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The application of IFRS 18: An analysis from the perspective of preparers of financial information

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Master in Accounting and Management Control

Supervisor:
PhD, Ana Isabel Lopes, Associate Professor with Habilitation,
Iscte Business School

September, 2025

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BUSINESS
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Department of Accounting

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The conclusion of my master's thesis represents the end of such an important era in my life, but also the beginning of a new (hopefully great) one. It marks the closing of a chapter filled with long study sessions, group projects and three months of summer vacations.

I want to use this space to leave a special thank you to my parents. I know that without all the sacrifices they made for me, this accomplishment would not have been possible.

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This past year was one of the most challenging and difficult of my life, but as I am writing this today, it all seems to have been worth it.

At last, I want to leave a message to all those who, just like me, are constantly doubting themselves: *"Believe you can and you're halfway there"* - Theodore Roosevelt.

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RESUMO

O reporte financeiro internacional desempenha um papel crucial no funcionamento regulado de mercados nacionais e internacionais. Normas internacionais de contabilidade que reflitam com precisão, e de forma relevante, o desempenho das empresas são essenciais para a estabilidade e crescimento da economia global.

O trabalho desenvolvido pelo International Accounting Standards Board (IASB) tem como objetivo promover a responsabilização das empresas, por meio da criação e desenvolvimento das Normas Internacionais de Relato Financeiro (IFRS), com base em demonstrações financeiras transparentes e de alta qualidade.

Esta investigação surge na sequência da publicação da IFRS 18 *Apresentação e Divulgação em Demonstrações Financeiras,* uma nova norma que propõe alterações significativas na forma como as empresas reportam seu desempenho. Com foco na Demonstração de Resultados, o objetivo desta dissertação é analisar a perceção dos preparadores de informação financeira sobre duas das três mudanças mais impactantes introduzidas pela nova norma. Para alcançar este objetivo, foram formuladas duas perguntas de investigação.

Metodologicamente, foi desenvolvido um estudo exploratório e foram realizadas dez entrevistas semiestruturadas com diferentes profissionais experientes na área de contabilidade no contexto empresarial.

Os resultados revelam que os preparadores acreditam que, de forma geral, a IFRS 18 tem potencial para melhorar a comparabilidade e transparência da Demonstração de Resultados, destacando-se, em particular, a alteração da sua estrutura com a inclusão de subtotais e categorias obrigatórios.

Palavras-chave: Normas internacionais de contabilidade, IASB, IFRS 18, Demonstração de Resultados, Teoria dos Escalões Superiores

Classificação JEL: M41; M48

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ABSTRACT

Global financial reporting plays a crucial role in functioning, regulated national and international markets. International accounting standards that accurately reflect companies' performance, in a relevant manner, are vital to the stability and growth of the global economy.

The work developed by the International Accounting Standards Board (IASB) aims at promoting companies' accountability by creating and developing IFRS Accounting Standards through high-quality and transparent financial reporting.

This research follows the publication of IFRS 18 *Presentation and disclosure in financial statements*, a new standard that proposes significant changes to how companies report their performance. Focusing on the Statement of Profit or Loss, the objective of this dissertation is to analyse the perceptions of preparers of financial information on two of the three most impactful changes introduced by the new standard. To fulfil this objective, two research questions were formulated.

Methodologically, an exploratory study was developed, and ten semi-structured interviews were conducted with experienced professionals in corporate accounting.

The findings reveal that preparers generally believe IFRS 18 has potential to improve the comparability and transparency of the Statement of Profit or Loss, particularly through the change of its structure with mandatory subtotals and categories.

Keywords: IFRS Accounting Standards, IASB, IFRS 18, Statement of Profit or Loss, Upper Echelons Theory

JEL Classification: M41; M48

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GLOSSARY

IAS – International Accounting Standards

IASB – International Accounting Standards Board

IASC – International Accountings Standards Committee

IFRS – International Financial Reporting Standards

ISSB – International Sustainability Standards Board

GAAP – Generally Accepted Accounting Principles

MPMs – Management-defined Performance Measures

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1. INTRODUCTION

In today's reality, shaped by technological innovation, globalisation and rising sustainability concerns, markets and economies are in a constant state of evolution and transformation. In order to remain competitive, economic institutions must evolve and adapt to the circumstances or risk getting behind. This evolution affects not only businesses, but also investors, regulators, standard setters and even the general public. In this dynamic context, the need for transparent, accurate and straightforward financial and non-financial reporting has never been more critical.

The seriousness of the work developed by the International Accounting Standards Board (IASB) and, more recently, the International Sustainability Standards Board (ISSB), both created by the IFRS Foundation, helps stakeholders to comprehend financial and non-financial information published by companies. These institutions are committed to improve the quality and transparency of financial markets all around the globe.

International accounting standards that can hold companies accountable while boosting transparency, comparability and trust in global reporting are vital to a healthy international economy. However, these standards must reflect companies' performance in a truthful, accurate and relevant manner, thus the IFRS Accounting Standards are constantly suffering updates to ensure they evolve with the needs of stakeholders worldwide.

One of the most recent developments in global financial reporting occurred in April 2024, when the IASB issued a new standard - IFRS 18 *Presentation and Disclosure in Financial Statements* - to replace IAS 1 *Presentation of Financial Statements*. The new standard comes after many amendments to IAS 1 over the years to try to update it to the current needs of today's markets as well as several complaints, especially from external users of financial statements, regarding the lack of comparability and transparency of information (Czajor, 2024).

IFRS 18 applies to all financial statements but proposes changes mainly to the Statement of Profit or Loss. According to the IASB, this new standard will improve financial reporting by introducing three key improvements to the way companies report their performance. Although the majority of complaints about IAS 1 were from external investors and analysts, all stakeholders of financial statements will be impacted by this change. Preparers of financial information will have to adapt to the new rules by January 2027, at the latest, in all the jurisdictions where application of IFRS Accounting Standards is mandatory or voluntary.

As IFRS Accounting Standards are principle-based standards rather than rule-based, the objective of IFRS 18 to produce financial statements that are comparable, transparent and efficient represents a great challenge for preparers of financial information. In such complex markets, the professional judgement exercised by those in charge, especially when considering industry-specific matters creates a barrier for this goal to be accomplished. The preparers' job of accommodating all these considerations and still be able to deliver relevant information to external users of financial statements makes them one of the most impacted parties by the release of the new standard.

The current dissertation focuses on studying the impacts of IFRS 18 from the perspective of preparers of financial statements under IFRS Accounting Standards in Portugal, more specifically to capture the perspective of preparers on two of the three biggest changes imposed by this standard: i) the change of the structure of the Statement of Profit or Loss, and ii) the disclosure of Management-defined Performance Measures. Two research questions were formulated accordingly:

Research Question 1: *Will the new structure of the Statement of Profit or Loss impact how financial information is treated daily and how it is used to analyse performance?*

Research Question 2: *What are the costs associated with the mandatory presentation of Management-defined Performance Measures?*

To aim the objective, we started by reading the available literature at the time, which is summarised in Chapter 2 of the present master dissertation. The literature review is organised in three subchapters, allowing readers to obtain a full understanding of the topic and what are academia's biggest concerns about it. Firstly, we explore the role of financial statements, followed then by the need for a new standard to replace IAS 1 and, finally, the presentation of the differences between IAS 1 and IFRS 18.

Afterwards, Chapter 3 presents the research methodology, which unfolds in two distinct stages: an exploratory study followed by an interview process. The decision to adopt a qualitative methodology enabled a better focus in the research objective while allowing an analysis where it was possible to consider many subtleties inherent to this topic, especially when considering experts knowledge collected during the second stage. Consequently, we were able to complete the objective of answering the research questions and obtain inputs regarding general-context questions about IFRS 18.

The exploratory study was designed with the objective of investigate and demonstrate the causes behind the past complaints from external users of financial statements regarding the lack of comparability and transparency in financial reporting presented by companies – concerns that led the IASB to replace IAS 1. In order to fulfil this goal, we gathered and analysed a matrix of 25 company-year Statements of Profit or Loss from the Portuguese market. This study serves as complementary evidence to the IASB's conclusions regarding the necessity of implementing a new standard to regulate the presentation of financial statements. The interview process itself is the main source of inputs for this investigation's final conclusions on preparers' perspective, but this study laid groundwork for the second stage.

The decision to interview preparers of financial information to obtain their input on the topic under study emerged quite early on development of the master dissertation. To this end, student and supervisor submitted a request for approval of the Iscte Business School Ethics Committee regarding the methodology chosen to conduct the interviews. By the end of Mach 2025, with the final recommendations issued by the Iscte Business School Ethics Committee, the interview process began with the professionals that fit the criteria to participate in the study until June 2025. We conducted ten interviews, eight of them online and two in-person, according to the preferences of each interviewee. Confidentiality was guaranteed to all participants in alignment with the feedback from the Iscte Business School Ethics Committee.

The interview process followed a semi-structured methodology as supported by academic research when the goal is undertaking in-depth conversation providing room for free responses from participants (Kakilla, 2021). The choice of semi-structured interviews allowed for more freedom when talking to the interviewees since we could adapt the questions according to the answers we were getting in each interview (Karatsareas, 2022). Thus, all interviews were slightly different in a quite enriching way to the work.

At the beginning of each interview, participants were also asked personal questions such as their age, experience in the field of accounting and their academic background. This additional information permitted us to characterise our sample with more detail, but it is also important to bear in mind that these information impacts the outcomes. Personal characteristics and backgrounds of individual executives are related to financial reporting choices (Plöckinger et al., 2016) to the point where, according to studies about the Upper Echelons Theory, influence can be exerted even in the presence of regulations such as accounting standards.

Chapter 4 presents the research results and respective discussion, shedding light on the findings from the exploratory study and the interview process. First, subchapter 4.1 outlines the results of the exploratory study. This is followed by subchapter 4.2 where general outcomes of the interview process are presented. The latter is then divided in three sections, the first two are dedicated to each research question individually and the final highlights recurring pattern finings discovered during the conversations with financial information preparers.

At last, Chapter 5 is dedicated to the presentation of the final conclusions achieved with this investigation, where a summary of key findings is available. In this part, readers can find the final conclusions we reached as well as a comprehensive reflection on the perspectives of preparers of financial information regarding the most relevant changes to the Statement of Profit or Loss introduced in IFRS 18. In addition, this chapter also discusses the main limitations to this study and proposes avenues for future research on the topic.

2. LITERATURE REVIEW

2.1. The role of financial statements

Stakeholders seek information to take economic decisions, thus, financial statements and the way they are organised are important as a communication tool based on which part of those decisions will be better informed. Financial and non-financial information presented and disclosed by companies determine how the results of business decisions are perceived in the market. However, it is necessary to ensure that information, particularly the financial, reported in financial statements is considered of high quality. It is expected that financial statements prepared using International Financial Reporting Standards (IFRS) will contribute to giving high quality information useful for the stakeholders' decision-making process.

The IFRS Foundation, founded in 2001, is a non-for-profit organisation responsible for the development and establishment of accounting and sustainability standards. In its structure, the International Accounting Standards Board (IASB) was also founded at the same time, as a result of the restructuring of the former International Accounting Standards Committee (IASC), founded in 1973. The IASB has the objective of publishing and updating IFRS Accounting Standards used worldwide. Nowadays, these are considered the global language by which users of financial information across more than 165 countries make judgements regarding investment decisions (Prather-Kinsey et al., 2022).

The IFRS Accounting Standards guarantee comparability, transparency, accountability and efficiency. Financial statements must be equivalent between different companies and different reporting periods of the same company, consequently similar items must look alike, and different items must look different (Lin et al., 2019; Kim et al., 2013). Notwithstanding, recent studies drew attention to the fact that accounting standards have become increasingly complex over the years, due to the constantly development of new and updated standards (Chychyla et al., 2019), since standard setters suppose capital markets benefit from better financial reporting standards (Andersson & Hellman, 2007). The reality is that standards capable of holding companies accountable while assuring financial reporting with quality, comparability and transparency are essential in well-functioning economies and better-informed stakeholders are able to make finer decisions.

The perspective of financial statements users cannot be forgotten when considering the complexity of accounting standards. According to Cascino & Gassen (2015), the mandatory adoption of IFRS Accounting Standards by European listed companies represents one of the most influential accounting rule changes of recent times. However, the success of this measure could only be determined if users could detect improvements in the financial reporting quality and in the comparability of financial accounting information (Hail et al., 2010).

In the last years, due to the unsatisfactory information present in the full set of financial statements, investors and analysts have been seeking for more alternative performance measures that are able to give them the insights they are looking for (Andersson & Hellman, 2007; Bradshaw et al., 2018). This type of reporting offers a simplified way of communicating companies core earnings (Andersson & Hellman, 2007), even though the definition of earnings can be subjective in capital markets and in many cases exclude several components required under uniformised accounting standards such as the IFRS (Bradshaw et al., 2018).

IAS 1 *Presentation of Financial Statements* requires all companies to present, at least annually, a complete set of financial statements comprising a Statement of Financial Position, a Statement of Profit or Loss and Other Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and the Notes. Therefore, every year, firms provide users with relevant information about the latest reporting period. Stakeholders must be able to have a complete overview of the entity's assets, liabilities, equity, income, expenses and cash flows as well as be able to compare information with other firms and with previous reporting periods.

For a long period, the IASB feared IAS 1 was no longer sufficient to answer the needs of all market participants, even though academics have expressed contradictory opinions on the matter. Some authors, e.g., Allee et al. (2024), believe users are generally satisfied with the level of disclosure firms currently provide in their Statement of Profit or Loss. Nonetheless, others, e.g., Prather-Kinsey et al. (2022), insist that financial reporting incomparability might be due to inconsistent adoption, application and enforcement of IFRS Accounting Standards in different jurisdictions.

As the IASB stated objective is to create standards that provide information about an entity that is useful to existing and potential investors, lenders and other creditors (Prather-Kinsey et al., 2022), the Board decided to address the complaints of users of financial statements by dedicating resources to the study and comprehension of this matter.

Consequently, as users expressed concern regarding the comparability of financial information issued by different companies, the IASB decided to launch the *Primary Financial Statements project* in 2014. A year later, the board declared it as a high priority and defined a work plan aimed at enhancing the truthfulness of financial statements. Over the next few years, several meetings took place and finally, in 2023, the IASB acknowledged the limitations of IAS 1 and announced a new standard, in which proposed changes to the complete set of financial statements that a company using IFRS Accounting Standards must prepare.

2.2. The need of a new standard to replace IAS 1

IAS 1 was originally issued in 1997 by the IASC and officially adopted in 2001 by the IASB. This standard sets the rules for the presentation of information in the financial statements of firms, as well as their structure and content. It also handles going concern issues, offsetting and changes in presentation or classification.

Since it was published, IAS 1 has had several revisions with the purpose of updating it to the constantly changing needs of market participants. Despite the many amendments over the years, the standard was obsolete as it was no longer responding to the needs of stakeholders (IASB, 2024).

During the *Primary Financial Statements project*, the IASB worked on improving how companies communicate information in their financial statements, especially focused on the Statement of Profit or Loss[1]. With the new proposed standard, the Statement of Cash Flows will also suffer some changes, but given the limited nature of these, the present dissertation is focused on impacts in the Statement of Profit or Loss.

The Statement of Profit or Loss presents valuable information, not only for companies, but for all users of financial statements who need to analyse and compare information between different companies and different periods. For investors, this is one of the most important tools for decision-making (Prather-Kinsey et al., 2022).

[1] Also commonly referred to as Income Statement or Statement of Financial Performance. In this dissertation it will always be mentioned as Statement of Profit or Loss.

During the research phase of the *Primary Financial Statements project*, the feedback received by the IASB led the entity to recognise the lack of detailed requirements on several topics of IAS 1 (IASB, 2024). This represented a problem as financial statements users were not able to clearly compare information. Furthermore, the transparency and efficiency of information was also mentioned as compromised.

Stakeholders complained about the need for financial statement line items to be standardised (Allee et. al., 2024) and the necessity for improved requirements regarding subtotals in the Statement of Profit or Loss, the need for management-defined performance measures and the aggregation and disaggregation of information (IASB, 2024).

More precisely, one of the biggest problems of IAS 1 was that it provided little specific guidance about the presentation of line items and permitted many alternative types of formats (Agostini & Marcon, 2013). More recently, even the IASB expressed significant concerns about the incomparability in reported earnings subtotals allowed under IFRS Accounting Standards (Prather-Kinsey et al., 2022).

The feedback received by the IASB during the research project showed a problem with the fact that, in compliance with IAS 1, the Statement of Profit or Loss could differ in content and structure depending on the company. Preparers of financial information could organise the content of the statement in a somewhat arbitrary way, as the standard did not dictate specific rules regarding a fixed structure. Different entities applying IAS 1 often presented the same subtotals in the Statement of Profit or Loss with contradicting income and expenses items (IASB, 2024). This hindered the comprehension and comparability of information, particularly if the entities functioned within the same industry or geographical region. According to Alle et al. (2024), investment professionals believe that companies should be required to use the same labels for common lines and that operating and non-operating activities should be formally defined.

Another complaint was the fact that the notes to the financial statements could benefit from changes that would allow for additional information to be disclosed, improving transparency as well (IASB, 2024). The explanation of some non-GAAP measures used is in the best interest of regulators and standard setters (Black & Christensen, 2018), however many companies providing their own management-defined measures of performance without any regulation can become overwhelming for investors (IASB, 2024).

Lastly, the final issue related to the presentation of financial performance information detected in the *Primary Financial Statements project* was the shortage of guidelines for grouping information or, according to the IASB (2024), the lack of comprehension on how to apply the existing ones. As specified by Bonner et al. (2014), this gap gives managers flexibility to aggregate or disaggregate data depending on which option yields higher utility for them. Overall, opportunistic grouping of information could affect the transparency of information and, ultimately, impact decision-making processes of investors.

To solve the issues with the previous IAS 1, detected during the *Primary Financial Statements project*, the IASB developed a new and improved standard, hence completing this ten-year long undertaking. IFRS 18 *Presentation and Disclosure in Financial Statements* was published in April 2024 and will be effective from 1 January 2027, replacing IAS 1. Notwithstanding, companies can apply for it before that date.

2.3. The differences between IAS 1 and IFRS 18

IFRS 18 is the result of the *Primary Financial Statements project*, the IASB's response to complaints from users of financial statements regarding the way firms present and disclose information, with a focus on financial performance. The new standard does not replace all aspects of IAS 1, but instead focuses on the Statement of Profit or Loss (IASB, 2024), in order to fix the three main concerns mentioned by stakeholders.

The first concern with IAS 1 was the lack of requirements regarding the structure of the Statement of Profit or Loss. There is evidence that companies applying IFRS Accounting Standards compute earnings subtotals differently, which leads to investors creating their own subtotals, thus limiting their analysis (Prather-Kinsey et al., 2022; Kawa, 2023).

On one hand, the disclosure of non-GAAP measures, such as the EBITDA, reduces information asymmetry between market participants (Cormier et al. 2017), however there are increasingly more concerns about their potentially misleading nature (Bouwens et al., 2019). Furthermore, since there were no restrictions nor specific instructions for preparers to present these indicators, non-GAAP reporting varied according to managers' preferences, and these did not always correspond to investors' likings (Black et al., 2017).

As all these arguments represented a threat to the comparability and transparency of information, the IASB solved this difficulty with the new IFRS 18. As a result, and to solve these setbacks, not only will it be mandatory to present two new subtotals "operating profit" and "profit before financing and income taxes" in addition to the previously required "profit or loss", but companies will have to classify income and expenses according to five categories. These can be separated in two groups: the mandatory categories, which are "operating", "investing" and "financing", and optional categories, which are "income taxes" and "discontinued operations", that companies should only present when applicable.

Additional requirements for the classification of income and expenses will be necessary for companies with specific business activities (IASB, 2024). The objective of the IASB remains to ensure transparency and comparability of financial statements of companies, not only in the same industry, but across all firms reporting under IFRS Accounting Standards.

The second concern with IAS 1 was related to alternative performance measures. The IASB revealed that many preparers of financial information did not understand and consequently did not apply correctly the guidelines in IAS 1 regarding the disclosure of non-GAAP measures. There is evidence that non-GAAP metrics have been growing over the past twenty years (Black et al., 2017) reflecting a widespread acceptance of non-standard metrics to evaluate firm performance. These can be informative for investors, so it is important that they are regulated in IFRS Accounting Standards. Otherwise, if users rely too much on simplified and improved pro forms numbers, their judgments may be biased (Andersson & Hellman, 2007).

In the new IFRS 18, companies will need to identify Management-defined Performance Measures (MPMs) and disclose information about these in the respective notes to the financial statements. These indicators, according to the IASB, are subtotals of income and expenses used in public communications with investors. They are not listed nor are they specifically required by the standard, but guidelines are available for preparers to be able to identify MPMs.

Furthermore, Black & Christensen (2018) defend the idea that auditors should take a more direct and impactful role with respect to the enforcement of non-GAAP disclosures in the financial statements. Thus, highlighting the importance of compliance with the new rules.

The third and final biggest concern with IAS 1, solved with IFRS 18, regards grouping information. Often times, this topic generates discussion, but standard setters and regulators tend to agree that disaggregation increases the usefulness of financial statements (Alle & al. 2024). Research provides mixed evidence regarding the extent to which disaggregation of information of financial statements should be mandatory, but investigation suggests that a greater degree of disaggregation represents a higher disclosure quality (Chen & al., 2015).

In IFRS 18, the IASB presents new requirements and guidelines on how to apply aggregation and disaggregation issues. This comes as a response to the fact that previously companies were incorrectly applying those principles.

Disaggregation is defined as separately presenting the underlying components of one or more items in the financial statements (Bonner et al., 2014). For long that some authors, e.g., Riedl & Srinivansan (2010), mentioned that disaggregation of elements in the Statement of Profit or Loss might improve the information set about the firm, however it was undeniable the need of strong regulations regarding this subject.

Mental accounting theory[2] can help explain why preparers are not always objective when it comes to grouping information. Research shows that the beneficial effect associated with disaggregation may be dependent on the type of line items that result from such disaggregation (Fennema & Koone, 2010). Based on this theory, a disaggregation that reveals several positive sources of income can be seen as more favourable than a number of negative sources of information, even though the bottom-line earnings are the same.

In financial reporting, preparers will disclose information in the way they believe will be the most beneficial for them (Bonner et al., 2014), thus impacting the transparency of financial statements given that grouping of information depends on whether items are gains or losses and their corresponding magnitudes. Even though mental accounting theory is not broadly applied to preparers in the context of financial reporting, these authors concluded that managers' preferences on the topic of disaggregation of information are consistent with the predictions of this theory, defending even that investors are pressuring for transparency reporting, however this pressure only partially moderate managers' preferences.

[2] Set of cognitive operations used by individuals to organise, evaluate and keep track of financial activities. Also explains decision behavior that could not be easily explained by economics and why organisations use managerial accounting *(Thaler, 1999)*.

Standard setters cannot rely on the market to solve this issue by itself, which is why the IASB addressed these concerns by publishing new requirements. IFRS 18 requires companies to aggregate or disaggregate information about individual transactions or other events following a set of rules that ensure that the financial statements and the notes fulfil their roles. Firstly, items must be aggregated based on shared characteristics. The aggregation of items cannot conceal material information, in which case companies are specifically required to disaggregate information (IASB, 2024).

Another very important directive introduced is that companies currently presenting their operating expenses by function will be required to disclose it by nature for five specific categories identified in the standard (IASB, 2024). The expected outcome is that companies provide more detailed information than they do now.

The new principles for grouping information may change the way companies describe items presented or disclosed in the financial statements and/or how companies explain certain amounts. These requirements are intended to increase the usefulness of the Statement of Profit or Loss by separating economically dissimilar items (Alle et al., 2024), but more so to allow for more transparency in non-GAAP reporting (Black & Christensen, 2018).

Generally, the new IFRS 18 arrives as IASB's response to the criticisms of investors regarding the transparency and comparability of information in the financial statements, two core values of the organisation. This new standard aims at improving not only the three main topics summarised below, but the overall readability of the Statement of Profit or Loss.

The main differences between IAS 1 and IFRS 18 can be summarised in Table 1.

Issues	IAS 1	IFRS 18
Structure of the Statement of Profit or Loss		
Categories	No requirements to classify items	Items need to be classified into one of five categories: *operating* , *investing* , *financing* , *income taxes* and *discontinued operations*
Subtotals	Presentation of one mandatory subtotal: *Profit or Loss*	Presentation of three mandatory subtotals: i) *Operating Profit or Loss* , ii) *Profit or Loss before financing and income taxes* and iii) *Profit or Loss*
Disclosures related to the Statement of Profit or Loss		
Management-defined Performance Measures	No requirements to disclose MPMs	Information about MPMs must be disclosed in a single note to the financial statements
Disclosure of expenses by nature	Companies can present operating expenses by function or by nature	Companies presenting operating expenses by function will be required to disclose it by nature
Aggreggation and disaggregation of information		
Grouping of information	No specific requirements to group information	Items must be grouped based on shared characteristics

Table 1. Main differences between IAS 1 and IFRS 18

Source: Adapted from PwC (2024) and IFRS Foundation (2024)

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3. METHODOLOGY

3.1. Objective and research questions

The ultimate purpose of IFRS 18 is to enhance the comparability, transparency and efficiency of financial information. The focus is mainly on improving the Statement of Profit or Loss with three major changes, from which two are covered by the scope of the present dissertation. The third change – related with aggregation and disaggregation of information – is out of the scope of this dissertation, to be developed in further work (as it is not a completely new information, but a new frame). It is also important to highlight that IFRS 18 comes as a response to investors' complaints, however, the new standard will impact not only these, but also those responsible for preparing the financial statements. For this reason, and since research on the investors' perspective about financial statements is more widely explored than on the preparers' perspective, this dissertation contributes to fill the gap. As such, it is expected that the conclusions of this study complement the ones presented by the IASB.

Taken together, the objective of this research is to identify the perceptions of preparers on the potential impacts of IFRS 18 on the preparation of financial statements under the new rules. The scope of this investigation is limited to the two major changes that potentially will have the greatest impact in the comparability and transparency of financial statements: the mandatory new structure of the Statement of Profit or Loss and the disclosure of Management-defined Performance Measures. Accordingly, two research questions were formulated:

Research Question 1: *Will the new structure of the Statement of Profit or Loss impact how financial information is treated daily and how it is used to analyse performance?*

Research Question 2: *What are the costs associated with the mandatory presentation of Management-defined Performance Measures?*

Through a qualitative methodology, divided into two different stages of investigation, we will focus on finding the answers to both research questions, which will, hopefully, allow us to conclude on whether preparers of financial information, at this point in time, view the alterations introduced in IFRS 18 as positive or negative.

3.2. Research design and research methodology

To fulfil the main objective and answer the two research questions, the research is designed on a qualitative methodology divided in two stages. Figure 1 resumes the research design and research methodology.

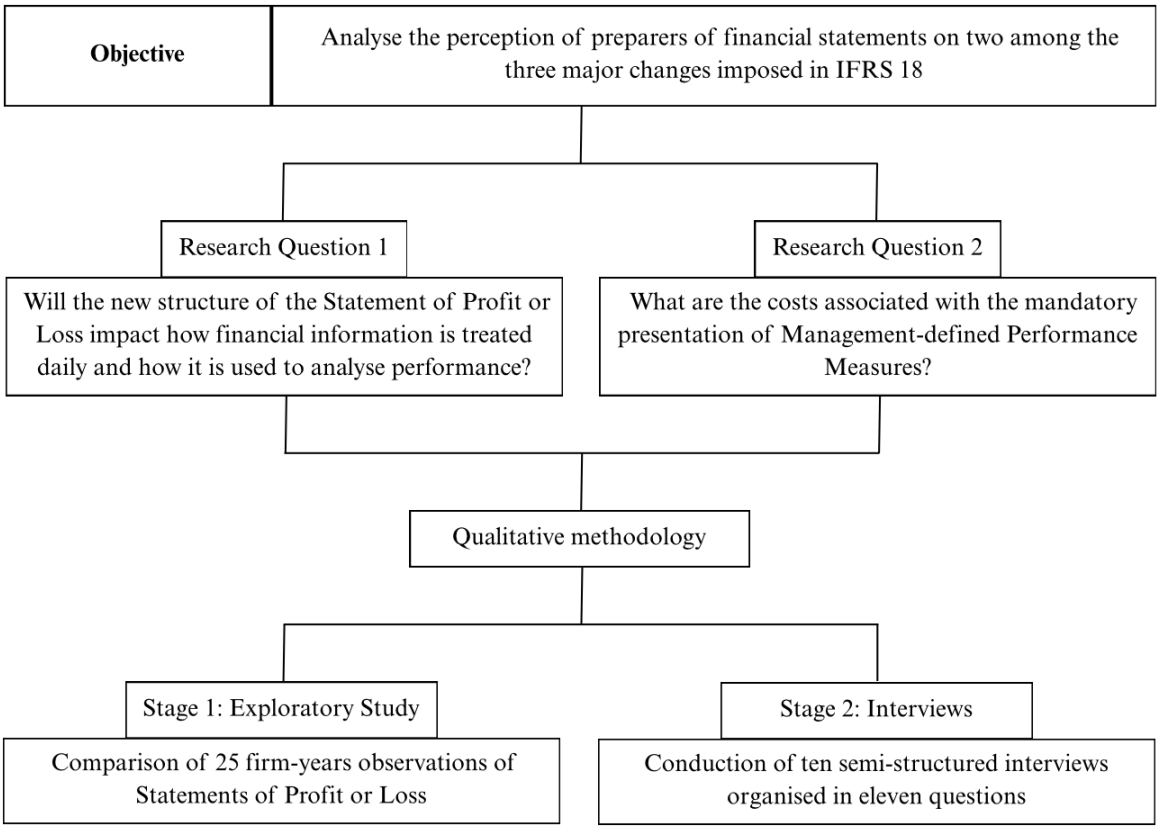


Figure 1. Research design and research methodology

Source: Authors (2025)

Firstly, we will analyse the content of the Statements of Profit or Loss of Portuguese listed companies over a period of five years before the release of the IFRS 18. The purpose of this first stage is to explore and demonstrate diversity and lack of comparability that fits the past feedback of stakeholders and preparers all over the world about the need to more strict guidelines in the preparation of financial statements. Then, the second stage of investigation consists of conducting a set of semi-structured interviews to experienced professionals that work in Portuguese companies preparing financial statements in accordance with IFRS Accounting Standards. Finally, after stage 2 is completed, the last task is analysing the content of said interviews, which will hopefully allow us to reach answers to the research and present conclusions.

The research design presented is supported in a qualitative research methodology, including face-to-face and online semi-structured interviews and documents, to fulfil its objectives and align with the research questions. This methodology suits the research of this dissertation in the sense that this study is being performed before the starting date for the application of the new IFRS 18, so there is no quantitative data available based on past financial statements that allows a comparison of what is being done by companies. Thus, by interviewing experts with knowledge in the area we are able who will be responsible for the application of IFRS 18 when preparing the future financial statements, we are able to obtain feedback that will allow us to follow through with the investigation.

The usage of semi-structured interviews allowed for a better comprehension of each person's personal take on the topic. The guided yet flexible conversation allows the collection of information to be more truthful and complete when compared to other kinds of methods such as surveys and structured interviews (Karatsareas, 2022). The guide for the interviews is presented in Appendix A (Portuguese) and in Appendix B (English) and consists of eleven open-ended questions. The interviews were conducted in Portuguese, since it was the native spoken language of all the interviewed. The translation from Portuguese to English was taken in consideration assuming the correct wording. Each person interviewed had the opportunity to share their thoughts and opinions on the changes imposed by IFRS 18 based on their professional judgement. Confidentiality was guaranteed, not only related to personal data but also to the companies to whom they worked for. At this point, is important to highlight that, in alignment with the criteria in place at Iscte Business School, the methodology followed in the interviews was approved by the Iscte Business School Ethics Committee[3] (Appendix C). This mechanism aims to protect not only the investigators, but also the participants of the study.

The findings gathered during the second stage of investigation are subjective and dependent on the interviewees' backgrounds, current job positions and even their predisposition to answer the questions during the interview. These characteristics, among others such as age, education and even personal values will inevitably impact the conclusions of this study as, according to the Upper Echelons Theory, people in decision-making roles in companies, whether they want to or not, tend to reflect their personal experiences in their decisions. Ultimately, this impacts the perceptions of preparers about IFRS 18 and consequently the findings of this investigation.

[3] The submission of the form for approval of the Ethics Committee was first made on February 7th, 2025. The final positive response (that can be seen in Appendix C) was obtained on March 28th, 2025.

Hambrick & Mason (1984) defended that organisational outcomes are partially predicted by managerial background characteristics. The key idea behind this affirmation is that managers' values, experiences and other personal characteristics impact how these people make decisions that ultimately reflect on their company's performance. The Upper Echelons Theory, presented by these authors, helped the academic world to understand that factors such as age, gender, academic background among others, influence top leaders and helps explain why companies behave differently. This theory remains relevant these days, especially in financial accounting. Further investigation on the matter finds that top management executives exert significant influence on financial reporting decisions, particularly on disclosure quality (Plöckinger et al., 2016). This issue is directly correlated to the complaints of users of financial statements that led to the development of IFRS 18.

During the analysis of the content of the interviews it is important to bear in mind that every person is the result of their own experiences, and it is fairly impossible to achieve unbiased responses even though we believe we did everything in our power to collect data in the most arbitrary way possible.

3.3. Data collection and treatment

As presented in the previous section, the methodology chosen is divided in two stages of investigation to provide a full and comprehensive understanding of both the objective and research questions.

The exploratory study developed early on during the investigation intends to demonstrate if investors' complaints mentioned by the IASB for the creation of IFRS 18 were applicable to the Statements of Profit or Loss published by Portuguese listed companies. With this, we not trying, in any way, to refute the conclusions presented by the IASB, but rather to showcase them in the universe of Portuguese markets. This need follows the fact that all professionals contacted through the network of the university were workers of Portuguese companies. Thus, it made sense to focus on this geography.

In the following two subchapters, readers can find a detailed description of the sample profiles used in both stages- exploratory study and interviews.

3.3.1. Exploratory study

IFRS 18 was issued based on the principle that the former standard responsible for reporting rules, IAS 1, was no longer responding to the needs of stakeholders. Investors claimed the financial statements issued by companies were not comparable, thus limiting their analysis. Now, preparers that were using IAS 1 face new requirements in presenting future financial statements. In this part of the dissertation, we will test the overall comparability of the Statement of Profit or Loss in Portugal. To do so, we gathered the separate[4] Statements of Profit or Loss of five Portuguese listed companies and compared them considering a five-year period, from 2019 to 2023, during which this particular statement was prepared in accordance with IAS 1. Consequently, a matrix of 25 firm-year observations was obtained.

The choice of the five listed companies (out of the companies belonging to PSI 20, an index that reflects the health and dynamics of Portugal's leading listed companies and is essential for investors, analysts and managers who monitor the national market) was completely random so that conclusions were as unbiased as possible considering that this study is limited to the Portuguese financial market. Also, is important to mention that this choice was completely unrelated to the professionals interviewed during the second stage of the investigation. This happens due to two reasons, i) first and foremost the purpose of this dissertation is to analyse the perceptions of preparers on the impacts IFRS 18 will have on companies in general, but is not to focus on specific case-studies, and ii) second, the confidentiality of both interviewees and the companies where they work is one of the fundamental principles of this study. The five companies are identified as:

- C1, Industrial goods
- C2, Energy
- C3, Utilities
- C4, Construction
- C5, Telecommunications

The outcome of this analysis is displayed in the results' section.

[4] The choice of using separate Statements of Profit or Loss rather than the consolidated ones comes as a way of trying to exclude from our analysis any unnecessary inputs such as complex exercises of consolidation

3.3.2. Interviews

The implementation of IFRS 18 will impact companies preparing their financial statements under IFRS Accounting Standards, however other Portuguese companies will not suffer any direct impacts due to the release of this standard. Given that, the sample for this research was already restricted to *a priori*. Thus, opting for a convenience sample allowed for a better adaptation to the circumstances of the work given the limited scope of the study.

The choosing of interviewees was under the following criteria: experienced accounting professionals that work in Portuguese companies that apply IFRS Accounting Standards. To this extent, the first step was contacting professionals that fit these criteria. To do this, the network of the university was critical to successful communication and later interview scheduling.

Once the interview process began, it was of extreme importance to assure the conditions, under which the Iscte Business School Ethics Committee released positive feedback on, were being met. All participants willingly accepted to be a part of this study and at the start of each interview permission to be recorded was asked as well as the confirmation that confidentiality was guaranteed.

Each interview consisted of eleven open-ended questions and had approximately a duration of twenty minutes on average. The questions were organised according to the objectives of investigation. As the ultimate goal was to give answer to the formulated research questions, the interviews were structured in such a way that allowed participants to give their insights regarding both topics. We also included general context questions along the interview to obtain preparers' input on themes that concern IFRS 18 such as overall comparability of the Statement of Profit or Loss. Given the flexibility of the semi-structured methodology adopted it was also possible to personalise each interview according to responses given by the interviewee.

In Table 2, one can observe how the guide for the interviews was structured, with the identification of the eleven questions targeted to both research question, as well as general questions about IFRS 18 that we also asked participants.

Target objectives	Questions	Thematic focus
General context	Q1, Q4, Q5, Q10, Q11	Awareness, comparability, overall workload and cost
RQ 1 - Impact on day-to-day processing & performance analysis	Q2, Q3, Q6	Preparation of the new format and expected internal processes changes
RQ 2 - Cost of presenting mandatory Management-defined Performance Measures	Q7, Q8, Q9	Publication and usefulness of MPMs, recourses and transparency

Table 2. Structure of the interview guide

Source: Authors (2025)

In total, ten interviews were performed with different accounting professionals, each of them representing a different company, considering the most varied sectors of activity in Portugal. Based on a core principle of confidentiality, fundamental for this research, the identity of both the interviewees and the respective companies is restricted, and it will not be disclosed any information that could indicate otherwise.

All interviews were performed in the first semester of 2025, between March and June. Eight of them took place online and two of them were face-to-face. All interviewees were presented with the choice of how they would prefer to do the interview, online or in-person. As we believe that this choice has no impact on the collection of information and its quality, we figured passing this decision to the participants would not only increase our chances of getting an interview but also facilitate the whole process.

At the end, the sample population can be characterised in the following way: participants were aged between 31 and 62 years old, with 10 to 40 years of experience in the field of accounting in the corporate setting. Three women and seven men were part of this study. All of them had academic backgrounds in management and/or accounting, with the most common highest degree of education obtained being a bachelor's degree. It is also important to highlight that all participants had decision-making roles in their work environment.

In Table 3, more detailed information about the sample profile can be found.

Participant	Gender	Age	Method of interview	Industry	Listed company
P1	Male	62	Online	Media	Yes
P2	Female	48	Online	Industrial materials	Yes
P3	Male	52	Online	Professional services[5]	No
P4	Male	40	Online	Energy	Yes
P5	Female	51	Online	Industrial transportation	Yes
P6	Male	48	Online	Consumer staples	Yes
P7	Male	32	Face-to-face	Technology	No
P8	Female	31	Face-to-face	Tourism and leisure	No
P9	Male	45	Online	Professional services[5]	No
P10	Male	52	Online	Professional services[5]	No

Table 3. Description of the participant sample

Source: Authors (2025)

[5] All interviewees from professional services companies answered in their capacity as preparers of financial statements under IFRS Accounting Standards to a third party.

4. RESULTS AND DISCUSSION

4.1. Exploratory study

To implement stage 1, several steps were conducted. Firstly, we will examine each company individually over 2019 to 2023 to determine if they changed the format of the Statement of Profit or Loss or if it remained unchanged. Secondly, we will compare the Statements of all companies for each year. Additionally, we wanted to figure out if companies were already presenting the three mandatory subtotals presenting operating, investing and financing results.

For the first step, findings reveal that none of the companies arbitrarily chosen have changed the structure of its individual Statement of Profit or Loss from 2019 to 2023. This means that for external users wanting to understand the evolution of the company over this period comparability should not be a problem. However, the literature documents that stakeholders have complaints on lack of comparability (Allee et al., 2024) under IFRS Accounting Standards. As companies are applying principle-based rules, when we add industry-specific matters to an already extremely judgmental matter, comparability is inevitably unattainable.

In the second step, after established that comparability should not be a problem for an individual analysis of one company over a period of time, we wanted to find out if comparability was achievable when comparing several companies in the same period. According to the IASB (2024), users were not able to compare information due to the lack of requirements on several topics of IAS 1. As such, we decided to perform an analysis by line item to the selected companies' Statements of Profit or Loss. Generally, we observed (results not tabulated) that for the most part companies presented either the same line item or a comparable one in the same structure of the Statement.

When it comes to the presentation of the subtotals highlighting the companies' results by category, from the five companies considered in this stage, only one has been presenting its Statement of Profit or Loss using the structure now proposed in IFRS 18. Most companies present operating results, but do not clearly separate investing and financing activities from operations (results not tabulated). Thus, most companies will have to drastically change its Statement of Profit or Loss once IFRS 18 becomes mandatory.

Table 4 identifies whether the structure of the Statement of Profit or Loss is comparable across the companies randomly selected, as mentioned. To do that, and since IFRS Accounting Standards do not present a fixed layout but rather a minimum content, information is retrieved after a detailed analysis of those financial statements for a period of five years. The structure of the Statement did not change substantially over time in each company thus Table 4 presents the comparison of the elements included in the analysis.

Line item	C1	C2	C3	C4	C5	Common?	Comments
Revenue / Sales	Y	Y	Y	Y	Y	Y	Always presented
Cost of sales /COGS	Y	Y	Y	Y	Y	Y	May differ in naming
Gross Profit	N	Y	Y	Y	Y	N	Some companies skip it explicitly
Other operating income	Y	Y	Y	Y	Y	Y	Usually presented, but may differ in definition
Operating expenses	Y	Y	Y	Y	Y	Y	Sometimes split into several categories
EBITDA	N	Y	N	Y	Y	N	Not always reported explicitly
Depreciation & Amortization	Y	Y	Y	Y	Y	Y	May appear separately or grouped
Operating Profit (EBIT)	Y	Y	Y	Y	Y	Y	Core metric, but naming may vary
Net Financial Income/Expenses	Y	Y	Y	Y	Y	Y	Usually below EBIT
Profit before tax	Y	Y	Y	Y	Y	Y	Standard line
Income tax	Y	Y	Y	Y	Y	Y	Consistently included
Net Income	Y	Y	Y	Y	Y	Y	Always reported
Non-Controlling interests	Y	Y	Y	Y	Y	Y	Some companies report separately
Earnings per Share (EPS)	Y	Y	Y	Y	Y	Y	Usually in notes or bottom of P&L

Table 4. Overview of the exploratory study

Source: Authors (2025)

4.2. Interviews

The interview process occurred between March and June 2025, almost two years prior to IFRS 18 effectiveness for an entity's first annual financial statements, more precisely, for periods beginning on or after 1 January 2027. For this reason, many participants wanted to express that they were not entirely familiarised with the standard. However, all of them answered *yes* to Question 1 "Are you aware of the new standard *IFRS 18 Presentation and Disclosure in Financial Statements*?"

Then, they were asked if "The company where you work is already preparing the new structure of the Statement of Profit or Loss imposed in this standard?" (Question 2). Overall, the feedback was that, at the moment of the interview, companies were not yet preparing for the changes imposed in IFRS 18. Many participants said they expected the process to start later in the year or even in the beginning of 2026. It was also mentioned by a few that the preparation of IFRS 18 must start in 2026 since it is mandatory to present the comparative of 2027.

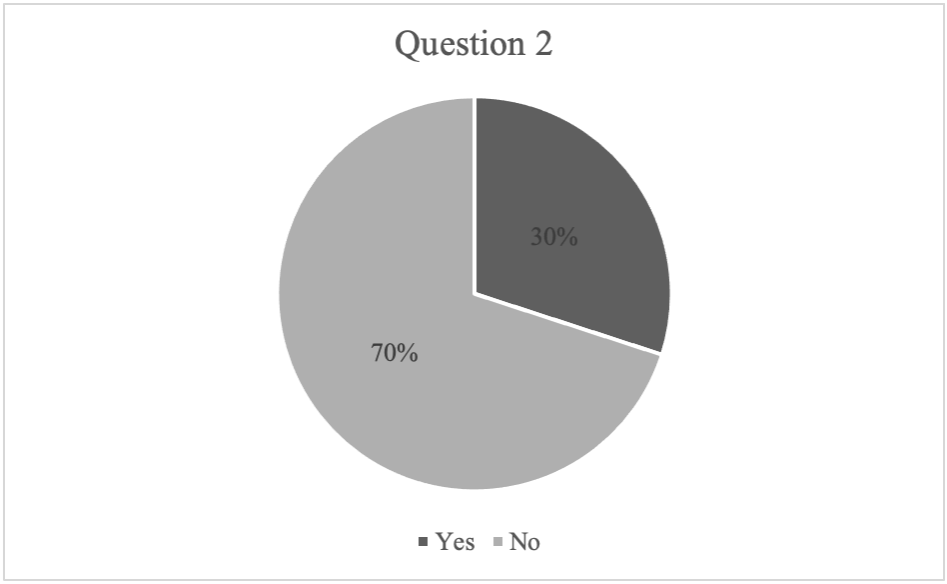


Figure 2. Responses to Question 2

Source: Authors (2025)

When asked if "The current structure of the Statement of Profit or Loss published by your company has been or ever was criticised by external users (investors)? And internal users?" (Question 3) none of the participants reported a situation where they received negative feedback from stakeholders regarding their financial statements.

More so, the answers to Question 4 “Do you consider that the structure of the Statement of Profit or Loss published by your company is comparable with other Portuguese-listed companies? And with companies applying the Portuguese accounting standards (SNC)?” were mainly positive with half of the participants stating the financial statements, especially the Statement of Profit or Loss, are comparable among Portuguese companies regardless of whether companies apply IFRS Accounting Standards or the Portuguese system. The main reason appointed for this is the fact that the Portuguese accounting standards are based on IFRS Accounting Standards. All in all, these preparers believe that comparison of information published in the Portuguese financial market is not a concern of investors.

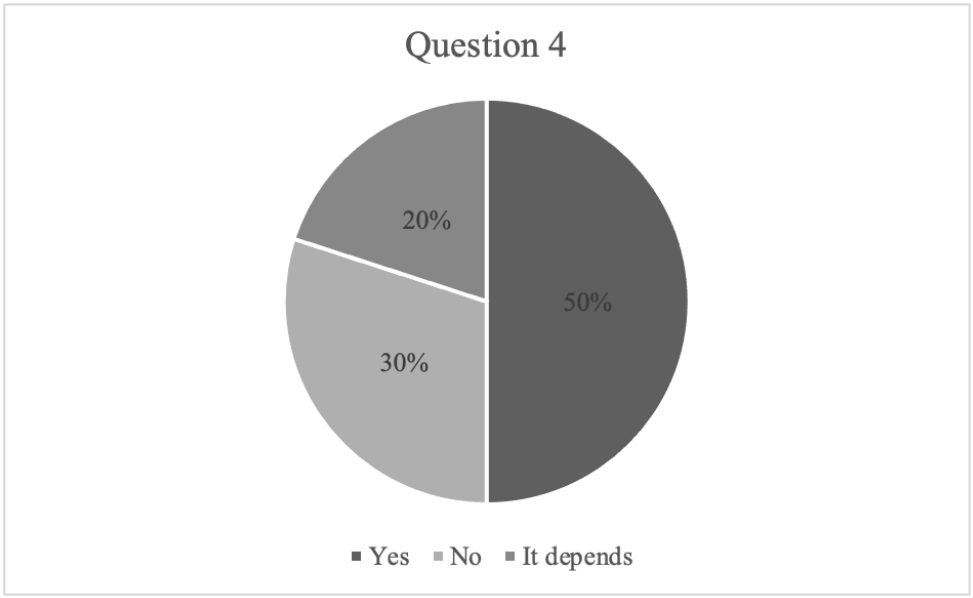


Figure 3. Responses to Question 4

Source: Authors (2025)

In the following subchapter we will look deeper into the answers given by participants to Question 4, which will allow us to obtain a greater understanding as of why participants are so divided in the matter of comparability among companies in the Portuguese market.

Regarding Question 5, “As you know, there are three main changes imposed in IFRS 18. Which of them will have the greatest impact in the preparation and comparability of information?”, six participants mentioned the *alteration of the structure in three mandatory categories.* Out of the remaining four, two answered *Management-defined Performance Measures* and the other two the *new criteria for aggregation of information*. The reasons to these answers can also be found in the following subchapters.

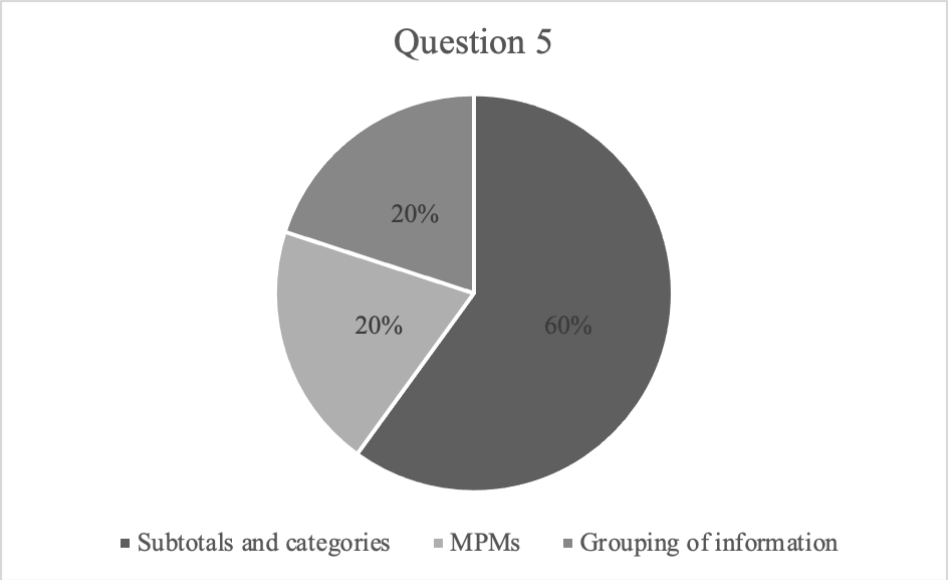


Figure 4. Responses to Question 5

Source: Authors (2025)

All changes imposed in IFRS 18 will potentially have an impact on the workflow in companies and will most likely represent new costs that firms will have to bear due to the implementation of the new standard. To obtain the preparers' view on this, we asked "Do you predict an increase of work associated with the changes imposed in IFRS 18?" (Question 10). Nine out of ten interviewees answered *yes*, with most referring that an increase in the workflow is expected until all changes are implemented, but afterwards it is expected to be "business as usual" (P6). "Every time there is a new standard, there is always an increase in the amount of work" (P7) "even if you only consider the time, we will have to dedicate to fully study the norm and comprehend it" (P8), however, overall, "it is not expected a great amount of work in the implementation of IFRS 18 when compared to other recent standards like IFRS 16" (P4).

Regarding the associated costs with the implementation of IFRS 18, participants answered to Question 11 "Do you think there will be costs associated with these changes? What costs do you consider more relevant?". Eight out of ten believe their company will incur in additional costs due to the implementation of IFRS 18 since this is a "time-consuming activity that reflects personnel hours" (P5), pointing to the fact that "most internal costs are not quantified, however they should since workers will have an increase amount of work" (P2). "Costs with adapting software's that are not prepared to accommodate the new changes are very likely" (P3) as well as costs with "hiring external help" (P6) for companies considering not navigating this process with in-house capacity only.

All in all, despite the diversity of the sample, the responses were, to a certain extent, like one another. In hindsight, preparers of financial information were neither very satisfied nor completely against the changes imposed in IFRS 18. Out of all ten participants, only one of them stated to be dissatisfied with the new structure of the Statement of Profit or Loss. In general, the area currently raising more doubts is the Management-defined Performance Measures.

Following a slight overview of results, further discussion obtained from the interview process will be presented in two different subchapters, organised according to the two research questions. Afterwards, one can find the overall summary analysis and discussion.

4.2.1. Structure of the Statement of Profit or Loss

During the interview process, one of our goals was to understand which of the three main changes imposed in IFRS 18 for the Statement of Profit or Loss was more relevant from the preparers' point of view. However, in order to better comprehend the answers given to that question, we believe it is important to establish whether participants believe the current Statements of Profit or Loss published in the Portuguese market are already comparable or not. As demonstrated in the previous subchapter (Question 4), the opinions were not consensual, with five interviewees answering *yes*, three answering *no* and two of them mentioning *it depends* on varied circumstances. Now we will analyse and present the reasons given by participants to the different opinions on this matter.

The main reasons given by those who gave a negative agreement was that "IFRS Accounting Standards do not produce comparable financial statements because these standards are principle-based and not rule-based" (P4) and that "IFRS 18 is trying to limit companies' options by removing a core principle of IFRS which is principle-based standards" (P4) perceiving that "the lack of comparability is IASB' fault" (P6). Many respondents mention, along their interviews, the *grey area* created by IFRS Accounting Standards that allows companies to apply these standards according to what yields a better outcome. It was also mentioned that financial statements cannot be comparable "due to the different realities each industry faces" (P1). Few participants gave neither a negative nor a positive agreement, considering comparability "depends on the type of business" (P5) users want to compare, namely that "Statements of Profit or Loss of non-financial businesses may be comparable" (P5),

but “there is always a judgmental character in the preparation of financial statements” (P2). Finally, those who gave a positive agreement justified that “Statements of Profit or Loss published by big companies in the Portuguese market are mostly comparable” (P7) and “perhaps comparability might be debatable when discussing other financial statements such as the Statement of Financial Position, but the criticism is not applicable to the Statement of Profit or Loss” (P10). Furthermore, “even though some criteria depend on the judgement of preparers and management teams, overall, the Statement of Profit or Loss provides a good image of performance in a macro analysis” (P10).

During the interviews, the discussion of comparability between companies applying the Portuguese accounting standards was inevitable and several participants said that “there are always differences, but users with accounting knowledge can easily adapt” (P8) because “the SNC is based on IFRS therefore financial statements are comparable” (P7) and “unlike IFRS, the SNC has a fixed structure therefore it is easier to compare” (P9) highlighting that “comparison is only possible with a good appendix to the financial statements” (P10).

After the collection of preparers’ perceptions on comparability of Statements of Profit or Loss, the interview continued regarding what change in IFRS 18 is most expected to impact the preparation and comparability of information. Hence, in Question 5, interviewees were asked “As you know, there are three main changes imposed in IFRS 18. Which of them will have the greatest impact in the preparation and comparability of information?”.

To this, six out of ten respondents answered *the change of the structure of the Statement of Profit or Loss*. P1 said that “for comparison to be possible, there has to be a unique structure followed by all companies. External users of financial statements must be confident that regardless of industry-specific matters the nature of each line of revenue or expenses is the same”. More so, P1 believes that “nowadays it is not possible to compare Statements of Profit or Loss because each company adjusts it in the way that’s most convenient”. P2 emphasised that “even though companies might think this will be a relatively simple process, the activities of each firm will determine the classification, which can create some difficulties”. Another participant, P7, drew attention to the fact that “this division between operational, investing and financing is very interesting since it gives stakeholders a better notion of the firm’s reality” (P7) and “with this alteration, not only information will be more comparable, but analysis performed by investors will be a lot more interesting”. P9 believes the change in the structure of the Statement of Profit or Loss to accommodate these standardised results “fixes one of the main

reasons why there is a lack of comparability". According to this professional, "the doubt of what might be included in the operational section of the business and what comes from investing and financing activities" creates the utmost difficulty in reading and comparing Statements of Profit or Loss.

However, not all preparers have the same opinion regarding the potential benefits IFRS 18 might bring to the market. P5 is completely against this proposal to change the current Statement of Profit or Loss as we all know it since it "has always responded to our needs and our investors' needs" and that "the division into the three different categories works in the Statement of Cash Flows, but it does not make any sense in the Statement of Profit or Loss".

Overall, the change of the structure of the Statement of Profit or Loss is a topic that concerns Portuguese companies applying IFRS Accounting Standards. Although most interviewees gave positive feedback on the possible outcome, others have raised serious concerns on how impacted they and their businesses will be.

As we also wanted to determine possible implications on how financial information is treated daily due to IFRS 18, we asked "Do you anticipate changes in the treatment of accounting information and internal control systems due to the changes in the structure of the Statement of Profit or Loss?" (Question 6). The answer to this question was *yes* from five interviewees and *no* from the other five.

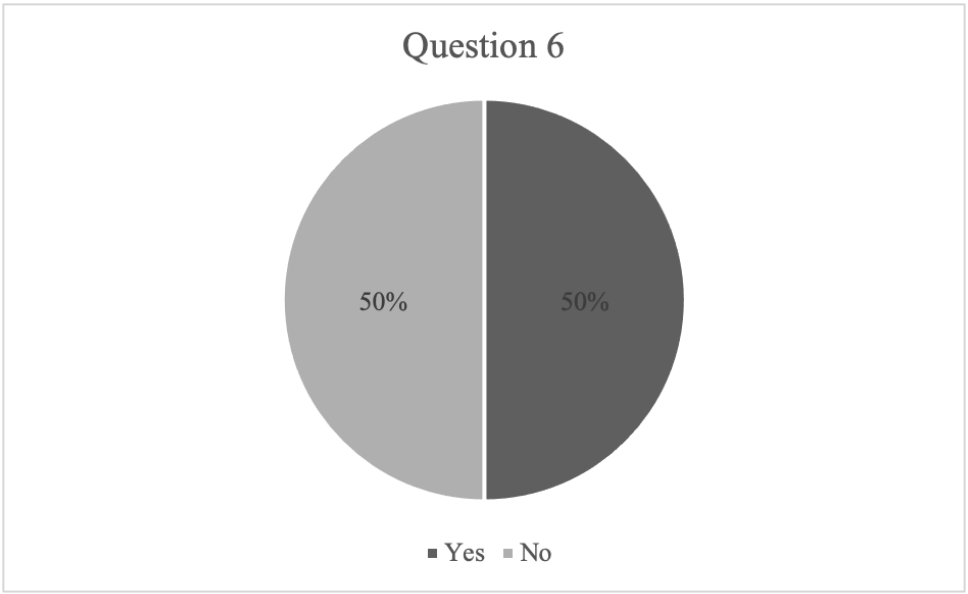


Figure 5. Responses to Question 6

Source: Authors (2025)

From the universe of people that responded positively, the main reason was “the alteration of account mapping” mentioned by all. Also, the “possible re-definition of some indicators” might impact the internal systems, according to P2, “however today it is not possible to know to what extent”. P3 mentions that “probably we will need to create new accounts mainly to do the distinction between operational expenses and financing expenses”. P6 highlighted the likelihood of “changing the account mapping in the general ledger in order to distinguish interests by nature”.

The fact that IFRS Accounting Standards do not require a specific account plan was also one of the reasons emphasised by those who answered *no* to question 6. P5 said “because we already have such an extensive general ledger, I believe we will not feel the need to modify our account mapping”. All five participants that answered negatively mentioned that the change of the structure of the Statement of Profit or Loss is “purely a matter of presentation” and “no impact in the treatment of accounting information is expected”.

When it comes to the implications this change will have in the treatment of accounting information, most companies will have to make changes in their internal accounting systems. This comes from the need to distinguish several expenses according to their nature, something that currently does not happen.

4.2.2. Management-defined Performance Measures

According to the literature available when this master thesis was developed, the introduction of Management-defined Performance Measures presented by companies to complement their financial statements is believed to be a potentially impactful change imposed in IFRS 18.

As mentioned previously, in Question 5 interviewees were asked which change they think will have the greatest impact on the preparation and comparability of information. Out of the four that did not answer the change of the structure of the Statement of Profit or Loss, two replied the *MPMs*. Both participants mentioned Management-defined Performance Measures in this question for the same reason, the lack of information about these. P8 said her biggest concern was “the definition of what will effectively be considered as an MPM”, with P3 adding that since “this topic is not well explained, it can lead to manipulation of information”.

As is known, the current IAS 1 does not contemplate the concept of Management-defined Performance Measures. Up until the introduction of IFRS 18, the presentation of measures of performance was a decision made internally by each company. To obtain a better comprehension regarding the extent to which companies recurred to this form of report, interviewees were asked "Does your company publish performance indicators?" (Question 7) and if so, who is responsible for the choice of indicators disclosed to the public.

Nine out of ten participants answered *yes* to this question. The party responsible for the choice of indicators most mentioned was the management of the company, specifically the CFO. However, participants highlighted that "this decision is, many times, linked to financing contracts that require us to publish certain indicators" (P1), however, an important matter was raised since "currently these indicators are not included in the audit process" (P2).

Preparers are aware of the bias around the matter of performance indicators, and even though it is not a new concern, the authors believe that this problem might be emphasised due to the mandatory presentation of what is considered as a Management-defined Performance Measure. At this stage it is very important to better comprehend these stakeholders' position about the topic, therefore we asked, "Do you consider that the publication of performance indicators increases the transparency of the company's activity and consequently contributes to the trust of investors?" (Question 8).

Six respondents expressed concerns, mentioning these indicators can "distort reality" (P1), emphasising that "it is not transparent what each company considers in each indicator" (P2). Almost all participants claimed that transparency is key in this matter, defending that "if companies have the right intention, information will be more transparent" (P5). However, "in some cases companies choose which indicators to publish in order to guide investors" (P3) to see certain aspects of business and dismiss others, but the fact is that "most indicators can be calculated with the information presented in the financial statements" (P10) thus "transparency can only be achieved if there is additional explanation to each performance indicator" (P10) besides the calculation itself. Notwithstanding, "the risk of disclosing too much information from the management's point of view" (P8) is something companies should take into consideration since it can hurt the business.

The increase in comparability and comprehension of information is directly correlated with the information provided by companies regarding the indicators. The presentation of ratios is not sufficient for stakeholders who want to get a deeper understanding of the business. Some participants see the introduction of these indicators under the audit scope as something positive stating that under IFRS "due to the flexibility in the accounting standards, companies can deviate stakeholders' attention to certain areas" (P7) and for this reason "the auditors' job is so important" to make sure the application of IFRS Accounting Standards is done correctly. More so, it is believed that with the introduction of Management-defined Performance Measures in IFRS Accounting Standards "we are witnessing an approximation between accounting standards and management information" (P4), which "is great not only for firms, but also for investors".

Generally, preparers think the introduction of Management-defined Performance Measures in IFRS Accounting Standards will have a positive impact not only because these indicators fall under the audit scope, which guarantees to the market the truthfulness in the information disclosed, but also because investors will have access to better quality information. However, some professionals are worried about the definition of these MPMs, particularly with the criteria to determine these. At this point in time, it is not clear to these stakeholders the impact this change might have.

IFRS 18 not only introduces the concept of Management-defined Performance Measures but determines new requirements for the publication of performance indicators and as such we wanted to understand if companies had the capacity to fulfil the requirements associated with this change, hence we asked if "With the new requirements imposed in IFRS 18 for the disclosure of Management-defined Performance Measures (MPMs), does the company have the necessary resources to determine these?" (Question 9).

All interviewees responded positively, claiming "this additional work will have added value" (P5) and "more important than the actual disclosure of indicators, is its reconciliation" (P5), even though many companies are already doing this exercise of reconciliation since "it does not even make sense to not reconcile these indicators" (P10). However, with the auditing of these indicators some companies will "certainly work with external professionals" (P2; P6).

4.2.3. Pattern findings – a summary analysis and discussion

This subchapter is reserved to present a summary analysis of the findings we came across as a result of the interview process followed by a brief discussion systematised in the three main areas in which the guide for the interviews was organised in the first place. In this way, we believe readers can obtain the full understanding of the findings.

Table 5 presents the general outcomes we reached regarding the general-context questions we asked participants. Consistent with the literature review presented previously, our conclusions also point to the fact that external users of financial statements are generally satisfied with the level of disclosure currently provided in the Statement of Profit or Loss (Allee et al., 2024), as the participants believe comparability is not a current concern of stakeholders. Moreso, the idea presented by Prather-Kinsey et al. (2022) that incomparability complaints could be due to inconsistent adoption, application or enforcement of standards was also appointed by some participants that believe IFRS 18 comes as IASB's attempt at shifting from principle-based standards to more rule-based ones.

Most frequent focus mentioned	Question	Prevalence	Example of comment
Knowledge of IFRS 18 is still superficial at this time	Q1	100% are aware of new standard	"I am aware of it, but I have not deepen my knowledge yet"
Comparability is not a current concern of stakeholders	Q4	only 3/10 expressed concerns with comparability	"overall, in the Portuguese market, the Statements of Profit or Loss are comparable"
Greatest expected effect is the new categories and subtotals	Q5	60% answered the new structure of the Statement of Profit or Loss	"the new structure will give stakeholders a better comprehension of the firm´s reality"
Incremental workload inevitable	Q10	90% believes there will be an increase of work during the implementation phase	"there is always additional work in the implementation phase of a new standard"
Unavoidable costs	Q11	70% mention extra staff time; some flag software updates and auditor fees	"its hard to quantify all costs at this stage"

Table 5. General context findings

Source: Authors (2025)

Research Question 1 - *Will the new structure of the Statement of Profit or Loss impact how financial information is treated daily and how it is used to analyse performance?* - was formulated with the purpose of focusing part of this investigation in the change of structure of the statement with the mandatory presentation of new subtotals alongside the new categories of performance.

As the findings presented in subchapter 4.2.1. suggest, an overall conclusion for Research Question1 is that respondents anticipate moderate process disruption: mainly re-mapping accounts, updating reporting templates and internal controls. A minority foresee deeper system work (sub-accounts and new data tags mentioned). Performance analysis logic itself is not expected to change; the effort is viewed as making existing metrics sit in the new required lines rather than redefining performance indicators or other metrics.

In Table 6, one can find a summary of the answers given by participants to the questions focused on Research Question 1. The findings are aligned with the literature presented in the sense that as stakeholders complained about the need for financial statement line items to be standardised (Allee et. al., 2024) and one of the main problems of IAS 1 was that it provided little specific guidance about the presentation of line items therefore allowing many alternative types of formats (Agostini & Marcon, 2013), one of the biggest changes expected by preparers with the implementation of IFRS 18 is related to re-mapping accounts for the purpose of financial statements presentation in order to comply with the new categories.

Most frequent focus mentioned	Question	Prevalence	Example of comment
Still at an early stage - most companies have not began formal implementation	Q2	7/10 say the implementation process has "not strarted yet" but plan on doing so during 2025	"probably in the second half of 2025"
Comparability benefit acknowledged so benefits are incremental	Q3	100% has never had negative feedback	"the Statement of Profit or Loss has always responded to the needs of our stakeholders"
Impact largely viewed as "re-mapping / presentation" rather than fundamental accounting changes	Q6	50% say "little or no" impacts; 30% expect system-level-chart-of-accounts tweaks	"it is not expected an impact in the day-to-day accounting practices"

Table 6. Findings related to Research Question 1

Source: Authors (2025)

Concerning Research Question 2 - *What are the costs associated with the mandatory presentation of Management-defined Performance Measures?* – Table 7 summarises the findings discovered after the interview process.

Most frequent focus mentioned	Question	Prevalence	Example of comment
Most firms already publish performance indicators	Q7	9/10 publish at least one performance indicator in the annual report	"the management of the firm or sometimes the CFO is responsible for the choice of indicators published"
Transparency benefit is recognised but not unanimous	Q8	50% say MPMS will increase transparency of information; 30% say "it depends"	"with principle-based accounting standards there is always a grey area allowing firms to manipulate information"
The importance of reconciling MPMs under the new requirements	Q9	30% are considering hiring external to help in this process	"this exercise is important and even though we have in-houce capacity we will probably consult with our auditors"

Table 7. Findings related to Research Question 2

Source: Authors (2025)

An overall conclusion for Research Question 2 is that respondents recognise that the publication of performance indicators is already common practice, as defended by Black at al. (2017), implementation costs are viewed as real but not transformational. An interpretation of their answers may suggest that firms expect one-off project outlays, i.e., non-recuring amounts, not part of ongoing run-rate (for example, template changes, IT re-configuration, auditor/consultant review), depending on if they intend to hire or not external help. Furthermore, firms expect a modest increase in permanent workload (for example, reconciliations and narrative explanations). No interviewee forecasted material capital expenditures or staffing growth solely due to IFRS 18; rather, re-allocation of existing finance staff time and some short-term external advisory spend are mentioned. Some participants also flagged the importance of these MPMs starting to be under the scope of the auditors' work aligned with the idea defended by Black & Christensen (2018) that auditors should take a more direct and impactful role with respect to the enforcement of non-GAAP disclosures in the financial statements.

Altogether, we can say that our findings are aligned with the ones presented by academia over the last years and overall, preparers opinions are in line with other stakeholders more broadly considered when discussing comparability and transparency of financial information.

5. CONCLUSION

The primary objective of this dissertation was to analyse the perception of preparers of financial information on two among the three most significant changes introduced by IFRS 18 to the Statement of Profit or Loss. This statement is expected to be the most impacted by the adoption of the new standard. Nevertheless, is anticipated that both the Statement of Financial Position and the Statement of Cash Flows will also be affected once the application of the standard becomes mandatory.

The literature shows that stakeholders, mainly external users of financial statements were not satisfied with the overall report companies were delivering under IAS 1 and the IASB decided to address their complaints by starting a project dedicated to this matter- the *Primary Financial Statements project*. As a result, the Board concluded that IAS 1 was no longer suitable and IFRS 18 was published shortly after that. The three biggest changes that result from this are the following: i) are mandatory categories and subtotals to be presented in the Statement of Profit or Loss, ii) disclosure of Management-defined Performance Measures as performance indicators and iii) new detailed criteria for aggregation/disaggregation of information in financial statements.

This investigation is focused in the first two changes mentioned earlier as the last one (aggregation/disaggregation of information), although a serious and legitimate concern of both academia and stakeholders of financial statements, rises from a new frame developed by the IASB as some criteria was already contemplated in IAS 1 but application was not always the most accurate, as it can be explained by Mental Accounting Theory. Research shows that the beneficial effect linked to the level of aggregation/disaggregation in financial statements depends not only on the type of line items considered but also on whether we are discussing positive or negative sources of income (Fennema & Koone, 2010).

After narrowing the scope of this study and defining the objective of the research, two research questions were formulated in alignment with the two changes imposed in IFRS 18 that potentially will have the greatest impact in the comparability and transparency of financial statements. Afterwards, we opted for a qualitative methodology supported in two stages - exploratory study and interview process. Although both stages have the ultimate goal of helping us focus in the research objective and therefore answering both research questions, they ended up serving their own purposes.

The exploratory study was developed firstly as a tool we found to explore and demonstrate the lack of comparability and transparency in financial reporting that fits the past feedback of stakeholders, however it was also designed to hopefully complement the findings achieved after the interview process. To implement stage 1, we gathered a matrix of 25 company-year Statements of Profit or Loss and after careful analysis, we concluded that even though companies in the Portuguese market tend to keep the structure of this statement consistent over time and generally, comparability between companies can somehow be achieved by line item, most companies will be impacted by IFRS 18 because the current structure of the Statement of Profit or Loss does not contemplate all mandatory categories and subtotals, as it only emphasis operational results, but does not clearly separate investing and financing activities.

The interview process can be considered the foundation of this investigation and what allowed us to reach the final findings. This method of research emerged quite early on in the development of the present dissertation, which led us to submit a request to the Iscte Business School Ethics Committee in the beginning of 2025 to make sure the methodology chosen was in accordance to the best practices. The contact with professionals that fit the necessary criteria to participate was only thanks to the help of the university's network.

The preparers have a determinant role in the correct application of the new standard as well as the new changes and requirements it imposes in all financial statements, however we believe that their perspective on this topic represented a gap in the literature and therefore we decided to contribute with this research focused in the Portuguese market. To do so, we decided to interview several professionals that fit the defined criteria – preparers with decision-making roles working in the context of accounting in companies applying IFRS Accounting Standards in Portugal.

This research contributes to academia in several ways. At the time of publication of this master dissertation, studies on IFRS 18 were scares as not a lot of information was available on the topic. As far as it is known, there was no previous investigation performed neither in Portugal nor focused on the perspective of preparers of financial statements. Moreover, data on how successful IFRS 18 will be in addressing the complaints that led to a new standard is inexistent at this time. This investigation was conducted prior to the mandatory implementation of IFRS 18 thus any conclusions achieved might not applicable in the future.

It is important to remember that IFRS Accounting Standards are principle-based, which, unlike rule-based standards, allows companies to adapt to a set of rules and still considering industry-specific matters. This aligned with inevitable preparers' bias, as explained by the Upper Echelons Theory, can compromise comparability, transparency and efficiency of financial information.

Following the ten interviews conducted in the first semester of 2025, the most preponderant conclusions were that the majority of participants believes the Statements of Profit or Loss are somewhat comparable in the Portuguese market and even though all knew about IFRS 18, many wanted to highlight the fact that at point in time they had not yet studied the standard deeply. Regarding workload and costs due to the change to IFRS 18, the opinions were consistent with 90% stating that an increase in work is only expected during the implementation phase and 70% mention extra staff time as an unavoidable cost during this process. Regarding Research Question 1, as expected, most interviewees (60%) considered the change of structure of the Statement of Profit or Loss as the greatest change arising from IFRS 18, however only 30% had already began formal implementation. This change is expected to have little to no impact in daily accounting practices but rather in mapping and presentation matters. Finally, concerning Research Question 2, it came as no surprise following the literature that 90% of companies already publish performance indicators, however only half of the participants are certain the new Management-defined Performance Measures will in fact increase transparency of information.

At this point, it is important to acknowledge that the interview process occurred nearly two years before the mandatory adoption date for IFRS 18 (1 January 2027), which can represent a limitation to our study. We do not rule out the possibility that over the next two years new developments can influence preparers' perspective on this matter. Additionally, when discussing the main limitations of this investigation, it should also be considered not only the time in which it happened but also the place. IFRS Accounting Standards affect stakeholders in over 165 countries, having a great impact in varied economies around the globe, each with distinct economic environments and specificities. Since this study was focused solely on companies in Portugal, any conclusions reached may not be applicable in other geographies.

Jointly together with limitations, we suggest four avenues for future research. First, researchers could study how aggregation and disaggregation of information will be affected by the new framework presented in IFRS 18. Second, research should aim to address how preparers from different markets in contrasting geographies face the changes imposed in IFRS. Third, future research could involve re-interviewing the same ten participants from this study after IFRS 18 comes effective comparing ex-ante expectations with real effects implemented. Finally, the fourth suggestion is to study this topic from the perspective of other key stakeholders affected by the new standard, namely, investors and financial analysts.

All in all, the primary objective of this research - to obtain and analyse the perspectives of preparers of financial information who will be directly impacted by the implementation of IFRS 18 and its associated changes - was successfully achieved. Although the findings presented offer valuable initial insights, research on this topic is still in its early stages thus further investigation to be developed is suggested. For now, as far as we are concerned, it is still not possible to assert the degree at which comparability, transparency and quality of financial statements will be improves by IFRS 18.

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APPENDICES

Appendix A: Structure and guide for the interviews (in Portuguese)

A. Legitimação da entrevista

- Informar o entrevistado sobre os objetivos do estudo
- Assegurar o caráter confidencial das informações
- Obter autorização para a gravação da entrevista

B. Background do entrevistado

- Este trabalho é realizado previamente dada a importância do perfil dos entrevistados
- No momento da entrevista apenas se colocarão questões sobre este tema quando necessário e com o objetivo de confirmar e/ou completar informação que conhecemos *a priori*

C. Momento da entrevista

1. Tem conhecimento da nova norma contabilística *IFRS 18 Apresentação e Divulgação em Demonstrações Financeiras*?

2. A empresa onde trabalha já está a preparar o novo formato da Demonstração de Resultados (DR) imposto nesta norma?

    2.1. Se sim, que diligências fizeram? Envolveram apenas profissionais internos envolvidos no processo ou recorrem a consultoria externa?

    2.2. Se não, quando consideram iniciar este processo? Consideram envolver apenas profissionais internos no processo ou recorrer a consultoria externa?

3. A estrutura atual da DR publicada pela sua empresa foi, tem sido ou é alvo de críticas por parte de utilizadores externos (investidores)? E internamente?

4. Considera que a estrutura da DR publicada pela sua empresa é comparável com a de outras empresas portuguesas cotadas? E com empresas que aplicam o SNC?

5. Como sabe, há três grandes mudanças impostas na IFRS 18. Das três, qual considera que terá o maior impacto na preparação da informação e na comparabilidade da mesma?

6. Antecipa alterações internas no tratamento de informação contabilística, e no sistema de controlo interno, devido à mudança da estrutura da DR?

7. A sua empresa publica indicadores de *performance*?

    7.1. Se sim, quem é responsável por decidir quais os indicadores de performance publicados? Qual a importância da sua publicação?

    7.2. Se não, que tipo de atividades, reflecções ou preocupações considera relevantes para que a sua empresa tenha condições para os publicar?

8. Considera que a divulgação destes indicadores de *performance* aumenta a transparência da vossa atividade e consequentemente contribuiu para a confiança de investidores?

9. Com os novos *requirements* impostos na IFRS 18 para a divulgação de *Management-defined Performance Measures* (MPM), a sua empresa tem os recursos necessários para o apuramento destes indicadores?

10. Antevê um aumento de trabalho associado a estas mudanças impostas na IFRS 18?

11. Pensa que haverá custos de preparação da informação a relatar devido as estas mudanças? E que tipo de custos considera mais evidentes?

Appendix B: Structure and guide for the interviews (in English)

A. Legitimization of the interview

- Inform the interviewee of the objectives of this investigation
- Ensure the confidentiality of the information collected
- Obtain authorization to record the interview

B. Interviewee's background

- Given the importance of the interviewees' profile this work is done previously to the interview
- In the moment of the interview questions regarding this topic will only be asked when necessary and with the goal of confirming and/or completing information known a priori

C. Interview

1. Are you aware of the new standard *IFRS 18 Presentation and Disclosure in Financial Statements*?

2. The company where you work is already preparing the new structure of the Statement of Profit or Loss imposed in this standard?

   2.1. If so, what diligences did you do? Did the process involved only internal professionals or did you resort to the help of external consultants?

   2.2. If not, when do you consider to initiate this process? Do you consider using in-house capacity or will you resort to the help of external consultants?

3. The current structure of the Statement of Profit or Loss published by your company has been or ever was criticised by external users (investors)? And internal users?

4. Do you consider that the structure of the Statement of Profit or Loss published by your company is comparable with other Portuguese-listed companies? And with companies applying the Portuguese accounting standards (SNC)?

5. As you know, there are three main changes imposed in IFRS 18. Which of them will have the greatest impact in the preparation and comparability of information?

6. Do you anticipate changes in the treatment of accounting information and internal control systems due to the changes in the structure of the Statement of Profit or Loss?

7. Does your company publish performance indicators?

    7.1. If so, who is responsible for deciding which indicators are published? What is the importance of its publication?

    7.2. If not, what kind of activities, reflections or concerns do you consider relevant in order for the company to be able to publish these indicators?

8. Do you consider that the publication of performance indicators increases the transparency of the company's activity and consequently contributes to the trust of investors?

9. With the new requirements imposed in IFRS 18 for the disclosure of Management-defined Performance Measures (MPM), does the company have the necessary resources to determine these?

10. Do you predict an increase of work associated with the changes imposed in IFRS 18?

11. Do you think there will be costs associated with these changes? What costs do you consider more relevant?

Appendix C: Final opinion issued by the Iscte Business School Ethics Committee

ISCTE BUSINESS SCHOOL ETHICS COMMITTEE (IBS EC)

OPINION/RECOMMENDATIONS [28-03-2025]

Project IBS_EC 008 /2025 (2): "IFRS 18: An analysis from the perspective of preparers of financial information "

As requested by IBS EC in the meeting of 26th February 2025, Mariana Miranda has provided additional information regarding method, participant recruitment and informed consent/ debriefing regarding the project "IFRS 18: An analysis from the perspective of preparers of financial information", which was analyzed by the IBS EC in the meeting of 28 March 2025.

Based on the new information provided the following comments can be made:

c) **METHOD AND DATA**

IBS EC Observations:

- No comments

e) **INFORMED CONSENT AND DEBRIEFING**

IBS EC Observations:

- The IBS EC reminds the researcher that the informed consents collected from the participants contain personal data, and appropriate technical and organizational protection measures must be applied to the consents. Informed consents should be saved separately from the data, for example in a different server account or different device.

SUMMARY

In short, ensuring that the voluntary nature of participation, free and informed consent, the anonymization of personal data and the confidentiality of the data collected are met, the IBS EC issues a final positive opinion in favour of carrying out the proposed study, subject to the implementation of the recommendations in paragraph e) mentioned above, as well as the recommendations provided in the Ethical Review issued on 26/02/2025.

Rapporteurs: Sandra Loureiro and Patrícia Filipe