



July 2025

# PKF Insights: A new era in financial reporting starts with IFRS 18

# Introduction



This newsletter offers an overview of IFRS 18: Presentation and Disclosure in Financial Statements, which replace IAS 1 and introduces significant changes in the presentation of financial information. It is organized into three parts:

Part 1 provides responses to frequently asked questions (FAQs), Part 2 provides application guidance, and Part 3 includes illustrative examples to support understanding and implementation.

A new era in financial reporting starts with IFRS 18 — and it's time to get ready.

This major overhaul transforms how profit or loss is presented, introduces new subtotals, and demands greater transparency on performance measures. For CFOs, finance teams, and auditors, the transition starts now.



## About IFRS 18

IFRS 18 replaces IAS 1 and introduces enhanced requirements for the presentation and disclosure of financial statements, with a focus on the statement of profit or loss. It requires entities to present two new defined subtotals—operating profit and profit before financing and income taxes—and to disclose management-defined performance measures (MPMs) used in public communications.

The standard also strengthens principles for aggregation and disaggregation to improve clarity and comparability. While IFRS 18 retains some content from IAS 1, it also relocates certain provisions to IAS 8 and IFRS 7, building on years of incremental improvements in financial reporting.

### Stay Ahead!

IFRS 18 is not just about better formatting — it reshapes how financial performance is communicated.

This issue breaks down what's changing and how you and your clients can stay ahead of the curve.

# Part 1 – FAQs

## What is IFRS 18 Presentation and Disclosure in Financial Statements?

IFRS 18, issued by the International Accounting Standards Board (IASB) in April 2024, and its Singapore equivalent SFRS(I) 18, issued by the Accounting Standards Committee (ASC), replaces IAS 1 / SFRS(I) 1-1. It introduces three key new requirements on presentation and disclosures in the financial statements.

## When is the effective date?

IFRS 18 takes effect on 1 January 2027, but since comparative figures for 2026 are required, you'll need to be prepared by 1 January 2026.

That's now less than six months from today.



## What is new (key) in IFRS 18?

01.

Presentation of the Statement of Profit or Loss

02.

Management Performance Measures

03.

Aggregation and disaggregation

## Who will be affected by IFRS 18?

- All companies across all industries that prepare financial statements under IFRS Accounting Standards.
- It will not change how companies recognise and measure items in the financial statements. Therefore, will not affect profit or loss for the period, or net asset value.
- It will affect the way companies present and disclose information in those statements.

## What is a management-defined performance measure?

A management-defined performance measure is a subtotal of income and expenses that management uses in public communications to reflect their view of the entity's overall financial performance. It's not one of the subtotals required by IFRS or listed in paragraph 118, but rather a custom measure tailored to highlight specific aspects of performance.

## Is an entity allowed to revise its management-defined performance measures?

Yes. If an entity changes how it calculates a management performance measure (MPM), introduces a new one, stops using a previous one, or adjusts how it determines tax effects on reconciling items, it must explain the nature and impact of the change. This includes the reasons behind it and, where practicable, restated comparatives to help users understand the implications.

## Part 1 – FAQs, cont'd

### Will IFRS 18 fully replace all the requirements currently set out in IAS 1?

No. While IFRS 18 introduces significant changes, it's important to note that many core principles of IAS 1 are retained. Entities should continue to apply familiar concepts such as the structure of financial statements, current vs non-current classification, the statement of changes in equity, and the systematic organization of notes and capital disclosures, while adapting to the new presentation and disclosure requirements.

### Have any changes been made to the other financial statements?

Yes. The main changes in other financial statements include:

Statement of Financial Position (current IAS 1)	Statement of Financial Position (future)
No mention of goodwill.	Goodwill must be shown separately.
Statement of Cash Flows (current IAS 7)	Statement of Cash Flows (future)
Under the indirect method, operating activities are presented starting from profit or loss.	Under the indirect method, operating activities are presented starting from operating profit or loss.
Cash receipts from interest and dividends may be classified as either operating or investing activities.	Cash receipts from interest and dividends are classified as investing activities (where investing is not main business activity).
Cash payments for dividends and interest may be classified as either operating or financing activities.	Cash payments for dividends are classified as financing activities. Cash payments for interest are classified as financing activities (where financing is not main business activity).

\*Under current IAS 7, classification is subject to an accounting policy choice.

\*\* Entities with specified main business activities (ie. Providing financing to customers and/or investing in assets) apply distinct classification rules, aligning interest and dividend cash flows with their income statement treatment, while classifying dividends paid under financing activities.

### What should entities do next?

We recommend that entities begin by reviewing IFRS 18 to understand its requirements, then assess the potential impacts on the financial statements—particularly areas requiring judgment such as identifying management performance measures (MPMs) and evaluating aggregation or disaggregation of line items.

In addition to collaborating closely with all stakeholders, it is important to evaluate whether the current reporting systems can support the additional disclosures, monitor developments in local and industry practices.

## Part 2 – Application Guidance



### ■ New requirements for Statement of Profit or Loss

- Income and expenses must be grouped into five categories: operating, investing, financing, income taxes, and discontinued operations.
- The first three—operating, investing, and financing—are newly introduced. Classification depends on the entity's core business activities.

### ■ Here's a breakdown of the categories:

## Categories

**Operating:** This category captures the core results of an entity's main business activities (essentially the "bottom line" before other income and expenses).

**Investing:** This category typically includes income and expenses from investments like associates, cash equivalents, and assets generating independent returns.

**Financing:** This category includes income and expenses related to financing activities, such as interest expense and the impact of interest rate changes on liabilities.

**Income Taxes:** This category encompasses all taxes payable on pre-tax profit, ie. IAS 12.

**Discontinued Operations:** This category includes income and expenses associated with discontinued business segments, i.e. IFRS 5.

\* For entities with financing or investment as a core business activity (e.g., banks), IFRS 18 allows certain income and expenses to be presented in the operating category to better reflect their main business performance.



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## Part 2 – Application Guidance, cont'd

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### ■ Entities are required to present new subtotals – “operating profit or loss” and “profit or loss before financing and income taxes” – in the Statement of Profit or Loss.

- IFRS 18 introduces flexibility in presenting operating expenses—entities can now choose to present them by nature, by function, or a combination of both, which is a new option. However, when using the function-based approach, additional disclosures by nature are still required for specific expense items.
- Part 3 of this newsletter features an illustrative Statement of Financial Performance, showcasing the presentation of operating expenses by function for an entity that does not engage in asset-specific investments or customer financing as part of its core business activities.



### ■ Management-defined performance measures

Entities shall help users of financial statements understand what a management performance measure (MPM) reflects about financial performance and how it differs from IFRS-defined metrics.

All MPMs should be disclosed together in a single note, with a clear statement that they represent management’s perspective and may not be comparable across entities

This note should explain:

- (1) MPMs reflect management’s perspective on the entity’s financial performance and may not be comparable to those of other entities.
- (2) Why the MPMs are useful.
- (3) How MPMs are calculated.
- (4) Provide a reconciliation to the comparable IFRS total or subtotal, including the effects of income tax and non-controlling interests.
- (5) Any changes to the MPMs must also be clearly explained.

Part 3 of this newsletter presents illustrative examples demonstrating how entities may incorporate management-defined performance measures (MPMs) in accordance with IFRS 18.

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## Part 2 – Application Guidance, cont'd

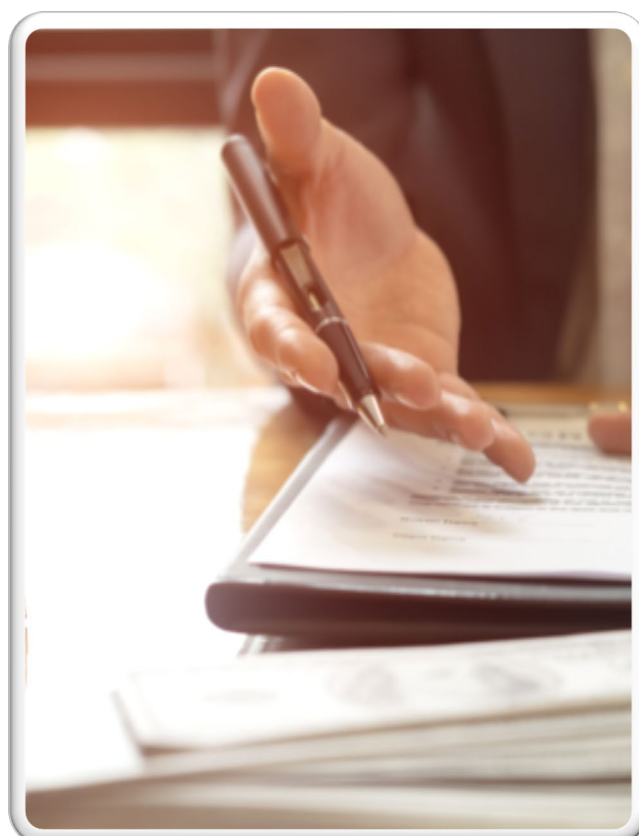
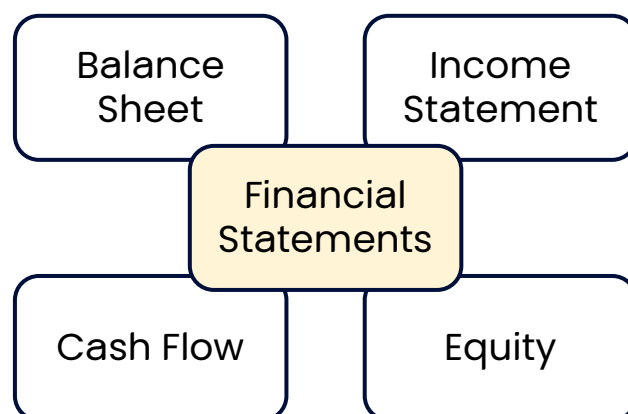
### ■ Aggregation and disaggregation

While the principle of aggregation exists under IAS 1, IFRS 18 strengthens the requirements by introducing clearer guidance on aggregation and disaggregation. It emphasizes the need for meaningful labels and additional disclosures to enhance the usefulness of financial statements and discourages the use of vague terms like “others”.

#### Process of aggregation and disaggregation

The process of aggregation and disaggregation ensures that financial information is organized meaningfully—grouping items with similar characteristics and separating those with distinct features—to enhance clarity, comparability, and usefulness of financial statements.

1. Identify individual transactions or events that give rise to assets, liabilities, equity, income, expenses, and cash flows.
2. Classify and aggregate these elements based on shared characteristics—such as nature, function, or measurement basis—to ensure meaningful grouping.
3. Disaggregate items with differing characteristics:
  - In the primary financial statements, to present structured and useful summaries.
  - In the notes, to provide material and decision-useful information.



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## Part 2 – Application Guidance, cont'd

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### ■ Aggregation and disaggregation (cont'd)

#### Descriptions of line items

Clear and accurate descriptions of line items in financial statements are essential for transparency and user comprehension.

- To clearly label and describe all items—including totals, subtotals, and individual line items—presented in the primary financial statements. These descriptions should faithfully reflect the nature and characteristics of each item.
- Provide all descriptions and explanations necessary for a user to understand the items, which may include information about how the items have been aggregated/disaggregated.

#### Use of 'Other...'

A more informative label could be obtained using a label describing the most material information in an aggregated line item.

For immaterial items that have been aggregated, a description that accurately reflects their common characteristics—or, where appropriate, their differing characteristics. The use of the term “other” is only appropriate when no more specific or informative label can be identified. In such cases, it may also be necessary to disclose either:

- A statement confirming that the amount does not include any items for which separate disclosure would be material; or
- A statement that the amount comprises several immaterial items, along with an indication of the nature and magnitude of the largest items included.

Part 3 of this newsletter provides illustrative examples demonstrating how entities can apply the principles of aggregation and disaggregation in accordance with IFRS 18.

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## Part 3 – Illustrative Examples

### Structure for the Statement of Profit or Loss

Statement of Profit or Loss			
	20x7	20x6	
Revenue	...	...	Operating
Costs of goods sold	...	...	
<b>Gross profit</b>	...	...	
Selling expenses	...	...	
General and administrative expenses	...	...	
Other operating	...	...	New required subtotal
<b>Operating profit</b>	...	...	
Gain on disposal of joint venture	...	...	Investing
<b>Profit before financing and income tax</b>	...	...	New required subtotal
Interest expense on borrowings	...	...	Financing
<b>Profit before tax</b>	...	...	
Income tax expense	...	...	Income tax
<b>Profit from continuing operations</b>	...	...	
Loss from discontinued operations	...	...	Discontinued operations
<b>Profit for the year</b>	...	...	

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## Part 3 – Illustrative Examples – cont'd

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### Management-defined performance measures (MPM)

ABC Group uses the management-defined performance measures (“MPMs”) adjusted operating profit and adjusted profit from continuing operations in its public communications.

These measures are not specified by IFRS Accounting Standards and therefore might not be comparable to apparently similar measures used by other entities.

To provide management’s view of the Group’s financial performance, operating profit and profit from continuing operations have been adjusted for items of income or expense that the Group does not expect to arise for several future annual reporting periods.

The Group’s management believes these MPMs provide information that is helpful in understanding trends in the Group’s underlying profitability.

ABC Group generally adjusts for these items of income or expense:

- Impairment losses (or reversals thereof) of property, plant and equipment (including right of use assets) and intangible assets (for information related to impairments refer to Note X Property, plant and equipment. Note X Intangible assets and Note X Research and development expenses).
- Gains or losses on disposal of subsidiaries, associates and joint ventures.

Illustrative notes are in the succeeding pages:

## Part 3 – Illustrative Examples – cont'd

### Management-defined performance measures (MPM)

ABC Group's management-defined performance measures	Reference to Part 2 – MPM Application Guidance
<p>ABC Group uses the management-defined performance measures adjusted operating profit and adjusted profit from continuing operations in its public communications. These measures are not specified by IFRS accounting Standards and therefore might not be comparable to apparently similar measure used by other entities</p>	<p>1) MPMs reflect management's perspective on the entity's financial performance and may not be comparable to those of other entities.</p>
<p>To provide management's view of ABC Group's financial performance, operating profit and profit from continuing operations have been adjusted for items of income or expense that ABC Group does not expect to arise for several future annual reporting periods. ABC Groups' management believes adjusting operating profit and profit from continuing operations for such items provides information that is helpful in understanding trends in ABC Group's underlying profitability.</p>	<p>2) Why the MPMs are useful.</p>
<p>ABC Group generally adjusts for these items of income or expense:</p> <ul style="list-style-type: none"> <li>• Impairment losses (or reversals thereof) of property, plant and equipment (including right of use assets) and intangible assets (for information related to impairments refer to Note X Property, plant and equipment. Note X Intangible assets and Note X Research and development expenses).</li> <li>• Gains on disposal of joint ventures.</li> </ul>	<p>3) How MPMs are calculated.</p>

## Part 3 – Illustrative Examples – cont'd

### Management-defined performance measures (MPM)

	IFRS	Adjusting items		Management defined performance measure	4) A reconciliation to the comparable IFRS total or subtotal, including the effects of income tax and non-controlling interests.
		Impairment loss (Note X)	Gains on disposal of joint ventures		
Operating Profit/Adjusted Operating Profit	100,000	20,000	(50,000)	70,000	
Profit from continuing operations/ Adjusted profit from continuing operations	60,000	20,000	(50,000)	30,000	

<p>Sample disclosure:</p> <p>During the current reporting period, ABC Group changed the definition of its management-defined performance measures — adjusted operating profit and adjusted profit from continuing operations. Previously, these MPMs excluded only recurring restructuring costs and fair value adjustments on financial instruments. In the current period, the Group expanded the scope of adjustments to additionally exclude the following:</p> <ul style="list-style-type: none"> <li>• Impairment losses (or reversals) of property, plant and equipment (including right-of-use assets) and intangible assets.</li> <li>• Gains or losses on disposal of subsidiaries, associates, and joint ventures.</li> </ul> <p>These items were not excluded in prior periods.</p> <p>Reason for the change:</p> <p>Management believes that excluding these items enhances the relevance and consistency of the MPMs with the Group's internal performance evaluation process. The updated measures better reflect the Group's underlying operating performance by removing income or expenses that are non-recurring or not indicative of future operating results.</p> <p>Impact of the change:</p> <p>Where practicable, comparative information has been restated to reflect the revised definition.</p>	<p>5) All changes to the MPMs must also be clearly explained.</p>
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## Part 3 – Illustrative Examples – cont'd

### Aggregation and disaggregation

ABC Pte Ltd ("ABC") prepares its financial statements using the function method. By referring to IFRS 18 supporting materials – Figure 7, ABC ensure that aggregated line items in the primary financial statements are both meaningful and informative to users.

#### *Identify the Nature and Function of Expenses*

ABC incurs the following expenses during the year:



Nature of Expense	Amount (SGD '000)	Function Allocated To
Salaries	5,000	R&D, Marketing
Rent	1,200	Admin
Software Licenses	800	R&D
Travel	600	Marketing
Depreciation	1,400	R&D

#### Apply Aggregation/Disaggregation Decision

##### Initial Aggregation:

ABC initially considers presenting a single line item: Operating Expenses – SGD 9,000,000.

##### Assessment:

This lacks transparency. Users cannot distinguish between R&D and Marketing costs, which are critical for evaluating performance.

##### Revised Presentation:

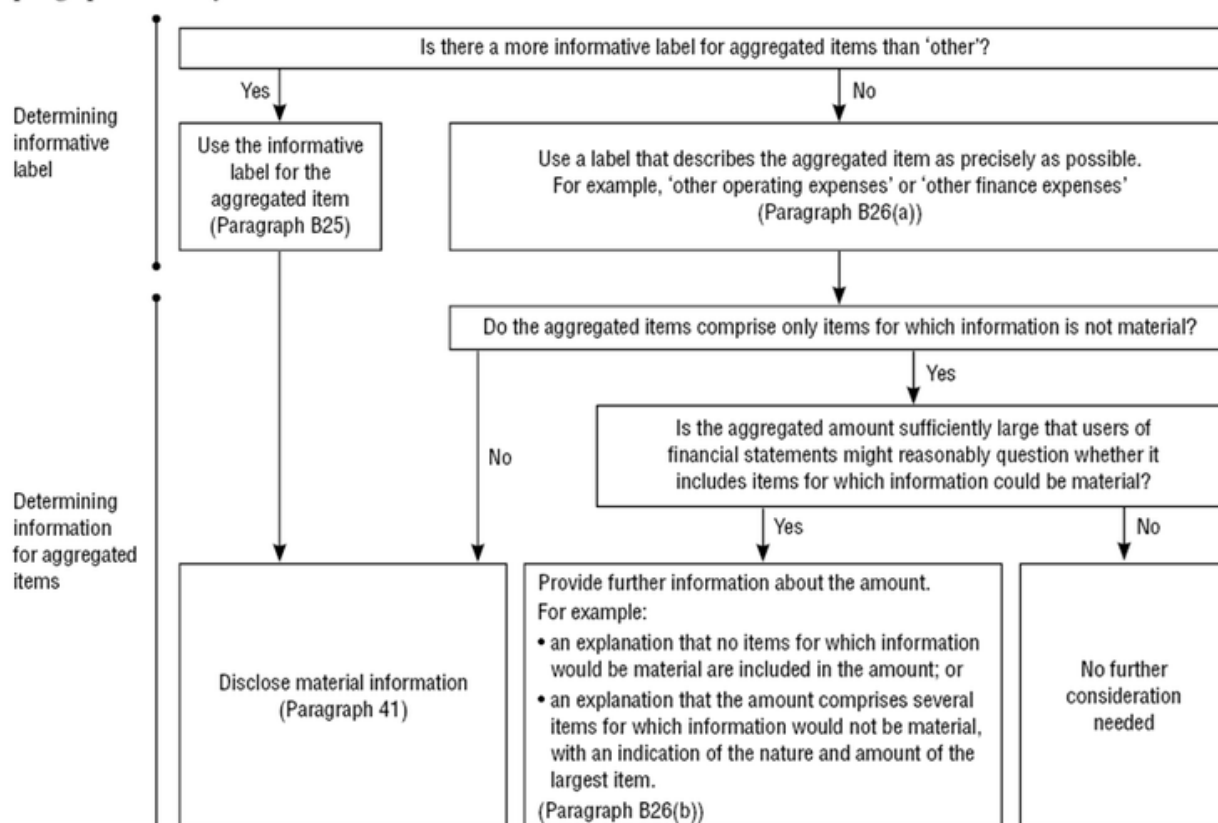


Line Item	Amount (SGD '000)
Research & Development	4,700
Marketing & Distribution	3,100
Administrative Expenses	1,200



## Part 3 – Illustrative Examples – cont'd

Figure 7 depicts aspects of the requirements for determining informative labels and information for aggregated items as set out in paragraphs B25–B26 of IFRS 18.





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