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THE CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARD 18 APPLICATION

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Abstract: International financial reporting standards are constantly in a process of dynamic change, which stems from the information requirements of external users. In particular, currently, improvements in the reporting of business profit and loss are being emphasized, which will be regulated by the IFRS 18 standard, which will come into force in 2027. However, on the other hand, the application of this standard raises a number of challenges in the field of disclosures of profit and loss formation, which are

discussed in this study. In particular, the features of the disclosures presented by the IFRS 18 standard and the ways of their application in organizations are interpreted.

Keywords: profit and loss statement, International Financial Reporting Standards, IFRS, operating, investment and financial profit, management performance measures.

JEL codes: M40, M41

Research aim: The aim of the research is to substantiate the relevance of the application of IFRS 19 and, based on this, to discuss the possibilities of using the standard in organizations.

Research novelty: the research results presented a mechanism for accountability for the formation of operating, investment and financial profits, based on the current requirements of external users of financial information

Introduction

International Financial Reporting Standard (IFRS) 18, which will enter into force in 2027 and has the title "Presentation and Disclosure in Financial Statements", will act as the methodological basis for the operation of other standards currently in use. It lays the foundation stones on which the system of international accounting standards is built (Zainy, 2025).

Let us make conditional comparisons between the anatomy of the human body and IFRS 18. The stability and resilience of the human body is mainly ensured by the brain, and the healthier and more active it is, the more resilient and competitive the human organism is in public life. The package of financial statements presented under IFRS 18 includes the "Statement of Financial

Position" of organizations, which records the balances of the organization's assets at the beginning and end of the reporting period, which are the analogue of the human brain in organizations in the conventional comparison field. That is, the greater the value of the organization's assets and capital, the wider its competitive opportunities in the business environment. In this regard, IFRS 18 requires the presentation of the organization's statement of changes in capital, which reveals the factors due to which the business's capital has increased: due to an increase in profit or due to an increase in investment capital (Deloitte, 2024).

If blood circulation in the human body simply nourishes the uninterrupted functioning of various organs, then this role in organizations is taken on by the cash flow statement, the presentation of which and the corresponding disclosures are required by IFRS 18.

And finally, the human body cannot survive without a stable heart action. In organizations, such a role is played by financial results, which are presented in the "Profit and Loss" report. And the more the profit of the business increases, the greater the opportunities of the organization, as well as its competitive advantages (Barth, 2018). IFRS 18 introduces new requirements for the disclosures in the "Profit and Loss" report presented by organizations, which in turn pose challenges to the field of financial reporting.

Research results

Currently, the "Presentation of Financial Statements" IAS 1 is in effect, which is an international standard that sets out the

principles of comparability and understandability of general purpose financial statements (Salotti, 2025). However, from 2027, this standard will be replaced by IFRS 18, which contains a number of innovations, which are presented in a comparative manner in Table 1.

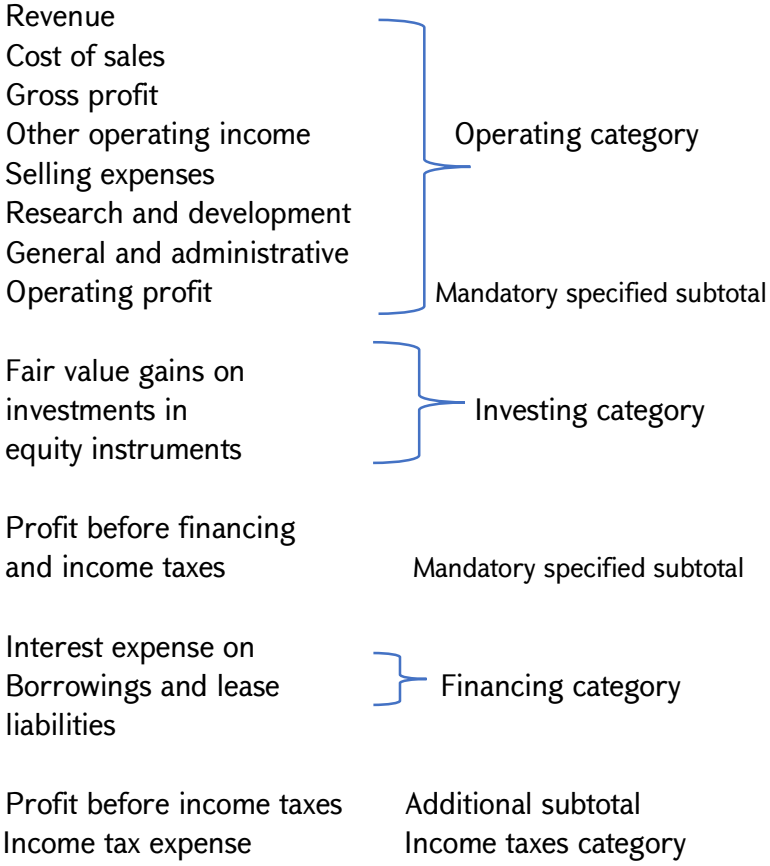
Table 1. The main differences between IAS-1 and IFRS 18
Source: *Authors' own work.*

Nature of the information	IAS-1	IFRS 18 18
Profit and Loss Statement Layout	General requirements are disclosed, but not key subtotals	Presentations of subtotals such as operating profit, Profit before Financing and Income are required
Classification of income and expenses	Mostly common approach	Mandatory classification by operating, investing, financing categories
Management performance measures (MPMs)	No clear regulations.	Mandatory disclosure of management's use of (MPMs) and their reconciliation with IFRS indicators.

Therefore, while IAS-1 sets out the general principles for the presentation of financial statements, IFRS 18 sets out more targeted and structured requirements in the same area (Abdelghani & Aziz, 2025), especially in the area of profit and loss statement and management disclosures (MPMs). At the same time, it should be noted, that IFRS 18 does not change the accounting measurement rules, but mainly changes the approaches to presentation and

disclosure of information (Corrêa et al., 2024). Thus, general requirements for financial statement according IFRS 18 are: going concern assumption, accrual basis of accounting, frequency of reporting, comparative information, consistency of presentation (IFRS Foundation, 2024).

The specified main business activities requirements of IFRS 18 may be depicted graphically as follows, with certain income and expenses being classified out of the investing and financing categories into the operating category:



Profit from continuing operations	Additional subtotal
Loss from discontinued operations	Discontinued operations category
Profit	Mandatory total

One of the key changes introduced by IFRS 18 is the identification and disclosure of management - defined performance measures. The new disclosure requirements aim to improve transparency and promote understanding of the use of such measures within the financial statements (Chan, 2024).

Stakeholders have found certain subtotals of income and expenses useful in analyzing performance to assist in their decision-making. The inclusion of MPMs is intended to offer insights into management's perspective on the entity's financial performance, how the business is managed, as well as how an entity's performance is communicated to stakeholders (Leuz & Wysocki, 2016).

The IASB has provided new requirements to disclose MPMs to ensure preparers provide the appropriate level of disclosures regarding these entity-specific MPMs (Corrêa et al., 2024). IFRS 18 MPM requirements for subtotals of income and expenses focus specifically on a subset of non-GAAP measures. Excluded from these include:

- ✓ Measures that are *not* subtotals of income and expenses, for example, financial ratios, like a return on assets or capital, liquidity or solvency; free cash flow (the money a company has left over after paying its operating expenses and capital expenditures); or net asset value (assets minus liabilities).

- ✓ Subtotals of only income or only expenses, such as adjusted revenue or profits; net interest or net rental income.
- ✓ The definition also excludes those measures specifically listed in IFRS 18, for example: gross profit; EBITDA; operating profit; or subtotals per section of the statement of performance.

While these are not considered MPMs, the Standard does not prohibit their presentation in the financial statements (Abadi, 2019).

Examples of MPMs include adjusted profit or loss, adjusted operating profit, financing result, EBIT, and adjusted EBITDA. *'Cost of net debt'* seems to be one of the more contentious measures at the moment, with some preparers interpreting *'cost of net debt'* will almost always be an MPM. While others view and require it to be analyzed on case-by-case basis to determine if the presumption can be rebutted causing it not to be an MPM (refer to 'management's view of overall financial performance' below). If a subtotal that is used in an external financial ratio meets the definition of a MPM measure, then that subtotal itself is also considered a MPM and will require the same disclosures (Abdulkareem et al., 2021).

MPMs have been introduced in IFRS 18 in response to stakeholder feedback. They have a number of intended benefits:

1. **Enhanced Transparency:** MPMs provide a clearer picture of how management evaluates and measures the performance of the company. This allows stakeholders to gain better insights into the company's performance from the management's perspective.

2. **Improved Comparability:** By standardizing the reporting of performance measures, IFRS 18 aims to improve the comparability of financial information across different entities and

industries. This helps investors and other stakeholders to make more informed decisions by comparing companies on a like-for-like basis.

3. **Relevance and Reliability:** MPMs are designed to present relevant and reliable performance metrics that are directly linked to the strategic goals and operational performance of the entity. This alignment ensures that the reported measures are meaningful and useful for users of financial statements.

4. **Consistency and Clarity:** Introducing MPMs under IFRS 18 provides a consistent framework for reporting performance measures, reducing the variability and confusion that may arise from using different non-GAAP measures. This consistency helps users to better understand and interpret the financial performance of an entity.

5. **Addressing Market Demand:** There has been increasing demand from investors and other stakeholders for more detailed and relevant performance information. MPMs respond to this demand by providing additional disclosures that go beyond traditional financial statements.

6. **Regulatory and Standardization Goals:** By incorporating MPMs into IFRS 18, the International Accounting Standards Board (IASB) aims to establish a standardized approach to reporting performance measures, thereby promoting best practices and enhancing the overall quality of financial reporting.

Conclusion

One of the clearest advantages of IFRS 18 is to provide a comparability. Under IAS 1, companies had wide freedom in how

they presented their income statements. Two companies in the same industry could show operating profit using completely different line items. IFRS 18 removes much of that flexibility. The three defined categories mean analysts and investors can compare performance across companies without rebuilding figures manually. For large listed companies with investors across multiple markets, this standardization reduces the cost of investor relations and financial communications.

The IFRS 18 standard is giving transparency Around Non-GAAP Metrics. The MPM requirement is one of the more debated aspects of IFRS 18, but for companies with strong underlying performance, it works in their favor.

When a company's adjusted profit figure is reconciled clearly in the financial statements, investors can see exactly what has been excluded and why. That builds credibility with institutional investors, who are already doing this reconciliation on their own through external models.

Investors can now see a clearer income statement. By separating investing and financing categories, financial statements are easier for more people to read. Before, interest income from cash deposits and returns from associates could show up in different places depending on how the company chose to present them.

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ՖԻՆԱՆՍԱԿԱՆ ՀԱՇՎԵՏՎՈՒԹՅՈՒՆՆԵՐԻ ՄԻՋԱԶԳԱՅԻՆ ՍՏԱՆԴԱՐՏ 18-Ի ԿԻՐԱՌՄԱՆ ՄԱՐՏԱՀԱՐԱՎԵՐՆԵՐԸ

Հայկ Մնացականյան
Հայաստանի պետական տնտեսագիտական համալսարան
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Իլուտա Արբիդանե
Ռեզեկնեի տեխնոլոգիական ակադեմիա, Լատվիա
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Բանալի բառեր - շահույթի և վնասի հաշվետվություն, Ֆինանսական հաշվետվությունների միջազգային ստանդարտ-

ներ, ՖՀՄՍ, գործառնական, ներդրումային և ֆինանսական շահույթ, կառավարման արդյունավետության չափանիշներ:

Ֆինանսական հաշվետվությունների միջազգային ստանդարտները մշտապես դինամիկ փոփոխությունների գործընթացում են գտնվում, որը բխում է արտաքին օգտագործողների տեղեկատվական պահանջներից: Հատկապես, ներկայումս կարևորվում են գործարարության շահույթի և վնասի հաշվետվողականության բարելավումները, որոնք կարգավորվելու են 2027 թվականին գործողության մեջ մտնող IFRS 18 ստանդարտով: Սակայն մյուս կողմից, այդ ստանդարտի կիրառումը մի շարք մարտահրավերներ է առաջացնում շահույթի և վնասի ձևավորման բացահայտումների ոլորտում: Հետևապես, կարևորվում են IFRS 18 ստանդարտով ներկայացվող բացահայտումների առանձնահատկությունները և դրանց կիրառման ուղիների մեկնաբանումները կազմակերպություններում:

Հետազոտության նպատակն է հանդիսացել IFRS 18-ի կիրառման արդիականության հիմնավորումը և դրա հիման վրա ստանդարտի օգտագործման հնարավորությունների քննարկումը կազմակերպություններում: Հետազոտության արդյունքում ներկայացվել է գործառնական, ներդրումային և ֆինանսական շահույթի ձևավորման հաշվետվողականության մեխանիզմ՝ ելնելով ֆինանսական տեղեկատվության արտաքին շահառուների ներկա պահանջներից:

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