
Title: Presentation and Disclosure Requirements in Financial Statements issued under IFRS 18

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Abstract

This study aims to shed light on the presentation and disclosure requirements in financial statements issued in accordance with International Financial Reporting Standard No. 18 (IFRS 18), and to highlight its impact on other IFRS standards. The paper concludes that the newly introduced presentation and disclosure requirements under IFRS 18 have improved the quality of financial statements, thereby better fulfilling the needs of financial statement users. Consequently, it is essential to encourage entities to plan for the transition to adopting IFRS 18.

Keywords: International Financial Reporting Standards (IFRS), IFRS 18.

JEL Classification: M40, M41.

Introduction:

Academic and professional accounting bodies have long emphasized the importance of accounting disclosure, especially following the emergence of joint-stock companies, the evolution of accounting practices, and their connection with financial statements. These statements provide data, information, and measurement foundations that serve as the basis for investment and credit decisions. They aim to maximize the informational benefits for users, ensure reliability and credibility, facilitate comparisons, and enhance the efficient use of available economic resources at both the institutional and national levels.

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The persistent effort to ensure that financial statements keep pace with rapid developments and increasing demands for high-quality financial information—so as to meet users’ expectations—led to the issuance of IFRS 18, *“Presentation and Disclosure in Financial Statements.”*

This prompts the following research problem:

What are the presentation and disclosure requirements in financial statements issued in accordance with IFRS 18?

In light of this central research question, the study explores the following sub-questions:

- What are the newly introduced principles set forth in IFRS 18?
- What is the impact of IFRS 18 on other IFRS standards?

Research Hypotheses:

To address the research problem, the following hypotheses were formulated:

- IFRS 18 introduced the necessary requirements for presentation and disclosure in financial statements.
- IFRS 18 has had an impact on several other International Financial Reporting Standards.

Objectives of the Study:

The main objectives of this study include:

- Highlighting IFRS 18 as a newly issued standard;
- Exploring the newly introduced requirements for presentation and disclosure;
- Addressing the research problem and sub-questions;
- Reaching conclusions and recommendations that align with evolving international accounting frameworks.

Importance of the Study:

The significance of this study lies in:

- The relevance of the international accounting framework, which continues to attract interest among both practitioners and academics;
- Helping professionals and academics understand the newly introduced presentation and disclosure requirements under IFRS 18.

Research Methodology:

To test the hypotheses, a combination of descriptive and analytical methods was applied. The descriptive method was used to collect data and define relevant concepts, while the analytical method was employed to clarify the newly introduced presentation and disclosure requirements as per IFRS 18.

Section One: Theoretical Framework of IFRS 18

IFRS 18, *Presentation and Disclosure in Financial Statements*, was issued on **April 9, 2024**, replacing **IAS 1 Presentation of Financial Statements** (IFRS.org, 2024).

The standard sets out requirements for all entities applying IFRS to present and disclose information in their financial statements. IFRS 18, issued in April 2024, is effective for annual reporting periods beginning on or after **January 1, 2027**.

1.1 Development Stages of IFRS 18:

The issuance of IFRS 18 followed several stages (IFRS.org, 2024):

- Project discussion by the Board: April 2016
- Board decision to issue an exposure draft: May 2019
- Publication of the General Presentation and Disclosures Exposure Draft: December 17, 2019
- Initial comment deadline: January 30, 2020
- Extended comment deadline: April 17, 2020
- Final issuance of IFRS 18: April 9, 2024

1.2 Summary of IFRS 18

1.2.1 Objective and Scope of the Standard:

The objective of IFRS 18 is consistent with that of its predecessor. It aims to ensure that general-purpose financial statements prepared under IFRS provide relevant information that faithfully represents an entity's assets, liabilities, equity, income, and expenses.

IFRS 18 sets out general requirements for financial statements and principles for aggregation and disaggregation. It specifies how to present information in the financial performance statement, financial position statement, and changes in equity statement, and provides disclosure requirements for notes accompanying the financial statements.

In addition, IFRS 18 includes requirements on how to label and describe items in the financial statements or disclosures in the notes. It mandates the classification of income and expenses into specific categories in the income statement and prescribes required subtotals.

While the presentation and disclosure requirements for the **cash flow statement** remain governed by **IAS 7**, some general requirements from IFRS 18 regarding aggregation, disaggregation, and disclosures also apply to the cash flow statement.

Narrow-scope amendments were also made to IAS 7. IFRS 18 applies to both **consolidated** and **separate** financial statements but does **not** apply to interim financial reports prepared under **IAS 34**. However, the principles of aggregation and disaggregation from IFRS 18 still apply to such interim reports.

1.2.2 New Terminology and Definitions:

Some terminology in IFRS 18 differs from IAS 1. For example, IFRS 18 uses the term *“Statement of Financial Performance”* instead of IAS 1’s *“Statement of Profit or Loss and Other Comprehensive Income.”*

The term *“Income Statement”* in IFRS 18 may refer to the profit or loss section within the Statement of Financial Performance or to a separate profit or loss statement. Similarly, the term *“Statement of Comprehensive Income”* may refer to the other comprehensive income section within the performance statement or to a separate comprehensive income statement (IFRS.org, 2024).

IFRS 18 introduces the concept of *“primary financial statements,”* which include:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows

Accordingly, the **complete set of financial statements** consists of the *primary financial statements* and the *notes*. A major linguistic shift introduced by IFRS 18 is evident even in its title, which refers explicitly to both “presentation” and “disclosure.” The standard clarifies that **“an entity presents information in the primary financial statements and discloses information in the notes.”** (IFRS.org, 2024)

1.2.3: Identification of Financial Statements

Similar to IAS 1, IFRS 18 requires entities to **“clearly identify the financial statements and distinguish them from other information in the same published document.”** The related application guidance has been updated to account for differences in electronically presented financial statements. It now states that if **“an entity presents its financial statements electronically, it should consider alternative methods to meet identification requirements—such as through appropriate digital tagging of the information within the financial statements.”** (IFRS.org, 2024)

1.2.4: Roles and Aggregation

The objective of financial statements is defined as follows (IFRS.org, 2024):

“The objective of financial statements is to provide financial information about the entity’s assets, liabilities, equity, income, and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in evaluating management’s stewardship of the entity’s economic resources.”

To achieve this objective, **primary financial statements and notes play distinct but complementary roles** in delivering financial information to users. For this information to be useful, it must be appropriately aggregated and categorized without obscuring material facts.

IFRS 18 defines the **roles** of financial statements and provides additional guidance (relative to IAS 1) to assist entities in determining the most appropriate way to **present and label summarized information in the primary financial statements**, and to **disclose detailed (or disaggregated) information in the notes**.

The standard differentiates between “presenting” information in the primary financial statements and “disclosing” it in the notes. It introduces a guiding principle for locating information based on the **distinct roles** of the primary financial statements and the notes. The standard emphasizes that **materiality**

requirements apply equally to both presentation and disclosure. That is, information is either material (and contributes to the purpose of financial reporting) or immaterial (and hence not required). **Materiality determines whether information must be provided, not where it should be located.** (IFRS.org, 2024)

1.2.5: Roles of the Primary Financial Statements and the Notes

The Board observed that users **pay more attention to and more frequently utilize** information presented in the primary financial statements compared to the notes. Therefore, to meet the objective of financial reporting, entities should present summarized information in the primary financial statements and provide more detailed disclosures in the notes. However, entities are only required to **present or disclose information as necessary to convey material facts.** (IFRS.org, 2024)

Because the primary financial statements serve as an **organized and high-level summary**, they are more prominent than the disclosures in the notes. Nonetheless, this does **not imply** that note disclosures are secondary or less important. The notes serve a **different role**, whether the financial statements are presented digitally or in paper form. Understanding these distinct roles helps an entity determine the **most suitable location** for each piece of information. (IFRS.org, 2024)

This distinction implies **a difference in the level of detail required** between the notes and the primary financial statements. Specifically:

- **Primary Financial Statements:** Offer a **clear and concise summary** of the entity's financial position, performance, and cash flows. Key information is presented in an organized and brief format.
- **Notes:** Provide **additional details and explanations** related to the information in the primary financial statements. These include accounting policies, potential risks, and complex or voluminous data that cannot be appropriately included in the primary statements.

While the primary financial statements provide a readable snapshot, the notes offer the **necessary context and granularity** to fully understand that snapshot. (IFRS.org, 2024)

1.3: Information Presented in the Primary Financial Statements

Entities must assess the **material information** to be included in their primary financial statements in order to fulfill their role as structured and informative summaries.

IFRS 18 distinguishes between: (IFRS.org, 2024)

- **Element:** Refers to assets, liabilities, equity instruments, reserves, revenues, expenses, and cash flows, or any aggregation/disaggregation thereof.
- **Line Item (Sub-item):** A specific element that is presented separately within the primary financial statements.

Not all material information can or should be presented directly in the primary statements. Including too many line items can **clutter the statements**, hindering users from gaining a clear and coherent understanding of the entity's financial position, performance, and cash flows. Therefore, the entity must evaluate its specific facts and circumstances to determine **which information contributes to a comprehensive yet uncluttered view.**

All aspects of the role of the primary financial statements assist the entity in determining whether a particular element should be presented as a line item to support a structured and informative summary.

Some IFRS standards include **specific requirements** for the presentation of information in the primary statements. The Board acknowledged that entities may need to assess whether applying these requirements aligns with the goal of providing a structured and informative summary. However, it concluded that **certain presentation requirements are always necessary**, such as those related to income and expense classifications and subtotals as specified in IFRS 18.

To ensure the primary statements offer a structured and useful summary, the entity must comply with **structural requirements**, including: (IFRS.org, 2024)

- **Statement of Profit or Loss:** Requirements in paragraphs 47, 69, 76, and 78
- **Statement of Comprehensive Income:** Paragraphs 86–88
- **Statement of Financial Position:** Paragraphs 96 and 104
- **Statement of Changes in Equity:** Paragraph 107
- **Statement of Cash Flows:** Paragraph 10 of IAS 7

1.4: Minimum Number of Elements, Additional Elements, and Additional Subtotals

Entities must present in the **statement of financial position** separate line items that include, but are not limited to, the following: (IFRS.org, 2024)

- Property, plant, and equipment
- Investment property
- Intangible assets
- Goodwill
- Financial assets (excluding amounts in specific items)
- Insurance contract portfolios within the scope of IFRS 17 that are assets, as specified in paragraph 78 of IFRS 17
- Investments accounted for using the equity method
- Biological assets under IAS 41 (Agriculture)
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Total assets classified as held for sale and those included in disposal groups classified as held for sale under IFRS 5
- Trade and other payables
- Provisions

- Financial liabilities (excluding amounts in specific items)
- Insurance contract portfolios within the scope of IFRS 17 that are liabilities, as specified in paragraph 78 of IFRS 17
- Current tax liabilities and assets, as defined in IAS 12
- Deferred tax liabilities and assets, as defined in IAS 12
- Liabilities included in disposal groups classified as held for sale under IFRS 5

Several IFRS standards, including IFRS 18, require that **specific elements be presented separately** in the primary financial statements.

However, if an entity concludes that it does not need to **present** a particular element that is explicitly required by IFRS Standards, it is still required to **disclose** that element in the notes, unless the information is immaterial. For example, if an entity determines that presenting "impairment losses" in accordance with IFRS 9 *Financial Instruments* is not necessary to provide a structured and useful summary of the entity's income and expenses, it must still disclose such losses in the notes—unless that information is immaterial. (IFRS.org, 2024)

An entity must present **additional line items and subtotals** if such presentations are necessary to provide a **structured and useful summary** in the primary financial statements. When presenting such additional line items or subtotals, the entity must ensure that these: (IFRS.org, 2024)

- Reflect amounts recognized and measured in accordance with IFRS;
- Are consistent with the structure of the statement as set out in paragraph 22;
- Are presented consistently from period to period, as required by paragraph 30;
- Are presented with less prominence than subtotals and totals required by IFRS.

1.4.1: Information Disclosed in the Notes

An entity is required to provide the necessary information in the notes to assist users in understanding the items presented in the primary financial statements. IFRS 18 provides the following examples of such information: (IFRS.org, 2024)

- Disaggregation of items presented in the primary financial statements;
- Descriptions of the characteristics of the items presented;
- Information regarding the methods, assumptions, and judgments used in the recognition, measurement, and presentation of such items.

1.4.2: Cross-Referencing Between Primary Financial Statements and Notes

Similar to IAS 1, IFRS 18 requires an entity to include **cross-references** between each item in the primary financial statements and any corresponding information disclosed in the notes. When amounts disclosed in the notes are included within one or more line items in the primary financial statements, IFRS 18 requires the entity to identify in the notes the related line items that include those amounts. (IFRS.org, 2024)

These cross-references in both directions help ensure users understand how the amounts disclosed in the notes relate to the information presented in the primary financial statements.

1.4.3: Aggregation and Disaggregation

IFRS 18 requires entities to aggregate and disaggregate information considering similar and dissimilar characteristics, while keeping in mind the respective roles of the primary financial statements and the notes. The application guidance indicates that items aggregated and presented as a line item in the primary financial statements should have **at least one shared characteristic other than merely meeting the definition of assets, liabilities, equity, income, expenses, or cash flows**.

Since the primary financial statements are intended to provide a **structured and useful summary**, line items will often inherently aggregate elements with dissimilar characteristics. Consequently, **disaggregated information on such aggregated items is likely to be material** and should be disclosed in the notes. (IFRS.org, 2024)

IFRS 18 defines **aggregation, disaggregation, and classification** as follows:

- **Aggregation:** Grouping assets, liabilities, equity, income, expenses, or cash flows that share similar characteristics and fall under the same classification.
- **Classification:** Categorizing assets, liabilities, equity, income, expenses, or cash flows based on shared characteristics.
- **Disaggregation:** Separating an item into its component parts that do not share characteristics.

Entities must avoid: (IFRS.org, 2024)

- Omitting useful information by providing insufficient detail;
- Obscuring information by providing excessive detail.

On one hand, presenting totals such as **total assets, total liabilities, total equity, total income, total expenses, and total cash flows** conveys key aspects of an entity's financial position and performance. However, these summaries may be **overly aggregated**, rendering them insufficiently informative on their own. On the other hand, detailed disclosures about individual transactions or events may be **too granular**, thereby obscuring significant insights. Thus, entities must exercise judgment to determine the **appropriate level of detail necessary** to provide useful information. (IFRS.org, 2024)

Financial statements result from the processing of a large number of transactions and other events, which give rise to assets, liabilities, equity, income, expenses, and cash flows. Effective reporting of these elements, which arise from numerous individual events, necessitates **aggregating some or most individual amounts** into line items that are meaningful to users prior to their presentation and disclosure. (IFRS.org, 2024)

1.5: Principles of Aggregation and Disaggregation

Unless explicitly overridden by specific IFRS aggregation or disaggregation requirements, an entity must: (IFRS.org, 2024)

- Classify and aggregate assets, liabilities, equity, income, expenses, or cash flows into items based on shared characteristics;
- Disaggregate items based on dissimilar characteristics;
- Aggregate or disaggregate items into line items in the primary financial statements to provide structured and useful summaries;
- Aggregate or disaggregate items for the purpose of disclosing material information in the notes;
- Ensure that aggregation and disaggregation do not obscure material information;
- Disaggregate items whenever the resulting information is material.

If the application of these principles results in material information not being presented in the primary financial statements, the entity must disclose that information in the notes. (IFRS.org, 2024)

1.5.1: Basis for Aggregation and Disaggregation

The Board concluded that it is not feasible to define a fixed threshold (e.g., a quantitative limit) for disaggregation that applies to all entities. Any such threshold could conflict with the definition of materiality and the requirement for entities to make **qualitative judgments** in their assessments. (IFRS.org, 2024)

Therefore, IFRS 18 requires entities to **aggregate (or disaggregate) elements**—assets, liabilities, equity, income, expenses, and cash flows—arising from individual transactions or other events based on similar (or dissimilar) characteristics. This process, as noted in the standard, will necessarily involve **the exercise of professional judgment**. (IFRS.org, 2024)

The standard emphasizes that **the more similar the characteristics** of the elements being aggregated, the more likely the aggregation will support the role of the primary financial statements (i.e., providing a structured and useful summary) or the notes (i.e., conveying material information). Conversely, the **less similar the characteristics**, the more likely disaggregation is necessary. (IFRS.org, 2024)

The guidance establishes a minimum requirement: items aggregated and presented as line items in the primary statements must share at least one characteristic **beyond** satisfying the definition of an element (asset, liability, equity, income, expense, or cash flow). (IFRS.org, 2024)

In applying these principles, entities must **disaggregate items with dissimilar characteristics** when the resulting detailed information is material. Even a **single dissimilar characteristic** may necessitate disclosure of disaggregated information. (IFRS.org, 2024)

1.5.2: Items with Sufficiently Dissimilar Characteristic

Income and expenses with sufficiently dissimilar characteristics that may require **separate presentation** in the statement of profit or loss, or **disclosure in the notes**, include the following: (IFRS.org, 2024)

- Inventory write-downs and reversals;
- Impairment losses on property, plant, and equipment, and reversals of such losses;
- Income and expenses resulting from restructuring and reversals of restructuring provisions;

- Gains and losses from the disposal of property, plant, and equipment;
- Gains and losses from the disposal of investments;
- Income and expenses from legal claim settlements.

1.5.3: Description of Items

IFRS 18 includes requirements for the **description** of items presented in the financial statements or disclosed in the notes. The objective is to ensure that the descriptions used by entities are **comprehensive and accurate**. For instance, an entity might disclose items of income or expense labeled as “unusual” without explaining why they are considered as such. (IFRS.org, 2024)

To ensure faithful representation, the entity must provide all necessary **descriptions and explanations** to enable users to understand the item fully. In some cases, this includes defining **terms** used in the descriptions and explaining how assets, liabilities, equity, income, expenses, and cash flows have been aggregated or disaggregated. For example, if an entity refers to certain items as “unusual,” it must clearly state how “unusual” is defined. (IFRS.org, 2024)

Accordingly, the Board requires that entities name and describe items presented in the primary financial statements or disclosed in the notes in a manner that **accurately reflects the characteristics** of those items. (IFRS.org, 2024)

Often, such items are **aggregates of individual elements** arising from transactions or events. These aggregated items may consist of:

- **Only material elements**, in which case aggregation may be appropriate but **disaggregated disclosures of each material item** are still required;
- **A mix of material and immaterial elements**, in which case disaggregated disclosure is necessary **only if** the immaterial items obscure the material information regarding the item as a whole. (IFRS.org, 2024)
- **When aggregating a material item with other material items**: Such aggregation may be provided to summarize material information. However, the entity is then required to disclose detailed information about each individual material item.
- **When aggregating a material item with immaterial items**: In this case, the entity is only required to provide disaggregated information about the material item **if the immaterial information obscures material information** about that item.
- **When aggregating immaterial items with other immaterial items**: The entity may aggregate such items to complete the list of items or a subtotal. Since these elements are immaterial, **no further disaggregated information** is necessary, consistent with the guidance on using the “other” classification described below.

1.5.4: Statement of Financial Performance

IFRS 18 specifies that **all income and expenses** for the reporting period must be presented in the **statement of profit or loss**, unless another IFRS standard requires otherwise. Diversity in reporting under IAS 1 had made it difficult for users to **understand and compare** information in the statement of profit or

loss across entities. One of the most widely used performance metrics—**operating profit**—had not previously been defined in IFRS, leading to entities applying various definitions to the same subtotal.

In an effort to eliminate this inconsistency, the IASB developed new requirements for the **structure of the statement of profit or loss**, aiming to enhance **comparability and clarity** in the presentation of this primary financial statement. (IFRS.org, 2024)

1.6: General Requirements for Classification

This section outlines the **general classification requirements** for income and expenses included in the statement of profit or loss, which apply to all entities applying IFRS 18.

1.6.1: Investments

Many users of financial statements analyze returns from an entity's investments **separately from its operating activities**. Therefore, the introduction of an **“investing category”** enables these users to identify returns that are **not part of the entity's main business activities**. Investments in debt or equity instruments generally generate **returns specific to those investments**, i.e., returns that are largely **independent** of the entity's other resources.

There is no requirement to label this category as “Investing,” and the standard permits the entity to present **additional subtotals** within this category where that enhances the clarity and usefulness of the summary. (IFRS.org, 2024)

Equity Method Investments

All entities—regardless of whether investing in assets is a principal business activity—are required to classify their **share of profit or loss** and other income or expenses (e.g., impairment losses) arising from investments accounted for under the **equity method** in **associates, joint ventures, or unconsolidated subsidiaries** within the investing category.

This requirement reflects the fact that entities **do not control** the activities of associates or joint ventures. Many users analyze income and expenses from equity-method investments separately. Therefore, classifying them in the operating category would hinder the analysis of both **operating margins** and the **investments themselves**. (IFRS.org, 2024)

The Board noted that this approach reflects the nature of returns from equity-accounted investments: they are **not closely linked** to the entity's main business activities and are instead generated individually and largely independently of the entity's other resources. This is consistent with the **principle of classification within the investing category** and simplifies the structure of the profit or loss statement. (IFRS.org, 2024)

Classification of Additional Expenses

Additional expenses incurred **solely for the acquisition or disposal of investments** must also be classified within the **investing category**. Without this requirement, costs such as **transaction expenses**—which are immediately expensed—would otherwise have been classified as operating expenses. (IFRS.org, 2024)

These are typically **external and identifiable** costs, which supports consistent classification and provides more useful information for users. However, **not all expenses** related to such investments are required to be classified under the investing category. The Board's approach **avoids the complexity** of allocating broader cost categories across multiple functions.

Cash and Cash Equivalents

To enhance understanding of the structure of the statement of profit or loss, and because **cash and cash equivalents** are assets that generate returns **individually and independently** from the entity's other resources, **income and expenses** from these assets are classified under the **investing category**. (IFRS.org, 2024)

Total Profit or Loss Before Financing and Income Tax

IFRS 18 introduces a new subtotal: **profit or loss before financing and income tax**, which includes **operating profit or loss** as well as all **income and expenses classified within the investing category**. This subtotal facilitates analysis of an entity's performance **independent of its financing structure** and improves **comparability** between entities. (IFRS.org, 2024)

It is important to note that even if **profit or loss before financing and income tax** is numerically identical to **operating profit**, both subtotals must be presented. The main reason for this requirement is to **support digital reporting** and ensure clarity in electronic data extraction.

1.6.2: Financing

To determine which income and expenses should be classified within the **financing category**, an entity must distinguish between: (IFRS.org, 2024)

Type 1: Liabilities Arising Solely from Financing Transactions

IFRS 18 defines Type 1 liabilities as those arising solely from **raising finance**, such as:

- Debt instruments settled in cash (e.g., bonds, loans, notes payable, commercial paper, mortgages);
- Liabilities under supplier financing arrangements where the payable has been derecognized;
- Bonds settled by delivering the entity's own shares;
- Obligations to repurchase the entity's own equity instruments.

Type 2: Other Liabilities

IFRS 18 provides the following examples of **Type 2 liabilities**, which do not arise purely from financing transactions:

- Payables for goods and services with extended payment terms;
- Contractual obligations;
- Lease liabilities;
- Defined benefit obligations;
- Decommissioning liabilities;
- Provisions for legal claim

A **diagram** is provided in the standard (IFRS.org, 2024) to summarize the classification requirements for both Type 1 and Type 2 liabilities.

№ 1: Classification of Income and Expenses in the Finance Category

IFRS 18 requires entities to classify income and expenses into distinct categories in the statement of profit or loss to enhance clarity, comparability, and relevance for users of financial statements. One of the key categories introduced is the **finance category**, which includes income and expenses related specifically to the **financing structure** of the entity. To accurately allocate financial items, IFRS 18 introduces a distinction between two types of liabilities. **Type 1 liabilities** are those that arise solely from transactions that involve obtaining finance. These include debt instruments such as bonds, loans, and other instruments settled in cash, in addition to financial obligations like supplier finance arrangements (where the trade payable has been derecognized), liabilities settled by delivering own shares, or obligations to repurchase the entity's own equity instruments. All income and expenses related to these liabilities—such as interest expense or gains/losses on settlement—must be classified under the finance category.

Conversely, **Type 2 liabilities** include obligations that do not arise strictly from financing transactions but may involve deferred payment or future outflows. Examples include payables for goods and services with extended credit terms, lease liabilities, defined benefit obligations, decommissioning provisions, and contractual liabilities. While these may give rise to interest or similar charges, the **related income and expenses are not classified under the finance category**, as they stem from **operational or other non-financing activities**. This classification approach ensures that financing activities, which relate specifically to **how the entity funds its operations**, are **separated** from other business and investing activities. The resulting structure of the statement of profit or loss thus facilitates clearer analysis of the entity's performance, independent of its capital structure. (IFRS.org, 2024)

1-6-3: Operating Category

IFRS 18 defines the operating category as the category that includes all items that are not classified within the investment, financing, income tax, or discontinued operations categories. In other words, the operating category is identified as a default or residual category, ensuring that all items arising from the entity's main activities are classified within operations. However, as a residual category, the operating category is not restricted to items resulting from the entity's primary activities and will include other items not classified under the other four categories. This reflects the Board's view that all income and expenses included in profit or loss, which do not relate to another category, arise from the entity's operations. Therefore, an entity's operations are not limited to its core business activities but also include supporting activities that may give rise to income and expenses, even if those activities do not directly generate revenue. (IFRS.org, 2024)

This concept extends to volatile, unusual, or non-recurring items, and therefore such items are included in the operating category. It is acknowledged that including such items may not have predictive value, but predictive value is not a defining feature for classification. An entity's operations may be volatile; therefore, volatile items of income and expense must be included in the operating category. Furthermore, to achieve a faithful representation of the entity's operations over a given period, it is necessary to include such expenses. For example, impairment expenses and depreciation related to a piece of equipment are classified within the operating category to provide a complete picture of operational results during the period. Omitting any of these expenses would fail to reflect operating decisions related to the purchase and deployment of equipment and how those decisions resulted in income and expenses. (IFRS.org, 2024)

1-6-4: Income Taxes

The entity is required to classify tax expenses or tax income included in the statement of profit or loss in accordance with IAS 12, and any related foreign exchange differences, within the income tax category. The Board clarified that presenting income and expenses related to income tax in that category is consistent with the presentation requirements in IAS 12. Although this category does not lead to a

required subtotal, entities typically present profit before tax as a subtotal when appropriate. (IFRS.org, 2024)

1-6-5: Discontinued Operations

The entity is required to classify income and expenses from discontinued operations within the discontinued operations category as required by IFRS 5. The Board clarified that presenting income and expenses related to discontinued operations in that category is consistent with the presentation requirements in IFRS 5. Although this category does not lead to a required subtotal, entities typically present profit before discontinued operations as a subtotal when appropriate. (IFRS.org, 2024)

1-6-6: Reclassifications and Derecognition

Some transactions result in a change in the category in which the entity classifies income and expenses. For example, a non-financial asset may be derecognized or classified as an asset held for sale, or it may be reclassified from one balance sheet category to another. (IFRS.org, 2024)

A question arises as to whether gains or losses resulting from these transactions are classified according to the "old" or "new" classification of income and expenses. IFRS 18 specifically states that the entity must classify the resulting income and expenses in the same manner as any other income or expenses arising from the asset or liability—that is, according to the "old" classification. (IFRS.org, 2024)

- **Change in Asset Use:**

Sometimes an entity reclassifies an asset without derecognizing it. For example, it may reclassify an item from property, plant and equipment to investment property. In such a case, the entity classifies any income or expense arising from accounting for the asset in the same category in which the asset was classified immediately before the transfer. Thus, any gain or loss resulting from the revaluation of the item of property, plant, and equipment is classified within the operating category. (IFRS.org, 2024)

- **Derecognition:**

Upon derecognition of a liability, the entity is required to apply the same classification requirements to classify income and expenses as it would upon recognition of the liability. (IFRS.org, 2024)

1-6-7: Foreign Exchange Differences and Net Monetary Position Gains or Losses

The core principle for classifying foreign exchange differences is that they follow the category in which the related income and expenses were classified, unless doing so would involve undue cost or effort. If it would involve significant cost or effort, all such differences are classified within the operating category. (IFRS.org, 2024)

1-6-8: Gains and Losses on Derivatives and Designated Hedging Instruments

The specific requirements for classifying gains and losses on financial instruments designated as hedging instruments are defined. The same requirements apply to gains and losses related to a derivative that is not designated as a hedging instrument but is used to manage specific risks. (IFRS.org, 2024)

1-7: Items to Be Presented in the Statement of Profit or Loss

IFRS 18 requires the presentation of three subtotals and aggregates in the profit or loss statement, which aim to contribute to the presentation of a useful summary structure: (IFRS.org, 2024)

- Operating profit or loss: including all income and expenses classified in the operating category;
- Profit or loss before financing and income taxes: including operating profit or loss and all income and expenses classified in the investment category;
- Profit or loss: includes total income minus expenses presented in the statement of profit or loss and thus includes all income and expenses classified under all categories in the profit or loss statement.

1-7-1: Presentation of Items in the Financing Category

The items required to be presented in the profit or loss statement have been carried over from those required under IAS 1, with minor modifications: (IFRS.org, 2024)

- Removal of "Finance Costs": There is no longer a requirement to present "finance costs" as a separate item in the profit or loss statement. Instead, finance costs are classified according to the new requirements.
- Addition of "Operating Expenses": The item "operating expenses" has been included as part of the items to be presented in the profit or loss statement. (IFRS.org, 2024)

1-7-2: Presentation and Disclosure of Expenses Classified in the Operating Category

The principle of providing a useful summary structure is the basis for determining how to classify and present items in the operating category within the statement of profit or loss according to IFRS 18. The entity must use one or both of the following characteristics when classifying and presenting expenses: (IFRS.org, 2024)

- **Nature of Expense:** This approach requires presenting expenses based on their type, such as salaries, rents, or cost of raw materials. This approach facilitates analysis of the individual components of expenses, as each type of expense is presented as a separate item. (IFRS.org, 2024)
- **Function of Expense within the Entity:** Expenses are classified based on their function or purpose within the entity, such as cost of sales, marketing expenses, or administrative expenses. This approach enables the calculation of specific performance metrics, such as operating profit margin. (IFRS.org, 2024)

1-7-3: Presentation of Profit or Loss Attributable to Non-Controlling Interests

IFRS 18 requires the presentation of "profit or loss attributable to non-controlling interests" and "profit or loss attributable to owners of the parent" in the financial performance statement. These items are presented as components of profit or loss and not as elements of income or expenses. (IFRS.org, 2024)

2: Subsequent Amendments to Other Standards

IFRS 18 introduced consequential amendments to other International Accounting Standards. Most of these amendments are editorial in nature, such as updating references from IAS 1 to IFRS 18. Other more significant amendments are discussed in the following paragraphs:

2-1: Amendment to IAS 7 – Statement of Cash Flows

Upon the effective date of the amendments to IAS 7, all entities will be required to use "operating profit" as the starting point for determining cash flows from operating activities using the indirect method. The Board decided to require all entities to use the same starting point for the indirect method to reduce the current diversity in practice. The Board expects that using the operating profit subtotal as a fixed starting point will be sufficient to make the statement of cash flows more consistent and help investors analyze and compare companies' operating cash flows. The change in starting point will also simplify the presentation of cash flows from operating activities, as it will eliminate some of the reconciliation items currently used. (IFRS.org, 2024)

The amendments will also eliminate the optionality surrounding the classification of cash flows from dividends and interest in the statement of cash flows. This elimination aims to enhance comparability between entities and provide more useful information, as the current diversity in classification of these cash flows does not necessarily convey meaningful information about the role of interest and dividends in the entity's business activities. (IFRS.org, 2024)

2-2: IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Upon the effective date of the amendments, changes will occur to the scope and title of IAS 8 due to the transfer of some sections that were previously included in IAS 1 to IAS 8. The amended standard aims to enhance the relevance and reliability of an entity's financial statements, as well as their comparability over time and with those of other entities, by defining the basis of preparation of financial statements. Accordingly, the main objectives of the amendments are as follows: (IFRS.org, 2024)

- **Enhancing Relevance and Reliability:** Improving the quality of the financial information provided and ensuring that it reflects a true and reliable view of the entity's financial position.
- **Improving Comparability:** Enabling comparison of financial statements over time and between different entities.
- **Requirements Transferred to IAS 8:** These relate to how financial information should be presented in a manner that reflects the true financial position of the entity and complies with IFRS standards, as follows: (IFRS.org, 2024)
 - **Going Concern Principle:** Addresses the assessment of the entity's ability to continue operating for a reasonable period.
 - **Accrual Basis of Accounting:** Refers to the recognition of revenues and expenses when they occur, not when cash is received or paid.
 - **Disclosure of Accounting Policy Selection and Application:** Includes the provision of clear information regarding how the entity selects and applies its accounting policies.

2-3: IAS 33 – Earnings per Share

IAS 33 requires entities to report both basic and diluted earnings per share. The amended IAS 33, once effective, will allow entities to disclose additional per-share amounts. (IFRS.org, 2024)

2-4: IAS 34 – Interim Financial Reporting

Upon the effective date of IFRS 18, the disclosure requirements for interim financial reports will be amended. Under the revised standard, the entity will be required to disclose information about management performance measures (MPMs) in the notes to the condensed interim financial statements. The scope of these disclosures in the condensed interim financial statements is the same as that required

in the entity's full set of financial statements. As a result, the entity will be required to provide the same information in both the condensed interim financial statements and the full financial statements. (IFRS.org, 2024)

The requirements in the amended IAS 34 to provide information on management performance measures (MPMs) in interim reports are intended to provide financial statement users with transparent information regarding these measures and enable them to adequately analyze all aspects of the entity's performance. (IFRS.org, 2024)

Hypotheses Testing

Through the study, the following judgments can be made:

- **First Hypothesis:** IFRS 18 introduced the necessary requirements for presentation and disclosure in financial statements. The hypothesis is correct and validated.
- **Second Hypothesis:** IFRS 18 affected a number of other International Financial Reporting Standards. The hypothesis is correct and validated.

Conclusion

The foregoing shows that the newly introduced presentation and disclosure requirements in financial statements, in accordance with IFRS 18, are aimed at enhancing the quality of financial information to meet the needs of financial statement users. Based on the above, the following conclusions were reached:

- The new presentation and disclosure requirements in financial statements under IFRS 18 have enhanced the quality of financial information;
- The amendments to other International Financial Reporting Standards resulting from the issuance of IFRS 18 have contributed to enhancing the quality of financial information.

Recommendations

Based on the above findings, the following recommendations can be made:

- Strongly encourage entities to begin analyzing the new requirements;
- Encourage entities to plan for the transition to applying IFRS 18;
- Study the potential impacts on agreements and treaties;
- Urge entities to adopt a phased transition in applying IFRS 18.

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