



A client checks the audited financial results for one of the companies. Under IFRS 18, companies must classify income and expenses into five clear categories: operating, investing, financing, income tax, and discontinued operations. PHOTO/MICHAEL KAKUMIRIZI

IFRS 18 and the new income statement

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Accounting rules rarely make headlines. But every so often, a new rule quietly changes how companies explain their results.

IFRS 18 is one of those rules. Issued by the International Accounting Standards Board in April 2024, it will replace the International Accounting Standards Board (IASB) 1 and take effect for annual periods beginning on or after January 1, 2027.

IFRS stands for International Financial Reporting Standards. In simple terms, it is a global rulebook that tells companies how to prepare and present their financial statements so that investors, regulators and the public can understand them and compare them across countries.

IFRS keeps changing because business keeps changing. New industries emerge, financial products evolve, and companies find new ways of reporting performance.

Over time, some older rules become too flexible, too unclear, or too easy to interpret differently, which creates confusion for users of financial statements.

When that happens, the IASB updates the standards to tighten guidance, close

gaps and improve comparability.

The reason it is called IFRS 18 is simply because it is numbered IFRS 18 in the IFRS numbering system. Earlier standards include IFRS 15 on revenue, IFRS 16 on leases and IFRS 17 on insurance contracts.

Older standards

Some older standards are still called IAS, such as IAS 1 and IAS 7, because they were written before the IASB began issuing standards under the IFRS name.

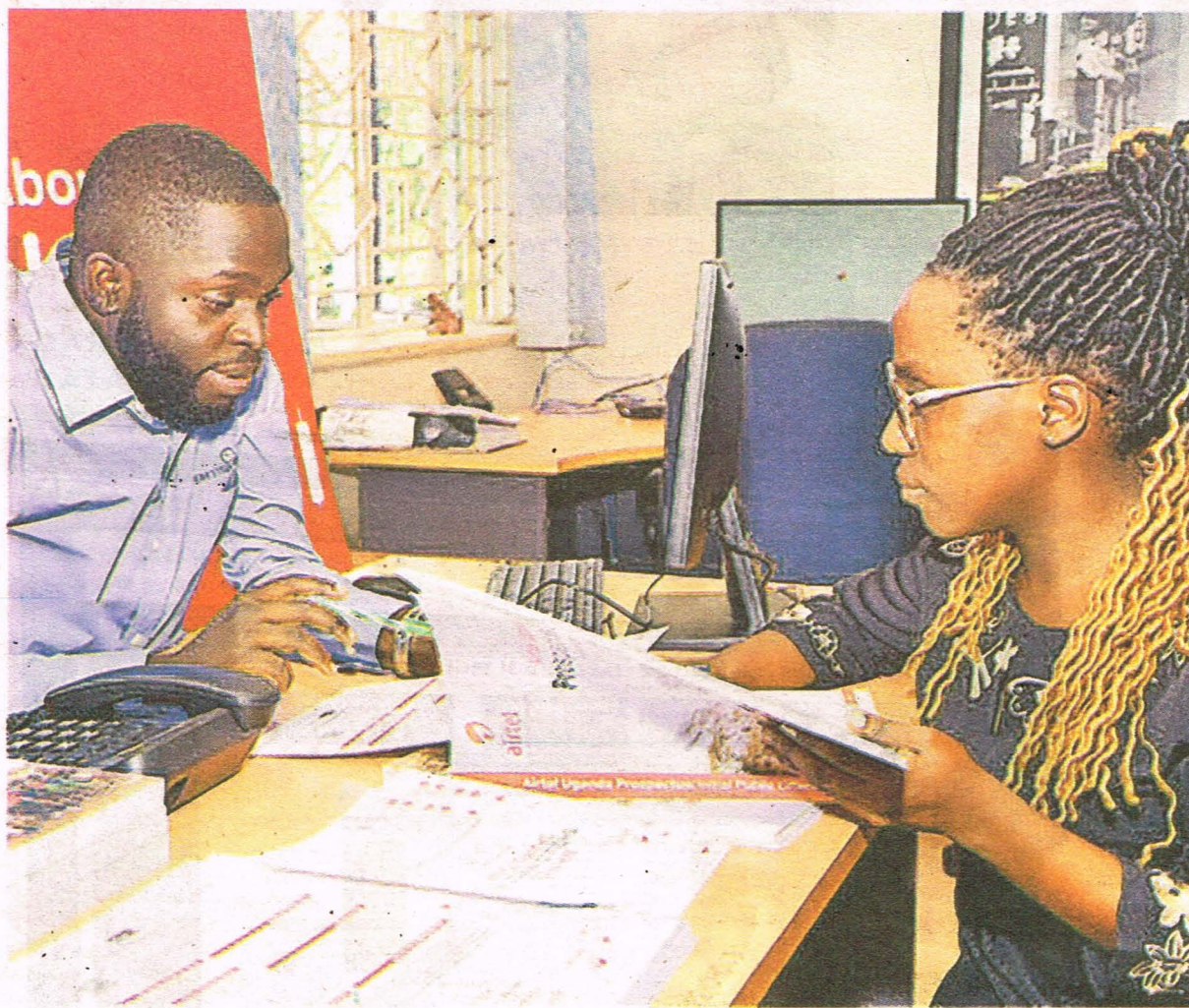
IFRS 18 replaces IAS 1 because the IASB wants presentation and disclosure rules to be more modern, more structured and less open to wide variation, especially in the income statement, where companies have historically had too much freedom to design their own subtotals and performance narratives.

Companies must apply it retrospectively, which means they will also have to restate their 2026 figures. Profit itself will not change. But the way companies present, explain and defend that profit will.

For many years, IAS 1 gave companies a lot of freedom. They could choose how to arrange their income statement, which subtotals to highlight, and how to describe “adjusted” results.

Investors complained that this freedom created confusion.





A woman reads a prospectus. Audit committees and boards will also need to understand the new rules, because IFRS 18 involves judgement, classification decisions and disclosure discipline. PHOTO/MICHAEL KAKUMIRIZI

← One company's "operating profit" was not the same as another's.

Some firms invented their own lines and subtotals. Others hid important costs inside vague headings like "other" and that meant that comparing companies became harder than it needed to be.

IFRS 18 is meant to fix this problem. It does not change the accounting rules for recognising revenue, valuing assets or measuring expenses. Instead, it changes the layout and discipline of financial reporting.

It forces companies to use a more standard structure so that investors can compare businesses more easily, and so that performance is explained more clearly.

Statement of profit or loss

The biggest change is in the statement of profit or loss, which most people simply call the income statement.

Under IFRS 18, companies must classify income and expenses into five clear categories: operating, investing, financing, income tax, and discontinued operations.

Precisely, operating is what comes from the company's main business, investing is what comes from investments, financing is what comes from borrowing and funding, income tax is tax, and discontinued operations covers parts of the business that have been sold or shut down.

IFRS 18 also requires companies to show specific subtotals. The most important one is operating profit. This will now be defined and mandatory.

Profit before financing

IFRS 18 also requires a subtotal called profit before financing and income taxes. These new requirements are meant to reduce the wide differences that exist today, where companies use the same words but mean different things.

Not every company will classify items in the same way. IFRS 18 recognises that some businesses work differently.

For example, banks earn money mainly by lending and charging interest. For them, interest income and some interest expenses are part of their main operations, not a side activity.

Similarly, companies whose main business is investing in assets, such as some real estate groups, may treat certain investment gains as part of operating performance.

IFRS 18 allows these businesses to classify some items differently so that operating profit truly reflects what the company actually does.

IFRS 18 also tackles something that has long frustrated investors: "non-GAAP" or "alternative" performance measures.

Many companies like to present numbers such as "adjusted profit", "adjusted EBITDA", or "profit before exceptional items".

These are management-made figures, not official IFRS totals, meant to show what the company believes is its "normal" performance after removing unusual or one-off costs.

They are mostly used by listed companies and big firms, especially in years when the official profit looks worse because of large write-offs, restructuring costs, or foreign-exchange losses.

Under IAS 1, disclosure of these measures was limited and inconsistent. Under IFRS 18, a defined set of these measures will now have to be disclosed inside the audited financial statements.

The standard calls them management performance measures, or MPMs. If a company uses an MPM in public communication, IFRS 18 assumes it represents management's view of performance unless the company can prove otherwise.

Companies will have to explain what each MPM means, why it is useful, how

it is calculated, and how it links back to the official IFRS numbers.

Clear reconciliation

They will also have to show a clear reconciliation, including the tax and non-controlling interest effects of each adjustment.

In plain language, companies will still be allowed to tell their story, but they will no longer be able to tell it loosely. If they adjust a number, they must show exactly how and why.

Another important part of IFRS 18 deals with how information is grouped. This is called aggregation and disaggregation. In everyday terms, it is about whether a company lumps many things together or breaks them down.

Under the old rules, companies could hide important details by combining too many items into one line.

IFRS 18 discourages this. It expects the main financial statements to give a useful and clear summary, while the notes provide additional detail. It also pushes companies to avoid using big "other" categories.

Statement of cash flows

If something is large and important, it should be shown clearly, not hidden.

The standard also makes changes to the statement of cash flows. For example, operating profit becomes the starting point for the indirect method, which is the approach most companies use.

IFRS 18 also removes some options that companies previously had for classifying interest and dividends. This will make cash flow statements more consistent between companies. Even the balance sheet is affected, with goodwill now shown as a separate line item.

Each of these changes may seem small, but together they point in one direction: more consistency and better storytelling through financial statements.

In Uganda, IFRS 18 will apply in full for public-interest entities, just as other IFRS standards do. The Institute of Certified Public Accountants of Ugan-

da has already highlighted the standard and encouraged early preparation.

Although 2027 may sound far away, the requirement to restate 2026 numbers means the preparation work must begin much earlier. Companies will need systems that can produce the new categories and subtotals correctly.

They will need to review their internal reporting, because performance measures used internally may have to appear in audited financial statements.

Audit committees and boards will also need to understand the new rules, because IFRS 18 involves judgement, classification decisions and disclosure discipline.

Ugandan companies have already seen how a major IFRS change can disrupt reporting. NIC Holdings' 2024 annual report provides a useful example.

The group disclosed that it could not conclude a rights issue in the prior year because completion of its 2023 audited financial statements was delayed due to the implementation of IFRS 17 in its subsidiaries.

IFRS 18 is a different standard and does not change how insurance contracts are measured. But the lesson is relevant. Big accounting changes can slow down reporting, stretch finance teams, complicate audits and even affect major business decisions.

For companies like NIC, which are listed and operate in a regulated sector, the way performance is presented matters greatly. In 2024, NIC moved from a loss before tax of Shs2.35 billion in 2023 to a profit before tax of Shs947.19 million, while insurance revenue rose by 11.4 percent.

Such changes are often explained through a mix of underwriting performance, investment income and finance effects.

IFRS 18 will make that explanation clearer by drawing stronger lines between what counts as operating performance and what sits in investing or financing. Operating profit will have a defined meaning. Investment returns and finance costs will be shown more transparently outside it.

The final profit may stay the same, but the story will become harder to blur.

Regulation adds further pressure. NIC's auditors drew attention in 2024 to the capital adequacy ratio of its life subsidiary being below the minimum required threshold, though without modifying their opinion.

The insurance regulator has also stressed the importance of implementing IFRS standards alongside risk-based capital requirements to protect solvency and policyholders.

The income statement, long treated as a flexible canvas, is about to get firmer lines.

Whether those lines produce better insight or simply new arguments will depend on how honestly companies apply the spirit of IFRS 18, not just its wording. In Uganda, as elsewhere, the work has already begun.

Clear summary
 'IFRS 18 expects the main financial statements to give a useful and clear summary, while the notes provide additional detail. It also pushes companies to avoid using big "other" categories.'