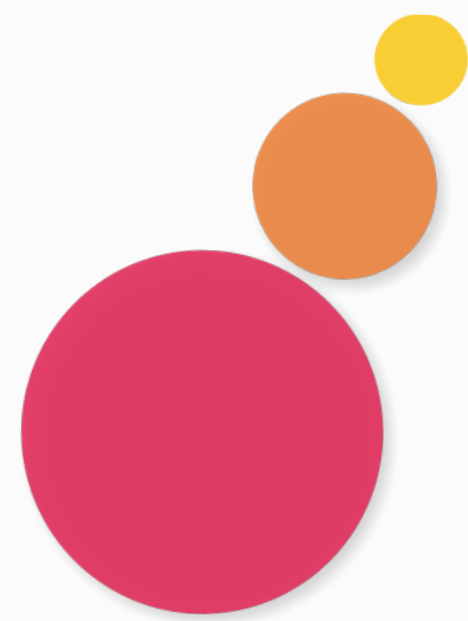




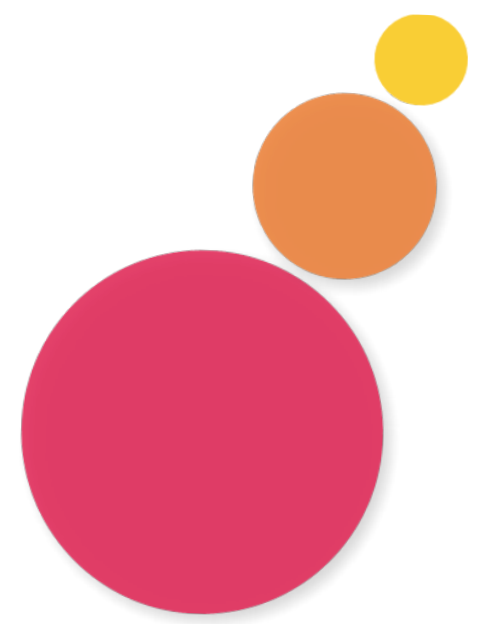
IFRS 18

The New Face of Financial Reporting

A global shift that changes how income statement is presented, how management defined performance measures are disclosed and what are additional requirements for grouping line items.

Presented by MCA Gulf





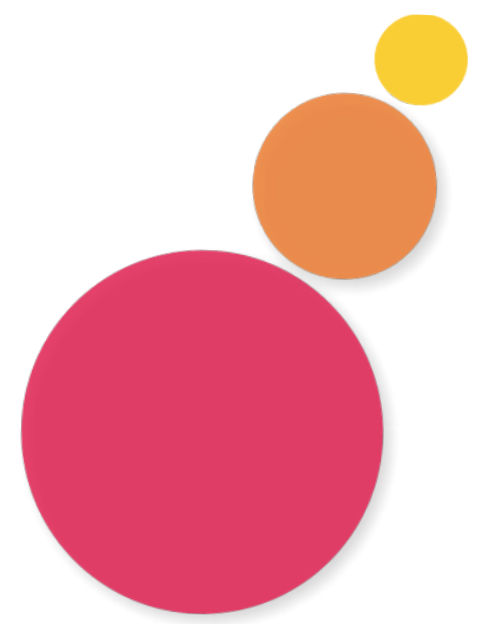
Why a New **Standard?**

- ▶ Current standard (IAS 1) created **inconsistency** – companies presented their financial results differently.
- ▶ Investors struggled to **compare performance across companies**.
- ▶ Management often reported **non-GAAP numbers (like Adjusted EBITDA)** outside audited FS.

IFRS 18 solves this by:

- ✓ Standardising the income statement structure.
- ✓ Bringing management performance measures inside audited FS.
- ✓ Improving transparency & comparability.





Objective of **IFRS 18**

The goal of IFRS 18 is to reshape financial reporting so that financial statements are not just compliance documents, but genuine decision-making tools.



Relevance

Show financial results that reflect real business performance.



Comparability

Enable fair comparison across companies and industries.



Transparency

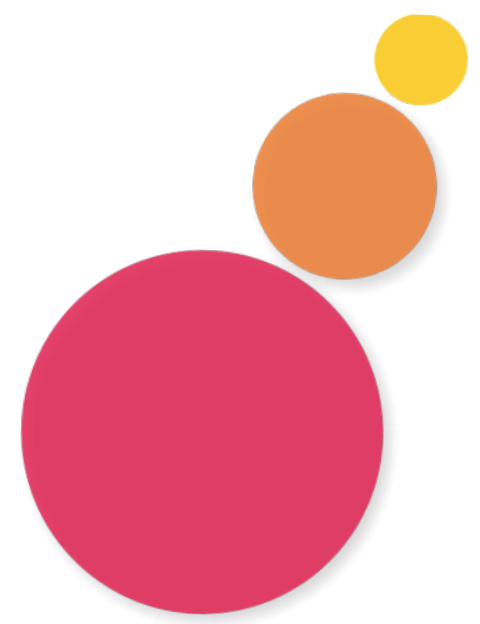
Reduce hidden items and increase clarity in reporting.



Trust

Bring management KPIs into audited financial statements.





Who **Must Apply?**

*IFRS 18 applies to all entities that prepare financial statements under IFRS, **whether public, private, or cross-border.***

COVERAGE

- ✓ Statement of Profit & Loss (financial performance)
- ✓ Statement of Financial Position (balance sheet)
- ✓ Statement of Changes in Equity
- ✓ Notes & disclosures

EXCLUDED

- ✗ Does not apply to condensed interim reports (IAS 34).

Mandatory from 2027 – this is not optional; all IFRS reporters must adopt and restate comparatives.

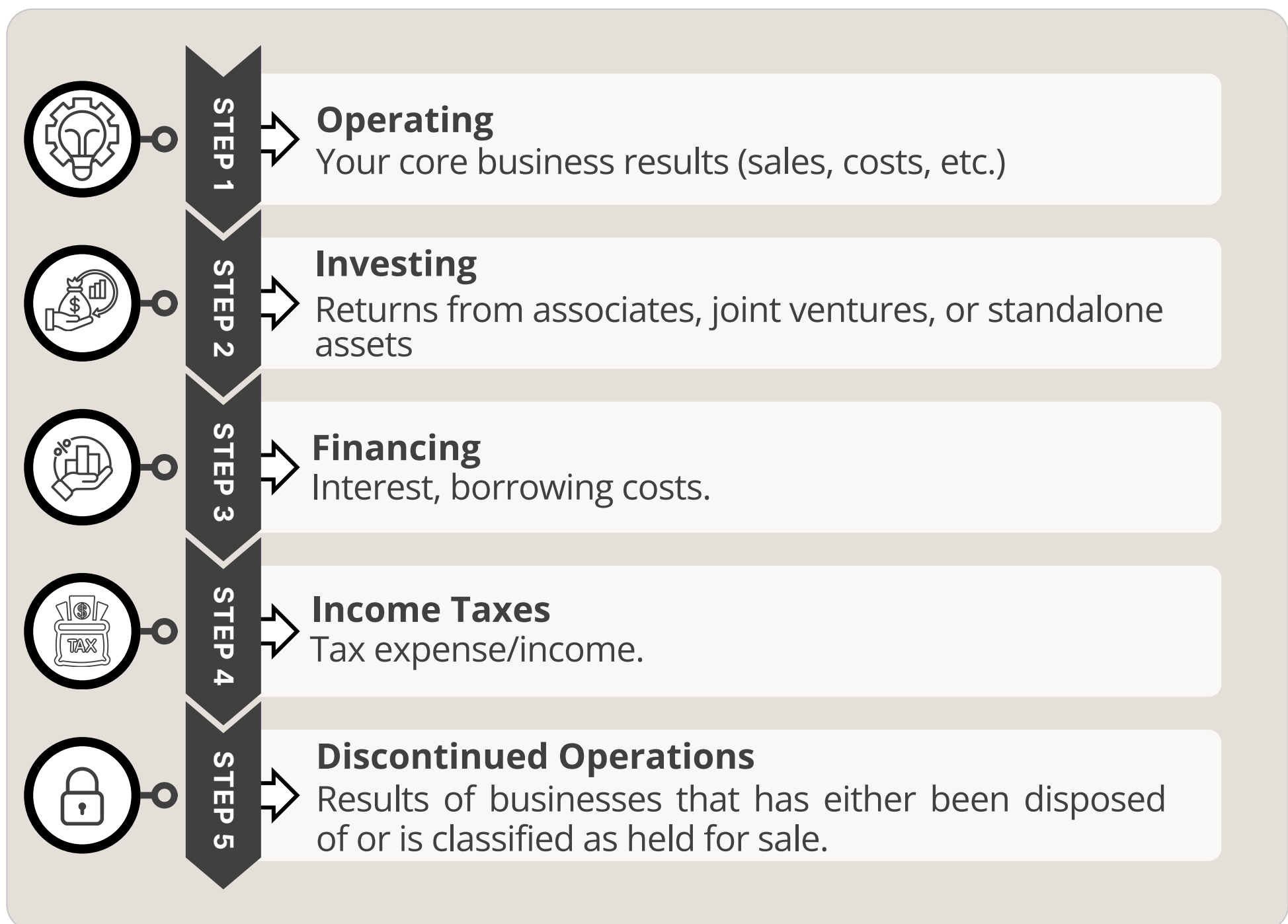


Big Change 1

Structure of the Statement of profit or loss

New Income Statement Categories

It introduces a uniform structure where every item must fall into five clearly defined categories:



Big Change 1

Structure of the Statement of profit or loss

Mandatory Subtotals

Now, every company must present three key subtotals in the income statement:

- 1 **Operating Profit or Loss** : Core results from main business activities.
- 2 **Profit or Loss before Financing & Income Taxes**: Business performance before debt and tax effects.
- 3 **Net Profit or Loss**: Final result after all categories.

Why this matters

- ✓ Creates a **consistent benchmark** for analysts and investors.
- ✓ Separates **true business performance** from financing structures and tax regimes.
- ✓ Improves **cross-company and cross-border comparability**.

Big Change 2

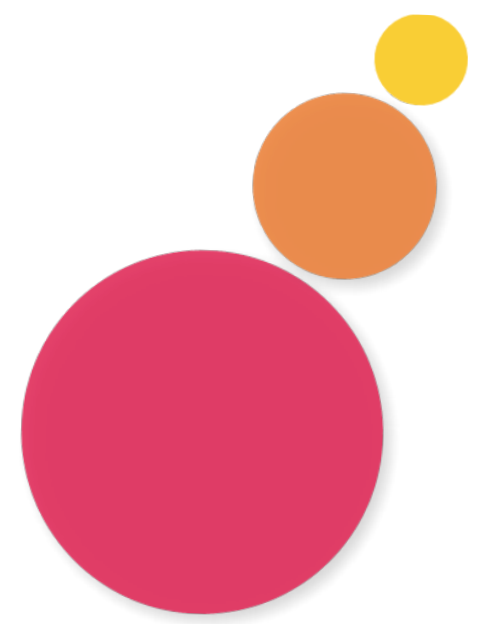
Disclosures on Profit or Loss Statement

Management-defined performance measures (MPMs):

- 1 Entities may use non-GAAP/alternative measures.
- 2 Standard defines a subset as MPMs (linked to financial performance).
- 3 Must disclose in one note within FS.
- 4 Reconciliation required between MPM and closest IFRS subtotal.
- 5 Brings certain non-GAAP measures inside audited FS.

Disclosure of expenses by nature:

- 1 Entities present operating expenses by nature, function, or a mix.
- 2 Standard guides assessment of the most suitable approach.
- 3 If expenses shown by function, specific items (e.g., depreciation, employee benefits) must also be disclosed by nature.



Big Change 3:

Aggregation & Disaggregation

What IFRS 18 changes

- **Principle-based guidance** for when to aggregate and when to split.
- Entities must:
 - a. **Aggregate items** that share similar characteristics (e.g., different types of employee expenses).
 - b. **Disaggregate items** that are materially different in nature or function (e.g., separating impairment losses from routine operating costs).
- Applies to **all primary financial statements and notes**, not just the income statement.
- Line items must be labelled clearly to **faithfully represent their content**.

Why this matters

- ✓ Prevents important figures from being **buried in “Other”**.
- ✓ Ensures **material items stand out**, improving investor understanding.
- ✓ Delivers a **more accurate and granular view** of business performance and risks.

Big Change 4:

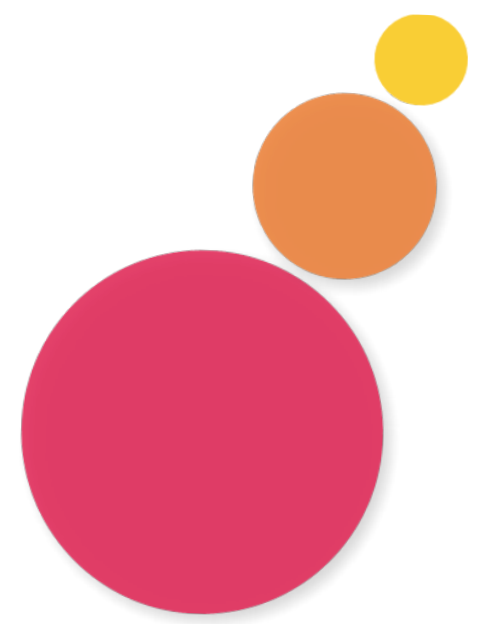
Expense Presentation

What IFRS 18 changes

- Companies can still choose **by nature** or **by function** — but:
 - If they use function, they must provide a **mandatory breakdown by nature** for key expense categories (e.g., employee benefits, depreciation, amortisation, impairments, inventory write-downs).
- This ensures critical details are not lost under high-level functional headings like “Cost of sales.”
- Provides clearer insight into **what resources are consumed and how efficiently.**

Why this matters

- ✓ Improves **visibility on cost structure** (e.g., how much is driven by people, assets, or raw materials).
- ✓ Makes **cross-company comparisons more meaningful**, regardless of reporting style.
- ✓ Helps investors evaluate **operational efficiency and cost management.**



What This Means for Companies

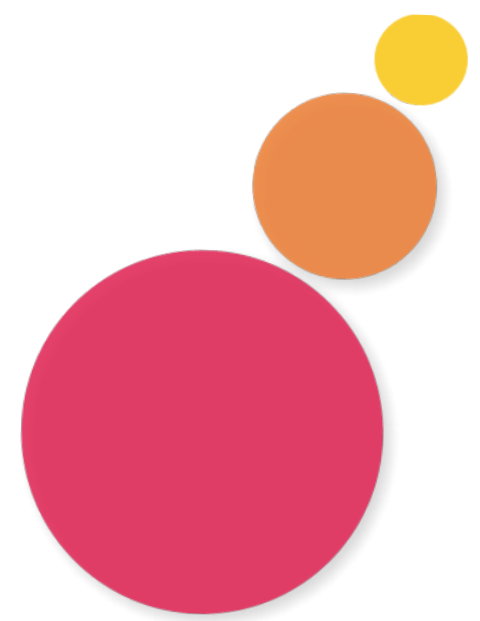
IFRS 18 is not just a technical accounting update — it reshapes how companies present performance. Every IFRS reporter, from listed multinationals to private entities, will be impacted.

- +** **Income Statement Transformation:** P&L will be rebuilt under the new categories and mandatory subtotals. “Operating profit” will become a consistent, visible benchmark.
- +** **System & Process Changes:** ERP systems, chart of accounts, and reporting tools must be redesigned to capture, classify, and report data under IFRS 18 rules.
- +** **Policy & Control Updates:** Companies must define policies for classification, aggregation, and KPIs, and embed them into internal controls.
- +** **Standalone vs Consolidated Differences:** Classifications may differ at group vs entity level, requiring careful alignment and reconciliations.
- +** **Investor Relations Impact:** Companies will need to retrain the market on how to read and interpret their financial results under the new format.

Why this matters

- The change affects not just finance teams, but operations, systems, and strategy functions.
- Transitioning early will prevent last-minute disruptions in 2027.





Transition & Timeline

- + Effective Date:** IFRS 18 applies for annual reporting periods beginning 1 January 2027.
- + Early Adoption:** Permitted, but entities must disclose in notes that they have applied the standard early.
- + Comparative Restatement:** Entities must restate prior-year comparatives under the new format, so users can compare old vs new consistently.
- + Reconciliation Requirement:** A formal reconciliation must be presented between previous IAS 1 figures and restated IFRS 18 figures for the comparative year.
- + Optional Elections:** On first application, entities may also reassess certain accounting elections (e.g., investments in associates or JVs).

Transition challenges

- Significant work is needed to map old P&L categories to the new 5-category structure.
- Requires redesign of systems, chart of accounts, and reporting processes well before 2027.
- Dry runs will be critical to ensure auditor and investor confidence in restated numbers.



How **MCA Can Help**



Impact Assessment:

Understand changes to your P&L & KPIs.



Implementation:

Update chart of accounts, ERP, disclosures.



Transition Support:

Dry runs, reconciliations, audit readiness.



Training & Documentation:

Equip teams, align auditors.

LET'S TALK ABOUT YOUR

**ASSESSMENT AND ROADMAP
YOUR TRANSITION**



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