In the know: IFRS 18

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The most significant change to the presentation of financial statements in more than 20 years

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The introduction of IFRS 18 will bring about significant changes to the way organisations present financial performance within their financial statements. While the standard does not alter the underlying recognition or measurement of transactions, it will reshape how results are structured, explained and interpreted by investors, lenders and other stakeholders.

For many businesses, the changes will extend beyond compliance and financial reporting teams alone. From performance measures and reporting processes through to governance, systems and stakeholder communication, IFRS 18 is expected to have a broad operational impact across organisations reporting under IFRS.

In this edition of In the know, we explore the key changes introduced by IFRS 18, what they could mean in practice, and the steps businesses should be considering ahead of implementation in January 2027.

In the know is our ongoing series designed to keep you up to speed with the latest regulatory updates, tax developments and policy changes that could impact you or your organisation. From evolving legislation to shifts in compliance requirements, we'll highlight what's changing, why it matters and what action, if any, you need to take. Timely, relevant and clearly explained, these updates will ensure you stay informed and prepared.

Why IFRS 18 matters

IFRS 18 'Presentation and Disclosure in Financial Statements' represents the most significant change to the presentation of financial statements in more than 20 years. Replacing IAS 1, the new standard introduces a revised structure for the income statement alongside enhanced disclosure requirements designed to improve consistency and comparability across IFRS reporting.

While IFRS 18 does not change how organisations recognise or measure profit, assets or liabilities, it will fundamentally reshape how financial performance is presented, explained and interpreted by investors, lenders and other stakeholders. For many businesses, this means the impact of IFRS 18 will extend well beyond technical financial reporting.

At its core, the standard is designed to improve transparency and create greater consistency in how organisations communicate financial performance. To achieve this, IFRS 18 introduces:

- defined categories for income and expenses within the income statement
- mandatory subtotals, including operating profit or loss and profit before financing and income taxes
- enhanced disclosure requirements for management-defined performance measures (MPMs)
- clearer guidance around aggregation and disaggregation of information.

Together, these changes are intended to make financial statements more comparable across sectors and easier for users to interpret. However, they may also require organisations to reconsider long-standing presentation approaches, reporting structures and performance narratives.

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, although early adoption is permitted. Importantly, the standard must be applied retrospectively, meaning comparative information will also need to be restated under the new requirements. For many organisations, this creates a relatively short implementation window, particularly where systems, controls or reporting processes may require modification ahead of transition.

The introduction of IFRS 18 is therefore not simply a compliance exercise. The standard has the potential to affect key performance measures, internal reporting structures, investor communications and even remuneration arrangements or covenant calculations linked to profit metrics.

While 2027 may still appear some distance away, organisations reporting under IFRS should now be starting to assess the practical implications of the new standard and consider what changes may be required in preparation for implementation.

What is changing under IFRS 18?

A new structure for the income statement

One of the most significant changes introduced by IFRS 18 is the requirement for a more structured and consistent presentation of the income statement. Under the new standard, income and expenses must be grouped into defined categories, helping users of financial statements better understand how an organisation generates profit and how performance compares across businesses and sectors.

The new categories are:

- operating
- investing
- financing
- income taxes
- discontinued operations.

For many organisations, the operating category will become the most important area of focus. This is effectively the default or 'residual' category and will typically include income and expenses relating to the organisation's core business activities. However, IFRS 18 also introduces specific guidance for entities where activities such as financing form part of the core business model.

The standard also introduces new mandatory subtotals, including:

- operating profit or loss
- profit or loss before financing and income taxes.

This is expected to reduce flexibility in how organisations currently present results and may significantly change how certain performance measures are reported.

For businesses that currently use tailored income statement formats or internally defined operating profit measures, the impact could be particularly noticeable.

Importantly, while IFRS 18 changes how performance is presented, it does not change the underlying measurement of profit itself. Instead, the focus is on creating clearer and more comparable financial reporting across organisations.

Greater focus on management performance measures

IFRS 18 also introduces formal disclosure requirements for management-defined performance measures (MPMs). These are subtotals used by management to communicate their view of financial performance, such as adjusted profit, underlying earnings or headline operating results.

Where MPMs are used, organisations will now need to provide:

- a clear explanation of the measure
- details of how it has been calculated
- an explanation of why the measure is useful
- reconciliation back to the closest IFRS-defined subtotal.

Comparative information will also be required in most cases.

This represents a significant shift for organisations that rely heavily on adjusted or alternative performance measures within annual reports, investor presentations or market communications. While the new requirements are intended to improve transparency, they are also likely to increase scrutiny around how these measures are defined and presented.

For finance teams, this means ensuring that performance measures are clearly governed, consistently applied and supported by robust reporting processes.

Less flexibility, greater consistency

Under IAS 1, organisations had greater flexibility in how certain items were presented within the income statement. IFRS 18 reduces some of that flexibility by introducing more prescriptive presentation requirements and clearer guidance around classification.

As a result, some items currently reported within operating profit may need to be reclassified into investing or financing categories under the new rules. Similarly, businesses may need to reconsider how unusual or non-recurring items are presented within financial statements.

The standard also introduces enhanced principles around aggregation and disaggregation to help ensure that financial information is presented clearly and meaningfully. This is intended to reduce both excessive detail and over-simplification within financial reporting.

New reporting judgements and considerations

Although IFRS 18 does not change recognition or measurement requirements, it is likely to introduce new areas of judgement for finance teams and preparers of financial statements.

Organisations will need to assess how income and expenses should be classified, the appropriate level of aggregation and disaggregation across reporting, and whether operating expenses are best presented by nature, by function or using a mixed approach.

Additional complexity may arise in areas such as foreign exchange differences, derivatives and hybrid contracts, particularly where classification requirements under IFRS 18 differ from current presentation approaches.

For many organisations, these changes will require careful planning to ensure reporting remains clear, consistent and aligned with the new framework.

What does IFRS 18 mean in practice?

Changes to systems and reporting processes

Although IFRS 18 is primarily focused on presentation and disclosure, the practical impact on reporting systems and internal processes could be significant for many organisations.

To comply with the new requirements, businesses may need to review how financial data is captured, classified and reported across the organisation. This could include changes to:

- chart of accounts structures
- consolidation and reporting processes
- financial reporting systems
- management reporting templates
- internal controls and governance procedures.

Additional challenges may arise where organisations operate across multiple entities or business activities, particularly where different revenue streams or financing activities require separate classification under the new framework.

For some organisations, further disaggregation of financial information may also be required, increasing the need for more detailed and consistent data collection. This may prove particularly important where expenses are presented by function, or where the nature of costs is not retained through the consolidation process.

As a result, businesses should begin assessing whether current systems and reporting structures are capable of supporting the new presentation and disclosure requirements ahead of implementation.

Impact on KPIs, covenants and remuneration

One of the more significant commercial implications of IFRS 18 is the potential impact on performance measures used internally and externally across the business.

The introduction of mandatory subtotals, including a more defined operating profit measure, may affect how organisations calculate and present key metrics currently used within:

- management reporting
- remuneration and bonus arrangements
- banking covenants
- investor reporting
- strategic performance monitoring.

For organisations that currently use internally defined profit measures, there is a possibility that these metrics may change under IFRS 18, even where there has been no underlying change to business performance.

This means businesses may need to review existing contractual arrangements and assess whether references to measures such as operating profit, EBITDA or adjusted earnings remain appropriate under the revised reporting structure. In some cases, amendments or clarifications may be required to avoid unintended consequences.

Beyond compliance, IFRS 18 may therefore create broader discussions around how performance is measured, communicated and incentivised across the organisation.

Investor and stakeholder communication

For many organisations, annual reports serve as one of the primary ways of communicating performance and strategy to investors, lenders and other stakeholders. IFRS 18 is therefore likely to have implications beyond the finance function alone.

Many businesses currently use adjusted or alternative performance measures throughout annual reports, investor presentations and market updates to explain underlying performance. Under IFRS 18, these measures will face increased disclosure requirements and greater scrutiny around how they are defined and reconciled to IFRS results.

As reporting formats evolve, organisations will need to ensure stakeholders clearly understand:

- how presentation changes affect reported performance
- why certain measures may appear different
- how management performance measures are defined
- which metrics remain most relevant to assessing business performance.

Early engagement with investor relations teams, boards and external stakeholders will therefore be important in helping manage transition and avoid confusion when IFRS 18 reporting becomes mandatory.

Clear communication will be particularly important in situations where operating profit or other headline metrics appear materially different under the revised presentation requirements.

Governance and internal readiness

The implementation of IFRS 18 is likely to require input from a wider group of stakeholders than traditional financial reporting changes. Alongside finance teams, organisations may need involvement from:

- boards and audit committees
- investor relations teams
- operational leadership
- legal and compliance functions
- remuneration committees.

Ensuring these groups understand the implications of the new standard will be an important part of successful implementation.

Businesses should also consider whether existing governance frameworks, reporting controls and approval processes remain appropriate under the revised requirements. Early planning may help reduce implementation risk and provide more time to address any operational or communication challenges identified during transition.

What should businesses be doing now?

Assess the impact early

Although IFRS 18 does not become mandatory until accounting periods beginning on or after 1 January 2027, organisations should begin assessing the impact of the new standard now.

The standard applies retrospectively, meaning comparative information will also need to be presented under the new requirements. For many businesses, this means changes to systems, reporting structures and controls may need to be operational during 2026 in preparation for transition. Listed entities will also need to consider the impact on interim financial reporting during the first year of adoption.

An early impact assessment can help businesses identify where IFRS 18 is likely to have the greatest effect. For some organisations, this may involve changes to key subtotals and performance measures, while for others the focus may be on reporting systems, data sources or investor communications. Understanding these impacts early can help reduce implementation risk and avoid unnecessary disruption closer to adoption.

Review performance measures and KPIs

Organisations that currently use adjusted or alternative performance measures should review these carefully ahead of implementation. This includes considering whether existing metrics remain appropriate under IFRS 18, how they will need to be explained and reconciled, and whether additional governance or documentation may be required.

For some businesses, IFRS 18 may provide an opportunity to simplify or strengthen performance reporting by reassessing which measures genuinely support decision-making and stakeholder understanding. As management performance measures come under greater scrutiny, consistency and transparency will become increasingly important.

This is likely to be particularly relevant for organisations that regularly communicate adjusted profit measures or alternative performance metrics within annual reports, investor presentations or lender reporting.

Consider systems and reporting readiness

The operational impact of IFRS 18 should not be underestimated. In some cases, organisations may need to revisit chart of accounts structures, consolidation processes, reporting templates and internal controls to ensure financial information can be captured and presented in line with the new framework.

Businesses should also assess whether existing reporting systems are capable of supporting the additional classification and disclosure requirements introduced by IFRS 18. This may be particularly important where organisations operate across multiple entities, use mixed reporting approaches or currently rely on manual workarounds within the reporting process.

Where wider finance transformation or system upgrade projects are already planned, incorporating IFRS 18 requirements early may help reduce both cost and disruption later in the implementation process.

Plan your transition and communication strategy

Alongside technical implementation, organisations will also need to consider how the impact of IFRS 18 will be communicated internally and externally. Boards, audit committees, investors and lenders may all require a clear understanding of how the new presentation requirements affect reported performance and key financial metrics.

Preparing example financial statements, bridge analyses and transition summaries ahead of implementation can help organisations explain changes more clearly and support stakeholder understanding. Early engagement with investor relations teams and wider leadership groups may also help reduce the risk of confusion once IFRS 18 reporting becomes mandatory.

Successful implementation of IFRS 18 will therefore depend not only on technical compliance, but also on effective planning, governance and communication across the wider organisation.

Next steps

While IFRS 18 does not become mandatory until 2027, organisations reporting under IFRS should already be considering how the changes may affect financial reporting, internal processes and wider stakeholder communication.

Because the standard applies retrospectively, many businesses will need to ensure new reporting structures, controls and comparative information are in place during 2026 ahead of transition.

For some organisations, this may involve reviewing reporting systems and chart of accounts structures, while others may need to revisit performance measures, investor communications or internal governance arrangements.

The impact of IFRS 18 will vary between organisations, but early assessment and planning are likely to be key in avoiding unnecessary disruption closer to implementation. Beyond compliance, the introduction of IFRS 18 may also provide an opportunity to reassess how financial performance is communicated and understood across the business.

We're here to help

IFRS 18 represents one of the most significant changes to financial statement presentation in more than two decades. While the technical requirements will be important, successful implementation is also likely to depend on effective planning, governance and communication across the wider organisation.

At UHY, we are supporting organisations in understanding the practical implications of IFRS 18 and preparing for implementation ahead of the 2027 effective date. If you would like to discuss how the changes may affect your organisation, please speak to your usual UHY adviser or contact a member of our Financial reporting team.

Colin Wright,
UHY UK Group Chairman and Partner
+44 20 7216 4600
c.wright@uhy-uk.com

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