LEARNING IFRS — STANDARD BY STANDARD

Module 1: From IAS 1 to IFRS 18

Presentation of Financial Statements — a 12-step dummy company walk-through, five analytical cases, critical issues & Bangladesh lens

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Why this series? One standard, five lenses

Each module explains what a standard requires, why it exists, how it changes numbers, and who is affected — using real cases, judgments and authoritative sources (IASB, IFAC, FRC UK/Bangladesh, ICAB).



Students

Clear concepts, worked numbers and exam-style quiz



Professionals

Judgement areas, disclosure checklists, audit focus



Business leaders

Effect on KPIs, covenants, valuation and strategy



Regulators

Enforcement findings, deviations and oversight issues



Policy & society

Investor protection, market trust, public interest

Format: step-by-step dummy company • 5 analytical examples per standard • Bangladesh lens • quiz & references

Series roadmap: seven learning tracks

1. Foundation	Conceptual Framework • IAS 1 → IFRS 18 • IAS 8 • IAS 10 • IAS 34 • IFRS 1
2. Performance	IFRS 15 Revenue • IAS 12 Income Taxes • IAS 33 EPS • IFRS 8 Segments • IAS 7 Cash Flows
3. Assets	IAS 2 Inventories • IAS 16 PPE • IAS 38 Intangibles • IAS 36 Impairment • IAS 40 • IAS 23 • IAS 20
4. Liabilities & leases	IAS 37 Provisions • IFRS 16 Leases • IAS 19 Employee Benefits • IFRS 2 Share-based Payment
5. Financial instruments	IFRS 9 (ECL, hedging) • IAS 32 • IFRS 7 • IFRS 13 Fair Value • IAS 21 FX
6. Groups & specialised	IFRS 10/11/12 • IFRS 3 • IAS 28 • IAS 27 • IFRS 5 • IFRS 17 • IAS 41 • IAS 29 • IFRS 19
7. Sustainability	IFRS S1 General Requirements • IFRS S2 Climate-related Disclosures • connectivity with FS

Inside every module: the learning flow

1

Why it exists

Problem the standard solves

2

Core principles

Scope, recognition, measurement

3

Key requirements

Presentation & disclosure

4

Dummy + 5 cases

Step-by-step build, then real cases

5

Business impact

KPIs, covenants, systems, tax

6

Policy & society

Markets, investors, public interest

7

Cases & judgments

Courts, regulators, articles

8

Bangladesh lens

Companies Act, FRA, BSEC, BB

Module 1: Presentation of Financial Statements

IAS 1 (current) → IFRS 18 Presentation and Disclosure in Financial Statements (effective 1 January 2027)

What this module covers

1	**Basics in plain words**	What IFRS 18 changes, key terms and the dates that matter	**Slides 7–9**
2	**IAS 1 versus IFRS 18**	Required statements, what changes, global adoption, the new P&L	**Slides 10–13**
3	**Learn by doing: 12 steps**	Padma Footwear PLC worked case, from listing items to transition	**Slides 14–27**
4	**Technical issues and real cases**	Classification puzzles, Bangladesh issues, five examples incl. Carillion	**Slides 28–34**
5	**Impact, law and regulation**	Business, policy, court cases, Bangladesh law, CFO roadmap	**Slides 35–39**
6	**Test yourself**	Five quiz questions with reasoned answers, key takeaways	**Slides 40–42**
7	**Reference toolkit**	Quick reference table, first-year checklist, sources	**Slides 43–46**

IFRS 18 in plain words: same profit, a clearer story

1

A profit and loss statement with fixed sections

Every income and expense item goes into one of five sections. ‘Operating profit’ now means the same thing at every company.

2

Company-made measures, explained and audited

When management quotes its own ‘adjusted’ profit in public, the financial statements must explain it, reconcile it to IFRS figures and have it audited.

3

Better grouping, fewer vague ‘other’ lines

Items are grouped by shared features and split when the detail matters. A large ‘other’ line must be explained or broken down.

What does NOT change

How assets, liabilities, income and expenses are recognised and measured. Net profit, EPS and tax payable stay the same. IFRS 18 changes how results are shown, not what they are.

Plain-language glossary: 12 terms used in this module

Term	What it means in simple words
Operating profit	Profit from the main business, before investment returns, borrowing costs and tax
Profit before financing and income taxes	Operating profit plus investment returns: the result before the cost of funding and tax
Main business activity	What the company mainly does to earn money (making shoes, lending). It decides where some items go
Investing category	Returns from assets held alongside the business: associates, rental property, deposits, shares
Financing category	The cost of raising money: loan interest, FX on loans, interest on leases
Management-defined measure (MPM)	A company's own 'adjusted' profit used in public; must be explained and reconciled in the notes

Term	What it means in simple words
Aggregation / disaggregation	Combining similar items into one line; splitting different items when the detail matters
Going concern	The assumption that the business will keep operating for at least the next 12 months
Current liability	Due within 12 months, or the company has no right at year-end to delay payment beyond 12 months
Covenant	A condition in a loan agreement (e.g. DSCR ≥ 1.25x); a breach can make the loan payable at once
Supplier finance (UPAS, reverse factoring)	A bank pays the supplier now and the buyer repays the bank later; often a borrowing in substance
Retrospective restatement	Re-presenting last year's figures under the new rules so both years compare

Why it matters now: four numbers to remember

1 Jan 2027

IFRS 18 effective date; replaces IAS 1. Comparatives restated.

5

Categories in profit or loss: operating, investing, financing, income taxes, discontinued

2

New required subtotals: operating profit; profit before financing and income taxes

12 months

Minimum going-concern look-forward from the reporting date (IAS 1.26, carried into IAS 8)



Bangladesh: FRC issued a pre-publication notice (Ref. 236/FRC/SS/2026/586, 16 March 2026) under FRA 2015 ss.23 & 40, then adopted IFRS 18, IFRS 19, IFRS S1 and S2 as issued by notification of 24 June 2026. Listed entities must apply IFRS 18 as adopted by FRC.

IAS 1 architecture: what a complete set must contain

Complete set (IAS 1.10)

1. Statement of financial position
2. Statement of P&L and OCI
3. Statement of changes in equity
4. Statement of cash flows (IAS 7)
5. Notes incl. material accounting policies
6. Opening SFP when restating (IAS 1.40A)

General features (IAS 1.15–46)

Fair presentation: Faithful representation; departure only in 'extremely rare' cases (IAS 1.19)

Going concern: Assess ≥12 months; disclose material uncertainties (IAS 1.25–26)

Accrual basis: Except cash flow information

Materiality & aggregation: Material classes presented separately (IAS 1.29)

No offsetting: Unless a standard requires/permits (IAS 1.32)

Comparatives & consistency: Prior period info; consistent classification

What changes: IAS 1 versus IFRS 18

Area	IAS 1 (until 2026)	IFRS 18 (from 1 Jan 2027)
P&L structure	Few required line items; subtotals largely at entity choice	Five defined categories; operating profit & PBFIT required
Comparability	'Operating profit' defined differently by each company	Defined operating profit enables like-for-like analysis
Non-GAAP measures	Outside FS; regulated only by securities regulators	Management-defined performance measures (MPMs) disclosed & reconciled in a single note
Aggregation	General materiality guidance	Principles for aggregation/disaggregation; limits 'other' labels
Operating expenses	By nature or function	Nature, function or mixed; if function, disclose specified natures in notes
Cash flow link	IAS 7 choices for interest/dividends	IAS 7 amended: operating profit as indirect-method start; fewer choices

IFRS 18 applies from 2027 in every major IFRS market

Jurisdiction	Status	Applies to periods beginning
IASB (global)	IFRS 18 issued April 2024; replaces IAS 1	1 Jan 2027; early use permitted
European Union	Endorsed 13 Feb 2026 (Official Journal, 16 Feb 2026); ESMA urges timely, high-quality implementation	1 Jan 2027
United Kingdom	Endorsed by the UK Endorsement Board, 10 Dec 2025	1 Jan 2027
Australia	AASB 18 issued June 2024, mirroring IFRS 18	1 Jan 2027 (for-profit entities)
Bangladesh	FRC adopted ‘as-is’ by notification of 24 Jun 2026; listed entities must apply it	**1 Jan 2027 (as adopted by FRC)**
United States (US GAAP)	Not IFRS. FASB ASU 2024-03 adds a similar breakdown of expenses by nature in the notes	Annual periods after 15 Dec 2026

Comparatives must be restated in every jurisdiction. Source: IASB (Apr 2024); EU Commission Regulation, OJ 16 Feb 2026 and ESMA statement; UKEB (Dec 2025); AASB 18 (Jun 2024); FRC Bangladesh notification (24 Jun 2026), IAS Plus (6 Jul 2026); FASB ASU 2024-03 (Nov 2024).

The new statement of profit or loss, visually

OPERATING — Day-to-day business: sales, costs, staff, FX on trade, impairments. Also anything that fits no other section

= Operating profit

INVESTING — Returns from investments held alongside the business: associates and JVs, rental property, cash and deposits

= Profit before financing & income taxes

FINANCING — Cost of borrowed money: loan interest and FX on loans, plus the interest part of leases and long-term provisions

INCOME TAXES — Tax on profits, current and deferred (IAS 12)

DISCONTINUED OPS — Result of a business sold or closed, as one line (IFRS 5)



Critical judgement

Where an item goes depends on what the company mainly does. A bank shows interest income in OPERATING because lending is its business; a manufacturer shows it in INVESTING. This is a judgement based on facts, and a change must be disclosed.

Learn by doing: implementing IFRS 18 in 12 steps

A fully worked dummy company — from trial balance to five categories, statements, notes, MPMs and transition reconciliation

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Meet Padma Footwear PLC — our dummy company

Company profile (fictional)

- Listed manufacturer & exporter of leather and non-leather footwear; year-end 30 June
- Holds 30% of a sole-making associate (equity method)
- Owns a warehouse leased out to a third party (investment property, cost model)
- Holds listed shares (FVTPL) and fixed deposits (FDR)
- Tk and USD term loans; imports raw materials through UPAS LCs
- Leases a warehouse (IFRS 16); pays gratuity (defined benefit) and 5% WPPF
- Sold its tannery division during the year (IFRS 5 discontinued operation)

When does Padma first apply IFRS 18?

1 Jul 2026
Comparative period begins (FY2026-27)

30 Jun 2027
Last annual FS under IAS 1

1 Jul 2027
First IFRS 18 period begins (on/after 1 Jan 2027)

30 Jun 2028
First IFRS 18 FS; FY2026-27 comparatives restated

December year-ends apply from FY ending 31 Dec 2027. The IASB permits early application — check the FRC circular for Bangladesh.

Step 1 · List every income and expense item

#	Item (unclassified)	Tk m
1	Revenue from footwear sales	2,400
2	Cost of sales	(1,800)
3	Export cash incentive (IAS 20)	36
4	Selling & distribution expenses	(120)
5	Administrative expenses	(150)
6	Impairment loss – trade receivables	(8)
7	Restructuring – factory relocation	(18)
8	FX gain on export receivables	22
9	FX loss on import LC payables	(14)
10	Gain on disposal of machinery	5
11	WPPF contribution (5%)	(13)
12	Interest on FDR	15

#	Item (unclassified)	Tk m
13	Dividend from listed shares	6
14	Fair value gain on listed shares	4
15	Rental income – investment property	12
16	Depreciation – investment property	(3)
17	Share of profit of associate	10
18	Interest on term loans	(80)
19	FX loss on USD term loan	(20)
20	Interest on UPAS (bank)	(10)
21	Interest on lease liabilities	(12)
22	Net interest on gratuity (DB plan)	(6)
23	Income tax expense	(64)
24	Profit from discontinued operation (net)	15

Your task: put each of the 24 items into one of five categories. Profit for the year = Tk 207m and does not change — only its presentation does.

Step 2 · Assess the entity's main business activities

Start

What does Padma do as its main business?

Question A

Does it invest in assets as a main business? (investment entity, insurer)

If YES: income & expenses from those investments → OPERATING (not investing)

Question B

Does it provide finance to customers as a main business? (bank, NBFI, leasing)

If YES: interest on liabilities used to provide finance → OPERATING; policy choice for other financing liabilities

Answer for Padma

No to both → general model: investing & financing categories apply as standard

Evidence and change: the assessment is a matter of fact, supported e.g. by a reportable segment (IFRS 8) or by how performance is measured. Reassess when facts change; a change is applied prospectively and disclosed.

Step 3 · Classify the investing category

1 **Associates, JVs & unconsolidated subsidiaries**

Equity-method share of profit is always investing

2 **Cash and cash equivalents**

Interest income and FX on cash (for non-financial entities)

3 **Assets generating returns individually and largely independently**

Investment property, equity & debt investments, FDRs, loans given

Scope: income generated, gains/losses on remeasurement and derecognition, and incremental acquisition/disposal costs of those assets.

Padma item	Tk m	Why investing?
12 Interest on FDR	15	Return on FDR, not main business
13 Dividend – listed shares	6	Independent return on equity investment
14 FV gain – listed shares	4	Remeasurement of the same asset
15 Rental income – inv. property	12	IAS 40 asset with independent return
16 Depreciation – inv. property	(3)	Expense of the same asset → also investing
17 Share of profit – associate	10	Equity-accounted → always investing
Investing category total	**44**	

Step 4 · Classify the financing category

Type (a): money borrowed purely to fund the business
Bank loans, bonds, UPAS from banks. Everything linked to them goes to financing: interest, FX gains and losses, fair value changes, and the costs of taking out or repaying the loan.

Type (b): other liabilities that carry interest
Leases, staff gratuity (defined benefit plans), site-restoration provisions, long-credit supplier payables. Only the interest part goes to financing; everything else stays in operating.

Padma item	Tk m	Reasoning
18 Interest on term loans	(80)	Type (a) — raising finance only
19 FX loss on USD term loan	(20)	Type (a) — FX on borrowing
20 Interest on UPAS (bank)	(10)	Judgement: bank is the creditor → type (a)
21 Interest on lease liabilities	(12)	Type (b) — interest only
22 Net interest on gratuity	(6)	Type (b) — service cost stays operating
Financing category total	**(128)**	

Watch-out: interest income on cash is NOT financing for a manufacturer — it is investing (Step 3).

Step 5 · The operating category is the residual

Rules to remember

- Everything not in investing, financing, income tax or discontinued lands here
- FX differences follow the item that created them: trade receivables and payables → operating
- No 'unusual items' category: restructuring and disposal gains are operating
- Impairment of receivables (IFRS 9) is a separate line item
- Government grants such as export cash incentives → operating
- WPPF is an employee benefit → operating

Padma item	Tk m	Reasoning
1 Revenue	2,400	Main business
2 Cost of sales	(1,800)	Main business
3 Export cash incentive	36	Grant linked to exports
4 Selling & distribution	(120)	Main business
5 Administrative	(150)	Main business
6 Impairment – receivables	(8)	Trade asset; separate line
7 Restructuring	(18)	No unusual-items category
8 FX gain – export receivables	22	FX follows trade item
9 FX loss – import payables	(14)	FX follows trade item
10 Gain on machinery disposal	5	PPE used in operations
11 WPPF contribution	(13)	Employee benefit
Operating profit	**340**	**Required subtotal**

Step 6 · Income taxes and discontinued operations

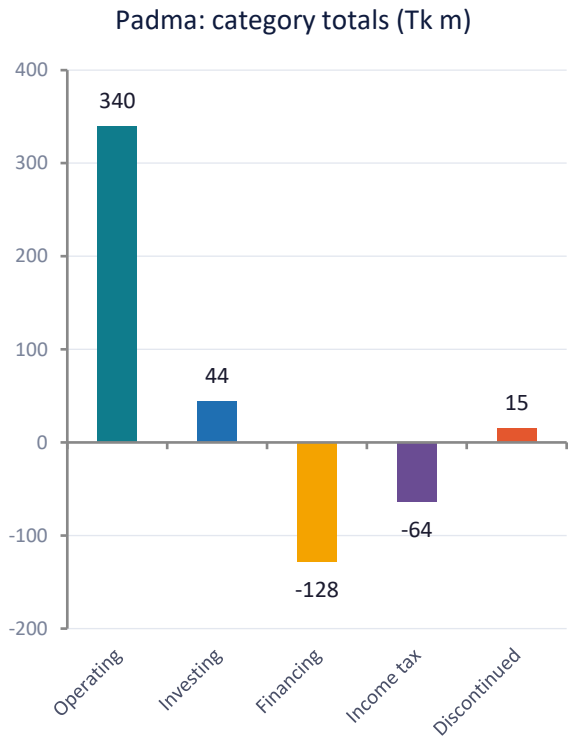
Income taxes
Item 23: Tk (64)m current + deferred tax under IAS 12.
Only taxes within IAS 12 scope belong here.

Discontinued operations
Item 24: Tannery division sold → single amount Tk 15m (IFRS 5); analysis in notes. Its cash flows are disclosed separately.



Bangladesh judgement points

- Tax deducted at source on export proceeds / minimum tax: if it is an income tax under IAS 12 → income tax category; if it is in substance a turnover levy → operating. Document the policy.
- AIT deducted on FDR interest is an advance tax asset: show gross interest Tk 15m in investing.



Step 7 · Assemble the statement of profit or loss

Category	Padma Footwear PLC — year ended 30 June 2028	Tk m
Operating	Revenue	2,400
Operating	Cost of sales	(1,800)
Operating	Other operating income (export incentive, disposal gain)	41
Operating	Selling & distribution expenses	(120)
Operating	Administrative expenses (incl. restructuring 18)	(168)
Operating	Impairment loss on trade receivables	(8)
Operating	Net FX gain on trade items	8
Operating	Contribution to WPPF	(13)
	OPERATING PROFIT	**340**
Investing	Share of profit of associate	10
Investing	Income from investments (FDR, shares, net rent)	34
	PROFIT BEFORE FINANCING AND INCOME TAXES	**384**
Financing	Interest on borrowings, UPAS, leases & gratuity	(108)
Financing	FX loss on USD borrowings	(20)
	Profit before income taxes	**256**
Income tax	Income tax expense	(64)
	Profit from continuing operations	**192**
Discontinued	Profit from discontinued operation	15
	PROFIT FOR THE YEAR	**207**

Two required subtotals

Operating profit and profit before financing & income taxes must be presented.

Function method used

So specified expenses by nature must be disclosed in a note (Step 8).

Aggregation judgement

Restructuring Tk 18m sits in admin; disclose in notes if material.

Same bottom line

Profit Tk 207m and EPS are identical to the IAS 1 version.

Step 8 · Notes: expenses by nature and disaggregation

Specified expense (function method)	Cost of sales	Selling & dist.	Admin	WPPF line	Total
Depreciation (PPE & right-of-use)	86	4	16	–	106
Amortisation (software)	–	–	4	–	4
Employee benefits (incl. WPPF)	420	30	80	13	543
Write-down of inventories	12	–	–	–	12
Impairment losses (IAS 36)	–	–	–	–	nil

Receivable impairment under IFRS 9 is not an IAS 36 impairment — it is already a separate line on the face of P&L.



Aggregate

Combine items that share characteristics (nature, function, measurement basis, risk).



Disaggregate

Split items with dissimilar characteristics when the information is material.



Avoid vague 'Other'

Use a more informative label or disclose what 'other' contains.

Step 9 · Statement of financial position: what changes

Assets (extract) — 30 June 2028	Tk m
Property, plant and equipment	1,450
Right-of-use assets	60
Investment property	90
Goodwill ← NEW required line item	**25**
Investment in associate	70
Equity investments (FVTPL)	55
Inventories	620
Trade receivables	480
Fixed deposits (> 3 months)	100
Cash and cash equivalents	140
Total assets (extract)	**3,090**

Goodwill separately

IFRS 18 adds goodwill to the minimum line items on the face of the SFP.

Classification unchanged

Current/non-current rules, incl. 2020/2022 covenant amendments, move over unchanged.

Aggregation applies

The same aggregation/disaggregation principles govern SFP lines and notes.

Link to categories

Investment property, associate & FDR income flow to the investing category in P&L.

Step 10 · Statement of cash flows under amended IAS 7

Indirect method — year ended 30 June 2028	Tk m
Operating profit ← new mandatory starting point	**340**
Depreciation & amortisation	110
Impairment & inventory write-downs	20
Disposal gain, unrealised FX & other non-cash	(11)
Working capital changes	(95)
Income tax paid	(58)
Net cash from operating activities	**306**
Purchase of PPE	(180)
Disposal proceeds (machinery 14, tannery 60)	74
Interest 15, dividends 10 & rent 12 received	37
Net cash used in investing activities	**(69)**
Interest paid (borrowings, UPAS, leases)	(102)
Repayment of term loans (90) & lease principal (18)	(108)
Dividends paid	(60)
Net cash used in financing activities	**(270)**
Net decrease (33); opening 173 → closing cash	**140**

Start from operating profit

No more choice of starting point for the indirect method.

Interest & dividends received

Investing activities for entities without a specified main business activity.

Interest & dividends paid

Financing activities — the old classification options are removed.

Discontinued operations

Cash flows of the tannery division disclosed separately (IFRS 5).

Step 11 · Management-defined performance measure note

Padma's Directors' Report and DSE disclosures highlight 'Adjusted operating profit'. It is an MPM, so it must be disclosed and reconciled in one note.

Reconciliation	Amount	Tax effect	NCI effect
Operating profit (IFRS 18 subtotal)	340	–	–
Add: restructuring — factory relocation	18	(4.5)	–
Adjusted operating profit (MPM)	**358**	**(4.5)**	**–**

Tax effect at an illustrative 25% statutory rate; the method used must be disclosed.

Not an MPM: gross profit, and 'operating profit before depreciation, amortisation and IAS 36 impairments' (EBITDA-type = Tk 450m) are exempt. Any further 'adjustment' to EBITDA makes it an MPM.

Required disclosures for each MPM

- Why it is useful and what it shows
- How it is calculated
- Reconciliation to the most comparable IFRS subtotal
- Tax and NCI effect for each reconciling item
- How the tax effect was determined
- Reasons for any change in the measure

Step 12 · Transition: reconcile the comparative year

Old IAS 1 line item (as previously reported)	Reported	Operating	Investing	Financing
Gross profit	600	600		
Selling, admin & impairment	(296)	(296)		
Old 'operating profit' (entity-defined)	**304**			
Other income (incentive 36, disposal 5, dividend 6, FV 4, net rent 9)	60	41	19	
Finance income (FDR interest)	15		15	
Finance costs (loans, UPAS, lease, gratuity)	(108)			(108)
Net FX loss (trade +8, borrowing –20)	(12)	8		(20)
Share of profit of associate	10		10	
Contribution to WPPF	(13)	(13)		
Profit before tax / category totals	**256**	**340**	**44**	**(128)**



Insight: profit before tax stays Tk 256m, but operating profit moves from Tk 304m to Tk 340m (+12%) because the export incentive, disposal gain and trade FX move in, while WPPF stays in. IFRS 18 requires this line-by-line reconciliation for the comparative period.

Critical & technical issues: classification puzzles

Issue	Category	Why / technical basis
Depreciation of investment property (cost model)	Investing	Expense of an asset that earns returns independently
Share of profit of associates & JVs	Investing	Equity-method results are always investing
Interest on cash/FDR — manufacturer vs bank	Investing	Bank: operating, because providing finance/investing is its main business
FX on export receivables / import payables	Operating	FX follows the category of the item that gave rise to it
Derivative not designated as hedge (e.g., FX forward on exports)	Operating	Category of the risk managed; operating if that needs undue cost or effort
Restructuring, litigation, one-off items	Operating	No 'unusual items' category; may be adjusted in an MPM
FX and fair value changes on a bond issued	Financing	Type (a) liability — all income and expenses
Interest on lease liability vs ROU depreciation	Financing	Interest → financing; ROU depreciation → operating
Unwinding of discount on provisions / DB net interest	Financing	Type (b) — only interest effects; service cost operating

Bangladesh-specific technical issues

WPPF (Labour Act 2006, 5%)

An employee benefit → operating. The common practice of deducting WPPF after finance costs no longer fits, because operating profit must include it.

Export cash incentive

Government grant (IAS 20) linked to exports → operating, not 'other non-operating income' as many companies show today.

Source tax on exports

Income tax category only if it is an income tax under IAS 12; a turnover levy in substance → operating. Set and disclose a policy.

UPAS / deferred LCs

Bank is the creditor → financing liability: interest & FX to financing; supplier finance disclosures under IAS 7 / IFRS 7.

Regulatory formats

Bangladesh Bank, IDRA and Schedule XI formats may conflict with IFRS 18; PIEs must follow FRC-adopted IFRS under FRA 2015 — engage regulators early.

Subsidiaries of groups

IFRS 19 (also FRC-adopted) can reduce disclosures for eligible subsidiaries without public accountability; IFRS 18 presentation still applies.

Example 1 · Going concern — Carillion plc (UK)

1 Real case: profit to collapse in 6 months

KPMG signed unqualified opinions on Carillion's 2014–2016 accounts. In July and September 2017 Carillion revealed a £1.045bn hole, mainly expected contract losses plus a £134m goodwill impairment. It entered liquidation in January 2018 with about £29m cash against roughly £7bn of liabilities.

What IAS 1.25–26 requires

Management assesses going concern for at least 12 months; if events cast significant doubt, material uncertainties must be disclosed. Deterioration after year-end can remove the basis (IAS 10.14–15).

Analytical red-flag test

Revenue recognised on long contracts vs cash collected	**Gap widening**
Net debt and pension deficit vs equity	**Leverage rising**
Dividends paid while cash flow weak	**Cash leakage**
Reliance on supplier finance & short-term lines	**Hidden debt**

Outcome: UK FRC fined KPMG a record £21m (Oct 2023), finding its 2016 going-concern work seriously deficient.

Lesson: Going-concern judgements must be evidence-based, not optimistic. Watch cash conversion, contract margins and reliance on short-term funding — and challenge them.

Example 2 · Covenant breach and current vs non-current

2 **Bangladeshi exporter, FY ending 30 June 2026**

Term loan Tk 500m (5 years). Covenant: DSCR ≥ 1.25x tested at year-end, otherwise repayable on demand. Actual DSCR at 30 June 2026 = 1.10x. The bank's waiver letter arrives on 15 August 2026, before the FS are authorised for issue.

What IAS 1.69, 72B & 74 require (2020/2022 amendments)

Classify as non-current only if, AT the reporting date, the entity has a right to defer settlement for ≥12 months. A waiver obtained AFTER year-end does not cure the breach → current. Covenants tested only after year-end don't affect classification but need disclosure (IAS 1.76ZA).

Impact on liquidity (Tk million)

Item	Before reclass	After reclass
Current assets	800	800
Current liabilities (other)	500	500
Current portion of loan	100	100
Non-current portion reclassified	–	400
Total current liabilities	600	1,000
Current ratio	**1.33x**	**0.80x**
Net current assets	**200**	**(200)**

Lesson: Negotiate waivers or covenant 'holidays' BEFORE the reporting date. A late waiver can wipe out the current ratio and trigger cross-default clauses in other facilities.

Example 3 · Supplier finance, offsetting and hidden debt

3

Real lesson from Carillion + Bangladesh UPAS LCs

Carillion used an 'early payment facility' (reverse factoring) while suppliers faced long payment terms; the amounts sat in payables, not borrowings, understating debt per UK Parliament's 2018 report. Bangladeshi firms use UPAS / deferred LCs where the bank pays the supplier and the importer repays later.

IAS 1.32 + IAS 7 / IFRS 7 amendments (May 2023)

No offsetting of assets and liabilities unless permitted. Supplier finance arrangements now require disclosure of terms, carrying amounts, amounts already paid by finance providers, ranges of payment due dates and non-cash changes (effective 1 Jan 2024).

Analyst re-statement (Tk million)

Metric	As reported	Adjusted
Trade payables	300	180
UPAS / supplier finance	in payables	120
Bank borrowings	400	520
Cash	(60)	(60)
Net debt	**340**	**460**
EBITDA	230	230
Net debt / EBITDA	**1.48x**	**2.00x**

Lesson: Substance over form: when a bank — not the supplier — is the real creditor and terms are extended, analysts treat it as debt. Disclose transparently; regulators look for it.

Example 4 · A bank: same interest, different category

4 **Dummy XYZ Bank PLC vs Padma Footwear**

XYZ Bank earns interest on loans Tk 1,200m, pays depositors Tk 750m and pays Tk 40m on Tier-2 subordinated bonds raised for capital. For Padma, FDR interest is investing; for the bank, lending and investing in securities ARE its main business.

IFRS 18: specified main business activities

Income/expenses on liabilities used to provide finance to customers (deposits) → operating. For other financing liabilities (e.g., subordinated bonds) the bank makes an accounting policy choice: all in operating, or in financing. Disclose the choice.

Policy choice for Tier-2 bond interest (Tk m)

Line item	Option A	Option B
Interest income on loans	1,200	1,200
Interest on deposits	(750)	(750)
Investment & fee income	200	200
Opex and ECL provisions	(390)	(390)
Tier-2 bond interest	(40)	in financing
Operating profit	**220**	**260**
Financing category	–	(40)
Profit before tax	**220**	**220**

Lesson: Two banks with identical results can report different operating profit (Tk 220m vs Tk 260m). Analysts must read the policy note; regulators should consider guidance alongside Bangladesh Bank formats.

Example 5 · 'Adjusted EBITDA' becomes an audited MPM

5 **Real case: WeWork's 2019 IPO filing**

WeWork's 2019 IPO prospectus promoted 'community-adjusted EBITDA', a metric excluding many ordinary operating costs. Market scepticism grew and the IPO was withdrawn in September 2019. Such alternative measures sat outside the audited financial statements.

IFRS 18: management-defined performance measures

If a subtotal of income/expenses is used in public communications to show management's view of performance, it is an MPM: disclose in one note, explain why it is useful, reconcile to the nearest IFRS subtotal, show tax and NCI effects per item. Audited.

Padma's adjusted EBITDA as an MPM (Tk m)

Reconciling item (Padma)	Amount	Tax effect
Operating profit (IFRS 18)	340	–
Add: depreciation & amortisation	110	(27.5)
Add: restructuring (factory relocation)	18	(4.5)
Adjusted EBITDA (MPM)	**468**	**(32.0)**

EBITDA itself is not an MPM when defined as operating profit + D&A only (IFRS 18 exempts it), but 'adjusted' versions are.

Lesson: Non-GAAP numbers move inside the audited FS. Boards should check every 'adjusted' metric in annual reports, investor decks and press releases for consistency.

Impact on business: beyond the accounts department

Loan covenants

Covenants referencing 'operating profit' or 'EBIT' may move. Renegotiate definitions with banks.

ERP & chart of accounts

Map every GL account to a category; tag FX by source (trade vs borrowing).

KPIs & incentives

Bonus schemes, budgets and segment targets linked to subtotals need re-basing.

Investor relations

Every 'adjusted' figure in public communications must reconcile to the audited note.

Audit & tax

MPMs are audited; tax computations starting from accounting profit stay unchanged.

Group reporting

Subsidiaries of foreign groups must align to parent IFRS 18 packs from 2027.

Impact on policy and society



Why regulators care

- Comparable operating profit lowers information cost for investors and lenders, supporting capital formation.
- Bringing non-GAAP measures inside audited FS curbs selective, promotional reporting.
- Clear liability classification protects creditors; covenant transparency gives early warning.
- For Bangladesh, consistent IFRS application supports foreign investment, XBRL roll-out and market credibility.



When presentation fails: Carillion

- A major UK government contractor delivering public services; its collapse hit employees, pensioners, small suppliers and public projects.
- Triggered the Kingman review (2018) of the UK FRC and proposals to replace it with a stronger regulator (ARGA).
- Prompted IASB action on supplier finance disclosures (2023).
- Message: presentation choices are a public-interest matter, not a formatting issue.

Court judgments, enforcement cases and key readings



Caparo Industries plc v Dickman [1990] UKHL 2

House of Lords: auditors owe a duty to the company and shareholders as a body, not to individual investors buying shares. Defines who financial statements legally serve.



FRC (UK) v KPMG — Carillion audits, Oct 2023

Record £21m fine; failure of scepticism on contract accounting and going concern; partner excluded from ICAEW for 10 years.



IASB — IFRS 18 Project Summary & Effects Analysis (Apr 2024)

Explains investor demand for comparable subtotals and MPM transparency.



IFRS Practice Statement 2 — Making Materiality Judgements (2017)

Four-step process for deciding what to present and disclose; supports IAS 1.7 materiality definition (amended 2018).



UK Parliament — 'Carillion' (HC 769, May 2018)

Joint committee report on governance, accounting and audit failures.

Bangladesh lens: legal and regulatory anchors

Companies Act 1994	s.183 books of account; s.184 FS laid before AGM; s.185 form & content (Schedule XI). Directors responsible for true & fair view.
Financial Reporting Act 2015	FRC sets standards for public interest entities (ss.23, 40); FRC adopted IFRS without modification in 2020.
FRC circular 2026	IFRS 18 & IFRS 19 adopted 'as-is'; IFRS S1/S2 extended to listed entities (IAS Plus, 6 Jul 2026). Plan for FY starting on/after 1 Jan 2027.
BSEC	Securities and Exchange Rules 1987 require listed companies to apply IFRS; CG Code requires CEO/CFO certification of FS.
Bangladesh Bank	Banks follow BRPD Circular 14 (2003) formats with known IFRS deviations; FRC has worked to narrow gaps. IFRS 18 categories for banks differ ('main business').

IFRS 18 transition roadmap for CFOs & Company Secretaries



Q4 2026

Gap analysis

Map GL to five categories; identify 'main business activities'

Q4 2026

Inventory MPMs

List every adjusted metric in annual report, DSE disclosures, decks

Q1 2027

Systems & covenants

ERP tagging; renegotiate covenant definitions with lenders

2027

Dry-run & restate

Restate comparatives; prepare IAS 1 → IFRS 18 reconciliation

Board / AC

Governance

Audit committee approval; auditor alignment; staff training

Retrospective application: comparative information is restated in the first IFRS 18 financial statements.

Test yourself: five quick questions

Q1 A covenant is breached at year-end; the waiver arrives after year-end but before authorisation. Current or non-current?

Q2 A company with a 30 June year-end: which is its first annual period under IFRS 18?

Q3 Where does depreciation of a leased-out investment property go?

Q4 Where does FX loss on a USD term loan go — and FX gain on export receivables?

Q5 Where does a manufacturer present its 5% WPPF contribution?

Quiz answers, with the reason

Q1 **Current.** The right to defer settlement must exist at the reporting date. A later waiver is a non-adjusting event to disclose (IAS 1.69 and 74; IAS 10).

Q2 **1 July 2027 to 30 June 2028.** That year's statements are the first under IFRS 18, with FY2026-27 comparatives restated (IFRS 18 transition).

Q3 **Investing.** A leased-out property earns returns on its own, so its rental income and its depreciation both sit in investing.

Q4 **Financing, then operating.** FX on a loan follows the loan (financing). FX on export receivables follows the trade item (operating).

Q5 **Operating.** WPPF is an employee benefit, so it is deducted before operating profit, not after finance costs.

Key takeaways

- IFRS 18 applies to periods beginning on/after 1 Jan 2027 — for June year-ends, FY2027-28 is the first year.
- Classify in order: main business → investing → financing → tax & discontinued → operating as the residual.
- Liability classification depends on rights existing AT the reporting date — waivers after year-end are too late.
- Supplier finance and UPAS-type arrangements need transparent disclosure; analysts treat them as debt.
- Adjusted metrics become audited MPMs — governance of public communications is now a CFO & CS joint duty.

Reference toolkit

Where common items go, a first-year disclosure checklist, and the sources behind this module

Quick reference: where common items go in profit or loss

Income or expense item	Manufacturer or trader	Bank or finance company
Revenue, cost of sales, staff costs, WPPF, restructuring	Operating	Operating
Export cash incentive (government grant, IAS 20)	Operating	Operating
FX on trade receivables and payables	Operating	Operating
Interest on cash, FDRs and loans given	Investing	**Operating (lending is the main business)**
Share of profit of associates and JVs (equity method)	Investing	Investing
Rent and depreciation of investment property	Investing	Investing
Interest and FX on bank loans, bonds, UPAS	Financing	**Deposits: operating; others: policy choice**
Interest on lease liabilities and gratuity plans	Financing	Financing
Income tax expense (IAS 12)	Income taxes	Income taxes
Profit from discontinued operations (IFRS 5)	Discontinued	Discontinued

Shaded rows: the answer depends on the entity's main business activity. Investment entities and insurers treat investment income as operating. Source: IFRS 18 (IASB, 2024).

First-year IFRS 18 checklist for preparers and auditors

	What to check	Requirement
☐	P&L shows the five categories and both required subtotals	**IFRS 18**
☐	Main business activity assessed, documented and disclosed	**IFRS 18**
☐	Every GL account mapped to a category; FX tagged by source (trade or borrowing)	**Internal control**
☐	If expenses are shown by function: depreciation, amortisation, staff costs, impairments and inventory write-downs disclosed by nature	**IFRS 18**
☐	Each MPM in one note: purpose, calculation, reconciliation, tax and NCI effects	**IFRS 18**
☐	No unexplained ‘other’ lines; items grouped or split by shared features	**IFRS 18**
☐	Goodwill presented as a separate line in the statement of financial position	**IFRS 18**
☐	Cash flows start from operating profit; interest and dividends classified as amended	**IAS 7 (amended)**
☐	Supplier finance (UPAS) terms, amounts and payment-date ranges disclosed	**IAS 7, IFRS 7**
☐	Comparatives restated, with a line-by-line reconciliation from IAS 1, also in the first interim report	**IFRS 18, IAS 34**

Use at the first IFRS 18 year-end and agree it with the auditor and audit committee in advance. Source: IFRS 18 and consequential amendments to IAS 7, IAS 8 and IAS 34 (IASB, 2024).

References and authoritative sources

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15. FASB (Nov 2024). ASU 2024-03 Disaggregation of Income Statement Expenses (US GAAP comparison).

Next module: IAS 8 & the Conceptual Framework

Accounting policies, estimates and errors — with five more analytical cases

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Educational material only; not professional advice. Illustrative figures are for teaching. Always refer to the full text of standards issued by the IASB and as adopted by FRC Bangladesh.