

eBook

HAYNE
SOLUTIONS

IFRS 18

Prepare for the new standard with confidence




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What is IFRS 18?



IFRS 18 replaces IAS 1 and introduces a new, standardised structure for how financial statements, especially the statement of profit or loss, must be presented.

At a high level, it introduces:

1. New mandatory categories in the income statement:

- Operating
- Investing
- Financing (Plus separate sections for income tax and discontinued operations)

2. New required subtotals:

- Operating profit
- Profit before financing and income taxes

These subtotals were not consistently defined before.

3. Rules for Management-Defined Performance Measures (MPMs).

Any “non-GAAP” or adjusted metrics presented externally (e.g., adjusted EBITDA, underlying profit) must now be:

- Disclosed in a dedicated note
- Reconciled to the nearest IFRS subtotal
- Explained (why management uses it)

4. Stronger disaggregation and clarity requirements:

Companies must provide clearer breakdowns of income and expenses and avoid overly aggregated “other” lines.

5. **Some changes to the cash flow statement presentation**, particularly alignment with the new operating/investing/financing categories.

When does IFRS 18 apply?

Effective for annual reporting periods beginning on or after **1st January 2027**.

Comparatives must be restated, meaning companies will need to apply the new format to prior-year figures as well.

Early adoption is permitted.

In the UK, the standard is still subject to UKEB endorsement, but it is expected to proceed. (The UK’s approval process for the introduction of new standards).



Organisations Affected





1. All companies that prepare their financial statements under IFRS

IFRS 18 replaces IAS 1, so any entity applying IFRS accounting standards will need to adopt the new presentation and disclosure rules.

This includes:

- Listed companies on IFRS-regulated markets
- Large private companies using full IFRS
- Multinational groups reporting under IFRS at consolidated level
- Subsidiaries whose parents require IFRS-based reporting packs

2. UK companies using UK-adopted IFRS

For UK entities, IFRS 18 will apply once endorsed by the UKEB.

This mainly affects:

- Public Interest Entities preparing accounts under UK-adopted IFRS
- UK subsidiaries of IFRS-reporting groups

UK companies that voluntarily apply IFRS instead of UK GAAP

3. Groups that consolidate IFRS entities

Even if some subsidiaries use local GAAP, the group's consolidated financial statements under IFRS must comply with IFRS 18.

This means significant impacts on:

- Financial consolidation systems
- Group reporting packs

Chart of accounts alignment across entities

4. Organisations using non-GAAP/alternative performance metrics externally

IFRS 18 introduces strict rules for Management-Defined Performance Measures (MPMs).

Companies that present metrics such as:

- Adjusted profit
- Normalised profit
- Adjusted EBITDA
- Underlying operating profit

will need new disclosures, reconciliations, and governance processes.

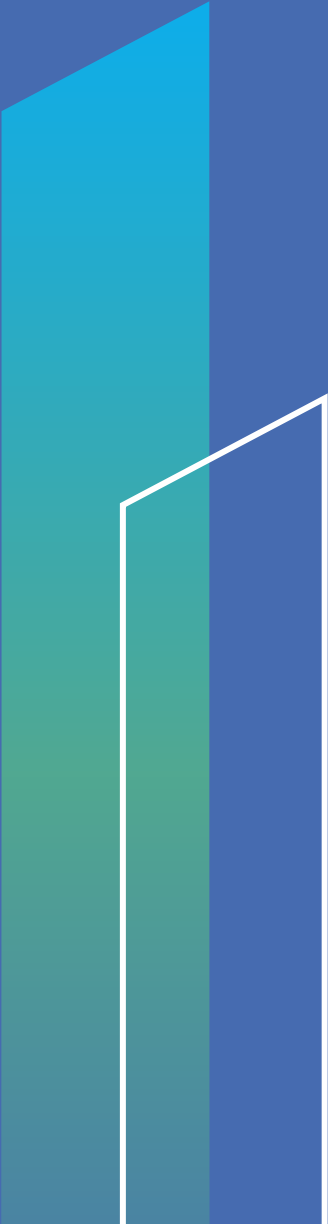
5. Complex or regulated industries

Sectors with significant financing, investing, or non-recurring adjustments will experience greater presentation changes, such as:

- Financial services
- Real estate/investment property groups
- Telecoms/technology (heavy capex or financing structures)
- Utilities and infrastructure (long-term financing)
- Retail and consumer groups (frequent “adjusted” metrics)

IFRS 18 affects all IFRS-reporting organisations - especially listed entities, large private groups, and any company using adjusted performance measures externally.





Expected Impact of IFRS 18 on Reporting & Data Structures



IFRS 18 does not change how items are measured, but it significantly changes how financial information must be structured, classified, and presented.

This has major implications for accounting systems, consolidation processes, data models, and reporting outputs.

1. Chart of Accounts (CoA) Changes

IFRS 18 introduces mandatory categories in the income statement (Operating, Investing, Financing), so companies must update the CoA to support accurate mapping.

Expected impacts:

- New classification fields/attributes (e.g., IFRS18 category tag).
- Re-grouping of income and expenses under new mandatory categories.
- More granular cost and revenue accounts to support stricter disaggregation.
- Standardisation across subsidiaries for consistent group reporting.

2. Data Model & System Architecture

To produce the new subtotals and categories, data needs to be captured and stored differently.

Expected impacts:

- More detailed and structured transactional data.
- Ability to generate mandated subtotals such as:
 - Operating profit
 - Profit before financing and income tax
- Dual reporting views (IFRS 18 external view vs internal management reporting).
- Updates to data warehouses, analytics tools, and reporting cubes.

3. Consolidation & Group Reporting

IFRS 18 requires comparative figures to be restated and group reporting to follow consistent classification rules.

Expected impacts:

- New consolidation hierarchies reflecting IFRS 18 categories.
- Updates to group reporting packs and templates.
- System capability to restate prior periods under the new structure.
- Consistent classification of transactions across all entities.

A modern office interior with a desk, a computer monitor, and a chair. The desk is white and has a computer monitor on it. There is a blue office chair in front of the desk. The background shows a brick wall and a window with a plant.

4. Cash Flow Statement Alignment

IFRS 18 links the cash flow statement more closely to the new profit and loss structure.

Expected impacts:

- Operating cash flows must start from “operating profit” (a defined subtotal).
- Standardised classification for interest/dividends—no more policy choices.
- Greater dependency on accurate linkage between P&L, balance sheet, and cash flow data.

5. Management-Defined Performance Measures (MPMs)

IFRS 18 introduces strict rules for any adjusted or non-GAAP metrics used externally.

Expected impacts:

- Systems must track “adjusting items” and maintain audit trails.
- Structured reconciliation tables between MPMs and IFRS subtotals.
- Governance workflows for approving and documenting adjustments.

6. Reporting Packs, Notes & Disclosures

IFRS 18 expands disclosure requirements and standardises presentation.

Expected impacts:

- Redesign of statutory financial statements.
- Additional note disclosures (especially around MPMs and disaggregation).
- Enhanced validation and consistency checks across primary statements and notes.
- Updated board reporting formats to align with IFRS 18 subtotals.

7. Controls, Documentation & Policies

Because the standard introduces new judgement areas, internal controls must evolve.

Expected impacts:

- New controls over classification (operating vs financing vs investing).
- Updated accounting manuals reflecting IFRS 18 rules.
- Enhanced documentation to support audit requirements.



Key Challenges Finance Teams Will Face When Adopting IFRS 18

1. Reclassifying Income & Expenses into New Categories

IFRS 18 requires all income and expenses to be categorised as:

- Operating
- Investing
- Financing

This is a major shift from IAS 1 where presentation was more flexible.

Challenges:

- Determining the correct classification for complex items.
- Ensuring consistency across business units and subsidiaries.
- Updating chart of accounts and mapping tables.
- Managing disagreements between finance, FP&A, and auditors.

2. Restating Prior-Year Comparatives

IFRS 18 requires full retrospective restatement.

Challenges:

- Reclassifying one or two years of historical data.
- Lack of granularity in older periods may prevent clean reallocation.
- Potential need for manual workarounds or rebuilding historic datasets.





3. Upgrading Reporting Systems & Data Models

Systems must now support new categories, new subtotals, and more detailed disclosures.

Challenges:

- Modifying ERP, consolidation tools, data warehouses, and reporting cubes.
- Ensuring dual reporting views (management vs statutory).
- Aligning subsidiaries using different local systems and charts of accounts.
- Managing system changes during busy periods (e.g., year-end).

4. Managing New Disclosure Requirements for MPMs

Companies using non-GAAP or “adjusted” figures must now disclose:

- A full reconciliation to IFRS totals
- Why the measure is used
- Clear definitions and consistent application

Challenges:

- Identifying all “adjusted/underlying” metrics used externally.
- Tracking adjustments at a granular level with audit trails.
- Creating and validating reconciliation tables.
- Ensuring compliance in press releases and investor presentations.

5. Stronger Disaggregation Rules

IFRS 18 demands more detail in income and expense breakdowns.

Challenges:

- Splitting previously aggregated lines (e.g., “other expenses”).
- Gathering more granular data from source systems.
- Balancing disaggregation with readability.

6. Updating Cash Flow Classifications

New alignment between the cash flow statement and the IFRS 18-defined “operating profit”.

Challenges:

- Correctly linking P&L, balance sheet movements, and cash-flow.
- Reworking interest and dividend classifications.
- Updating automation logic in cash flow tools.

7. Changes to Group Reporting & Governance

Consistency across multi-entity groups will be critical.

Challenges:

- Aligning classifications across entities in different sectors or geographies.
- Updating group reporting packs and instructions.
- Strengthening internal controls over classification decisions.
- Ensuring auditors agree with new policies and judgements.

8. Training & Change Management

IFRS 18 introduces new concepts and structures.

Challenges:

- Training finance teams, FP&A, controllers, and consolidation teams.
- Updating accounting manuals and internal reporting guides.
- Ensuring non-finance teams understand the implications for KPIs.
- Explaining new subtotals (e.g., operating profit) to executives and boards.





Where HAYNE Solutions Can Support



1. Impact Assessment & Readiness Review

HAYNE can help organisations understand the scale and complexity of the changes. Support includes:

- Diagnostic review of current financial statements and reporting packs
- Gap analysis against IFRS 18 requirements
- Identification of high-risk areas (e.g., reclassification, comparatives, MPMs)
- Roadmap and priorities for implementation

This gives finance leaders a clear view of what must change and what resources are needed.

2. Chart of Accounts & Reporting Structure Redesign

IFRS 18 requires new income statement categories, subtotals, and disaggregation. HAYNE can support by:

- Reworking the chart of accounts and classification logic
- Designing mapping tables for Operating / Investing / Financing categories
- Standardising templates across subsidiaries

3. System Configuration & Technical Implementation

Many companies will need system changes to support the new reporting requirements.

HAYNE can assist with:

- Updating consolidation and reporting systems (e.g., IBM Planning Analytics, Workday Adaptive, CCH Tagetik)
- Creating new IFRS 18-compliant hierarchies and reporting cubes
- Automating new subtotals and disclosure calculations
- Building dual-reporting views (statutory IFRS 18 and management reporting)

This reduces manual work and ensures accuracy and consistency.

4. Restatement of Comparative Periods

IFRS 18 requires retrospective application – a major task for many finance teams. HAYNE can help by:

- Designing restatement methodologies
- Supporting historical data reconstruction and reclassification
- Automating comparative reporting in consolidation tools

This is often an area where external support saves considerable time and risk.

5. Management-Defined Performance Measures (MPMs) Governance & Reporting

MPM disclosures are one of the most operationally challenging areas of IFRS 18. HAYNE can support by:

- Identifying and cataloguing all externally communicated MPMs
- Designing reconciliation templates and workflows
- Building automated MPM notes in reporting systems
- Ensuring audit-ready documentation and controls

This strengthens compliance and reduces audit issues.

6. Enhanced Disaggregation Requirements

IFRS 18 demands that income and expenses be presented with greater clarity. HAYNE can support by:

- Helping finance teams determine appropriate levels of disaggregation
- Updating reporting hierarchies and templates
- Ensuring source systems capture sufficient detail

This ensures financial statements remain compliant and appropriately informative.





7. End-to-End Reporting Process Redesign

As IFRS 18 affects multiple internal processes, HAYNE can support broader transformation.

This includes:

- Redesigning month-end close workflows
- Updating group reporting packs and statutory templates
- Implementing robust controls for new classification decisions
- Providing documentation, policies, and training

This ensures a smooth transition with minimal disruption.

8. Training & Change Management

Finance teams, FP&A, and senior stakeholders need to understand the new standard.

HAYNE can deliver:

- Training sessions (finance and non-finance audiences)
- Practical workshops on applying the new classifications
- Guidance documents and IFRS 18 manuals
- Ongoing support throughout implementation

9. Ongoing Managed Services

For companies wanting external support beyond implementation.

HAYNE can offer:

- Periodic reviews of compliance
- Support with future reporting cycles
- MPM governance oversight
- Assistance with audit queries

Who are **HAYNE** SOLUTIONS?

Our Services



**Project
Governance**



Consultancy



Support



HAYNE Cloud



Training

About us

We deliver successful, scalable, efficient & integrated Financial Performance Management & Business Intelligence Solutions.

HAYNE has a unique blend of practical client experience & technology expertise with an in-depth understanding of what businesses are looking to do & how we can support it. Our consultants are a mix of highly experienced finance professionals and systems experts, so we know how to combine people, process and technology.

We work with a select number of market leading technology partners such as CCH Tagetik, IBM, & Microsoft to provide leading, best-in-class Performance Management solutions across the business including Finance, IT, Operations, & Business Intelligence.

Visit our website for more information: <https://hayne.co>

We can deliver:

Finance teams, FP&A, and senior stakeholders need to understand the new standard

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Book a free discovery call with HAYNE Solutions



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