102, summarises the agenda decisions issued since the standard was published, and closes with sector insights, an implementation plan and illustrative financial statements.

Throughout, we explain each requirement in plain terms first and then give the technical detail, with paragraph references to IFRS 18 so that readers can go back to the source. Worked examples, illustrations and frequently asked questions show how the requirements apply in practice. Where an area requires judgement, we give our view in boxes headed **Reckoner view**; these are our interpretations and should be read alongside the standard and any later guidance.

We hope you find the guide useful. Our team would be pleased to discuss how IFRS 18 affects your organisation.

Reckoner Audit
October 2026

How to use this guide

Feature	What it means
Paragraph references	References such as para 69 are to IFRS 18. References beginning with B (for example B42) are to the application guidance in Appendix B, and those beginning with C to the transition provisions in Appendix C. Both appendices are an integral part of the standard and carry the same authority as the main text.
Key points	Each chapter opens with a short summary of what matters most.
Examples	Worked examples apply the requirements to realistic fact patterns. Figures are illustrative.
Reckoner view	Our interpretation of an area involving judgement, or practical advice on applying the requirements.

FAQs

Questions we expect preparers and auditors to ask, with our answers.

Category colours

In illustrative statements, a coloured marker shows the IFRS 18 category of each line: ■ operating ■ investing ■ financing ■ income taxes ■ discontinued operations.

Status of this guide

This guide reflects IFRS 18 as issued by the IASB in April 2024 and adopted for use in the UK by the UK Endorsement Board in December 2025, the related amendments to UK accounting standards issued by the FRC, and IFRS Interpretations Committee and IASB decisions up to September 2026. Interpretation of IFRS 18 continues to evolve. Before relying on any point, check for later agenda decisions, amendments and regulatory guidance. This guide is general information and not professional advice.

01

IFRS 18 at a glance

IFRS 18 replaces IAS 1. It leaves recognition and measurement untouched, but changes the shape of the income statement, brings management-defined performance measures into the audited notes and sets firmer rules on how information is grouped and labelled.

In this chapter

- What IFRS 18 is and what it replaces
- The three main changes in summary
- Effective date and who is affected
- Impact across the financial statements
- What to do now

IFRS 18 at a glance

IFRS 18 is the outcome of the IASB's Primary Financial Statements project. It responds to long-standing investor concerns that income statements were difficult to compare, that the measures companies emphasised most sat outside the audited financial statements, and that information was often either too aggregated or too fragmented to analyse.

9 April 2024

IFRS 18 issued by the IASB

10 Dec 2025

Adopted for use in the UK by the UK Endorsement Board

1 Jan 2027

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

Retrospective

Comparatives restated, with a line-by-line reconciliation from IAS 1

Key points

- IFRS 18 **supersedes IAS 1** in full para C8. Much of IAS 1 is carried forward unchanged, some into IFRS 18 and some into IAS 8, which is renamed *Basis of Preparation of Financial Statements*.
- **Net profit does not change.** IFRS 18 affects presentation and disclosure only, not recognition or measurement.
- All income and expenses in profit or loss are classified into **five categories**: operating, investing, financing, income taxes and discontinued operations para 47.
- Every entity presents **operating profit or loss**; almost every entity also presents **profit or loss before financing and income taxes** paras 69–74.
- Subtotals of income and expenses that management uses in public communications, such as "adjusted operating profit", are **management-defined performance measures (MPMs)** and must be explained and reconciled in a single, audited note paras 117–125.
- New principles govern **aggregation, disaggregation and labelling**, including limits on unexplained "other" balances paras 41–43, B25–B26.
- Operating expenses must be analysed **on the face** of the statement by nature, function or both; where any function line is used, a note analyses **five specified expenses by nature** paras 78–83.
- Consequential amendments change **IAS 7** (operating profit as the starting point for the indirect method; fewer choices for interest and dividends), **IAS 33** (limits on additional per-share amounts) and **IAS 34** (MPMs in interim reports).

The three main changes

1. A structured income statement

Income and expenses are sorted into categories based on the entity's main business activities and on the type of asset or liability that gives rise to them. Two new defined subtotals give investors a consistent starting point for analysis. The share of profit of equity-accounted associates and joint ventures is always outside operating profit. Unusual and volatile items remain within operating profit; there is no "exceptional items" category.

2. Management-defined performance measures

Measures such as "underlying operating profit" or "adjusted EBITDA" are not prohibited, but where they are subtotals of income and expenses used in public communications to convey management's view of overall performance, they must be defined, explained and reconciled to an IFRS subtotal, with the tax and non-controlling interest effect of each adjustment, in one note that is subject to audit.

3. Better grouping and labels

The standard defines the roles of the primary financial statements and the notes, and sets principles for when items should be aggregated or disaggregated. Labels must faithfully represent content. "Other" may be used only when no more informative label exists. Where expenses are presented by function, depreciation, amortisation, employee benefits, impairments and inventory write-downs must be disclosed by nature.

What changes and what does not

Area	Degree of change	Summary
Statement of profit or loss	Significant	Five categories, required subtotals, new minimum line items, operating expense analysis on the face.
Notes	Significant	MPM note; specified expenses note where function presentation is used; disaggregation of material items; disclosure of the specified main business activity assessment where relevant.
Statement of cash flows	Moderate	Indirect method starts from operating profit; classification of interest and dividends largely fixed.
Statement of financial position	Limited	Goodwill presented separately; aggregation principles apply; current/non-current rules unchanged.
Statement of comprehensive income and changes in equity	Limited	Requirements carried forward with minor drafting changes.
Interim reports (IAS 34)	Moderate	MPM disclosures required; first-year transition requirements.
Earnings per share (IAS 33)	Moderate	Additional per-share amounts restricted to IFRS 18 subtotals or MPMS.

Who is affected

IFRS 18 applies to all entities preparing general purpose financial statements in accordance with IFRS Accounting Standards [para 2](#), whatever their industry or size. In the UK that includes listed groups preparing consolidated financial statements under UK-adopted international accounting standards, AIM companies, and any other company that has chosen to report under IFRS.

Because FRS 101 applies IFRS recognition and measurement with reduced disclosures, IFRS 18 also reaches qualifying entities under FRS 101, subject to two FRC exemptions. FRS 102 and FRS 105 reporters are not directly affected, but the FRC has updated the IFRS-based "adapted formats" available to FRS 102

companies so that they align with IFRS 18 subtotals. Chapter 13 explains the UK position in detail.

The degree of change varies by business model. Entities with simple trading or service operations and no equity-accounted investments may find the main change is the new subtotals and the expense analysis. Groups with associates and joint ventures, significant foreign currency exposures, investment property, complex financing or prominent alternative performance measures face a larger exercise. Banks, insurers, investment entities and property companies face specific rules for entities whose main business is investing or providing finance to customers.

Reporting framework	Effect of IFRS 18
UK-adopted IFRS (consolidated and individual accounts)	Applies in full from periods beginning on or after 1 January 2027.
FRS 101 <i>Reduced Disclosure Framework</i>	Applies, with exemptions from the MPM disclosures (paras 121–125) and from the line-item analysis in para 83(b).
FRS 102, companies using adapted formats	IFRS 18 not applied, but updated adapted-format line items (including operating profit) from 1 January 2027.
FRS 102 statutory formats, FRS 105, Charities SORP, academy trusts	Not affected.

Impact beyond the financial statements

Systems and data

Charts of accounts and consolidation systems must capture the category of each income and expense account, the split of finance costs between financing and operating, foreign exchange by source, and, where function presentation is used, the five specified expenses by line item. Comparative data must be captured on the new basis.

Investor communication

Analysts and investors will see changed subtotals and new notes. Boards should explain expected changes ahead of the first IFRS 18 results. Investor relations, legal and finance teams will need to work together to identify MPMS across all public communications.

Contracts and incentives

Loan covenants, remuneration targets and earn-out clauses that refer to "operating profit" or similar measures may produce different results once the reported subtotal changes. Definitions that are not frozen to a previous accounting basis need early discussion with counterparties.

Governance and audit

New judgements, such as the specified main business activity assessment, the classification of finance costs and the identification of MPMs, require documentation and audit committee oversight. The MPM note will be audited for the first time, and restated comparatives require reliable data.

Reckoner view

It is tempting to see IFRS 18 as a reformatting exercise because it does not change profit. In our experience the effort lies in the data, the judgements and the communication: mapping every account, documenting classification decisions, building the MPM reconciliation and restating a full comparative year. Entities that begin with a structured impact assessment now, and capture comparative information on the new basis as they go, will avoid a difficult first year-end.

02

Objective, scope and the financial statements

Before turning to the new income statement, this chapter sets out what IFRS 18 covers, what a complete set of financial statements comprises, and the general requirements carried forward from IAS 1 on identification, reporting period, comparative information and consistency.

In this chapter

- Objective and scope
- Not-for-profit and non-equity entities
- The complete set of financial statements
- Identification, reporting period and comparatives
- Consistency and the third statement of financial position
- Where the IAS 1 requirements now sit

Objective, scope and the financial statements

IFRS 18 sets out general and specific requirements for the presentation and disclosure of information in general purpose financial statements, so that they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses [para 1](#). It is the "framework standard" for presentation: other standards set out specific presentation and disclosure requirements for particular transactions, and IFRS 18 provides the structure within which those requirements sit.

2.1 Scope

An entity applies IFRS 18 in preparing and presenting general purpose financial statements in accordance with IFRS Accounting Standards [para 2](#). IFRS 18 sets out the requirements for the statements of financial performance, the statement of financial position, the statement of changes in equity and the notes. IAS 7 continues to govern the statement of cash flows, but the general requirements in [paras 9–43 and 113–114](#) of IFRS 18 also apply to it [para 3](#).

Other IFRS Accounting Standards set out recognition, measurement and disclosure requirements for specific transactions and events [para 4](#). IFRS 18 does not override them; where another standard requires a specific presentation, that requirement applies, subject to materiality.

Condensed interim financial statements prepared under IAS 34 are outside the scope of IFRS 18, with two exceptions: the general requirements on aggregation, disaggregation and labelling in [paras 41–45](#), and the MPM requirements in [paras 117–125](#), apply to them [para 5](#). This means MPM disclosures will appear in half-year reports.

Not-for-profit and non-equity entities

IFRS 18 uses terminology suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities that apply the standard may need to amend the descriptions of particular line items, subtotals and of the financial statements themselves [para 6](#). Similarly, entities without equity as defined in IAS 32, such as some mutual funds, and entities whose share capital is not equity, such as some co-operatives, may need to adapt the presentation of members' or unitholders' interests [para 7](#).

2.2 The complete set of financial statements

A complete set of financial statements comprises [para 10](#):

- a statement (or statements) of financial performance for the reporting period;
- a statement of financial position at the end of the period;
- a statement of changes in equity;
- a statement of cash flows;
- notes;
- comparative information for the preceding period; and
- a statement of financial position at the beginning of the preceding period, when required by [para 37](#).

The first four statements, with their comparative information, are referred to as the **primary financial statements** [para 11](#). Entities may use other titles, such as "income statement" or "balance sheet", provided the titles are not misleading.

One statement or two

The statement of financial performance may be presented as a single statement of profit or loss and other comprehensive income, or as a statement of profit or loss followed immediately by a separate statement presenting comprehensive income that begins with profit or loss [para 12](#). The choice made under IAS 1 can generally continue.

2.3 General features carried forward

Identification of the financial statements

The financial statements must be clearly identified and distinguished from other information in the same document, such as the strategic report [paras 25–26](#). Each primary statement and the notes must be identified, and the entity must prominently display, and repeat where necessary, its name, whether the statements are for an individual entity or a group, the reporting date or period, the presentation currency and the level of rounding [para 27](#).

Frequency of reporting

A complete set of financial statements is required at least annually. When the reporting period changes and financial statements cover a period longer or shorter than a year, the entity discloses the period covered, the reason, and the fact that amounts are not entirely comparable [para 28](#). A 52-week period is not precluded [para 29](#).

Consistency of presentation

Presentation, disclosure and classification are retained from one period to the next unless a significant change in the nature of operations or a review of the financial statements shows another presentation would be more appropriate, or a standard requires a change [para 30](#). The consistency requirement now extends explicitly to disclosure and classification, which matters for the new category and aggregation judgements.

Comparative information

Comparative information is provided for all amounts reported in the current period, and for narrative information where relevant to understanding the current period [para 31](#). Each primary statement and the notes present the current and preceding period [para 32](#). Additional comparative information may be given if prepared under IFRS [B14–B15](#).

When presentation, disclosure or classification changes, comparatives are reclassified unless impracticable, with disclosure of the nature, amount and reason for the reclassification [para 33](#). If reclassification is impracticable, the entity discloses why and what adjustments would have been made [para 34](#).

Third statement of financial position

A statement of financial position at the beginning of the preceding period is required when an entity applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items, and the change has a material effect on that opening statement [paras 37–40](#).

Is a third balance sheet required on adopting IFRS 18?

Only where the reclassification has a material effect on the information in the statement of financial position at the beginning of the comparative period.

IFRS 18 mainly reclassifies items in profit or loss; balance sheet effects, such as separating goodwill from other intangibles, will often not be material to that opening statement. The assessment should be made and documented.

Materiality

An entity need not provide a specific presentation or disclosure required by an IFRS Accounting Standard if the resulting information is not material, even if the standard lists it as a minimum requirement [para 19](#). Conversely, additional disclosure is required where compliance with specific requirements is insufficient for users to understand the effect of transactions [para 20](#).

Offsetting

Assets and liabilities, and income and expenses, are not offset unless required or permitted by a standard [para 44](#). Measuring assets net of valuation allowances, such as inventory obsolescence or expected credit loss allowances, is not offsetting [B27–B28](#).

2.4 Where the IAS 1 requirements now sit

IFRS 18 replaces IAS 1, but many IAS 1 requirements are carried forward with little or no change. Some remain in IFRS 18, others have moved to IAS 8 or IFRS 7. Appendix B of this guide contains a fuller mapping.

IAS 1 topic	New location	Change in substance
Fair presentation and compliance with IFRS	IAS 8 paras 6A–6J	Relocated substantially unchanged.
Going concern	IAS 8 paras 6K–6L	Relocated substantially unchanged.
Accrual basis of accounting	IAS 8 paras 6M–6N	Relocated substantially unchanged.
Disclosure of material accounting policy information	IAS 8 paras 27A–27I	Relocated substantially unchanged.
Judgements and sources of estimation uncertainty	IAS 8 paras 27G, 31A–31I	Relocated substantially unchanged.
Materiality and aggregation	IFRS 18 paras 41–43	Enhanced: new aggregation and disaggregation principles and labelling rules.
Offsetting	IFRS 18 paras 44–45	Substantially unchanged.
Frequency, comparatives, consistency	IFRS 18 paras 28–40	Substantially unchanged; consistency now also covers disclosure and classification.
Statement of financial position	IFRS 18 paras 96–106	Goodwill a separate line item; otherwise substantially unchanged.
Statement of profit or loss	IFRS 18 paras 46–85	New categories, subtotals, line items and expense analysis.
Other comprehensive income	IFRS 18 paras 86–95	Substantially unchanged.
Statement of changes in equity	IFRS 18 paras 107–112	Substantially unchanged.
Structure of the notes	IFRS 18 paras 113–116	Substantially unchanged.
Capital disclosures	IFRS 18 paras 126–129	Substantially unchanged.
Puttable financial instruments classified as equity	IFRS 7 paras 19A–19B	Relocated.

Reckoner view

Although these requirements are largely unchanged, firms' disclosure checklists, accounting manuals and financial statement templates refer to IAS 1 paragraph numbers throughout. Updating those references, and the "basis of preparation" note that typically cites IAS 1, is a small but necessary part of transition.

03

Roles, aggregation, disaggregation and labelling

IFRS 18 gives the primary financial statements and the notes distinct roles and sets principles for grouping information. These principles drive what is shown on the face of the statements, what goes in the notes, and how each item is described.

In this chapter

- The role of the primary financial statements
- The role of the notes
- Useful structured summary
- Principles of aggregation and disaggregation
- Characteristics to consider
- Labels and the use of 'other'
- Worked examples

Roles, aggregation, disaggregation and labelling

One of the investor concerns behind IFRS 18 was that financial statements sometimes aggregate items so heavily that important information is hidden, and sometimes include so much immaterial detail that it obscures what matters. IFRS 18 responds by defining what each part of the financial statements is for, and by setting principles for grouping and labelling that apply across all primary statements and the notes.

3.1 The role of the primary financial statements

The role of the primary financial statements is to provide structured summaries of an entity's recognised assets, liabilities, equity, income, expenses and cash flows that are useful for para 16:

- obtaining an understandable overview of those items;
- making comparisons between entities, and between reporting periods for the same entity; and
- identifying items or areas about which users may wish to seek additional information in the notes.

IFRS 18 calls this a **useful structured summary**, a defined term. To provide one, an entity complies with the specific structural requirements of the standard (the categories, required totals and subtotals, and minimum line items) paras 21–22, and presents additional line items and subtotals where needed para 24.

3.2 The role of the notes

The role of the notes is to provide material information necessary to enable users to understand the line items presented in the primary financial statements, and to supplement the primary statements with additional information para 17. Examples include information about unrecognised items, risks and the methods and assumptions used.

Deciding between face and notes

An entity uses the roles to decide where information belongs. A required line item need not be presented separately if doing so is not necessary for a useful structured summary, but the information may still need to be disclosed in the

notes if it is material para 23. Conversely, an additional line item is presented when needed for a useful structured summary para 24, B9.

3.3 Principles of aggregation and disaggregation

IFRS 18 defines three terms in Appendix A:

- **Classification:** sorting items based on shared characteristics.
- **Aggregation:** adding together items that share characteristics and are in the same classification.
- **Disaggregation:** separating an item into component parts that have characteristics that are not shared.

Unless doing so would override specific requirements in another standard, an entity shall para 41:

- a. classify and aggregate items into line items and notes based on shared characteristics;
- b. disaggregate items based on characteristics that are not shared;
- c. aggregate or disaggregate so that the primary statements fulfil their role of providing a useful structured summary, and the notes provide material information; and
- d. ensure that aggregation and disaggregation do not obscure material information.

The degree of disaggregation is a judgement. The more dissimilar the characteristics of items, the more likely it is that disaggregating them provides useful information B16–B23. Items need not share all characteristics to be aggregated, but they must share at least one.

Characteristics to consider

The application guidance lists characteristics that may be relevant, including B78:

- **nature**, such as employee benefits versus raw materials;
- **function or role** within the business activities;
- **persistence**, meaning whether the item is recurring or non-recurring;
- **measurement basis**, such as cost or fair value;
- **measurement uncertainty** or outcome uncertainty;
- **size**;
- **geographical location or regulatory environment**;
- **tax effects**, for example different tax rates; and
- whether the item arises on **initial recognition or a subsequent change**, for example an impairment versus a reversal.

3.4 Labels and descriptions

Every total, subtotal and line item presented, and every item disclosed, must be labelled and described in a way that faithfully represents its characteristics para 43.

To achieve this, the entity provides all descriptions and explanations necessary for users to understand the item, which may include the meaning of terms used and how items have been aggregated or disaggregated.

The use of "other"

An item may be labelled "other" only if the entity cannot find a more informative label B25. Before using "other", an entity should consider whether it can:

- describe the material item within an aggregation and label the aggregation by reference to it; or
- group immaterial items with similar characteristics and describe them by that shared characteristic.

If "other" is unavoidable, the label should be as precise as possible, such as "other operating expenses" or "other finance expenses" B26(a). Where an "other" balance contains only immaterial items, but is large enough that users might reasonably question whether it includes material items, the entity provides information to resolve that question, for example by stating that the balance comprises several unrelated immaterial amounts, none individually larger than a stated amount B26(b).

Example 3.1 – Disaggregating "other operating expenses"

A care group presents a single line "Other operating expenses £14.2m". On review, it comprises: food and medical supplies £5.1m, utilities £2.9m, repairs and maintenance £2.4m, professional fees £1.1m, insurance £0.9m, a litigation settlement £1.3m and sundry items £0.5m.

Approach	Assessment
Keep a single "Other operating expenses" line with no analysis	Unlikely to comply. The balance is large relative to the cost base, contains items with dissimilar characteristics, and includes a non-recurring litigation settlement that users would regard as material information (B78–B79).
Present "Care consumables" and "Premises costs" as separate nature lines; disclose the remainder in a note	Likely to provide a useful structured summary. The note would disaggregate professional fees, insurance and the litigation settlement, with sundry items described as unrelated immaterial amounts.
Present the litigation settlement as a separate line on the face	Appropriate if the amount is material to an understanding of performance; it remains within the operating category (B42).

Example 3.2 – Labelling a combined line

An independent schools group presents "Staff costs £58.9m", which includes £56.5m of employee benefits under IAS 19 and £2.4m of supply teachers engaged through agencies. Agency staff are not employees under IAS 19; the cost is a purchased service. The label "Staff costs" may lead users to assume the whole amount is employee benefits. The group could either present two lines ("Employee benefits expense" and "Agency and supply staff costs"), or relabel the line "Employee benefits and agency staff costs" and disaggregate it in the notes. Either approach makes the label a faithful description (para 43).

Example 3.3 – Whether to present a required line item separately

An entity has investment property of £0.2m within total assets of £350m. Para 103 lists investment property as a line item for the statement of financial position. Applying paras 19 and 23, the entity concludes that presenting the item separately is not necessary for a useful structured summary, and includes it within "Other non-current assets" with disclosure in the notes if the information is material. Materiality judgements of this kind should be documented and revisited each period.

Does IFRS 18 require more disclosure overall?

Not necessarily. The principles cut both ways: they require disaggregation where items differ, but they also discourage immaterial detail that obscures material information. Some entities will find the net effect is a reorganisation of existing information rather than more of it.

Do the aggregation principles apply to the cash flow statement and balance sheet?

Yes. Paras 41–43 apply to all primary financial statements and to the notes, and they also apply to condensed interim financial statements (para 5).

Reckoner view

We expect auditors and regulators to give closer attention to large "other" balances, combined labels such as "staff costs" or "administrative and other expenses", and aggregations that mix recurring and non-recurring items. A simple control is to require a documented analysis of every "other" line above an agreed threshold at each reporting date, setting out its composition and the reason no more informative label is available.

04

Classifying income and expenses: the five categories

Every item of income and expense in profit or loss is classified into one of five categories. This chapter explains each category for an entity whose main business is neither investing nor providing finance to customers, which describes most trading, manufacturing and service businesses.

In this chapter

- Overview of the five categories
- A step-by-step approach to classification
- The operating category
- The investing category
- The financing category
- Income taxes and discontinued operations
- Comprehensive worked example

Classifying income and expenses: the five categories

IFRS 18 requires an entity to classify income and expenses included in the statement of profit or loss in one of five categories para 47. Three of them, operating, investing and financing, are new. The income taxes and discontinued operations categories reflect the existing requirements of IAS 12 and IFRS 5. The categories then determine the required subtotals described in chapter 7.

Operating	The residual category: all income and expenses not classified in another category, including everything from the main business activities and unusual or volatile items para 52
Operating profit or loss	Required for every entity paras 69(a), 70
Investing	Income and expenses from associates, joint ventures and unconsolidated subsidiaries, cash and cash equivalents, and assets generating a return individually and largely independently paras 53–58
Profit before financing and income taxes	Required for almost every entity paras 69(b), 71, 73
Financing	Income and expenses from liabilities that involve only the raising of finance, and interest on certain other liabilities paras 59–66
Income taxes	Tax expense or income within the scope of IAS 12 para 67
Discontinued operations	As required by IFRS 5 para 68
Profit or loss	Required total paras 69(c), 72

4.1 A step-by-step approach

The categories are defined in a particular order. Investing and financing are defined positively; operating is what is left. In practice, entities will find it easiest to work through the following steps for each income and expense account.

1 Assess main business activities. Does the entity invest in particular assets, or provide finance to customers, as a main business activity? If so, the modified requirements in chapter 5 apply to the relevant items paras 49–51.

2 Remove income taxes and discontinued operations. IAS 12 tax amounts and IFRS 5 discontinued operations are classified in their own categories and are not subject to the other classification rules paras 67–68, B29.

3 Identify the source asset or liability. Classification is driven by the asset or liability that gives rise to the income or expense, not by the label of the account.

4

Apply the investing and financing tests.

Does the item arise from an asset in para 53, or from a liability in para 59? If so, does it fall within the types of income and expense specified in para 54, 60 or 61?

5

Apply the specific rules. Foreign exchange, derivatives, hybrid contracts, disposals and changes in use have specific requirements (chapter 6).

6

Classify everything else as operating.

Operating is the residual category and includes unusual items para 52, B42.

4.2 The operating category

An entity classifies in the operating category all income and expenses that are not classified in the investing, financing, income taxes or discontinued operations categories para 52. Because it is a residual, the operating category does not need a positive definition, and IFRS 18 deliberately avoids one.

The result is that income and expenses from the entity's main business activities are classified in operating, except for the share of profit or loss of equity-accounted investees B42. However, the operating category **is not limited to main business activities**. It includes all income and expenses that are not classified elsewhere, even if they are volatile or unusual. Examples include:

- impairment losses on property, plant and equipment, goodwill and other intangible assets;
- restructuring and reorganisation costs;
- gains and losses on the disposal of property, plant and equipment (see chapter 6);
- litigation settlements and regulatory fines;
- government grant income relating to operating activities;
- expected credit losses on trade receivables; and
- remeasurements of contingent consideration in a business combination B55(c).

Why the residual approach matters

The IASB considered and rejected defining operating as "recurring" or "core" activities, because such definitions are subjective and would have reproduced the diversity IFRS 18 is designed to remove. The consequence is that no entity can present an IFRS 18 operating profit that excludes impairments, restructuring costs or other "exceptional" items. Management may still present such a measure, but it will usually be an MPM (chapter 10).

4.3 The investing category

For an entity without a specified main business activity, the investing category contains specified income and expenses from three types of asset para 53:

- investments in associates, joint ventures and unconsolidated subsidiaries;**
- cash and cash equivalents; and**
- other assets that generate a return individually and largely independently** of the entity's other resources.

Which income and expenses

For these assets, the investing category includes para 54:

- the income generated, such as interest, dividends, rental income and the share of profit or loss of equity-accounted investees;
- income and expenses arising from initial and subsequent measurement, including on derecognition and on classification as held for sale, such as fair value gains and losses, depreciation and impairment losses and reversals; and

- incremental expenses directly attributable to acquiring and disposing of the assets, such as transaction costs and costs to sell.

Associates, joint ventures and unconsolidated subsidiaries

These include investments accounted for using the equity method, investments in associates and joint ventures measured at fair value through profit or loss (for example by venture capital organisations under IAS 28.18) and, in separate financial statements, investments in subsidiaries, associates and joint ventures measured at cost, at fair value or using the equity method B43–B44. The share of profit or loss of equity-accounted investees is always investing, even for an entity whose main business is investing in them para 55(a).

Cash and cash equivalents

Interest income on cash and cash equivalents, and foreign exchange differences on them, are investing for an entity without a specified main business activity

para 53(b), B39.

Assets generating an independent return

The third type requires judgement. An asset generates a return individually and largely independently if its return does not depend on being used in combination with the entity's other resources B45. The return can be positive or negative. Typical examples are debt and equity investments, investment properties, and receivables for rent generated by those properties B46.

By contrast, assets used in combination to produce or supply goods or services, such as property, plant and equipment, intangible assets used in operations, inventories, and receivables arising from the sale of goods and services, do not qualify. Their income and expenses, including revenue, depreciation, impairment and interest income on trade receivables, are classified in operating B48–B49.

Asset	Category of income and expenses	Reason
Equity-accounted associate or joint venture	Investing	Para 53(a); always investing (para 55(a)).
Bank deposits and money market funds classified as cash equivalents	Investing	Para 53(b).
Minority shareholdings measured at FVTPL or FVOCI (dividends)	Investing	Debt or equity investments generate an independent return (B46(a)).
Corporate bonds and gilts held as investments	Investing	B46(a).
Loan to an associate or joint venture	Investing	A debt investment generating an independent return; part of the investment in the associate where it forms part of the net investment.
Investment property held to earn rentals	Investing	B46(b), including rent, depreciation or fair value changes, and disposal gains.
Property, plant and equipment, including leased right-of-use assets	Operating	Used in combination with other resources (B48(a)).

Trade receivables from sales of goods and services	■ Operating	Arise from operating activities (B48(b)); includes expected credit losses and any interest income.
Inventories	■ Operating	Used in combination with other resources.
Goodwill and acquired intangible assets used in the business	■ Operating	Used in combination; amortisation and impairment are operating.
Owner-occupied building partly let to third parties	Judgement	If the let portion is accounted for separately as investment property, its rental income is investing; otherwise operating.

Example 4.1 – Acquisition costs for an investment

A manufacturer pays £150,000 of legal and broker fees to acquire a 30% stake in a supplier, which it accounts for using the equity method. Under IAS 28 the costs are included in the carrying amount, so they do not appear in profit or loss on acquisition. Had the costs related to an equity investment measured at fair value through profit or loss, where transaction costs are expensed, the expense would be an incremental cost directly attributable to acquiring an investing asset and classified in investing (para 54(c)). Costs of a business combination expensed under IFRS 3 relate to acquiring a subsidiary whose assets are used in operations, so they are classified in operating.

4.4 The financing category

The financing category is built around a distinction between two types of liability para 59:

- **liabilities that arise from transactions that involve only the raising of finance;** and
- **other liabilities,** which arise from transactions that do not involve only the raising of finance.

Liabilities that involve only the raising of finance

In such a transaction the entity receives finance in the form of cash, the extinguishment of a financial liability or its own equity instruments, and will later return cash or its own equity instruments B50. Examples include B51:

- debt instruments settled in cash, such as loans, debentures, notes, bonds and mortgages;

- a liability under a supplier finance arrangement once the payable for goods or services has been derecognised;
- a bond settled by delivering the entity's own shares; and
- an obligation to purchase the entity's own equity instruments.

For these liabilities the financing category includes para 60, B52:

- income and expenses arising from initial and subsequent measurement, including interest expense, fair value gains and losses on liabilities designated at FVTPL, dividends on shares classified as liabilities, and gains and losses on derecognition, such as on early repayment or modification; and
- incremental expenses directly attributable to issuing and extinguishing the liability, such as arrangement and legal fees.

Other liabilities

Other liabilities arise where the entity receives something other than finance, typically goods, services or an asset, and pays later. Examples include payables for goods or services, contract liabilities, lease liabilities, defined benefit obligations and provisions such as decommissioning and dilapidations B53.

For these liabilities, only two types of amount are classified in financing, and only if the entity identifies them for the purpose of applying other IFRS requirements para 61:

- interest income and expenses; and
- income and expenses arising from changes in interest rates.

The qualification matters: IFRS 18 does not require an entity to calculate interest that another standard does not already require it to identify. Examples of

amounts classified in financing are B54: interest on payables for goods or services recognised under IFRS 9; interest on a contract liability with a significant financing component under IFRS 15; interest on lease liabilities under IFRS 16; net interest on a net defined benefit liability under IAS 19; and the unwinding of the discount and the effect of changes in the discount rate on provisions under IAS 37.

All other income and expenses from these liabilities are classified in operating B55. This includes the cost of goods or services consumed, current and past service cost on defined benefit plans, changes in the estimated cash flows of provisions, and remeasurements of contingent consideration.

Derecognition of liabilities

Gains and losses on derecognising a liability follow the liability's classification: financing for a liability that involves only the raising of finance, and operating for other liabilities, such as a gain on settling a trade payable at a discount B61.

Liability	Type	Financing	Operating
Bank loan or bond	Only raising finance	Interest, arrangement fees amortised, gains or losses on early repayment	None
Preference shares classified as a liability	Only raising finance	Dividends and any remeasurement	None
Supplier finance liability (payable derecognised)	Only raising finance	Interest and fees	None
Lease liability	Other	Interest on the lease liability	Variable lease payments not in the liability, short-term and low-value lease expense (depreciation of the ROU asset is operating as it arises from the asset)
Defined benefit obligation	Other	Net interest	Current and past service cost, administration costs
Decommissioning or dilapidations provision	Other	Unwinding of discount; effect of discount-rate changes	Initial recognition (if expensed) and changes in estimated cash flows
Contract liability with a significant financing component	Other	Interest accreted under IFRS 15	Revenue recognised

Trade payable on extended credit terms	Other	Interest, only if identified under IFRS 9	Cost of goods or services consumed
Contingent consideration liability	Other	None	Fair value remeasurements (B55(c))

Example 4.2 – A care home group's finance costs

Under IAS 1, a care home group presented a single "Finance costs" line of £3.4m. On analysing it for IFRS 18 the group finds:

Component	£m	IFRS 18 category
Interest on bank term loan	1.9	■ Financing (para 60)
Amortisation of loan arrangement fees	0.1	■ Financing (para 60(b))
Interest on lease liabilities for leased homes	1.1	■ Financing (para 61, B54(c))
Unwinding of discount on dilapidations provisions	0.1	■ Financing (B54(e))
Bank charges on day-to-day banking	0.2	■ Operating – service charges, not costs of raising finance

Moving bank charges of £0.2m into operating reduces operating profit by that amount; the remaining £3.2m is presented in financing, below profit before financing and income taxes.

4.5 The income taxes category

An entity classifies in the income taxes category tax expense or tax income included in profit or loss applying IAS 12, and any related foreign exchange differences [para 67](#). Amounts in this category are not subject to the operating, investing and financing classification requirements [B29](#).

Only taxes within the scope of IAS 12, meaning taxes based on taxable profit, qualify. Pillar Two top-up taxes are within IAS 12 and are therefore included. Taxes calculated on another basis, such as revenue-based levies, business rates, employer payroll taxes, irrecoverable VAT and digital services taxes, are not income taxes and are classified in operating.

Agenda decision and proposed amendment

In March 2026 the IFRS Interpretations Committee finalised an agenda decision confirming that taxes or other charges that are not tax expense or tax income under IAS 12 cannot be presented in the income tax line item or in the income taxes category. In response to concerns, the IASB tentatively decided in July 2026 to amend IFRS 18 so that certain taxes imposed by a government as a direct substitute for income taxes would be classified in the income taxes category. Entities subject to such taxes, including minimum or final taxes on turnover in some jurisdictions, should monitor this project closely ([chapter 14](#)).

4.6 The discontinued operations category

An entity classifies in the discontinued operations category income and expenses from discontinued operations as required by IFRS 5 para 68. These amounts are presented as a single line item para 75(a)(v) and are not reclassified into the other categories. Impairment losses on classifying a disposal group as held for sale that is not a discontinued operation are classified in the category of the assets it contained (chapter 6).

4.7 Common misconceptions

- **"Interest income is always investing."** Interest on cash and on investments is investing, but interest on trade receivables or on finance provided to

customers in the course of operations is operating (B49(b)).

- **"Finance costs are always financing."** Bank service charges and costs of factoring receivables used to manage working capital may be operating; the test is the type of liability, not the account name.
- **"Impairments go below operating profit."** They do not, unless they relate to investing assets.
- **"Rental income is investing."** Only rent from assets generating an independent return, such as investment property; income from letting operational facilities is operating.

4.8 Comprehensive worked example

A UK group manufactures and distributes consumer products. It has no specified main business activity. The table classifies its income and expenses.

	Item	Category	Basis
1	Revenue from sale of products	■ Operating	Main business activity.
2	Raw materials, staff costs, depreciation of factories and ROU assets	■ Operating	Assets used in combination (B48).
3	Impairment of a factory and of goodwill	■ Operating	Residual; unusual items included (B42).
4	Restructuring costs of closing a distribution centre	■ Operating	Residual.
5	Gain on sale of surplus manufacturing equipment	■ Operating	Follows the asset's classification (B60(a)).
6	Expected credit losses on trade receivables	■ Operating	Receivables from operating activities (B48(b)).
7	Share of profit of a joint venture (equity method)	■ Investing	Para 55(a).
8	Interest on bank deposits	■ Investing	Cash and cash equivalents (para 53(b)).
9	Dividends and fair value gains on a 5% listed shareholding	■ Investing	Independent return (B46(a)).

10	Rental income and fair value loss on an investment property	Investing	B46(b).
11	Expected credit loss on a loan to the joint venture	Investing	Measurement of an investing asset; one line item may span categories (B77).
12	Interest on bank loans and bonds	Financing	Para 60.
13	Loss on early repayment of a bond	Financing	Derecognition of a financing liability (B61).
14	Interest on lease liabilities	Financing	Para 61, B54(c).
15	Net interest on defined benefit pension deficit	Financing	B54(d).
16	Current service cost of the pension scheme	Operating	B55(b).
17	Unwinding of discount on a site restoration provision	Financing	B54(e).
18	Increase in the estimated cost of site restoration (expensed)	Operating	Change in estimate, not interest.
19	Remeasurement of contingent consideration on an acquisition	Operating	B55(c).
20	Foreign exchange loss on US dollar trade receivables	Operating	Follows the receivable (B65).
21	Foreign exchange loss on a euro bank loan	Financing	Follows the loan (B65–B66).
22	Business rates and employer's National Insurance	Operating	Not income taxes under IAS 12.
23	UK corporation tax and deferred tax	Income taxes	Para 67.
24	Results of a division classified as discontinued	Discontinued	Para 68.
25	Government grant towards training costs	Operating	Relates to operating activities.

05

Entities with specified main business activities

For investment property companies, insurers, investment entities, banks, lessors and manufacturers that finance their customers, the general classification rules are modified so that operating profit reflects how the business actually earns its returns.

In this chapter

- Why the modifications exist
- Assessing whether an activity is a main business activity
- Evidence, unit of account and group considerations
- Changes in the assessment and disclosure
- Investing in assets as a main business activity
- Providing financing to customers as a main business activity
- Policy choices and summary table

Entities with specified main business activities

If a property company classified its rental income and fair value gains in investing, or a bank classified its interest income in investing and its interest expense in financing, their operating profit would exclude the very activities that generate their returns. IFRS 18 avoids this by requiring an entity to assess whether it has a **specified main business activity** of investing in particular types of assets or of providing financing to customers [para 49](#). Where it does, some income and expenses that would otherwise be investing or financing are classified in operating.

5.1 The assessment

An entity assesses whether it **invests in assets** or **provides financing to customers** as a main business activity [para 49](#). It may have more than one main business activity; for example, a manufacturer that also provides financing to customers to buy its products may conclude that both are main business activities [B30](#).

Examples of entities that might invest in assets as a main business activity include investment entities as defined in IFRS 10, investment property companies and insurers [B31](#). Examples of entities that might provide financing to customers as a main business activity include banks and other lenders, entities that finance customers' purchases of the entity's products, and lessors that provide financing to customers under finance leases [B32](#).

A matter of fact, based on evidence

Whether an activity is a main business activity is **a matter of fact and not merely an assertion**. The entity uses judgement, and the assessment must be based on evidence [B33](#). In general, an activity is likely to be a main business activity if the entity uses a particular type of subtotal as an important indicator of operating performance, namely a subtotal similar to gross profit such as net rental income, net interest income or an investment return [B34](#). Evidence that such a subtotal is an important indicator includes using it to explain performance externally, or to assess or monitor performance internally [B35](#).

Segment information under IFRS 8 may also provide evidence. If a reportable segment comprises a single business activity, that activity is a main business activity; if an operating segment comprises a single business activity, it might be, if

the segment's performance is an important indicator of operating performance [B36](#).

Level of assessment

The assessment is made for the **reporting entity as a whole**. A consolidated group and one of its subsidiaries can therefore reach different conclusions [B37](#). A group finance subsidiary that lends to fellow group companies may have a main business activity of providing finance in its own financial statements, while the group does not.

Unit of account

For investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method, and for other assets generating an independent return, the assessment is made for individual assets or groups of assets with shared characteristics [B38](#), [B40](#). No assessment is needed for cash and cash equivalents, which have specific requirements [B39](#).

Changes in the assessment

The assessment reflects the facts at the time. If the outcome changes, the entity applies the new classification prospectively from the date of change and does not reclassify earlier amounts [B41](#). It discloses the fact and date of the change, and, unless impracticable, the amount and classification of income and expenses before and after the change for the current and comparative periods [para 51](#).

Disclosure

An entity that has a specified main business activity discloses that fact [para 51](#), so that users understand why items such as rental income or interest expense appear within operating profit.

Can a parent company that holds investments in subsidiaries at cost have a specified main business activity in its separate financial statements?

This question was the subject of an agenda decision ratified by the IASB in April 2026. Parents preparing separate financial statements, including FRS 101 parent company accounts, should consider the agenda decision when assessing whether investing in subsidiaries is a main business activity, and document the evidence used (chapter 14).

5.2 Investing in assets as a main business activity

Equity-accounted investees

The share of profit or loss of associates and joint ventures accounted for using the equity method is classified in investing, **even if** investing in them is a main business activity para 55(a). The IASB concluded that equity-accounted results are not part of the entity's operating performance because the entity does not control the underlying operations.

Other associates, joint ventures and unconsolidated subsidiaries

Where investing in associates, joint ventures or unconsolidated subsidiaries **not** accounted for using the equity method is a main business activity, for example a venture capital organisation measuring associates at fair value, the related income and expenses are classified in operating para 55(b).

Other assets generating an independent return

Where investing in assets that generate a return individually and largely independently is a main business activity, the related income and expenses that would otherwise be investing are classified in operating para 58. For an investment property company, rental income, fair value movements and disposal gains on investment property are operating.

Cash and cash equivalents

An entity that invests in financial assets as a main business activity, such as an insurer, classifies income and expenses from cash and cash equivalents in operating para 56(a). The same applies to an entity providing financing to customers, for cash related to that activity (below).

5.3 Providing financing to customers as a main business activity

Cash and cash equivalents

An entity that provides financing to customers as a main business activity classifies in operating income and expenses from cash and cash equivalents that relate to that activity, and makes an **accounting policy choice** for cash that does not relate to it: operating or investing para 56(b). If it cannot distinguish which cash relates to providing finance, it classifies all such income and expenses in operating para 57.

Liabilities that involve only the raising of finance

Income and expenses from such liabilities that relate to providing financing to customers, such as interest on customer deposits or on borrowings used to fund lending, are classified in operating para 65(a)(i). For liabilities that do not relate to providing financing to customers, the entity makes an **accounting policy choice** to classify the income and expenses in operating or in financing para 65(a)(ii). The policy choice must be consistent with the choice made for cash under para 56(b) para 65. If the entity cannot distinguish the liabilities, it classifies all such amounts in operating para 66.

Other liabilities

Interest and the effect of interest-rate changes on other liabilities, such as lease liabilities and pension obligations, are classified in financing in the normal way para 65(b).

Effect on subtotals

An entity that chooses to classify income and expenses on its non-lending financing liabilities in operating cannot present profit before financing and income taxes para 73 (chapter 7).

5.4 Insurers

Insurance finance income and expenses under IFRS 17, and income and expenses from investment contracts with participation features recognised under IFRS 9,

are classified in operating para 64, B58. Insurers are likely to have a main business activity of investing in financial assets, so investment income is generally operating.

5.5 Summary of classification for entities with specified main business activities

Source of income or expense	No specified activity	Investing in assets is a main business activity	Providing financing to customers is a main business activity
Equity-accounted associates and joint ventures	Investing	Investing (para 55(a))	Investing
Associates, JVs and unconsolidated subsidiaries not equity-accounted	Investing	Operating, where investing in them is a main business activity (para 55(b))	Investing, unless a main business activity
Other assets generating an independent return	Investing	Operating, for the assets concerned (para 58)	Investing, unless a main business activity; loans to customers are operating
Cash and cash equivalents	Investing	Operating, if investing in financial assets (para 56(a))	Operating if related to lending; policy choice otherwise (para 56(b)); all operating if indistinguishable (para 57)
Liabilities that involve only the raising of finance	Financing	Financing	Operating if related to lending; policy choice otherwise (para 65(a)); all operating if indistinguishable (para 66)
Interest on other liabilities (leases, pensions, provisions)	Financing	Financing	Financing (para 65(b))
Insurance finance income and expenses	n/a	Operating (para 64)	n/a

Example 5.1 – Investment property company

A listed UK property company owns a portfolio of offices let to tenants and reports "net rental income" as its key performance indicator in results announcements and management reporting. It holds a 40% equity-accounted interest in a development joint venture. Applying B33–B35, investing in investment property is a main business activity. Rental income, property operating costs, fair value movements and disposal gains are classified in operating (para 58). Net rental income is a gross-profit-type subtotal (B123), not an MPM. The share of profit of the joint venture remains in investing (para 55(a)). Interest on cash is investing, because the company does not invest in financial assets as a main business activity.

Example 5.2 – Manufacturer with a customer finance arm

A vehicle manufacturer provides hire purchase finance to customers through a finance subsidiary, reported as a separate reportable segment. At group level, providing finance to customers is a main business activity (B30, B36). Interest income on customer loans and interest on borrowings that fund the lending book are operating (para 65(a)(i)). For a corporate bond that funds general manufacturing operations, the group chooses to classify interest in financing (para 65(a)(ii)) and applies the consistent policy to cash not related to lending, classifying that interest in investing (para 56(b)). Because it chose financing, it can present profit before financing and income taxes.

Reckoner view

For most of our clients, the answer to the main business activity question will be a clear "no", and documenting that conclusion briefly is sufficient. The assessment needs more care in groups with leasing or customer finance arms, in property-owning groups that also trade, in group treasury or finance companies preparing their own accounts, and in parent companies' separate financial statements. In those cases we recommend a short, evidence-based memo approved by the audit committee.

06

Classifying specific items

Some income and expenses do not fit neatly into the general model. IFRS 18 sets specific requirements for foreign exchange differences, derivatives and hedging instruments, hybrid contracts, disposals, held-for-sale remeasurements and changes in the use of an asset.

In this chapter

- Foreign exchange differences
- Derivatives and designated hedging instruments
- Hybrid contracts with a liability host
- Derecognition and held-for-sale remeasurement
- Disposals of groups of assets and subsidiaries
- Changes in the use of an asset
- Hyperinflation

Classifying specific items

The application guidance in Appendix B contains specific requirements for items that arise across categories or whose classification would otherwise be unclear. Each follows the same underlying logic: classify the item in the category of the income and expenses it relates to, unless doing so would require grossing up or would involve undue cost or effort, in which case a default to operating applies.

6.1 Foreign exchange differences

An entity classifies foreign exchange differences included in profit or loss under IAS 21 in the **same category as the income and expenses from the items that gave rise to them**, unless doing so would involve undue cost or effort B65. The standard gives two examples B66:

- exchange differences on a foreign currency trade receivable for goods or services are classified in **operating**; and
- exchange differences on a foreign currency debt instrument that is a liability, such as a loan or bond, are classified in **financing**, unless the entity provides financing to customers as a main business activity and classifies that liability's income and expenses in operating under para 65.

Applying the same principle in B65 to assets in the investing category, exchange differences on foreign currency cash and cash equivalents, or on a foreign currency debt investment, are classified in **investing** for an entity without a specified main business activity.

Liabilities giving rise to income and expenses in more than one category

A single transaction may give rise to income and expenses in more than one category. For example, a purchase of services denominated in a foreign currency on extended credit terms could give rise to an operating expense for the services, interest in financing, and foreign exchange differences. The entity uses judgement to classify the foreign exchange differences, which may involve allocating them between categories B67.

Undue cost or effort

If applying B65 and B67 would involve undue cost or effort, the entity classifies the affected foreign exchange differences in operating B68. The assessment is made for each type of item. It is not a free choice; an entity should be able to explain why tracking the differences by source would involve undue cost or effort.

Agenda decision: intragroup monetary items

Exchange differences on intragroup monetary items can survive consolidation even though the intragroup interest is eliminated. In April 2026 the IASB ratified an agenda decision on how such differences are classified when the income and expenses from the intragroup item have been eliminated. Groups with significant intragroup loans in different functional currencies should consider it when designing their consolidation mapping.

6.2 Derivatives and designated hedging instruments

The general requirements for financing do not apply to gains and losses on derivatives and designated hedging instruments para 63. Instead:

- **Designated hedging instruments:** gains and losses included in profit or loss are classified in the same category as the income and expenses affected by the risks the instrument is used to manage. If that would require grossing up gains and losses, all such gains and losses are classified in operating B70. Undesignated components and ineffectiveness follow the designated component B71.
- **Derivatives not designated but used to manage identified risks:** the same approach applies, but if it would require grossing up or involve undue cost or effort, all gains and losses are classified in operating B72.

- **Derivatives not used to manage identified risks:** classified in financing if the derivative relates to a transaction that involves only the raising of finance (for example, a purchased call option allowing the issuer to exchange a fixed amount of foreign currency for a fixed number of its own shares), and otherwise in **operating** B73. An entity providing financing to customers as a main business activity may classify the former in operating where it applies B59.

The grossing-up prohibition

Grossing up arises where an instrument manages risks affecting more than one category on a net basis. For example, a derivative might manage net foreign currency risk arising from revenue (operating) and interest expense (financing).

Splitting the derivative's gains and losses between the two categories would require presenting amounts that do not exist on a gross basis, so all gains and losses are classified in operating B74–B75. These requirements determine only the category; they do not prescribe the line item, nor override other standards' presentation requirements B76.

Agenda decision: derivatives managing net currency exposures

In April 2026 the IASB ratified an agenda decision on classifying gains and losses on a forward contract used to manage the risk of a net asset or net liability foreign currency exposure that is not designated as a hedging instrument. Treasury teams should review it alongside B72–B75.

Example 6.1 – Interest rate swap on a bank loan

A group has a floating-rate bank loan and enters into a pay-fixed, receive-floating interest rate swap. **Designated** as a cash flow hedge: amounts reclassified from the cash flow hedge reserve to profit or loss, and any ineffectiveness, affect interest expense on a financing liability, so they are classified in financing (B70–B71). **Not designated**, but used to manage the loan's interest rate risk: fair value changes are classified in financing (B72), unless tracking them would involve undue cost or effort, in which case operating. **Held for speculation:** a derivative not used to manage identified risks and not related to a transaction that only raises finance is classified in operating (B73(b)).

Example 6.2 – Foreign exchange forward hedging export sales

A textile exporter designates US dollar forward contracts as cash flow hedges of highly probable export sales. Amounts recycled to profit or loss affect revenue, so they are classified in operating (B70). Exchange differences on the resulting trade receivables are also operating (B65–B66). Exchange differences on the exporter's US dollar borrowings are financing. If the exporter uses a single forward contract to manage the net dollar exposure across receivables and borrowings without designation, splitting the gains and losses would require grossing up, so they are classified in operating (B72, B74).

6.3 Hybrid contracts with a liability host

Classification depends on whether the embedded derivative is separated
para 62, B56–B57:

- If **separated**, the host liability is classified using the general financing requirements, and the embedded derivative using the requirements for derivatives.
- If **not separated** and the hybrid contract arises from a transaction that involves only the raising of finance, the requirements for such liabilities apply,

so its income and expenses are generally financing B56(b).

- If **not separated** and the contract does not arise from such a transaction, specific rules apply depending on the host. For example, where the host is a financial liability measured at amortised cost under IFRS 9, the income and expenses specified in para 60 arising after initial recognition are classified in financing; where the hybrid is an insurance contract, the IFRS 17 requirements apply B56(c).

Para B57 applies to all hybrid contracts for which the embedded derivative is not separated, whatever the reason.

6.4 Derecognition and held-for-sale remeasurement

Gains and losses on derecognising an asset, or on classifying it as held for sale and any subsequent remeasurement while held for sale, are classified in the **same category as the income and expenses from the asset immediately before derecognition** B60. For example:

- disposal of property, plant and equipment: **operating**;
- disposal of an investment property, for an entity that does not invest in property as a main business activity: **investing**; and
- remeasurement of a previously held equity-accounted interest on a step acquisition of a subsidiary: **investing**.

Gains and losses on derecognising liabilities follow the liability, as explained in chapter 4 B61.

6.5 Changes in the use of an asset

A transaction or event may change the category of income and expenses from an asset without the asset being derecognised, for example when an owner-occupied

building becomes investment property. The entity classifies income and expenses arising from the transaction or event in the category in which it classified income and expenses from the asset immediately **before** the change B62. So any gain recognised in profit or loss on transferring property from IAS 16 to IAS 40 is classified in operating. Subsequent income and expenses are classified by reference to the new use.

6.6 Groups of assets and disposals of subsidiaries

Where these outcomes arise for a group of assets, or a group of assets and liabilities, such as the disposal of a subsidiary or classification of a disposal group as held for sale, the entity classifies the resulting income and expenses in a single category B63: in **investing** if, apart from any income tax assets, **all** the assets in the group generated income and expenses classified in investing immediately before the event; and in **operating** otherwise. There is no apportionment; a group containing any operating assets results in operating classification.

Examples given in the standard B64 include: a gain or loss on disposing of a subsidiary whose assets generated operating income and expenses, including recycled foreign currency translation differences, in **operating**; an impairment on classifying an operating disposal group as held for sale, in **operating**; and a gain on disposing of a subsidiary whose only assets were investment property (not a main business activity) and related tax assets, in **investing**.

6.7 Hyperinflation

An entity applying IAS 29 that presents the gain or loss on its net monetary position with interest income and expenses and foreign exchange differences may need to allocate it between categories. If allocation involves undue cost or effort, the gain or loss is classified in operating B69.

6.8 Summary of specific requirements

Item	Primary requirement	Default where criteria not met	Reference
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Foreign exchange differences	Same category as the item giving rise to them	Operating, if undue cost or effort	B65–B68
Designated hedging instruments	Category affected by the hedged risk	Operating, if grossing up required	B70–B71, B74–B75
Undesignated derivatives managing identified risks	Category affected by the managed risk	Operating, if grossing up or undue cost or effort	B72
Derivatives not managing risk	Financing if related to a transaction that only raises finance; otherwise operating	Modified for lenders applying B59	B73
Hybrid contracts with a liability host	Depends on separation of embedded derivative	–	Para 62, B56–B57
Disposal or held-for-sale remeasurement of an asset	Category of the asset before derecognition	–	B60
Derecognition of a liability	Category of the liability	–	B61
Change in use of an asset	Category before the change	–	B62
Disposal of a group or subsidiary	Investing only if all assets (other than tax assets) were investing	Operating otherwise	B63–B64
Net monetary position (IAS 29)	Allocate with related items	Operating, if undue cost or effort	B69

Reckoner view

Foreign exchange is likely to be the most data-intensive area for groups with overseas operations or foreign currency debt. Many ledgers post all realised and unrealised exchange differences to a single account. Separating them by source usually requires changes to the revaluation routines in the ERP system, and should be tackled early so that the comparative year can be restated. "Undue cost or effort" is a high bar for a well-resourced group and should not be assumed.

07

Totals, subtotals and line items in profit or loss

The categories feed a set of required totals and subtotals, supplemented by minimum line items and any additional lines needed for a useful structured summary. This chapter explains each requirement and shows how the statement fits together.

In this chapter

- The three required totals and subtotals
- Operating profit or loss
- Profit or loss before financing and income taxes
- The exception for certain lenders
- Additional subtotals and the paragraph 118 list
- Minimum line items
- Additional line items and unusual items
- Attribution to owners and non-controlling interests

Totals, subtotals and line items in profit or loss

Under IAS 1 the only required total in the income statement was profit or loss. Entities could present "operating profit" or not, and define it as they wished. IFRS 18 defines the subtotals and makes them mandatory, so that every IFRS income statement has the same skeleton.

Total or subtotal	Comprises	Who presents it
Operating profit or loss paras 69(a), 70	All income and expenses classified in the operating category	Every entity
Profit or loss before financing and income taxes paras 69(b), 71	Operating profit or loss plus all income and expenses classified in the investing category	Every entity except those applying para 73
Profit or loss paras 69(c), 72	All income and expenses in the statement of profit or loss	Every entity

7.1 Operating profit or loss

Operating profit or loss is the total of all income and expenses classified in the operating category para 70. Because operating is the residual category, the subtotal includes all costs of the main business and all unusual items that are not investing or financing. It excludes the share of profit or loss of equity-accounted investees.

Operating profit is defined indirectly, through the categories, rather than by reference to "core" or "recurring" activities. This gives investors a consistent starting point for comparison, and is also the starting point for the indirect method in the statement of cash flows.

7.2 Profit or loss before financing and income taxes

This subtotal comprises operating profit or loss and all income and expenses in the investing category para 71. It shows what the entity earned from its operations and investments before the effect of how it is financed and before tax, so that entities with different capital structures can be compared.

The subtotal is sometimes compared to EBIT. They are not the same: profit before financing and income taxes excludes all amounts classified in financing under IFRS 18, including interest on lease liabilities, net pension interest and the unwinding of

discounts on provisions, and it includes investing income. Entities that wish to use the label "EBIT" must ensure it faithfully represents the subtotal para 43.

7.3 The exception for certain lenders

An entity that provides financing to customers as a main business activity and applies the policy choice in para 65(a)(ii) to classify income and expenses from its other financing liabilities in operating **shall not** present profit or loss before financing and income taxes para 73. For such an entity, some financing costs are already within operating profit, so a subtotal labelled "before financing" would be misleading.

The entity should consider whether an additional subtotal is needed for a useful structured summary, for example operating profit and income and expenses from equity-accounted investees para 73. If it presents a subtotal of operating profit and all investing income and expenses, it must not label it in a way that suggests it excludes financing para 74. Such a subtotal is listed in para 118(d) and is not an MPM.

7.4 Additional subtotals

An entity presents additional line items and subtotals where needed for a useful structured summary. Any additional subtotal must para 24:

- a. comprise amounts recognised and measured in accordance with IFRS Accounting Standards;
- b. be compatible with the statement structure created by the categories and required subtotals;
- c. be consistent from period to period; and
- d. be displayed with **no more prominence** than the required totals and subtotals.

Compatibility means an additional subtotal cannot combine items from different categories in a way that cuts across the structure. A gross profit subtotal within the operating category is compatible; a subtotal that adds investing income to part of the operating category is not.

The paragraph 118 list

Para 118 lists subtotals that are **not** management-defined performance measures, even if used in public communications:

- a. gross profit (revenue minus cost of sales) and similar subtotals, such as net interest income, net fee and commission income, insurance service result, net rental income and similar B123;
- b. operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36;
- c. operating profit or loss and income and expenses from all investments accounted for using the equity method;
- d. for an entity applying para 73, operating profit or loss and all income and expenses in the investing category;
- e. profit or loss before income taxes; and
- f. profit or loss from continuing operations.

Example 7.1 – Is the additional subtotal compatible with the structure?

Proposed subtotal	Compatible?	Comment
Gross profit (revenue less cost of sales)	Yes	Within operating; para 118(a); not an MPM.
Operating profit before depreciation, amortisation and IAS 36 impairments	Yes	Para 118(b); not an MPM if calculated exactly on that basis.
Operating profit plus share of profit of joint ventures, where other investing income exists	Yes	Para 118(c); requires equity-accounted results to be presented immediately after operating profit.
Operating profit before restructuring costs, presented on the face	Generally no	Restructuring costs would need to be presented as the last line before operating profit for the subtotal to fit the structure; even then it would be an MPM if used in public communications and should not be more prominent than operating profit.
Profit before tax	Yes	Para 118(e); presented after the financing category.
Revenue plus interest income on deposits	No	Combines amounts from different categories.

7.5 Minimum line items

In addition to items required by other standards, the statement of profit or loss presents line items for the following amounts for the period [para 75](#):

Required by IFRS 18

- revenue, presenting separately interest revenue calculated using the effective interest method and insurance revenue;
- operating expenses, presented in line with paras 78–82 (chapter 8);
- share of the profit or loss of associates and joint ventures accounted for using the equity method;
- income tax expense or income; and
- a single amount for the total of discontinued operations.

Required by IFRS 9

- interest revenue calculated using the effective interest method;
- impairment losses (including reversals) determined in accordance with Section 5.5 of IFRS 9;
- gains and losses arising from the derecognition of financial assets measured at amortised cost;
- gains and losses on reclassifying a financial asset from amortised cost to fair value through profit or loss; and
- cumulative gains and losses reclassified from other comprehensive income on reclassifying a financial asset from FVOCI to FVTPL.

Required by IFRS 17

- insurance revenue; insurance service expenses; income or expenses from reinsurance contracts held; insurance finance income or expenses; and finance income or expenses from reinsurance contracts held.

These line items are required only where the information is material [para 19](#).

One line item, more than one category

A required line item may need to be presented in more than one category [B77](#). For example, IFRS 9 impairment losses on trade receivables are operating, while impairment losses on a loan to an associate are investing. In that case the entity presents the line item in each relevant category.

7.6 Additional line items

An entity presents additional line items where needed for a useful structured summary, applying the aggregation principles [paras 24, 41, B78](#). Items that often require separate presentation or disclosure include [B79](#):

- write-downs of inventories to net realisable value and reversals;
- impairments of property, plant and equipment and reversals;
- restructuring income and expenses, and reversals of restructuring provisions;

- disposals of property, plant and equipment;
- disposals of investments;
- litigation settlements;
- other reversals of provisions; and
- other non-recurring income and expenses.

Unusual and "exceptional" items

IFRS 18 does not define "exceptional", "unusual" or "non-recurring" items, and it does not create a category for them. Such items are presented within the category determined by the general rules, usually operating. An entity may present them as separate line items where that provides a useful structured summary, provided each line is labelled faithfully and is classified by nature or function as required by [para 78](#) (chapter 8).

7.7 Attribution

An entity presents, as allocations of profit or loss for the period, the amounts attributable to non-controlling interests and to owners of the parent [para 76](#). The allocation sits below profit or loss and outside the categories. The same allocation is presented for comprehensive income [para 87](#).

7.8 How the statement fits together

Illustration 7.1 – General entity (£m)

Revenue	1,250
Operating expenses (analysed by nature or function)	(1,080)
Operating profit	170
Share of profit of associates and joint ventures	12
Income from investments and cash	8
Profit before financing and income taxes	190
Interest expense on borrowings and leases	(35)
Other finance expenses	(5)
Profit before tax	150
Income tax expense	(38)
Profit from continuing operations	112
Loss from discontinued operations	(7)
Profit for the year	105
Attributable to owners of the parent	99
Attributable to non-controlling interests	6

Illustration 7.2 – Lender applying para 73 (£m)

Interest revenue (effective interest method)	820
Interest expense on deposits and wholesale funding	(410)
Net interest income	410
Net fee and commission income	95
Expected credit losses on loans to customers	(60)
Operating expenses	(270)
Operating profit	175
Share of profit of associates	9
Operating profit and income from equity-accounted investees	184
Interest on lease liabilities and pensions	(6)
Profit before tax	178
Income tax expense	(46)
Profit for the year	132

The lender classifies interest on all its funding in operating (para 65(a)), so it may not present profit before financing and income taxes (para 73). The additional subtotal is listed in para 118(c).

Reckoner view

Before the first IFRS 18 year-end, management should reconcile the new operating profit to the operating profit (or equivalent) it reported under IAS 1, line by line. The differences, typically equity-accounted results, finance costs on leases and pensions, bank charges, foreign exchange and investment income, are exactly what investors, lenders and remuneration committees will ask about, and the analysis feeds directly into the C3 transition reconciliation.

08

Presenting and disclosing operating expenses

Operating expenses must be analysed on the face of the statement of profit or loss by nature, by function, or by a mix of both. Where any function line is used, a note must analyse five specified expenses by nature. This chapter explains the choice and the disclosures it triggers.

In this chapter

- Nature, function and mixed presentation
- Choosing the most useful structured summary
- Labelling in a mixed presentation
- Cost of sales and qualitative descriptions
- The specified expenses note (para 83)
- Reliefs and interaction with other standards
- Worked examples

Presenting and disclosing operating expenses

IAS 1 allowed entities to present an analysis of expenses by nature or by function, either on the face of the income statement or in the notes. IFRS 18 requires the analysis to be **presented on the face**, allows a mix of bases across line items, and introduces a new note that gives users the most important nature information whenever function lines are used.

8.1 Nature and function

In the operating category, an entity classifies and presents expenses in line items in the way that provides the **most useful structured summary** of its expenses, using one or both of two characteristics para 78:

- **Nature:** the type of economic resource consumed, without reference to the activity in which it was consumed, for example raw materials, employee benefits, depreciation and amortisation para 80.
- **Function:** the activity to which the consumed resource relates, for example cost of sales, distribution, administration, and research and development. A function line combines several natures, and a single nature, such as employee benefits, may be allocated across several functions para 81.

Mixed presentation

Any individual line item must comprise operating expenses aggregated on the basis of **only one** characteristic, but different line items may use different characteristics para 79. A mixed presentation might be appropriate, for example, where some expenses cannot be allocated to functions without arbitrary allocation, or where an entity has two main business activities with different profit drivers B81.

8.2 Choosing the presentation

The choice is not a free policy choice. An entity considers which presentation provides the most useful structured summary, taking into account B80:

- a. which line items provide the most useful information about the **main components or drivers of profitability**;
- b. which line items most closely represent the way the business is **managed and reported internally**;
- c. **industry practice**, so that users can compare with peers; and

- d. whether allocating expenses to functions would be so **arbitrary** that function line items would not provide a faithful representation, in which case nature is used for those expenses.

The level of aggregation also requires judgement. Several administrative activities, such as human resources, IT, legal and finance, might be combined into one "administrative expenses" line, while expenses with dissimilar characteristics, such as selling and administrative expenses, should be presented separately B85.

Once chosen, the presentation is applied consistently from period to period para 30. A change is permitted only where the new presentation provides a more useful structured summary, with reclassified comparatives.

8.3 Labelling in a mixed presentation

Where some expenses of a particular nature are included in function lines and the remainder are presented in a nature line, the label of the nature line must make clear that it does not include all expenses of that nature, for example "employee benefits other than those included in cost of sales". This follows from the requirement for labels to faithfully represent content para 43.

8.4 Requirements triggered by function lines

If an entity presents **one or more** line items comprising expenses classified by function, it shall para 82:

- a. present a separate line item for **cost of sales**, if its functions include a cost of sales function. That line item includes the total inventory expense described in IAS 2 para 38; and
- b. disclose a **qualitative description** of the nature of expenses included in each function line item.

The specified expenses note

The same entity discloses in a single note para 83:

(a) the total amounts of five specified expenses:

- i. depreciation, comprising depreciation under IAS 16, IAS 40 and IFRS 16;
- ii. amortisation under IAS 38;
- iii. employee benefits under IAS 19 and share-based payments under IFRS 2;
- iv. impairment losses and reversals of impairment losses under IAS 36; and
- v. write-downs and reversals of write-downs of inventories under IAS 2.

(b) for each total:

- i. the amount related to each line item in the operating category; and
- ii. a list of all line items outside the operating category that also include amounts relating to that total.

The totals may include amounts recognised as part of the carrying amount of other assets, such as depreciation capitalised into inventory, rather than as an expense. Where they do, the entity explains this qualitatively and identifies the assets concerned B84.

8.6 Choosing between nature and function: illustrations

Business	Likely presentation	Reasoning under B80
Residential and nursing care group	Nature	Employee costs are typically more than half of revenue and the main driver of margin; management reports staff costs, agency costs and occupancy costs; allocating multi-role staff to functions would be arbitrary.
Manufacturer or textile producer	Function or mixed	Gross margin is the key internal and external indicator; cost of sales is managed by production unit; certain items such as impairments or workers' profit-sharing may be presented by nature.
Retailer	Function	Gross margin and store contribution are central; industry practice is function-based.
Pharmaceutical group	Function	Research and development and selling and marketing are separately managed and are key investor metrics.
Independent school group	Nature	Teaching staff, premises and boarding costs are the main drivers; function allocation would be arbitrary.
Racecourse or leisure operator	Mixed	Event and hospitality cost of sales is managed by function, while central staff and depreciation may be clearer by nature.

Agenda decision: function presentation required by IFRS 17

In April 2026 the IASB ratified an agenda decision confirming that para 83 still applies where an entity presents expenses classified by function because IFRS 17 requires it, for example insurance service expenses.

8.5 Reliefs

An entity that gives the para 83 note is exempt from disclosing para 84:

- for function line items, further disaggregation of nature expenses beyond the five specified expenses; and
- for nature expenses that another standard specifically requires to be disclosed, the amount included in each function line item.

The relief concerns disaggregation only. It does not exempt the entity from specific disclosure requirements in other standards, such as the IAS 19 pension disclosures, IAS 36 impairment disclosures or the IFRS 16 disclosure of short-term lease expense para 85.

Example 8.1 – Mixed presentation and labelling (£m)

Revenue	980
Cost of sales (<i>function</i>)	(610)
Distribution costs (<i>function</i>)	(70)
Employee benefits other than those included in cost of sales and distribution costs (<i>nature</i>)	(120)
Depreciation and amortisation other than included in cost of sales (<i>nature</i>)	(25)
Other operating expenses (<i>nature</i>)	(55)
Operating profit	100

The entity uses function lines for production and distribution, which are managed as separate cost centres, and nature lines for central costs that cannot be allocated without arbitrary judgement. Each nature line is labelled to show it excludes amounts in the function lines (para 43). Because function lines are presented, the entity presents a cost of sales line including all IAS 2 inventory expense (para 82(a)), describes the nature of expenses in each function line (para 82(b)) and gives the para 83 note.

"Other operating expenses" is acceptable only if no more informative label exists, and its composition may need disclosure (B25–B26).

Example 8.2 – Specified expenses note (£m)

Continuing Example 8.1. The entity's pension net interest is classified in financing, and it has a discontinued operation.

Specified expense	Cost of sales	Distribution	Employee benefits (other)	Depreciation and amortisation (other)	Other operating expenses	Total in operating	Line items outside operating that include part of the total
Depreciation	48	6	–	–	18	–	72 Loss from discontinued operations
Amortisation	4	–	–	–	7	–	11 –
Employee benefits	160	22	120	–	–	–	302 Finance expenses (net pension interest); loss from discontinued operations
Impairment losses and reversals (IAS 36)	9	–	–	–	–	–	9 –
Inventory write-downs and reversals	6	–	–	–	–	–	6 –

The depreciation total includes £3m capitalised into closing inventories of finished goods, which will be recognised in cost of sales when sold (B84). IFRS 9 expected credit losses are not IAS 36 impairments and are excluded; they are presented separately where material (para 75(b)(ii)).

If every operating expense line is by nature, is the para 83 note required?

No. Para 83 applies only where one or more line items in the operating category comprise expenses classified by function. A pure nature presentation already shows the information.

Does a single "cost of sales" line in an otherwise nature-based statement trigger the note?

Yes. Cost of sales is a function line, so presenting it, even alongside nature lines, triggers paras 82 and 83 in full.

Do agency staff costs belong in the employee benefits total?

No. The total covers employee benefits under IAS 19 and share-based payments under IFRS 2. Agency workers are not employees of the entity, so their cost is a purchased service.

Are the para 83 amounts required for comparatives?

Yes. As with all amounts in the financial statements, comparative information is required (para 31), including on transition.

Reckoner view

Building the para 83 note requires the five specified expenses to be tracked by function line, and the totals to reconcile to the PPE, intangibles, employee benefits, impairment and inventory notes. We recommend a standard reconciliation template, populated from the general ledger by cost centre and nature code, with a check that each total agrees to its source note. For FRS 101 qualifying entities, only the para 83(a) totals are required (chapter 13).

09

Comprehensive income, financial position, equity and the notes

Most IAS 1 requirements for other comprehensive income, the statement of financial position, the statement of changes in equity and the notes are carried forward. This chapter summarises them and highlights the changes, such as the separate presentation of goodwill and the aggregation principles for balance sheet items.

In this chapter

- Statement presenting comprehensive income
- Statement of financial position
- Current and non-current classification
- Minimum line items and goodwill
- Statement of changes in equity
- Structure of the notes and entity information
- Capital and share capital disclosures

Comprehensive income, financial position, equity and the notes

IFRS 18's most visible changes are in the statement of profit or loss, but the standard also contains the requirements for the other primary statements and the general structure of the notes. These have been carried forward from IAS 1 largely unchanged, with the new aggregation and labelling principles applying throughout.

9.1 Statement presenting comprehensive income

The statement presenting comprehensive income shows totals for profit or loss, other comprehensive income and comprehensive income [para 86](#), and the allocation of comprehensive income between non-controlling interests and owners of the parent [para 87](#).

Items of OCI are classified in two categories [para 88](#):

- income and expenses that **will be reclassified** to profit or loss when specific conditions are met, such as cash flow hedge gains, foreign currency translation differences and fair value changes on debt instruments at FVOCI; and
- income and expenses that **will not be reclassified**, such as revaluation surpluses, remeasurements of defined benefit plans and fair value changes on equity investments designated at FVOCI.

In each category, the share of OCI of equity-accounted associates and joint ventures is presented separately from other items [para 89](#). The classification into "will" and "will not" be reclassified uses the same terminology as before; the OCI categories are separate from the five profit or loss categories.

Reclassification adjustments and tax

Reclassification adjustments are presented in the statement or disclosed in the notes [paras 90–92](#). They arise, for example, on disposal of a foreign operation and when hedged forecast cash flows affect profit or loss; they do not arise on revaluation surpluses or defined benefit remeasurements [B88–B89](#). The income tax relating to each item of OCI is presented or disclosed [para 93](#). Items may be presented net of tax, or before tax with one aggregate tax amount allocated between the two categories [paras 94–95](#).

9.2 Statement of financial position

Current and non-current

Assets and liabilities are presented as current and non-current, unless a presentation based on liquidity provides information that is reliable and more relevant [para 96](#). Whichever method is used, the amount expected to be recovered or settled after more than twelve months is disclosed for line items combining amounts due within and after twelve months [para 97](#). Deferred tax is never classified as current [para 98](#).

The criteria for current assets and liabilities are carried forward [paras 99–102](#), including the 2020 and 2022 amendments to IAS 1 on the classification of liabilities with covenants. A liability is current if, among other things, the entity does not have the right at the end of the reporting period to defer settlement for at least twelve months.

Minimum line items

The statement presents line items for [para 103](#): property, plant and equipment; investment property; intangible assets; **goodwill**; financial assets; IFRS 17 portfolios that are assets; equity-accounted investments; biological assets; inventories; trade and other receivables; cash and cash equivalents; assets held for sale; trade and other payables; provisions; financial liabilities; IFRS 17 portfolios that are liabilities; current tax; deferred tax; liabilities in disposal groups; non-controlling interests; and issued capital and reserves attributable to owners of the parent [para 104](#).

What is new

Goodwill is now a **separate required line item**, distinct from other intangible assets para 103(d). Groups that present a combined "goodwill and intangible assets" line will need to split it, subject to materiality, and restate the comparative.

Additional line items are presented where needed for a useful structured summary, using characteristics such as nature, function, liquidity, measurement basis and the timing of recovery or settlement para 105, B109–B111. IFRS 18 does not prescribe the order or format of the statement para 106.

9.3 Statement of changes in equity

The statement of changes in equity shows total comprehensive income split between owners and non-controlling interests; the effects of retrospective application or restatement under IAS 8; and, for each component of equity, a reconciliation of the opening and closing carrying amounts showing profit or loss, OCI and transactions with owners paras 107–108. An analysis of OCI by item for each component of equity, and dividends recognised with the amount per share, are presented in the statement or disclosed in the notes paras 109–110.

9.4 Structure of the notes

The notes disclose para 113:

- information about the basis of preparation and the specific accounting policies used, by reference to IAS 8;
- information required by IFRS Accounting Standards that is not presented in the primary financial statements; and

- other information not presented in the primary statements but necessary to understand any of them.

Notes are presented in a systematic manner, considering understandability and comparability, with each item in the primary statements cross-referenced to related information in the notes para 114, B112. Basis of preparation and accounting policy information may be given in a separate section para 115.

Information about the entity

If not disclosed elsewhere in information published with the financial statements, the notes disclose the entity's domicile and legal form, country of incorporation and registered office; a description of its operations and principal activities; the name of its parent and ultimate parent; and, for a limited-life entity, information about the length of its life para 116.

9.5 Capital disclosures

An entity discloses information that enables users to evaluate its objectives, policies and processes for managing capital para 126, including what it manages as capital, any externally imposed capital requirements, quantitative data and whether it has complied para 127. The disclosures are based on information provided internally to key management personnel para 128.

9.6 Share capital and dividends

For each class of share capital, an entity presents or discloses the number of shares authorised, issued and fully paid, par value, a reconciliation of shares outstanding, rights and restrictions, shares held by the entity or its subsidiaries, and shares reserved for issue under options; together with a description of each reserve para 130. Entities without share capital give equivalent information para 131. Dividends proposed or declared but not recognised, and cumulative preference dividends not recognised, are disclosed para 132.

Reckoner view

Because these requirements are largely unchanged, the work is mainly in updating references and templates. Two practical points deserve attention: splitting goodwill from other intangibles where they are combined, and applying the aggregation principles to the balance sheet, where large "other receivables" or "other payables" balances will attract the same scrutiny as "other" lines in profit or loss.

10

Management-defined performance measures

For the first time, some of the alternative performance measures that companies use to explain their results are brought into the audited financial statements. This chapter explains how to identify MPMs, what must be disclosed and how the requirements interact with interim reporting and earnings per share.

In this chapter

- Why MPMs were introduced
- The three-part definition
- Public communications and the rebuttable presumption
- Measures that are not MPMs
- Disclosure requirements and the reconciliation
- Tax and non-controlling interest effects
- Changes to MPMs, interim reports and EPS
- Illustrative MPM note

Management-defined performance measures

Many companies explain their performance using "adjusted", "underlying" or "core" profit measures. Investors find these measures useful, but before IFRS 18 they were defined inconsistently, often explained poorly and generally sat outside the audited financial statements. IFRS 18 does not prohibit them. Instead, where a measure meets the definition of a management-defined performance measure (MPM), it must be explained and reconciled in a single note that forms part of the financial statements.

10.1 The definition

A management-defined performance measure is a **subtotal of income and expenses** that para 117:

- a. an entity uses in **public communications outside financial statements**;
- b. an entity uses to communicate to users of financial statements **management's view of an aspect of the financial performance of the entity as a whole**; and
- c. is **not listed in para 118**, or specifically required to be presented or disclosed by IFRS Accounting Standards.

An entity may have no MPMs, one or several B113. An entity that communicates its performance using only IFRS-required totals and subtotals, or the para 118 subtotals, has none.

A subtotal of income and expenses

The measure must combine both income and expenses. Measures that are not subtotals of income and expenses are not MPMs, including B116:

- subtotals of only income or only expenses, such as adjusted revenue on its own;
- measures of assets, liabilities, equity or combinations of them, such as net debt or net assets;
- liquidity or cash flow measures, such as free cash flow; and
- non-financial performance measures, such as customer satisfaction or number of pupils.

A financial ratio is not itself an MPM, but a subtotal used as the numerator or denominator of a ratio is an MPM if it would meet the definition on its own B117. For example, if a company publicises "adjusted operating margin", the adjusted operating profit numerator is likely to be an MPM.

Public communications

The subtotal must be used in public communications outside the financial statements. These include management commentary, press releases and investor presentations. They exclude oral communications, written transcripts of oral communications, and social media posts B119.

MPMs relate to the same reporting period as the financial statements. A subtotal used only for interim reporting is an MPM only in the interim financial statements, and vice versa B120. The entity considers public communications relating to the reporting period. If it routinely issues them after the financial statements, such as an investor presentation shortly after the annual report, it considers the communications relating to the previous period, unless there is evidence the measure will not be used for the current period B121–B122.

Management's view of the entity as a whole

The measure must communicate management's view of an aspect of the performance of the **entity as a whole**. A segment profit measure that relates only to part of the business is generally not an MPM B114, unless, for example, a reportable segment comprises a single main business activity and its subtotal is presented in profit or loss, indicating it does provide information about the whole entity B115.

The rebuttable presumption

A subtotal of income and expenses used in public communications is **presumed** to communicate management's view of an aspect of the entity's overall performance para 119. The presumption can be rebutted only with reasonable and supportable information that the subtotal does not communicate management's view para 120, for example B125–B129:

- the subtotal is communicated **without prominence**, judged by the number of references and the commentary around it; and

- management does **not use the subtotal internally** to assess or monitor performance; or
- the entity has **another reason** for using it: it is required by law or regulation, it relates to financial statements prepared under another framework, it responds to a request from an external party, or it communicates information other than financial performance.

The assessment is made for the subtotal as a whole; an entity cannot rebut the presumption because some individual items within it do not reflect management's view B130. A measure can become, or cease to be, an MPM as its use changes B131.

10.2 Identifying MPMs in practice

Measure used in public communications	MPM?	Reasoning
Adjusted operating profit (excluding amortisation of acquired intangibles and restructuring costs)	Yes	Subtotal of income and expenses; not in para 118; presumed to reflect management's view.
Underlying profit before tax	Yes	As above.
Operating profit before depreciation, amortisation and IAS 36 impairments, labelled "EBITDA"	No	Listed in para 118(b), if calculated exactly on that basis.
Adjusted EBITDA (also excluding share-based payments and acquisition costs)	Yes	Not in para 118; further adjustments.
EBITDA calculated as profit before tax plus finance costs and D&A (including investing income)	Yes	Not the para 118(b) subtotal, because it includes investing income.
Gross profit; net rental income; net interest income	No	Para 118(a) and B123.
Free cash flow; net debt; gearing	No	Not subtotals of income and expenses (B116).
Like-for-like revenue growth	No	Income only (B116(a)).

Adjusted operating margin	Numerator yes	The ratio is not an MPM, but the adjusted operating profit numerator is (B117).
Adjusted earnings per share	Numerator yes	Adjusted earnings, if a subtotal of income and expenses, is an MPM; the per-share amount must comply with IAS 33.73B.
Profit measure required by a regulator in a regulatory return	Possibly not	Presumption may be rebutted if required by law or regulation (B129(a)).
Segment operating profit for one of several segments	Generally no	Not the entity as a whole (B114).

10.3 What must be disclosed

The objective is to help users understand the aspect of performance communicated by each MPM and how it compares with measures defined by IFRS para 121. All MPM information is disclosed in a **single note** para 122. If the note includes other information, the MPM information must be clearly distinguished; for example, MPM disclosures may be included in the segment note if they are clearly identified B132–B133.

The note includes a statement that the MPMs provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities para 122.

Each MPM is labelled and described clearly and in a way that does not mislead para 123. A label such as "operating profit before non-recurring expenses" may be used only for a subtotal that excludes all expenses identified by the entity as non-recurring, and the meaning of terms such as "non-recurring" must be explained B134–B135. For each MPM the entity discloses para 123:

- a.** a description of the aspect of financial performance it communicates, including why management considers it useful;
- b.** how it is calculated;
- c.** a **reconciliation** between the MPM and the most directly comparable subtotal listed in para 118 or total or subtotal specifically required by IFRS;
- d.** the **income tax effect** and the effect on **non-controlling interests** for each reconciling item; and

- e.** how the entity determined the income tax effect.

The reconciliation in detail

For each reconciling item, the entity discloses the amount related to each line item in the statement of financial performance, and a description of how the item is calculated and contributes to the MPM providing useful information B137. The description is required where there is more than one reconciling item calculated using different methods or contributing in different ways B138, and a single explanation may cover several items B139.

An entity may reconcile to a total or subtotal not presented in the statement of financial performance, such as one disclosed in a note, but must then also reconcile that subtotal to the most directly comparable total or subtotal presented B140.

Tax and non-controlling interest effects

The income tax effect of each reconciling item is calculated B141:

- at the statutory tax rate(s) applicable to the transaction(s) in the jurisdiction(s) concerned;
- on a reasonable pro rata allocation of the entity's current and deferred tax in the jurisdiction(s) concerned; or
- by another method that achieves a more appropriate allocation.

If more than one method is used, the entity discloses how it determined the tax effect for each item B142.

Changes to MPMs

If an entity changes how it calculates an MPM, adds a new MPM, stops using one, or changes how it determines the tax effects, it discloses an explanation of the change and its effects, the reasons, and restated comparative information para 124. If restating comparatives is impracticable, it discloses that fact para 125.

10.4 Interim reports and earnings per share

The MPM requirements apply to condensed interim financial statements prepared under IAS 34 para 5, so the reconciliation and tax effects will be needed every half-

year.

Following the amendments to IAS 33, an entity may disclose additional per-share amounts only if the numerator is a total or subtotal identified in IFRS 18 (paras 69, 86 or 118) or an MPM, attributable to ordinary equity holders of the parent. Revenue per share, for example, can no longer be disclosed in the financial statements.

Illustration 10.1 – MPM note (extract, £m)

Management-defined performance measures. The group uses adjusted operating profit and adjusted profit before tax in its results announcements and investor presentations to communicate management's view of underlying trading performance. These measures provide management's view of an aspect of the financial performance of the group as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

Adjusted operating profit is operating profit excluding amortisation of acquired intangible assets, restructuring costs and remeasurement of contingent consideration. Management considers it useful because these items arise from acquisitions or one-off programmes and do not reflect the performance of the ongoing portfolio. Tax effects are calculated at the statutory rate of the jurisdiction in which each item arises; contingent consideration remeasurements are not taxable.

Reconciliation	2027	2026	Tax effect 2027	NCI effect 2027	Line item affected
Operating profit (IFRS 18)	903	822			
Amortisation of acquired product rights	90	85	(22)	(3)	Cost of sales
Restructuring costs – manufacturing	20	–	(5)	–	Cost of sales
Restructuring costs – head office	8	–	(2)	–	Administrative expenses
Remeasurement of contingent consideration	45	(20)	–	–	Remeasurement of contingent consideration
Adjusted operating profit (MPM)	1,066	887	(29)	(3)	

A full illustration including comparative tax and NCI effects appears in Appendix A.

Our annual report includes "adjusted operating profit" in the strategic report. Is that a public communication?

Yes. Management commentary is a public communication outside the financial statements (B119). The measure is presumed to communicate management's view and, unless the presumption is rebutted, is an MPM.

The CEO mentions "underlying EBITDA" on the results call but it appears in no written material. Is it an MPM?

Oral communications and their transcripts are excluded (B119), so a measure used only orally is not an MPM. In practice such measures usually also appear in slides or press releases.

Can we present our MPM on the face of the income statement?

Only if it meets the requirements for additional subtotals in para 24, including compatibility with the category structure and no more prominence than required subtotals. Many adjusted measures cut across the structure and can only be disclosed in the note.

Does the MPM note have to be audited?

Yes. It is part of the notes and therefore within the scope of the audit opinion. Auditors will consider completeness of the MPMs identified from public communications, accuracy of the reconciliations and the tax and NCI effects.

We use an APM in the annual report that is not an MPM, such as free cash flow. What applies?

IFRS 18 does not apply to it, but regulators' expectations for alternative performance measures in the front half of the annual report continue to apply, including clear definitions and reconciliations.

Is an MPM required to be reconciled to operating profit?

To the most directly comparable subtotal in para 118 or required by IFRS. For adjusted EBITDA, that will often be operating profit before depreciation, amortisation and impairments (para 118(b)) rather than operating profit.

Reckoner view

Identifying MPMs requires a review of every public communication relating to the period, not just the annual report. We recommend an inventory, maintained by finance with input from investor relations and the company secretary, listing each subtotal used externally, where it appears, whether the presumption applies, and the conclusion reached. The inventory supports completeness for the audit and makes the half-year disclosures far easier.

11

Statement of cash flows and other consequential amendments

IFRS 18 amends several other standards. The most widely felt changes are to IAS 7, which gains a common starting point for the indirect method and loses most of its options for classifying interest and dividends. IAS 8, IAS 33, IAS 34 and IFRS 7 are also amended.

In this chapter

- IAS 7: operating profit as the starting point
- IAS 7: interest and dividends
- Illustrative statement of cash flows
- IAS 8 renamed and expanded
- IAS 33: additional per-share amounts
- IAS 34: interim reports
- Other consequential amendments

Statement of cash flows and other consequential amendments

The consequential amendments in Appendix D of IFRS 18 are incorporated directly into the standards they amend and take effect at the same time as IFRS 18 Appendix D. An entity cannot apply IFRS 18 without them, or them without IFRS 18.

11.1 IAS 7 Statement of Cash Flows

A common starting point

Entities using the indirect method must start the reconciliation of cash flows from operating activities with **operating profit or loss** IAS 7.18(b). Previously IAS 7 referred only to "profit or loss", and practice varied between profit before tax and profit after tax. The change removes reconciling items for finance costs, investment income, equity-accounted results and tax that previously had to be added back, and gives investors a consistent starting point.

Interest and dividends

IAS 7 previously allowed interest and dividends paid and received to be classified in operating, investing or financing activities. The amended standard removes most of this choice:

- **Dividends paid** are classified as financing for **all** entities, because they are a cost of obtaining finance IAS 7.33A.

- Entities **without** a specified main business activity classify **interest paid** as financing, and **interest received and dividends received** as investing IAS 7.34A.
- Entities **with** a specified main business activity classify dividends received, interest paid and interest received by reference to how the related income and expenses are classified in profit or loss under IFRS 18 IAS 7.34B–34C. Each of the three types is assessed separately. Where the related income or expenses are classified in more than one category of profit or loss, the entity makes an accounting policy choice to classify all of the related cash flows in one of the associated activities IAS 7.34D.

Other points

The aggregation and disaggregation principles in IFRS 18 apply to the statement of cash flows. Existing classification judgements, such as those for supplier finance arrangements, continue to apply. Lease interest paid becomes financing for entities without a specified main business activity; previously some entities presented it in operating.

Illustration 11.1 – Cash flows from operating activities (indirect method, £m)

Cash flows from operating activities

Operating profit	170
Depreciation and amortisation	62
Impairment losses	9
Gain on disposal of plant and equipment	(3)
Share-based payment expense	5
Increase in inventories	(14)
Increase in trade receivables	(11)
Increase in trade payables	8
Cash generated from operations	226
Income taxes paid	(35)
Net cash from operating activities	191

Cash flows from investing activities

Purchase of property, plant and equipment	(80)
Interest received	6
Dividends received from joint ventures	4
Net cash used in investing activities	(70)

Cash flows from financing activities

Repayment of borrowings	(40)
Payment of lease liabilities (principal)	(22)
Interest paid (borrowings and leases)	(33)
Dividends paid	(25)
Net cash used in financing activities	(120)

Under IAS 1 and the old IAS 7, this group started from profit before tax and added back finance costs, deducted investment income and its share of joint venture profits, and presented interest paid within operating activities.

Under the amended IAS 7:

- the reconciliation starts from **operating profit**, so no adjustments are needed for finance costs, investment income or equity-accounted results;
- **interest received** and **dividends received** are investing;
- **interest paid**, including interest on lease liabilities, and **dividends paid** are financing; and
- income taxes paid remain in operating activities unless specifically identified with investing or financing activities.

Net cash from operating activities increases compared with the old presentation, because interest paid no longer reduces it. Covenant definitions and KPIs based on operating cash flow should be reviewed.

11.2 IAS 8 Basis of Preparation of Financial Statements

IAS 8 is renamed *Basis of Preparation of Financial Statements* (previously *Accounting Policies, Changes in Accounting Estimates and Errors*). It receives the IAS 1 requirements on fair presentation and compliance with IFRS Accounting Standards, going concern, the accrual basis, material accounting policy information IAS 8.27A–27I, and judgements and sources of estimation uncertainty, including the requirement to disclose the judgements with the most significant effect on the amounts recognised IAS 8.27G. The substance is unchanged, but cross-references in accounting policies, templates and audit reports will need updating.

11.3 IAS 33 Earnings per Share

Basic and diluted earnings per share continue to be presented in the statement of profit or loss. Additional per-share amounts may be disclosed only if the numerator is a total or subtotal identified in IFRS 18 or an MPM, attributable to ordinary equity holders of the parent IAS 33.73B. Additional amounts are disclosed in the notes with equal prominence for basic and diluted measures. Measures such

as revenue per share or cash flow per share can no longer be disclosed in the financial statements.

11.4 IAS 34 Interim Financial Reporting

Condensed interim financial statements must include the MPM disclosures required by IFRS 18 paras 121–125 IFRS 18.5. The aggregation principles in paras 41–45 also apply. In the first year of applying IFRS 18, the transition requirements in paras C4–C5 apply (chapter 12).

11.5 Other amendments

- **IFRS 7** receives certain disclosure requirements previously in IAS 1, including those for puttable financial instruments classified as equity.
- **IFRS 12, IAS 21, IAS 28** and others receive minor consequential changes to references and terminology, such as replacing "profit or loss" with "operating profit or loss" where relevant.
- **IAS 28** is affected by the transition option in C7 for entities eligible under IAS 28.18 (chapter 12).

Reckoner view

The IAS 7 changes are often overlooked because attention focuses on the income statement. For many groups, moving interest paid from operating to financing activities will increase reported operating cash flow and cash conversion. Treasury, investor relations and anyone responsible for covenant compliance certificates should be briefed early.

12

Transition and first-time application

IFRS 18 applies retrospectively. Comparative information is restated, a line-by-line reconciliation from IAS 1 is disclosed, and interim reports in the first year carry their own requirements. This chapter explains each step and the practical timeline for common UK year-ends.

In this chapter

- Effective date and early application
- Retrospective application and relief from IAS 8 disclosures
- The comparative-period reconciliation
- First-year interim reports
- Optional reconciliations and the IAS 28 election
- Timelines for common year-ends
- Worked reconciliation

Transition and first-time application

IFRS 18 applies for annual reporting periods beginning on or after **1 January 2027**. Earlier application is permitted and must be disclosed [para C1](#). The standard, together with the consequential amendments to other standards, is applied retrospectively in accordance with IAS 8, which means comparative information is restated as if IFRS 18 had always applied [para C2](#).

12.1 Retrospective application

Because IFRS 18 changes presentation and disclosure rather than recognition and measurement, retrospective application does not change profit, equity or net assets. It does require every amount in the comparative statement of profit or loss to be reclassified into the new categories and line items, the new subtotals to be calculated for the comparative period, the specified expenses note and MPM note to be prepared for the comparative period, and the statement of cash flows and balance sheet to be re-presented where affected.

Relief from IAS 8 disclosures

IAS 8 normally requires an entity applying a new standard to disclose, for the current period and each prior period presented, the amount of the adjustment for each line item affected. IFRS 18 removes the requirement to present the quantitative information in IAS 8.28(f) [para C2](#). The C3 reconciliation replaces it.

12.2 The comparative-period reconciliation

In its first annual financial statements under IFRS 18, an entity discloses, for the comparative period immediately preceding the first IFRS 18 period, a reconciliation for **each line item in the statement of profit or loss** between [para C3](#):

- the restated amounts presented applying IFRS 18; and
- the amounts previously presented applying IAS 1.

The reconciliation shows users how each IAS 1 line has been reclassified, split or combined. It does not need to be repeated for the current period, although an entity may choose to give it for the current period or earlier periods [para C6](#).

Practical considerations

- The reconciliation operates at line-item level, so an entity needs a mapping of every IAS 1 line to the new IFRS 18 lines.
- Where an IAS 1 line, such as "finance costs", is split across categories, both sides of the split should be visible.
- Changes in subtotals, especially operating profit, are what users will focus on; a short narrative explaining the main drivers is helpful.

12.3 First-year interim reports

An entity that prepares condensed interim financial statements under IAS 34 in its first year of applying IFRS 18 must [paras C4–C5](#):

- present in the condensed statements each heading it expects to use in its annual financial statements and the subtotals required by [paras 69–74](#), even though IAS 34 normally permits condensed presentation; and
- disclose, as part of the explanation of changes required by IAS 34.16A(a), reconciliations for each line item presented in the statement of profit or loss for the comparative period and the comparative year-to-date period, between the restated IFRS 18 amounts and the amounts previously presented under IAS 1.

For a December year-end listed group, the first affected interim report is the half-year to 30 June 2027, which must also include the MPM disclosures.

12.4 Investments in associates and joint ventures

At the date of initial application, an entity eligible to apply IAS 28.18, such as a venture capital organisation, mutual fund or unit trust, may change its election for

measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss under IFRS 9, applying the change retrospectively para C7. Para C7 also sets out related requirements for entities applying IAS 27.11 in separate financial statements. The option exists because IFRS 18 always classifies equity-accounted results in investing, which some such entities may consider less representative of their performance.

12.5 Early application

Early application is permitted. An entity applying IFRS 18 early discloses that fact, and applies the consequential amendments in Appendix D at the same time paras C1, Appendix D. In the UK, early application was possible once the UK Endorsement Board adopted IFRS 18 in December 2025. FRS 101 entities applying IFRS 18 early apply the related FRS 101 amendments at the same time.

12.6 Timelines for common year-ends

Year-end	First IFRS 18 annual period	Comparative period restated	Comparative period began	First interim report affected
31 December	Year ending 31 December 2027	Year ended 31 December 2026	1 January 2026	Six months to 30 June 2027
31 March	Year ending 31 March 2028	Year ended 31 March 2027	1 April 2026	Six months to 30 September 2027
30 June	Year ending 30 June 2028	Year ended 30 June 2027	1 July 2026	Six months to 31 December 2027
31 August	Year ending 31 August 2028	Year ended 31 August 2027	1 September 2026	Six months to 29 February 2028
30 September	Year ending 30 September 2028	Year ended 30 September 2027	1 October 2026	Six months to 31 March 2028

The comparative year has already started

For every year-end above, the comparative period began during 2026. Information needed to restate it, such as the split of finance costs, foreign exchange differences by source, the five specified expenses by function line and the MPM reconciliation items, is far easier to capture as transactions occur than to reconstruct after the year-end.

Example 12.1 – Comparative-period reconciliation (year ended 31 December 2026, £m)

Line item	IAS 1 as previously presented	Reclassification	IFRS 18 restated	Explanation
Revenue	4,200	–	4,200	
Cost of sales	(1,380)	–	(1,380)	
Selling and marketing expenses	(980)	–	(980)	
Research and development expenses	(760)	–	(760)	
Administrative expenses	(303)	8	(295)	Expected credit losses moved to a separate line
Impairment losses on trade receivables	–	(8)	(8)	Separate line required by para 75(b) (ii)
Other operating income	45	(20)	25	Contingent consideration gain presented separately
Remeasurement of contingent consideration	–	20	20	Operating (B55(c))
Share of profit of joint ventures	30	–	30	Moved from within operating profit to investing
Operating profit	852	(30)	822	IAS 1 subtotal included joint ventures
Finance income	25	(25)	–	IAS 1 line split
Interest income on cash and deposits	–	35	35	Investing (para 53(b))
Fair value losses on equity investments	–	(10)	(10)	Investing (para 53(c))
Profit before financing and income taxes	–	877	877	New subtotal
Finance costs	(147)	–	(147)	Disaggregated in the notes: borrowings 115, leases 17, pensions 10, provisions 5

Profit before tax	730	–	730	
Income tax expense	(180)	–	(180)	
Loss from discontinued operations	(25)	–	(25)	
Profit for the year	525	–	525	Unchanged

Subtotal rows show the effect on subtotals; the reclassification column for line items sums to nil. Operating profit falls by £30m because the joint venture share moves to investing, although underlying performance is unchanged.

Reckoner view

We recommend preparing a full pro forma IFRS 18 income statement and C3 reconciliation for the comparative year as a "dry run" well before the first year-end, and sharing it with the audit committee and auditor. This surfaces classification questions, data gaps and covenant effects while there is still time to resolve them, and gives investor relations the information needed to brief the market.

13

The UK perspective

IFRS 18 is a global standard, but its effect in the UK depends on the reporting framework. This chapter explains UK adoption, the FRS 101 amendments, the changes to adapted formats under FRS 102 and FRS 105, and the position of charities, academy trusts and subsidiaries of IFRS groups.

In this chapter

- UK adoption of IFRS 18
- The UK reporting frameworks in brief
- FRS 101: what applies and what is exempt
- FRS 102 and FRS 105: adapted formats
- Charities and academy trusts
- Indirect effects and group reporting
- Quick reference by framework

The UK perspective

In the UK, IFRS 18 reaches reporting entities through three routes: directly, for entities using UK-adopted international accounting standards; through FRS 101, which applies IFRS recognition and measurement with reduced disclosures; and, in a much narrower way, through the IFRS-based "adapted formats" available to FRS 102 companies.

13.1 UK adoption

New IFRS Accounting Standards apply in the UK only once adopted by the UK Endorsement Board (UKEB). The UKEB adopted IFRS 18 for use in the UK on 10 December 2025, with the IASB effective date of annual periods beginning on or after 1 January 2027 and early application permitted. UK companies preparing financial statements under UK-adopted international accounting standards, including listed groups' consolidated financial statements and AIM companies, therefore apply IFRS 18 in full.

13.2 The UK frameworks in brief

UK GAAP is set by the Financial Reporting Council (FRC). Its main standards are:

- **FRS 100**, which sets out which framework an entity may use;
- **FRS 101 *Reduced Disclosure Framework***, available to qualifying entities (typically subsidiaries and parents preparing individual financial statements whose results are included in publicly available consolidated financial statements), which applies UK-adopted IFRS recognition and measurement with disclosure exemptions;
- **FRS 102**, the main UK GAAP standard for entities not using IFRS, with reduced disclosures for small entities in Section 1A; and
- **FRS 105**, for micro-entities.

FRS 101 is part of the IFRS family for recognition and measurement; FRS 102 and FRS 105 are not. That distinction determines how IFRS 18 applies.

13.3 FRS 101

The FRC issued amendments to FRS 101 on 28 May 2025 as part of its 2024/25 annual review. The amendments maintain existing exemptions where the underlying IAS 1 requirements have been carried into IFRS 18 or moved to other standards. Other than the specific new exemptions below, there are **no exemptions from IFRS 18**.

New exemptions for all qualifying entities

- the **MPM disclosures** in IFRS 18 paras 121–125; and
- the detailed analysis in **para 83(b)**, which allocates the five specified expenses across line items and lists line items outside operating. The para 83(a) totals continue to be required where expenses are presented by function.

The exposure draft (FRED 86) had proposed the MPM exemption for "most" qualifying entities; the final amendments extend it to all.

Exemptions carried forward

Existing exemptions continue to apply with updated references, including those from presenting a statement of cash flows (now IFRS 18 para 10(d)), a third statement of financial position (para 10(g)), capital disclosures (paras 126–129, not available to financial institutions) and the comparative reconciliation of shares outstanding (para 130(a)(iv)).

Presentation in Companies Act accounts

FRS 101 financial statements are Companies Act accounts, so the presentation requirements of company law continue to apply. A qualifying entity can continue to choose statutory or adapted formats statement by statement. FRS 101 requires a subtotal for profit or loss before income taxes in addition to the IFRS 18

subtotals, and its existing requirement to present discontinued operations in a separate column continues.

The amendments to FRS 101 take effect when the qualifying entity applies IFRS 18. The same amendments also confirm that a qualifying entity applying FRS 101 cannot also apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

Reckoner view

For FRS 101 subsidiaries of IFRS groups, IFRS 18 is a full transition project: categories, subtotals, line items and a restated comparative. The relief is limited to disclosures. Where a qualifying entity uses a statutory profit and loss format, care is needed to present the IFRS 18 subtotals within the statutory layout. We recommend agreeing the format with your auditor early, by reference to the FRS 101 Application Guidance.

13.4 FRS 102 and FRS 105

IFRS 18 does not apply to FRS 102 or FRS 105 reporters. However, UK company law allows companies and LLPs applying FRS 102 to use **adapted formats** for the balance sheet and profit and loss account, which are based on IFRS presentation. Before 2026 the adapted-format requirements in FRS 102 were based on IAS 1. With IAS 1 being replaced, the FRC issued *Amendments to FRS 102 and FRS 105 – Adapted formats* on 18 February 2026.

What changed for adapters

- **Section 5:** new line items for operating expenses, operating profit or loss and profit or loss before financing and taxation; additional OCI presentation requirements; and a new appendix, integral to Section 5, for adapted profit and loss accounts.
- **Section 4:** goodwill and intangible assets presented separately; updated guidance on current and non-current classification; and a new appendix, integral to Section 4, for adapted balance sheets.
- **Section 1A:** minimum line items for small entities using adapted formats, consistent with Sections 4 and 5, including the new operating profit and finance

costs lines.

- **Glossary:** revised definitions of current assets, current liabilities and non-current assets for adapters. A liability is current where the entity does not have the right at the reporting date to defer settlement for at least twelve months, a substantive rather than unconditional right, which needs care where loans have covenants.

What did not change

The FRC did not reproduce IFRS 18 in FRS 102, and did not introduce the five IFRS 18 categories, the MPM disclosures or the specified expenses note. Companies using the **statutory formats** in company law are not affected at all.

Effective date

The adapted-format amendments apply to accounting periods beginning on or after 1 January 2027, with early application permitted and disclosed. The same package made minor amendments to FRS 105, clarified aspects of the 2024 periodic review amendments, and deleted the paragraph on inventories of service providers (FRS 102 para 13.14; FRS 105 para 10.13).

13.5 Charities and academy trusts

Charities prepare a statement of financial activities under the Charities SORP (FRS 102), and academy trusts follow the SORP and the Academies Accounts Direction issued by the Department for Education. Neither uses IFRS 18, and the SOFA formats are not affected by the adapted-format amendments. Academy trusts should instead focus on the FRS 102 periodic review changes effective from 1 January 2026, including the new lease accounting model and the five-step revenue model, as reflected in the Charities SORP 2026 and the current Accounts Direction.

13.6 Indirect effects

- **Group reporting packs.** UK subsidiaries of IFRS groups will be asked for IFRS 18-based information from 2027, whatever framework they use for their own statutory accounts.

- **Lenders and investors.** Covenants and investment agreements that reference IFRS-based measures may change in effect.

- **Acquisitions.** Due diligence on IFRS-reporting targets will need to reflect the new subtotals and MPMs.

13.7 Quick reference by framework

Framework	Categories	Operating profit and PBIT	MPM note	Para 83 note	Other points
UK-adopted IFRS	Yes	Yes	Yes	Full (83(a) and (b))	Full IFRS 18 and consequential amendments, including IAS 7, IAS 33 and IAS 34.
FRS 101	Yes	Yes, plus profit before income taxes	Exempt	83(a) totals only	Cash flow statement exemption continues; Companies Act formats apply.
FRS 102, adapted formats	No	New line items, from 1 Jan 2027	No	No	Goodwill separate; revised current/non-current definitions.
FRS 102, statutory formats	No	No change	No	No	Not affected.
FRS 105	No	No	No	No	Minor consequential amendments only.
Charities SORP and academies	No	No	No	No	SOFA unaffected.

Example 13.1 – A UK care group

A private equity-owned care group has an IFRS-reporting Luxembourg parent. The UK holding company prepares consolidated financial statements under FRS 102 using adapted formats to ease consolidation, and its operating subsidiaries use FRS 101. From 2027: the operating subsidiaries apply IFRS 18 through FRS 101, presenting the categories and subtotals but taking the MPM and para 83(b) exemptions; the UK holding company presents the new adapted-format line items under FRS 102, including operating profit, without the IFRS 18 categories; and all entities provide IFRS 18-based reporting packs to the parent. The group should map its chart of accounts once, to IFRS 18 categories, and derive each framework's presentation from that mapping.

14

Recent developments and agenda decisions

Since IFRS 18 was issued, preparers have raised a number of application questions with the IFRS Interpretations Committee. Final agenda decisions explain how the existing requirements apply and should be considered in preparing the first IFRS 18 financial statements.

In this chapter

- Status of agenda decisions
- Agenda decisions ratified in April 2026
- Taxes that are not income taxes
- The IASB's proposed amendment
- Updates to existing agenda decisions
- Matters still under discussion
- How to stay current

Recent developments and agenda decisions

Agenda decisions of the IFRS Interpretations Committee do not change IFRS Accounting Standards, but they explain how the requirements apply to a particular fact pattern. Once finalised and not objected to by the IASB, entities are expected to apply them, allowing sufficient time to implement any resulting change. Because IFRS 18 is not yet effective, final agenda decisions issued before the first year-end should be reflected in the first IFRS 18 financial statements.

14.1 Agenda decisions ratified by the IASB in April 2026

Topic	Question considered	Practical implication
Classification of a foreign exchange difference from an intragroup monetary liability or asset	How to classify exchange differences that survive consolidation when the income and expenses from the intragroup item giving rise to them have been eliminated.	Groups with intragroup loans between entities with different functional currencies should review consolidation mapping for exchange differences.
Assessment of a specified main business activity in a parent's separate financial statements	Whether a parent that accounts for investments in subsidiaries at cost can have a main business activity of investing in assets.	Relevant to parent company separate financial statements, including FRS 101 parent accounts, where dividends and impairments of investments in subsidiaries are significant.
Scope of the requirement to disclose expenses by nature	Whether para 83 applies where an entity presents expenses by function because IFRS 17 requires it.	Para 83 still applies. Insurers presenting insurance service expenses must give the specified expenses note.
Classification of gains and losses on a derivative managing a foreign currency exposure	How to classify gains and losses on a forward contract used to manage a net asset or net liability foreign currency exposure that is not designated as a hedging instrument.	Treasury teams should apply the decision together with B72–B75, including the grossing-up prohibition.

Entities should read the full text of each agenda decision on the IFRS Foundation website, as the summaries above describe the questions and practical relevance only.

14.2 Taxes that are not income taxes

In November 2025 the Committee published a tentative agenda decision on whether an entity applying IFRS 18 may present taxes or other charges that are not income taxes under IAS 12 in the "income tax expense or income" line item, or within the income taxes category. Having considered feedback, the Committee finalised the agenda decision in March 2026, concluding that the income taxes line item and category are reserved for amounts recognised applying IAS 12 (and

related exchange differences) paras 67, 75(a)(iv). Other taxes and charges are classified in the category determined by the general requirements, usually operating.

The decision was significant for entities subject to taxes that are calculated on a basis other than taxable profit but that function as substitutes for income tax, such as minimum taxes on turnover, final taxes on export proceeds, tonnage taxes and certain resource taxes. Under the decision, these reduce operating profit.

14.3 The IASB's response

At its May 2026 meeting the IASB discussed whether to respond to concerns about the outcome, initially considering taxes that meet the definition of "covered taxes" under the OECD Pillar Two model rules. In July 2026 the IASB tentatively decided to amend IFRS 18 to require entities to classify in the income taxes category tax charges imposed by a government as a direct substitute for income taxes, even though they are outside the scope of IAS 12. The IASB also tentatively decided not to amend the requirements relating to income tax recognised in other comprehensive income.

At the date of this guide, the amendment had not been finalised. Entities affected should monitor the project, including any exposure draft and its proposed effective date, and consider whether early application of any amendment will be possible for their first IFRS 18 financial statements.

Who should pay attention

- Groups with operations in jurisdictions that levy minimum or final taxes on turnover or exports, for example some South Asian jurisdictions.
- Shipping groups subject to tonnage tax.
- Extractive groups subject to production-based taxes.
- Groups considering presenting digital services taxes or similar levies; these remain outside IAS 12 and are not obviously substitutes for income taxes.

Reckoner view

The volume of IFRS 18 submissions shows how much judgement the standard involves. We recommend that entities keep a short log of each significant classification judgement, the paragraphs relied on and any relevant agenda decision. The log helps the audit, supports consistency between periods, and makes it easy to reassess judgements if a later agenda decision or amendment affects them.

14.4 Updates to existing agenda decisions

Many agenda decisions issued under IAS 1 refer to IAS 1 paragraphs. The Committee has proposed and made updates to existing agenda decisions so that they refer to IFRS 18 where requirements have been carried forward. In May 2026 the IASB deferred its decision on two updated agenda decisions, on payments for non-income taxes and on the classification of tonnage taxes, pending its work on the tax project described above. The IFRS Foundation's annotated standards note where an IAS 1 agenda decision may not apply in the same way under IFRS 18.

14.5 Matters still under discussion

Further submissions on IFRS 18 have been made to the Committee, including on the definition of MPMs (such as subtotals based on hypothetical income and expenses), the labelling of subtotals, the presentation of operating expenses and the specified main business activity assessment, for example for a manufacturer that also acts as a lessor. Some have been the subject of tentative agenda decisions open for comment. Entities should check the current status before finalising related judgements.

14.6 Staying current

- Monitor IFRIC Updates and IASB Updates, published after each meeting.
- Check the UK Endorsement Board for UK adoption of any amendments to IFRS 18.
- For FRS 101 and FRS 102 matters, monitor FRC publications and its annual review of FRS 101.
- Diarise a review of developments before the first interim report and again before the first year-end.

15

Sector insights

The impact of IFRS 18 depends on business model. This chapter highlights the issues most likely to arise in the sectors we serve, assuming the entity reports under IFRS or FRS 101.

In this chapter

- Healthcare and care groups
- Education
- Real estate
- Manufacturing, textiles and exporters
- Pharmaceuticals and life sciences
- Retail and consumer
- Technology and software
- Leisure, sport and racing
- Banks, lenders and insurers

Sector insights

Every IFRS reporter will see new subtotals and must consider the MPM and aggregation requirements. Beyond that, the issues that matter most vary considerably by sector. The summaries below set out the points we expect to arise most often.

Healthcare and care groups

- **Leases.** Many care homes are leased. Interest on lease liabilities is financing, while depreciation of right-of-use assets is operating, so operating profit excludes the financing element of property costs.
- **Presentation.** Staff costs are the main driver of margin, so a nature presentation is likely to be most useful and avoids the para 83 note.
- **Labels.** Agency and bank staff are not employee benefits; combining them under "staff costs" may not be a faithful label.
- **Measures.** "EBITDARM" or "EBITDA before rent" style measures used with lenders and investors are likely to be MPMs.
- **Covenants.** Leverage and interest cover covenants defined by reference to operating profit or EBITDA should be reviewed.

Education

- **Advance fees.** Independent school groups offering fee-in-advance schemes may have a significant financing component under IFRS 15. The interest accreted on the contract liability is classified in financing (B54(b)).
- **Scholarships and bursaries.** These are price concessions reducing revenue, not expenses.
- **Lettings.** Out-of-hours lettings of operational buildings are operating; a separate property held for rental income is investing.
- **Pensions.** Defined benefit net interest is financing; service cost is operating. Contributions to multi-employer schemes accounted for as defined contribution are operating.
- **Academy trusts** are not affected; they report under FRS 102 and the SORP.

Real estate

- **Main business activity.** Investment property companies are likely to invest in assets as a main business activity, so rental income, fair value movements and disposal gains are operating (para 58).
- **Joint ventures.** Equity-accounted results remain in investing, even where co-investment is central to the strategy.
- **Subtotals.** Net rental income is a gross-profit-type subtotal (B123), not an MPM.
- **Sector measures.** EPRA earnings and similar measures used in public communications must be assessed against the MPM definition.
- **Mixed groups.** Trading groups that also hold investment property must assess the unit of account (B40).

Pharmaceuticals and life sciences

- **Licensing income.** Royalties and licence fees from the main business are revenue (operating).
- **Acquisitions.** Contingent consideration remeasurements on acquired product rights are operating (B55(c)); amortisation and impairment of acquired intangibles are operating.
- **Presentation.** Function presentation, with research and development and selling lines, is common; the para 83 note will be required.
- **Measures.** "Core operating profit" measures excluding acquisition-related items are MPMs.
- **Investments.** Minority stakes in biotech companies generate an independent return; their fair value changes are investing.

Manufacturing, textiles and exporters

- **Foreign exchange.** Differences on export receivables are operating; on foreign currency borrowings, financing; on deposits, investing. Ledger revaluation routines may need changing.
- **Hedging.** Forward contracts hedging sales follow the hedged revenue (operating); net-exposure hedges may default to operating (B74).
- **Presentation.** Function presentation triggers a complete cost of sales line and the para 83 note, including depreciation capitalised into inventory (B84).
- **Levies.** Turnover-based and final taxes are not income taxes and are currently operating; monitor the IASB amendment on substitutes for income taxes.
- **Concessionary finance.** Grant income is operating; the effective interest on the loan is financing.

Retail and consumer

- **Presentation.** Cost of sales must include the full IAS 2 inventory expense; costs such as store depreciation may need reallocating if previously inconsistent.
- **Leases.** Store lease interest is financing; variable rent based on sales is operating.
- **Measures.** Like-for-like sales is income only, not an MPM; "adjusted profit before tax" excluding store impairments is an MPM.
- **Supplier finance.** Interest on supplier finance liabilities, once the payable is derecognised, is financing.
- **Impairments.** Store impairments remain in operating profit.

Technology and software

- **Share-based payments.** These are included in employee benefits for the para 83 note; "adjusted EBITDA before share-based payments" is an MPM.
- **Capitalised development.** Amortisation is operating; amounts capitalised may need explaining in the para 83 note (B84).
- **Cash and investments.** Interest on large cash balances is investing, outside operating profit.
- **Contract liabilities.** Interest on multi-year prepayments with a financing component is financing.
- **Ratios.** "Rule of 40" style metrics may contain MPM numerators (B117).

Leisure, sport and racing

- **Mixed presentation.** Event and hospitality costs may be clearest by function, central costs by nature; mixed presentation requires careful labelling.
- **Self-employed contributors.** Fees to self-employed professionals, such as jockeys or coaches, are not employee benefits.
- **Property.** Land let to third parties may be investment property (investing) or part of operations (operating).
- **Prize money and media rights.** Classification follows the main business activity; income from the main business is operating.
- **Grants and levies.** Industry levies and distributions are operating.

Banks, lenders and insurers

- **Main business activity.** Banks provide financing to customers as a main business activity; interest income and expense on lending and related funding are operating.
- **Policy choices.** Interest on funding unrelated to lending, and income from cash unrelated to lending, involve consistent policy choices (paras 56(b), 65(a) (ii)); choosing operating removes profit before financing and income taxes (para 73).
- **Net interest income** is a para 118(a) subtotal and not an MPM.
- **Insurers.** Insurance finance income and expenses are operating (para 64); investment income is generally operating where investing in financial assets is a main business activity (para 56(a)).
- **Para 83.** Insurers presenting insurance service expenses by function under IFRS 17 must give the specified expenses note (April 2026 agenda decision).
- **Cash flows.** Interest and dividend cash flows follow the classification in profit or loss (IAS 7.34B–34D).

Reckoner view

Sector peers will make their first IFRS 18 presentation choices at around the same time, and the first annual reports will set expectations for comparability. Where industry practice is still forming, we recommend that management considers the factors in B80 on their merits, documents the rationale, and reviews peers' interim reports during 2027 before finalising the annual presentation.

16

Implementation, governance and audit

Successful transition to IFRS 18 depends less on the technical requirements than on data, judgement and communication. This chapter sets out a practical implementation plan, the governance it needs and what to expect from the audit of the first IFRS 18 financial statements.

In this chapter

- Impact assessment
- Data, systems and the chart of accounts
- Key judgements to document
- Contracts, covenants and remuneration
- Stakeholder communication
- Project timeline
- What auditors will focus on
- Readiness checklist

Implementation, governance and audit

IFRS 18 touches finance, treasury, tax, investor relations, legal, HR and IT. It requires a full restatement of the comparative year and introduces judgements that are new to most finance teams. A structured project, with clear ownership and early auditor involvement, is the best way to manage it.

16.1 A phased implementation plan

- 1 Scope and impact assessment.** Identify all group entities reporting under IFRS or FRS 101, and FRS 102 entities using adapted formats. Assess the likely impact on each primary statement, the notes, interim reporting, systems, covenants and KPIs. Produce a heat map and a project plan.
- 2 Key judgements.** Assess specified main business activities; decide the operating expense presentation; determine the classification of finance costs, foreign exchange, derivatives and disposals; and identify MPMs. Document each decision in a technical memo.
- 3 Chart of accounts mapping.** Map every income and expense account to an IFRS 18 category and line item. Where an account mixes categories, split it, or define allocation rules.
- 4 Systems and data.** Update the general ledger, consolidation and reporting tools; build data capture for the para 83 note, the MPM reconciliation and foreign exchange by source; and capture comparative data on the new basis.
- 5 Contracts and incentives.** Review covenants, remuneration targets and earn-outs; quantify the effect of changed subtotals; engage lenders and remuneration committees early.
- 6 Dry run.** Prepare pro forma IFRS 18 financial statements, the C3 reconciliation and the MPM note for the comparative year; agree them with the audit committee and auditor.
- 7 Interim reporting.** For listed entities, prepare the first-year interim requirements (paras C4–C5) and MPM disclosures.
- 8 Communication and go-live.** Brief the board, investors and analysts on expected changes; update accounting manuals, disclosure checklists and templates; embed new controls.

16.2 Illustrative timeline for a 31 December year-end listed group

Period	Finance and reporting	Governance and communication
By end of 2025	Impact assessment; initial judgements; chart of accounts mapping designed.	Audit committee briefed; project sponsor appointed.
During 2026 (comparative year)	Systems changes implemented; comparative data captured on IFRS 18 basis; MPM inventory prepared; covenant analysis.	Judgement memos reviewed by the audit committee; auditor consulted on key judgements; lenders engaged where needed.

Early 2027	Dry run of 2026 restated statements, C3 reconciliation and MPM note; interim template prepared.	Market briefing on expected changes alongside 2026 results.
Half-year 2027	First IFRS 18 condensed interim statements, with headings, subtotals, line-item reconciliations and MPM note.	Auditor review of interim statements.
Year-end 2027	First IFRS 18 annual financial statements with restated 2026 comparatives.	Audit of first IFRS 18 statements, including the MPM note.

16.3 Key judgements to document

- Whether the entity has a specified main business activity, and the evidence.
- Accounting policy choices available to lenders (paras 56(b), 65(a)(ii)).
- The operating expense presentation and the B80 factors considered.
- Classification of assets as generating an independent return, especially property and investments.
- Classification of liabilities as involving only the raising of finance, including supplier finance and hybrids.
- Foreign exchange and derivative classification, including any reliance on undue cost or effort.
- Identification of MPMs, any rebuttal of the presumption and the tax effect method.
- Aggregation decisions, labels and the composition of "other" balances.

16.4 Contracts, covenants and remuneration

Many agreements define financial measures by reference to the financial statements. If a covenant refers to "operating profit as reported", a change in the reported subtotal changes the covenant calculation, unless the agreement freezes the accounting basis ("frozen GAAP"). The same applies to bonus and long-term incentive targets, earn-out clauses and some regulatory returns. Quantify the effect of IFRS 18 on each measure and engage counterparties early where definitions are not fixed.

16.5 Stakeholder communication

Investors and analysts will see changes in reported operating profit, cash flow from operations and earnings per share measures, together with new notes. Explaining these in advance, ideally with restated comparatives at the full-year results before the first IFRS 18 period, reduces the risk of misunderstanding.

16.6 What auditors will focus on

From our perspective as auditors, the first IFRS 18 financial statements are likely to involve:

- **Risk assessment.** Presentation changes and new judgements will be considered in the auditor's risk assessment under ISA (UK) 315, and classification may be an area of focus where amounts are material.
- **Classification testing.** Testing the mapping of accounts to categories and line items, and the reasonableness of judgements against the standard.
- **MPM note.** Testing completeness of MPMs against public communications, the accuracy of reconciliations and the tax and NCI effects. Because the MPM note is part of the financial statements, it is audited rather than treated as other information under ISA (UK) 720, although APMs elsewhere in the annual report remain other information.
- **Comparatives.** Procedures on restated comparative information and the C3 reconciliation under ISA (UK) 710.
- **Going concern and covenants.** Considering whether changes in reported measures affect covenant headroom and therefore the going concern

assessment under ISA (UK) 570.

- **Controls.** Understanding controls over new data, such as the para 83 analysis and MPM reconciliations.

- **Communication with those charged with governance.** Significant judgements and presentation choices are likely to be reported to the audit committee.

16.7 Readiness checklist

Question	Owner
☐ Have we identified every entity in the group affected by IFRS 18 (IFRS, FRS 101, FRS 102 adapted formats)?	Group financial reporting
☐ Have we documented whether we have a specified main business activity?	Technical accounting
☐ Is every income and expense account mapped to a category and line item?	Financial reporting / systems
☐ Have we decided our operating expense presentation and, if function lines are used, built the para 83 data?	Financial reporting
☐ Can we split finance costs, foreign exchange and derivative results by category?	Treasury / systems
☐ Do we have an inventory of all subtotals used in public communications and an MPM conclusion for each?	Finance / investor relations
☐ Can we produce MPM reconciliations with tax and NCI effects at the half-year and year-end?	Financial reporting / tax
☐ Have we quantified the effect on covenants, remuneration targets and earn-outs?	Treasury / HR / legal
☐ Have we captured comparative data on the new basis and prepared a dry run of the C3 reconciliation?	Financial reporting
☐ Have we updated the cash flow statement for the new starting point and interest and dividend classification?	Financial reporting
☐ Have we updated accounting manuals, disclosure checklists, templates and IAS 1 references?	Financial reporting
☐ Have the audit committee and auditor reviewed the key judgements?	CFO / audit committee
☐ Have we planned communication with investors, analysts and lenders?	Investor relations / CFO

How Reckoner Audit can help

Our team can help you assess the impact of IFRS 18, work through classification and presentation judgements, review your performance measures against the MPM requirements, design reconciliation templates and prepare for the audit of your first IFRS 18 financial statements. Where you are an audit client of the firm, any support will be scoped and agreed in line with the FRC Ethical Standard, so that our independence is maintained. Please contact your engagement partner or email info@thereckoner.co.uk.

A

Illustrative financial statement extracts

These extracts show how the requirements described in this guide might come together in practice. They are illustrative only, use fictitious figures, and are not a substitute for the IASB's Illustrative Examples or an entity's own judgements.

In this appendix

- Statement of profit or loss by function
- Statement of profit or loss by nature
- Statement of comprehensive income
- Accounting policy on presentation
- Specified main business activity disclosure
- Management-defined performance measures note

A1 – Consolidated statement of profit or loss, by function (£m)

For the year ended 31 December	2027	2026 restated
Revenue	4,550	4,200
Cost of sales	(1,470)	(1,380)
Gross profit	3,080	2,820
Selling and marketing expenses	(1,050)	(980)
Research and development expenses	(820)	(760)
Administrative expenses	(310)	(295)
Impairment losses on trade receivables	(12)	(8)
Remeasurement of contingent consideration	(45)	20
Other operating income	60	25
Operating profit	903	822
Share of profit of joint ventures	38	30
Interest income on cash and deposits	42	35
Fair value gains/(losses) on equity investments	15	(10)
Profit before financing and income taxes	998	877
Interest expense on borrowings	(120)	(115)
Interest expense on lease liabilities	(18)	(17)
Other finance expenses	(15)	(15)
Profit before tax	845	730
Income tax expense	(205)	(180)
Profit from continuing operations	640	550
Loss from discontinued operations	(30)	(25)
Profit for the year	610	525
Attributable to owners of the parent	588	507

A2 – Consolidated statement of profit or loss, by nature (£000)

For the year ended 31 August	2028	2027 restated
Revenue	105,700	99,100
Other operating income	900	850
Employee benefits expense	(58,500)	(55,000)
Agency and supply staff costs	(2,400)	(2,100)
Premises costs	(9,800)	(9,300)
Catering, boarding and educational supplies	(7,300)	(6,900)
Depreciation and amortisation	(8,200)	(7,750)
Impairment of school property	(1,500)	–
Impairment losses on fee receivables	(700)	(550)
Other operating expenses	(4,300)	(4,100)
Operating profit	13,900	14,250
Interest income on cash deposits	350	300
Income and fair value gains/(losses) on investment property	570	350
Profit before financing and income taxes	14,820	14,900
Interest on bank loans	(3,200)	(3,000)
Interest on lease liabilities	(1,900)	(1,850)
Interest on fees received in advance	(450)	(400)
Net interest on pension deficit	(120)	(140)
Profit before tax	9,150	9,510
Income tax expense	(2,290)	(2,380)
Profit for the year	6,860	7,130
Attributable to owners of the parent	6,710	7,010
Attributable to non-controlling interests	150	120

Attributable to non-controlling interests	22	18
Basic earnings per share (pence)	58.8	50.7
Diluted earnings per share (pence)	58.2	50.3

Other finance expenses comprise net pension interest (2027: £9m) and unwinding of discount on provisions (£6m).

All operating expenses are presented by nature, so the para 83 note is not required.

A3 – Consolidated statement of comprehensive income (£m)

For the year ended 31 December	2027	2026
Profit for the year	610	525
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension schemes	24	(18)
Fair value changes on equity investments at FVOCI	6	4
Share of OCI of joint ventures	1	–
Income tax relating to these items	(7)	4
Items that will be reclassified to profit or loss		
Exchange differences on translating foreign operations	(32)	15
Cash flow hedges: effective portion	10	(6)
Cash flow hedges: reclassified to profit or loss	(3)	2
Income tax relating to these items	(2)	1
Other comprehensive income for the year	(3)	2
Total comprehensive income for the year	607	527
Attributable to owners of the parent	586	509
Attributable to non-controlling interests	21	18

A4 – Accounting policy: presentation of the statement of profit or loss

The group presents its statement of profit or loss in accordance with IFRS 18. Income and expenses are classified in the operating, investing, financing, income taxes and discontinued operations categories. The group does not have a specified main business activity of investing in assets or providing financing to customers.

The investing category includes the share of profit of joint ventures, interest income on cash and deposits, and income and fair value changes on equity investments. The financing category includes interest and related costs on borrowings, interest on lease liabilities, net interest on defined benefit schemes and the unwinding of discount on provisions. All other income and expenses, including impairment, restructuring costs and remeasurement of contingent consideration, are classified in operating.

Operating expenses are presented by function, which management considers provides the most useful structured summary because the group is managed by function and research and development and selling expenses are key performance drivers. The nature of expenses in each function line is described in note X, together with the specified expenses required by IFRS 18 para 83.

A5 – Disclosure of a specified main business activity

The group invests in investment property as a main business activity. Accordingly, rental income, property operating expenses, fair value gains and losses and gains and losses on disposal of investment property are classified in the operating category (IFRS 18 paras 51(a), 58). The group's share of profit of joint ventures is classified in the investing category as required by para 55(a).

A6 – Note X: Management-defined performance measures (£m)

The group uses **adjusted operating profit** and **adjusted profit before tax** in its results announcements, annual report narrative and investor presentations. These measures provide management's view of an aspect of the financial performance of the group as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

What the measures show. Adjusted operating profit shows the performance of the group's marketed product portfolio before items arising from acquisitions and restructuring programmes, which management considers distort year-on-year comparison. Adjusted profit before tax additionally reflects the cost of the group's financing. Management uses both measures to monitor performance and set incentive targets.

How they are calculated. Adjusted operating profit is operating profit excluding amortisation of acquired product rights, restructuring costs and remeasurement of contingent consideration. Adjusted profit before tax is profit before tax excluding the same items. **Tax effects** are calculated at the statutory rate in the jurisdiction in which each item arises (B141(a)); contingent consideration remeasurements are not taxable. **NCI effects** are allocated where items arise in partly owned subsidiaries.

Reconciliation	2027	2026	Tax 2027	Tax 2026	NCI 2027	NCI 2026	Line item
Operating profit	903	822					
Amortisation of acquired product rights	90	85	(22)	(21)	(3)	(3)	Cost of sales
Restructuring – manufacturing sites	20	–	(5)	–	–	–	Cost of sales
Restructuring – head office	8	–	(2)	–	–	–	Administrative expenses
Remeasurement of contingent consideration	45	(20)	–	–	–	–	Remeasurement of contingent consideration
Adjusted operating profit	1,066	887	(29)	(21)	(3)	(3)	
Profit before tax	845	730					
Adjusting items as above	163	65	(29)	(21)	(3)	(3)	As above
Adjusted profit before tax	1,008	795	(29)	(21)	(3)	(3)	

Adjusted profit before tax is reconciled to profit before tax, a subtotal listed in para 118(e). Where reconciling items are identical, a combined presentation with a cross-reference is acceptable provided the amounts by line item are clear.

B

From IAS 1 to IFRS 18: where requirements now sit

A map of the main IAS 1 requirements and their location after IFRS 18, to help update accounting manuals, templates and disclosure checklists.

In this appendix

- General features and basis of preparation
- Statement of financial position
- Statements of financial performance
- Statement of changes in equity
- Notes and other disclosures

From IAS 1 to IFRS 18: where requirements now sit

The table maps the main IAS 1 requirements to their location after IFRS 18 and its consequential amendments. It is a reference aid to help update accounting manuals and templates, and is not a substitute for the text of the standards.

Topic	IAS 1 paragraphs	Now located in	Comment
General features and basis of preparation			
Complete set of financial statements	10–14	IFRS 18 paras 10–12	Primary financial statements now a defined term (para 11).
Fair presentation and compliance with IFRS	15–24	IAS 8 paras 6A–6J	Relocated substantially unchanged.
Going concern	25–26	IAS 8 paras 6K–6L	Relocated substantially unchanged.
Accrual basis	27–28	IAS 8 paras 6M–6N	Relocated substantially unchanged.
Materiality and aggregation	29–31	IFRS 18 paras 19–20, 41–43, B16–B26	Enhanced principles and labelling requirements.
Offsetting	32–35	IFRS 18 paras 44–45, B27–B28	Substantially unchanged.
Frequency of reporting	36–37	IFRS 18 paras 28–29	Substantially unchanged.
Comparative information (minimum)	38–38B	IFRS 18 paras 31–32, B13	Substantially unchanged.
Comparative information (additional)	38C–38D	IFRS 18 B14–B15	Substantially unchanged.
Changes in policy, restatement or reclassification; third balance sheet	40A–44	IFRS 18 paras 33–40	Substantially unchanged.
Consistency of presentation	45–46	IFRS 18 para 30, B12	Extended to disclosure and classification.
Identification of the financial statements	49–53	IFRS 18 paras 25–27, B10–B11	Substantially unchanged.
Statement of financial position			
Minimum line items	54–59	IFRS 18 paras 103–106, B109–B111	Goodwill now a separate line item.

Current and non-current classification	60–76B	IFRS 18 paras 96–97, 99–102, B90–B108	Carried forward, including 2020 and 2022 amendments.
Share capital and reserves	79–80	IFRS 18 paras 130–131	Substantially unchanged.

Statements of financial performance

One or two statements	10A	IFRS 18 para 12	Substantially unchanged.
Statement of profit or loss: totals, line items and allocation	81A–82, 88–89	IFRS 18 paras 46–77, 86–87, B86	New categories, subtotals and line items.
Other comprehensive income	82A, 90–96	IFRS 18 paras 88–95, B88–B89	Substantially unchanged.
Material items and analysis of expenses	97–105	IFRS 18 paras 78–85, B78–B85	Changed: analysis on the face; specified expenses note.

Statement of changes in equity and notes

Statement of changes in equity	106–110	IFRS 18 paras 107–112	Substantially unchanged.
Structure of notes	112–116	IFRS 18 paras 113–115	Substantially unchanged.
Disclosure of accounting policies	117–124	IAS 8 paras 27A–27I	Relocated; judgements with most significant effect at IAS 8.27G.
Sources of estimation uncertainty	125–133	IAS 8 paras 31A–31I	Relocated substantially unchanged.
Capital disclosures	134–136	IFRS 18 paras 126–129	Substantially unchanged.
Puttable financial instruments classified as equity	80A, 136A	IFRS 7 paras 19A–19B	Relocated.
Other disclosures (dividends, entity information)	137–138	IFRS 18 paras 116, 132	Substantially unchanged.
Management-defined performance measures	–	IFRS 18 paras 117–125, B113–B142	New.

C

IFRS 18 presentation and disclosure checklist

A summary checklist of the main presentation and disclosure requirements introduced or carried forward by IFRS 18. It is designed as a review aid and does not replace a full disclosure checklist.

In this appendix

- General requirements
- Statement of profit or loss
- Operating expenses
- Other primary statements
- Management-defined performance measures
- Transition and consequential amendments

IFRS 18 presentation and disclosure checklist

Use this checklist to review draft financial statements prepared under IFRS 18. Requirements apply only where the resulting information is material (para 19). FRS 101 qualifying entities should note the exemptions for paras 83(b) and 121–125.

No.	Requirement	Reference	Yes / No / N/A
General requirements			
1	A complete set of financial statements is presented, including comparative information and, where required, a third statement of financial position.	10, 31–40	
2	The financial statements are clearly identified and distinguished from other information, with entity name, group or individual, period, currency and rounding.	25–27	
3	Items are aggregated and disaggregated based on shared and unshared characteristics, and material information is not obscured.	41, B16–B23	
4	Labels faithfully represent the items; "other" is used only where no more informative label exists, and large "other" balances are explained.	43, B24–B26	
5	Presentation, disclosure and classification are consistent with the prior period, or changes are justified and comparatives reclassified with disclosure.	30, 33–34	
6	Assets and liabilities, income and expenses are not offset unless required or permitted.	44–45	
Statement of profit or loss			
7	The entity has assessed whether it has a specified main business activity, and disclosed the fact if it does.	49–51	
8	Any change in the outcome of the assessment is applied prospectively and disclosed with amounts before and after.	51(c), B41	
9	All income and expenses are classified in the operating, investing, financing, income taxes or discontinued operations category.	47–68	
10	Equity-accounted results are in investing; unusual items not meeting other criteria are in operating.	55(a), B42	

11	Finance costs are split between liabilities that only raise finance and other liabilities, with only interest and interest-rate effects on other liabilities in financing.	59–61, B50–B55
12	Only IAS 12 income taxes are in the income taxes category; other taxes are classified elsewhere.	67
13	Foreign exchange, derivatives, hybrids, disposals and changes in use are classified under the specific requirements.	62–63, B56–B76
14	Operating profit or loss, profit or loss before financing and income taxes (unless para 73 applies) and profit or loss are presented.	69–74
15	Additional subtotals are IFRS amounts, compatible with the structure, consistent and no more prominent than required subtotals.	24
16	Minimum line items in para 75 are presented, including IFRS 9 interest revenue, impairment losses and derecognition gains and losses.	75, B77
17	Additional line items are presented where needed, such as impairments, restructuring, disposals and litigation.	24, B78–B79
18	Profit or loss and comprehensive income are allocated between owners of the parent and non-controlling interests.	76, 87

Operating expenses

19	Operating expenses are analysed on the face by nature, function or both, providing the most useful structured summary; each line uses one basis.	78–81, B80–B81
20	In a mixed presentation, nature lines are labelled to show which expenses they include.	43, B82
21	Where any function line is used, cost of sales is presented separately, including the total IAS 2 inventory expense.	82(a)
22	A qualitative description of the nature of expenses in each function line is disclosed.	82(b)
23	A single note discloses totals of depreciation, amortisation, employee benefits, IAS 36 impairments and inventory write-downs (including reversals).	83(a)
24	The note shows the amount of each total in each operating line item and lists line items outside operating including part of the total (FRS 101: exempt).	83(b)
25	Capitalised amounts included in the totals are explained qualitatively.	B84

Other primary statements

26	OCI is classified into items that will and will not be reclassified, with equity-accounted OCI shown separately.	88–89
27	Reclassification adjustments and tax on each OCI item are presented or disclosed.	90–95
28	Current and non-current (or liquidity) presentation is applied, with amounts beyond twelve months disclosed where combined.	96–102
29	Minimum balance sheet line items are presented, including goodwill separately.	103–104
30	The statement of changes in equity and related disclosures, including dividends per share, are given.	107–110
31	Notes are systematic and cross-referenced; entity information, capital and share capital disclosures are given.	113–116, 126–132

Management-defined performance measures

32	All public communications relating to the period have been reviewed for subtotals of income and expenses.	117, B119–B122
33	Any rebuttal of the presumption is supported by reasonable and supportable information.	119–120, B124–B130
34	All MPMs are disclosed in a single note including the required statement about management's view and comparability.	122, B132–B133
35	Each MPM is labelled clearly, with its purpose, usefulness and calculation explained.	123(a)–(b), B134–B135
36	Each MPM is reconciled to the most directly comparable para 118 or IFRS subtotal, with amounts by line item for each reconciling item.	123(c), B136–B140
37	Tax and NCI effects of each reconciling item, and the tax method, are disclosed.	123(d)–(e), B141–B142
38	Changes to MPMs are explained with reasons and restated comparatives.	124–125

Consequential amendments and transition

39	The indirect method starts from operating profit or loss; interest and dividends are classified as required.	IAS 7.18(b), 33A–34D
40	Additional per-share amounts use only IFRS 18 subtotals or MPMs as numerators.	IAS 33.73B

41	Interim reports include MPM disclosures and, in the first year, the required headings, subtotals and reconciliations.	5, C4–C5
42	Comparatives are restated and the line-by-line reconciliation from IAS 1 is disclosed for the comparative period.	C2–C3
43	Early application, if any, is disclosed.	C1
44	References to IAS 1 in accounting policies and the basis of preparation are updated to IFRS 18 and IAS 8.	–

D

Defined terms, abbreviations and sources

The defined terms in IFRS 18 Appendix A, explained in plain language, together with the abbreviations used in this guide and the sources we have relied on.

In this appendix

- Defined terms in IFRS 18
- Abbreviations
- Sources and further reading

Defined terms, abbreviations and sources

Appendix A of IFRS 18 defines the terms below. The plain-language explanations are ours and are not a substitute for the definitions in the standard.

Term	Plain-language explanation
Aggregation	Adding together items that share characteristics and belong in the same classification.
Classification	Sorting assets, liabilities, equity, income, expenses and cash flows into groups based on shared characteristics.
Disaggregation	Splitting an item into component parts that do not share characteristics.
General purpose financial reports	Reports giving financial information that helps investors, lenders and other creditors decide whether to provide resources to the entity. They include financial statements and sustainability-related financial disclosures.
General purpose financial statements	A form of general purpose financial report covering the entity's assets, liabilities, equity, income and expenses.
IFRS Accounting Standards	Standards issued by the IASB: IFRSs, IASs, IFRIC Interpretations and SIC Interpretations.
Management-defined performance measure	A subtotal of income and expenses used in public communications outside the financial statements to convey management's view of an aspect of the entity's overall performance, and not listed in para 118 or required by IFRS.
Material information	Information whose omission, misstatement or obscuring could reasonably be expected to influence the decisions of primary users of the financial statements.
Notes	Information in the financial statements provided in addition to the primary financial statements.
Operating profit or loss	The total of all income and expenses classified in the operating category.
Other comprehensive income	Income and expenses, including reclassification adjustments, recognised outside profit or loss as required or permitted by other standards.
Owners	Holders of claims classified as equity.
Primary financial statements	The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.
Profit or loss	Total income less expenses in the statement of profit or loss.

Profit or loss before financing and income taxes	Operating profit or loss plus all income and expenses in the investing category.
Reclassification adjustments	Amounts moved to profit or loss in the current period that were recognised in OCI in the current or earlier periods.
Total comprehensive income	The change in equity during the period from transactions and events other than those with owners in their capacity as owners.
Useful structured summary	A summary in a primary financial statement that gives an understandable overview, allows comparison between entities and periods, and helps users identify where to look for more information in the notes.

Abbreviations

Abbreviation	Meaning
AAD	Academies Accounts Direction
APM	Alternative performance measure
ED / FRED	Exposure draft / Financial Reporting Exposure Draft
EBITDA	Earnings before interest, tax, depreciation and amortisation
FRC	Financial Reporting Council
FVOCI / FVTPL	Fair value through other comprehensive income / profit or loss
IASB	International Accounting Standards Board
IFRIC / IFRS IC	IFRS Interpretations Committee
JV	Joint venture
MPM	Management-defined performance measure
NCI	Non-controlling interests
OCI	Other comprehensive income
PBFIT	Profit or loss before financing and income taxes

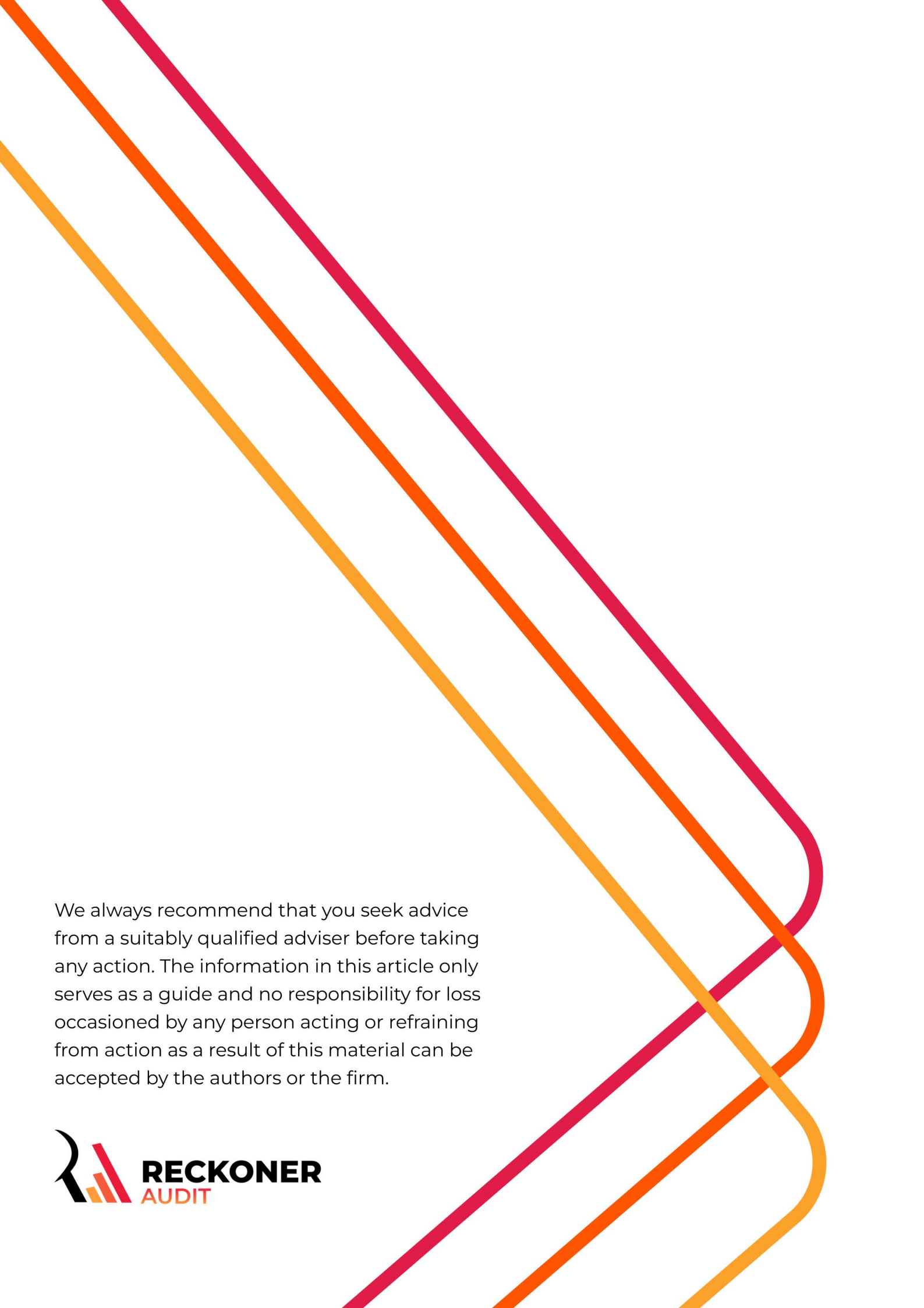
Sources and further reading

- IFRS Foundation, *IFRS 18 Presentation and Disclosure in Financial Statements* (April 2024), including Appendices A–D, the Basis for Conclusions and the Illustrative Examples.
- IAS 7, IAS 8, IAS 33 and IAS 34 as amended by IFRS 18 (effective 1 January 2027).
- UK Endorsement Board, adoption of IFRS 18 for use in the UK (December 2025).
- Financial Reporting Council, *Amendments to FRS 101 Reduced Disclosure Framework – 2024/25 cycle* (May 2025).
- Financial Reporting Council, *Amendments to FRS 102 and FRS 105 – Adapted formats* (February 2026).
- IFRS Interpretations Committee, IFRIC Updates November 2025 to March 2026, and IASB Updates April to July 2026, on IFRS 18 agenda decisions and the project on taxes that are not income taxes.
- Department for Education, Academies Accounts Direction; Charity Commission and OSCR, Charities SORP (FRS 102).

ROU	Right-of-use (asset)
SOFA / SORP	Statement of financial activities / Statement of Recommended Practice
UKEB	UK Endorsement Board

A note on currency

This guide reflects developments to September 2026. IFRS 18 agenda decisions and the IASB's project on taxes that are not income taxes were still evolving at that date. Always check the IFRS Foundation, UKEB and FRC websites for the latest position.



We always recommend that you seek advice from a suitably qualified adviser before taking any action. The information in this article only serves as a guide and no responsibility for loss occasioned by any person acting or refraining from action as a result of this material can be accepted by the authors or the firm.