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Why IFRS 18 is not a priority for many organisations who underestimate what is needed to achieve compliance



Finance Transformation & Change Management

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Many organisations underestimate the requirements of the new IFRS 18 regulation which applies from 1st January 2027

This is because IFRS 18 does not change net profit, asset/liability recognition, or measurement rules and therefore it has created a misleading impression that it is merely a cosmetic chart-of-accounts re-mapping exercise rather than a cross-functional transformation of data architecture, governance and investor communications.

Because IFRS 18 replaces IAS 1 without changing when revenue is recognised or how items are measured, many CFOs consider it to be a routine year-end disclosure tidy-up. Unlike IFRS 15, 16, or 17, there are no complex valuation models to build, and this masks the operational effort required to achieve compliance.

IFRS 18 is effective for annual reporting periods beginning on 1 January 2027 however, because it requires retrospective application, 2026 is the comparative reporting year and many organisations will face painful manual restatements under tight reporting deadlines.

Many companies consider IFRS 18 as a technical accounting problem owned by the financial reporting team, overlooking its ripple effects across Investor Relations, FP&A, Treasury, IT and Legal. After costly multi-year investments in IFRS 9, 15, 16, 17 and ESG/sustainability reporting, boards and finance teams have limited appetite for another compliance program unless forced by immediate regulatory or investor pressure.

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Delivering compliance goes well beyond re-labelling P&L lines and requires coordinated execution

Every income and expense line must be classified into five defined categories: Operating, Investing, Financing, Income Taxes, and Discontinued Operations. Items previously lumped together such as foreign exchange differences, derivative gains/losses and associate income must now be traced to their underlying source and split across categories (e.g., FX on trade receivables in Operating vs. FX on debt in Financing).



Organisations that present expense by function (e.g., cost of sales, R&D, SG&A) must still disclose nature-of-expense breakdowns (depreciation, amortisation, employee benefits, impairments, inventory write-downs) in a single note requiring general ledger tagging that many ERPs do not currently capture cleanly. Entities must formally assess and document whether investing in assets or providing financing to customers constitutes a "main business activity," as this flip's income/expenses between the Investing/Financing categories and Operating Profit. In diversified conglomerates or groups with captive finance/real estate arms, the same transaction type can be Operating in one subsidiary and investing in another. Non-GAAP subtotals used in public communications (press releases, earnings calls, investor decks) such as Adjusted Operating Profit or Adjusted EBITDA now fall inside the audited financial statements in a dedicated MPM note.

Finance and Investor Relations must inventory every public KPI, align definitions, document why each measure communicates management's view of performance and build audit-ready reconciliations (including tax and non-controlling interest impacts for every adjusting item). IFRS 18 restricts the use of vague catch-all labels like "Other operating expenses".



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Organisations must audit grouped balances to ensure items share similar economic characteristics, forcing greater transparency around restructuring costs, litigation, and one-off items. Redefining Operating Profit and standardising subtotals directly affects debt covenants, executive bonus/remuneration schemes, earn-out clauses and budgeting/FP&A models tied to historical operating profit definitions requiring early engagement with lenders, remuneration committees and legal counsel.

Conclusion

Ultimately, IFRS 18 is far more than simply a cosmetic accounting update. It is a structural reset of how financial performance is categorised, reconciled and explained to the market. Organisations that treat it as a late-stage chart-of-accounts exercise risk painful 2026 comparative restatements, audit friction around Management Performance Measures and unintended knock-on effects across covenants, incentive plans and systems. Moving early to align data tagging, cross-functional governance, and external messaging will turn a potential compliance scramble into a clearer, more credible performance story for investors.

To keep your change management strategy on track, speak to our team of experts or email us today at:

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