IFRS 18: What it means for retail and consumer businesses

IFRS 18, effective for annual reporting periods beginning on or after 1 January 2027, introduces significant changes to the presentation and disclosure of financial performance. For retail and consumer businesses, the most visible impacts are likely to arise from:

- A new operating profit subtotal
- Revised classification requirements within the statement of profit or loss
- Enhanced disclosures for entities presenting expenses by function
- New disclosure requirements for management-defined performance measures (MPMs).

Although IFRS 18 does not change the recognition or measurement of income and expenses, many retailers will need to reconsider how performance is presented and communicated.

Operating profit and classification of expenses

Retail and consumer businesses frequently use operating profit, gross margin and other operating metrics to assess and communicate performance. IFRS 18 introduces a mandatory operating profit subtotal and new classification requirements that may change where certain income and expenses are presented within the statement of profit or loss.

- Credit card and other payment processing fees will generally be classified within operating profit.
- Foreign exchange differences on trade receivables and trade payables will generally follow the classification of the underlying trading item and therefore be presented within operating profit.
- Items historically grouped within broad "finance costs" captions should be reviewed to determine whether they meet the criteria for classification within the financing category.
- Interest and other costs arising from financing arrangements, including certain receivable financing and supply chain finance arrangements, should be assessed against the IFRS 18 classification requirements.

Leases, store portfolios and property costs

Retailers typically have significant lease portfolios, property-related costs and periodic store optimisation programmes. While IFRS 18 does not change the accounting requirements of IFRS 16, it may affect where related income and expenses are presented in the statement of profit or loss.

- Interest expense on lease liabilities will be classified within the financing category.
- Depreciation of right-of-use assets will continue to be presented within operating profit, reinforcing the distinction between operating expenses and financing costs.
- Lease modification gains and losses will generally be presented within operating profit.
- Impairment losses and gains or losses on disposal of store property, plant and equipment will be presented within operating profit.
- Short-term and low-value lease expenses will be presented within operating profit.
- Store closure costs, onerous contract charges, dilapidation provisions and income or expenses relating to vacant properties will generally follow the classification of the underlying operating activities and, for most retailers, will be presented within operating profit.

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Analysis of operating expenses

Many retailers present an analysis of operating expenses by function (for example, cost of sales, distribution and administrative expenses). IFRS 18 introduces new disclosure requirements for entities using this presentation, requiring additional disclosures about specified operating expenses by nature within the notes to the financial statements.

- Retailers should consider whether existing systems and reporting processes capture the information needed to support these disclosures.
- Retailers presenting expenses by function will need to disclose specified operating expense amounts by nature in the notes to the financial statements.
- Additional processes or system changes may be needed where expense information by nature is not currently captured or reported at the required level.
- The new disclosure requirements may increase the level of analysis required over payroll, depreciation, amortisation and impairment expenses.

Aggregation and disaggregation

IFRS 18 introduces enhanced principles for aggregating and disaggregating information in the financial statements.

- Retailers should review whether existing line items and expense captions provide sufficiently meaningful information and whether material items are appropriately presented separately.
- Review whether broad captions such as "other operating expenses" continue to provide meaningful information.
- Consider whether additional disaggregation is appropriate for store operating costs, distribution and fulfilment costs, digital operations or inventory-related expenses.
- Document judgements supporting the aggregation and disaggregation of income and expenses to support consistent application.

Management-defined performance measures

Retail and consumer businesses frequently communicate alternative profit measures to explain underlying business performance. Common examples include adjusted operating profit, adjusted EBIT, adjusted EBITDA, underlying profit before tax and profit before exceptional items.

IFRS 18 introduces new disclosure requirements for management-defined performance measures (MPMs), which are profit or loss subtotals that are not specified by IFRS Accounting Standards and are used in public communications to communicate management's view of an aspect of an entity's financial performance. Many of the adjusted or underlying performance measures commonly reported by retailers may therefore meet the definition of an MPM.

Where a measure qualifies as an MPM, it will be subject to additional disclosure requirements within the financial statements, including a reconciliation to the most directly comparable IFRS-specified subtotal and an explanation of how the measure is calculated and why management considers the measure to provide useful information.

Retailers should consider the following practical steps:

- Identify all publicly communicated profit or loss subtotals to determine which measures may qualify as MPMs.
- Review whether existing adjusted measures are calculated consistently across annual reports, results announcements, investor presentations and other public communications.
- Establish appropriate governance, controls and documentation over the preparation, review and approval of MPMs ahead of first-time application.
- Assess whether commonly reported retailer adjustments - such as restructuring costs, store impairment charges, gains and losses on property disposals, impairment of intangible assets or expenses associated with significant technology implementation projects (including certain cloud-based ERP systems) - are reflected in measures that may qualify as MPMs.
- Prepare for the new reconciliation and explanatory disclosure requirements for qualifying MPMs.

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Illustrative classification of common income and expenses

Income / Expense	Likely category	Rationale
Revenue from contracts with customers	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources.
Inventories expensed, including write-downs to net realisable value and reversals of write-downs	Operating	
Depreciation of property, plant and equipment and right-of-use assets	Operating	
Expected credit losses on trade receivables	Operating	
Foreign exchange differences of trade payables and trade receivables	Operating	Operating category, as trade receivables are assets that do not generate a return individually and largely independently of the entity's other resources, meaning associated income and expenses are classified in the operating category.
Provisions recognised as an expense (e.g. lawsuits, restructuring provisions)	Operating	Liability arises from transactions that do not involve only the raising of finance, the expense is not (a) interest income and expenses identified for purposes of applying IFRS Accounting Standards; or (b) income and expenses arising from changes in interest rates.
Income and expenses related to cash and cash equivalents	Investing	Income and expenses relating to cash and cash equivalents are required to be classified as investing.
Foreign exchange differences on borrowings	Financing	Financing category, as this matches the income and expenses arising from the debt (e.g. interest expense).
Finance expense on provision liabilities	Financing	Interest expenses on a liability that does not involve only the raising of finance.
Finance expense on lease liabilities	Financing	

Preparing for implementation

IFRS 18 is effective for periods beginning on or after 1 January 2027, with comparatives restated. Companies that prepare condensed interim financial statements in accordance with IAS 34 will need to present each heading it expects to use in applying IFRS 18 and the subtotals required by IFRS 18 in any interim period commencing on or after 1 January 2027, with comparatives restated. Reconciliations will also need to be disclosed to reconcile line items previously presented under IAS 1 to the items presented in accordance with IFRS 18.

Early planning will make the transition smoother and help ensure that the first IFRS 18-compliant results provide a clear and consistent picture of performance.

Find out more on our dedicated [IFRS 18 webpage].

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