



Expert Arm

AUSTRALIAN FINANCIAL REPORTING GUIDE

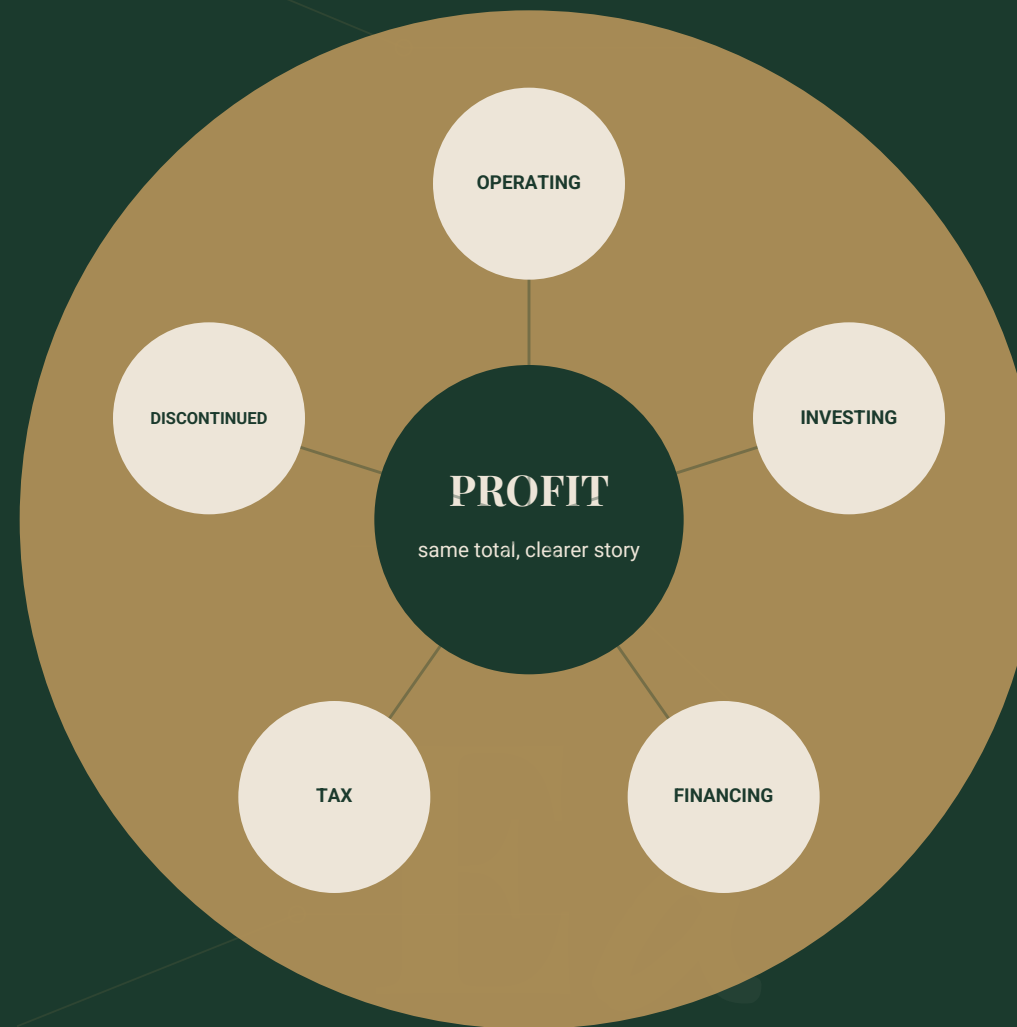
AASB 18, explained

The standard. The meaning. The reporting result.

FIRST APPLIES FROM 2027

Current as at 8 September 2026

Truly Yours, Financially.



THE QUICK ANSWER

What is AASB 18?

AASB 18 is the Australian Accounting Standard that changes how financial performance is organised and explained.

It replaces AASB 101 for presentation and disclosure, introduces a defined profit-or-loss structure and requires better explanations of management performance measures.

CHANGE 1

Presentation

Changes where income and expenses appear in the profit and loss statement.

CHANGE 2

Disclosure

Adds information about management-defined performance measures and grouped items.

CHANGE 3

Not a remeasurement

Usually changes the route to profit, not how transactions are recognised or measured.

SAME ECONOMICS. CLEARER PRESENTATION.

APPLICATION

Who applies AASB 18, and when?

The answer depends on the reporting framework, entity type and start date of the annual period.

AASB 18 APPENDIX C + AASB 2026-4

AASB 18 printed p 51; AASB 2026-4 printed pp 4-10

AASB 18 applies to general purpose financial statements prepared under Australian Accounting Standards, with different start dates for specified groups.

FOR-PROFIT TIER 1

Annual periods beginning on or after 1 January 2027, except AASB 1056 superannuation entities.

NFP + SUPER

Not-for-profit private and public sector entities, and AASB 1056 entities: annual periods beginning on or after 1 January 2028.

TIER 2

AASB 1060 alignment was still an exposure-draft proposal at 8 September 2026, not an issued requirement.

REPORTING TIERS

What does Tier 1 mean?

Tier 1 is the full Australian Accounting Standards framework. It is a reporting status, not a company-size label.

AASB 1053 PARAGRAPHS 7-15 AND APPENDIX A

Official AASB digital standard

For a for-profit private-sector entity, Tier 1 is mandatory when it has public accountability and legislation requires financial statements that comply with Australian Accounting Standards.

FULL REQUIREMENTS

Tier 1 incorporates IFRS-based requirements together with requirements specific to Australian entities.

GOVERNMENTS

Australian, State, Territory and Local Governments apply Tier 1; some government reporting also interacts with AASB 1049.

CHOICE OR DIRECTION

An eligible entity may elect Tier 1, and a regulator may require Tier 1 in particular circumstances.

TIER 1 IN PRACTICE

Does my organisation count as Tier 1?

Start with public accountability, then check the legal reporting requirement. Revenue, assets and employee numbers do not decide the tier by themselves.

DEEMED PUBLICLY ACCOUNTABLE

Disclosing entities, authorised deposit-taking institutions, registered managed investment schemes, co-operatives issuing debentures and APRA-regulated superannuation plans other than Small APRA Funds.

CHECK 1

Public market?

Debt or equity is traded in a public market, or the entity is issuing instruments for public trading.

CHECK 2

Others' assets?

Holding assets for a broad group of outsiders is one of the entity's primary businesses, not merely incidental.

CHECK 3

Legal requirement?

For a for-profit private entity, legislation must also require financial statements under Australian Accounting Standards.

YES – TIER 1

An ASX-listed company that is legally required to prepare Australian-standards financial statements.

NOT AUTOMATICALLY TIER 1

A \$200m private manufacturer with no publicly traded instruments and no fiduciary business. Size alone is not the test.

WHAT THE DATES MEAN

When does AASB 18 first apply?

The effective date is based on the beginning of the annual period, not the date the accounts are signed.

CALENDAR-YEAR FOR-PROFIT TIER 1

1 Jan – 31 Dec 2027

First AASB 18 annual report. The 2026 profit-and-loss comparison is restated.

JUNE-YEAR FOR-PROFIT TIER 1

1 Jul 2027 – 30 Jun 2028

First AASB 18 annual report. The 2026-27 comparison is restated.

JUNE-YEAR NOT-FOR-PROFIT

1 Jul 2028 – 30 Jun 2029

First mandatory year after the 1 January 2028 deferred start date.

WHO WATCHES COMPLIANCE?

The AASB issues the Standard. Directors and management apply it. Auditors test the financial report. ASIC monitors Corporations Act financial reporting and reviews selected reports through its surveillance program.

[ASIC surveillance program](#)

RULE 1 OF 7

Every income and expense goes into one of five categories

The categories create a consistent path from revenue to profit.

AASB 18 PARAGRAPHS 47-68

Official PDF: printed pp 13-16

Classify every item in operating, investing, financing, income taxes or discontinued operations.

OPERATING

The default category for items not assigned to the other four categories.

INVESTING

Returns from qualifying investments, cash and independently productive assets.

FINANCING

Specified income and expenses connected with raising finance and interest effects.

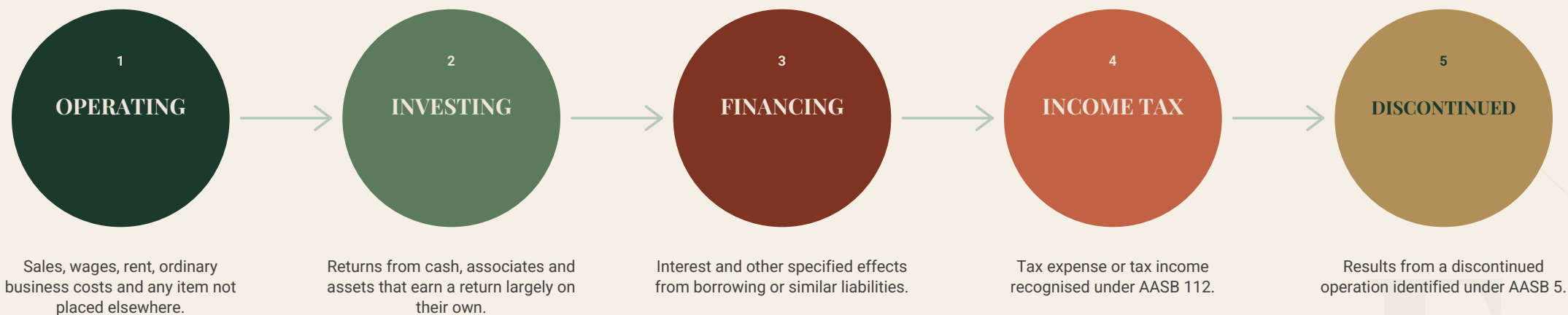
TAX + DISCONTINUED

Income tax is separate; discontinued operations follow AASB 5.

WHAT RULE 1 MEANS

Think of five labelled buckets

Start with the nature of the item, then apply the category rules. Operating is the default bucket, not a “recurring only” bucket.

**ONE-OFF DOES NOT MEAN OUTSIDE OPERATING**

A factory closure cost may be unusual, but it remains operating unless another category rule applies. Volatility, rarity or management’s label does not create a sixth bucket.

FULL WORKED EXAMPLE

Harbour Components: the route from revenue to profit

Illustrative manufacturer. Amounts are in \$000. The example isolates the presentation logic.

Revenue	12,000	OPERATING
Cost of sales	(7,200)	OPERATING
Operating expenses	(3,000)	OPERATING
Operating profit	1,800	REQUIRED SUBTOTAL
Rental income - investment property	200	INVESTING
Interest income - cash deposit	60	INVESTING
Profit before financing and income taxes	2,060	REQUIRED SUBTOTAL
Bank-loan interest	(250)	FINANCING
Unwinding of discount on provision	(50)	FINANCING
Profit before tax	1,760	ADDITIONAL SUBTOTAL
Income tax expense	(528)	INCOME TAXES
Profit	1,232	REQUIRED TOTAL

The bottom-line profit is \$1.232m. AASB 18 makes the path to that figure easier to compare.

RULE 2 OF 7

The profit and loss statement has mandatory signposts

The new subtotals reduce the freedom to define the main structure differently from one entity to another.

AASB 18 PARAGRAPHS 69-74

Official PDF: printed pp 16-17

Present operating profit or loss, profit or loss before financing and income taxes, and profit or loss.

OPERATING PROFIT

Everything in the operating category.

BEFORE FINANCING + TAX

Operating profit plus everything in the investing category, subject to a limited exception.

PROFIT

Income less expenses across all five categories.

WHAT RULE 2 MEANS

A “one-off” cost does not disappear above operating profit

The mandatory operating subtotal follows classification rules, not the label management gives an expense.

EXAMPLE - RESTRUCTURING

\$400,000 cost

A manufacturer closes one production line. The cost is unusual and management does not expect it next year.

CLASSIFICATION

Operating, unless another AASB 18 category rule applies.



THE REPORTING RESULT

Reported operating profit

\$2.0m

includes the cost

MANAGEMENT MAY ALSO EXPLAIN

Adjusted operating profit of \$2.4m, if it qualifies as an MPM and the required note is provided.

REPORT THE RULE FIRST. EXPLAIN MANAGEMENT'S VIEW SECOND.

RULE 3 OF 7

Why can the same item be classified differently?

AASB 18 asks whether investing in assets or providing finance to customers is a specified main business activity.

AASB 18 PARAGRAPHS 49-51, 55-58 AND 65-66

Official PDF: printed pp 13-16

Some returns that would normally be investing or financing are operating when earning those returns is part of the entity's main business.

INVESTING ACTIVITY

Examples can include earning returns from qualifying investment assets as a main business activity.

FINANCING CUSTOMERS

A lender may treat financing income and related expenses as operating.

DISCLOSURE

The entity discloses that it has the specified activity and explains changes in the assessment.

WHAT RULE 3 MEANS

Ask: “Is earning this return what the business does?”

The answer changes where the item appears, even when the item itself looks the same.

MANUFACTURER

Interest on spare cash

USUALLY INVESTING

Making products is the main business. The deposit earns a return independently.

BANK OR LENDER

Customer-loan interest

OPERATING

Providing finance to customers is the main business, so the return belongs in operations.

PROPERTY INVESTOR

Rental income

MAY BE OPERATING

If investing in property is a main business activity, the rental return can be operating.

Document the conclusion at group level. Evidence can include how performance is reported internally and externally.

RULE 4 OF 7

Which management measures enter the audited notes?

AASB 18 calls a qualifying subtotal a management-defined performance measure, or MPM.

AASB 18 PARAGRAPHS 117-125

Official PDF: printed pp 23-24

Identify qualifying subtotals used in public communications, then explain and reconcile every MPM in one note.

DEFINITION

A subtotal of income and expenses communicating management's view of entity-wide financial performance.

ONE NOTE

Explain usefulness and calculation; warn that similarly labelled measures may not be comparable.

RECONCILIATION

Bridge to the nearest AASB total or subtotal, including tax and non-controlling-interest effects.

CHANGES

Explain additions, removals or calculation changes and restate comparatives unless impracticable.

WHAT RULE 4 MEANS

Is this public performance measure an MPM?

The MPM definition is narrower than the everyday phrase “non-GAAP measure”.

LIKELY TO BE AN MPM

- Adjusted operating profit used in an investor presentation
- Underlying profit used in a public results announcement
- A tailored subtotal of income and expenses used to explain group performance

WHY?

It is a management-created subtotal, used publicly, to explain entity-wide performance.

NOT AN MPM BY ITSELF

- Revenue, because it is not a subtotal of income and expenses
- Free cash flow, because it is a cash-flow measure
- Gross profit and certain other subtotals listed by AASB 18
- A measure used only inside the business

IMPORTANT

EBITDA can require careful testing. The label alone does not determine the answer.

WORKED EXAMPLE

How is adjusted operating profit reconciled?

Harbour Components publicly uses adjusted operating profit to remove a restructuring cost.

AASB SUBTOTAL

Reported operating profit

\$2.0m

RECONCILING ITEM

Restructuring cost added
back

+ \$0.4m

MANAGEMENT VIEW

Adjusted operating profit

\$2.4m

The \$0.4m cost remains inside reported operating profit.

WHY USEFUL?

Management says the measure helps users compare the ongoing manufacturing result.

TAX EFFECT

If the illustrative applicable tax rate is 30%, the tax effect of the add-back is \$120,000.

NCI EFFECT

If no non-controlling interest shares the adjustment, the illustrative NCI effect is nil.

RULE 5 OF 7

Group similar items, separate materially different items

A short statement should remain a useful summary. The notes carry material detail that would otherwise be obscured.

AASB 18 PARAGRAPHS 41-43

Official PDF: printed pp 12-13

Aggregate items with shared characteristics, disaggregate items with different characteristics and use labels that faithfully describe what is included.

PRIMARY STATEMENTS

Present a useful structured summary rather than every ledger account.

NOTES

Provide material detail that users need to understand the summary.

LABELS

Avoid vague descriptions that conceal materially different items.

WHAT RULE 5 MEANS

“Other expenses” cannot become a hiding place

The question is whether the grouped label and supporting note let a user understand the material items inside it.

WEAK PRESENTATION

Other expenses

\$2.4m

No explanation. A user cannot see that the balance combines a major cyber incident, legal costs, software write-offs and small items.



USEFUL NOTE DETAIL

Cyber incident response	\$1.1m
Legal costs	\$0.6m
Software write-off	\$0.4m
Minor items	\$0.3m
TOTAL	\$2.4m

THE TOTAL IS THE SAME. THE INFORMATION IS BETTER.

RULE 6 OF 7

How should operating expenses be presented?

An entity presents expenses by nature, by function or with a mixed presentation when that gives the best structured summary.

AASB 18 PARAGRAPHS 78-85

Official PDF: printed pp 18-19

Choose the presentation that gives the most useful structured summary, considering how the business is managed, the industry and the way expenses arise.

BY NATURE

Examples: employee benefits, depreciation, advertising and raw materials.

BY FUNCTION

Examples: cost of sales, distribution and administration.

IF FUNCTION IS USED

Disclose specified nature amounts, including depreciation, amortisation and employee benefits.

WHAT RULE 6 MEANS

What must function-based reporting still disclose?

Harbour Components presents cost of sales, distribution and administration. Users still need specified nature information.

PRIMARY STATEMENT - BY FUNCTION

Cost of sales	\$7.2m
---------------	--------

Distribution expenses	\$0.8m
-----------------------	--------

Administrative expenses	\$2.2m
-------------------------	--------

This shows what the costs were used to do.

NOTES - KEY COSTS BY NATURE

Depreciation: \$900k

\$700k cost of sales | \$120k distribution | \$80k admin

Employee benefits: \$4.8m

Disclosed by nature even though functions appear on the face.

FUNCTION EXPLAINS PURPOSE. NATURE EXPLAINS WHAT THE COST IS.

RULE 7 OF 7

AASB 18 also changes parts of the cash flow statement

Consequential amendments to AASB 107 align the cash flow statement more closely with the new profit-and-loss structure.

AASB 18 APPENDIX D - AMENDMENTS TO AASB 107

Official PDF: printed pp 77-80

The indirect method starts from operating profit or loss, and ordinary entities use specified classifications for interest and dividends.

INDIRECT METHOD

Begin the reconciliation with operating profit or loss.

ORDINARY ENTITIES

Dividends paid and interest paid are financing; interest and dividends received are investing.

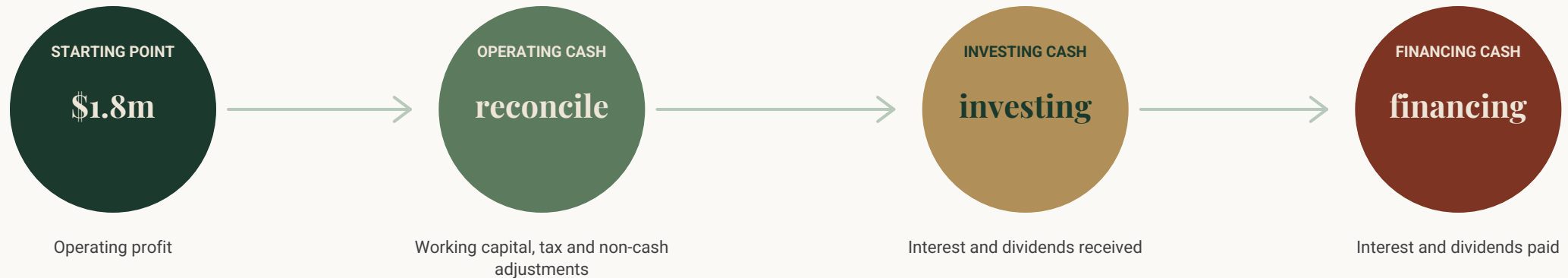
SPECIAL BUSINESSES

Entities with specified main business activities follow additional alignment rules.

WHAT RULE 7 MEANS

What changes in the cash flow statement?

Illustrative ordinary manufacturer using the indirect method.



Example: \$250k bank interest paid moves to financing cash flow; \$60k deposit interest received moves to investing cash flow.

TRANSITION

The first AASB 18 report looks backwards as well as forwards

Entities generally apply the Standard retrospectively, so comparative information must be rebuilt.

AASB 18 APPENDIX C PARAGRAPHS C2-C5

Official PDF: printed page 51

Restate the comparative period under AASB 18 and provide a line-by-line reconciliation from the old AASB 101 presentation.

ANNUAL REPORT

Reconcile each comparative profit-and-loss line from the old presentation to the AASB 18 presentation.

INTERIM REPORTS

First-year interim statements use the expected AASB 18 headings and subtotals and require comparative reconciliations.

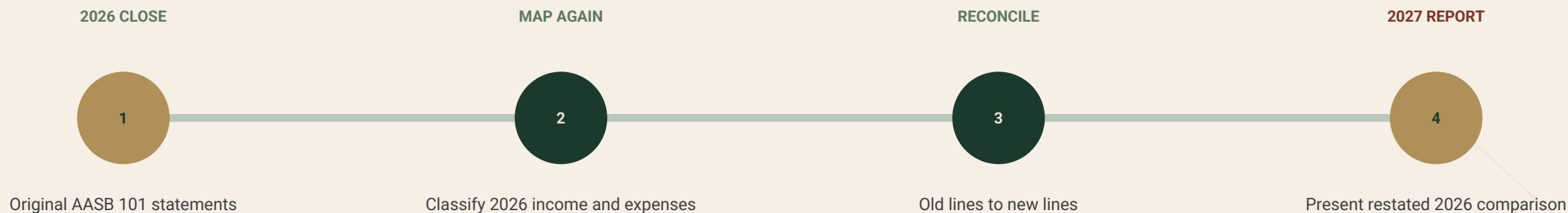
EVIDENCE

Keep mapping decisions, calculations, review evidence and change approvals.

WHAT TRANSITION MEANS

Build the old year again using the new structure

AASB 18 begins in 2027 for a calendar-year for-profit Tier 1 entity, but the project reaches into 2026 data.



CONTRACT EXAMPLE

A loan covenant says “interest cover = operating profit divided by finance costs”. AASB 18 gives operating profit a defined meaning. The entity should check the contract wording before the first report because the ratio may change even when profit does not.

REPORTING IMPACT

The accounting policy is only one part of the change

AASB 18 reaches the ledger, consolidation, investor communications, contracts and controls.

IMPACT 1

CHART OF ACCOUNTS

Add or refine attributes so income and expenses can be mapped to AASB 18 categories and note disclosures.

IMPACT 2

CONSOLIDATION

Use one group policy, while preserving evidence for different businesses and specified main activities.

IMPACT 3

PUBLIC MEASURES

Catalogue earnings releases, investor decks and management commentary to identify possible MPMs.

IMPACT 4

CONTROLS + AUDIT

Approve judgments, retain support, reconcile comparatives and test the new reporting output before year end.

IMPACT 5

COVENANTS + PAY

Review agreements and remuneration formulas that refer to operating profit, EBIT or tailored measures.

IMPACT 6

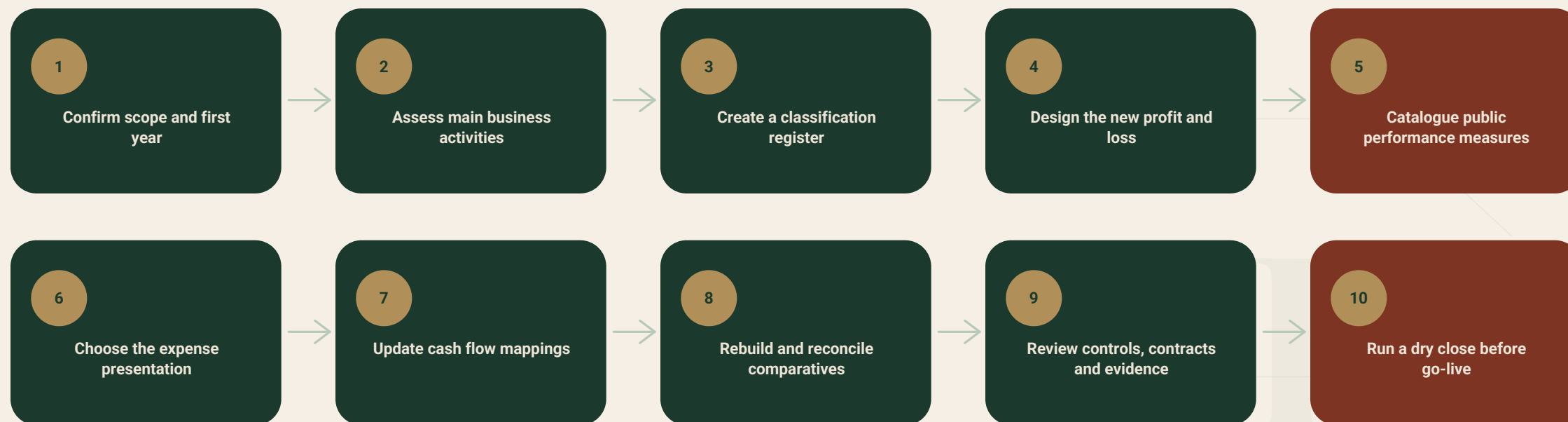
CASH FLOW

Update indirect-method starting points and classifications for interest and dividends where required.

PRACTICAL ROADMAP

Ten steps from “we know about it” to “we can report it”

Start early enough to produce a credible comparative year and an auditable decision trail.



A GOOD DRY CLOSE ANSWERS THREE QUESTIONS:

Can we classify it? Can we explain it? Can another person reproduce it?

QUICK ANSWERS — 1 OF 2

Frequently asked questions

Scope, profit and classification — with a practical example for each answer.

Q Does AASB 18 change net profit?

Usually not by itself. It mainly changes presentation and disclosure, although consequential choices may need analysis.

EXAMPLE Harbour still reports \$1.232m profit; the route to it changes.

Q Is every company covered from 2027?

No. The 2027 start applies to the relevant for-profit Tier 1 reporters. Tier 2 entities and deferred groups require separate analysis.

EXAMPLE A large private manufacturer is not automatically Tier 1 merely because of its turnover.

Q Can a one-off cost sit below operating profit?

Not merely because it is unusual. Apply the five-category rules.

EXAMPLE A factory closure cost normally remains operating.

QUICK ANSWERS — 2 OF 2

Frequently asked questions

Performance measures, comparative information and management responsibility.

Q Is EBITDA always an MPM?

No. Test the calculation, where it is used and the exclusions in AASB 18. The label alone does not decide the answer.

EXAMPLE A public adjusted EBITDA may qualify; a measure used only internally does not.

Q Must the comparison be restated?

Yes. AASB 18 is generally applied retrospectively and requires a line-by-line reconciliation from the old presentation.

EXAMPLE A 2027 calendar-year report rebuilds and reconciles its 2026 comparison.

Q Can accounting work be outsourced?

Yes, but directors and management retain responsibility for the financial report, key judgments, approvals and controls.

EXAMPLE A provider prepares mappings and reconciliations; management reviews and approves them.



PLAIN-LANGUAGE GLOSSARY — 1 OF 2

Key terms at a glance

Reporting, performance and profit-and-loss terms used throughout this guide.

TERM	MEANING
AASB	Australian Accounting Standards Board.
AASB 18	The Standard for presentation and disclosure in general purpose financial statements.
GPFS	General purpose financial statements for users who cannot demand reports tailored to their own needs.
Operating	The default profit-and-loss category after the other four categories are considered.
Investing	The category for specified returns from investments, cash and independently productive assets.
Financing	The category for specified income and expenses connected with financing liabilities.
MPM	A qualifying public management subtotal of income and expenses explaining entity-wide performance.



PLAIN-LANGUAGE GLOSSARY — 2 OF 2

Key terms at a glance

Presentation, transition and Australian reporting-tier terms.

TERM	MEANING
Aggregation	Combining items that share relevant characteristics.
Disaggregation	Separating items when different characteristics create material information.
Material	Information that could reasonably influence decisions if omitted, misstated or obscured.
Retrospective	Applying the new presentation to comparative information as though it had applied before.
Public accountability	Publicly traded instruments, or holding outsiders’ assets in a fiduciary capacity as a primary business.
Tier 1	The full Australian reporting tier, incorporating IFRS-based requirements and Australian additions.
Tier 2	The same core recognition and measurement requirements, with substantially reduced disclosures under AASB 1060.



FROM STANDARD TO REPORTING ROUTINE

How Expert Arm supports AASB 18 readiness

The work connects accounting records, management reporting and the controls that support both.

Accounts Outsourcing

Reporting mappings, reconciliations, close processes, comparative schedules and audit-ready support.

[VIEW SERVICE](#)

Business Financial Consulting

Alignment of dashboards, board reporting, performance measures and reporting definitions.

[VIEW SERVICE](#)

Internal Audit

Independent review of readiness, process design, controls, evidence and reporting risks.

[VIEW SERVICE](#)

Management retains responsibility for judgments, approvals and the financial report.

[BOOK AN INTRODUCTORY CONSULTATION](#)



PRIMARY SOURCES

Official sources, documents and author

Links open the official publisher or regulator page. Printed page references throughout this guide relate to the attached PDFs.

AUSTRALIAN ACCOUNTING STANDARDS BOARD

[AASB 18 - official digital standard](#)

[AASB 1053 - reporting tiers and public accountability](#)

[AASB 18 issue announcement](#)

[AASB 1060 alignment proposal - ED 341](#)

ATTACHED PDFs: [AASB 18 | AMENDMENTS](#) | [BASIS FOR CONCLUSIONS](#) | [EXPLANATORY STATEMENT](#) | [AASB 2026-4](#) | [IFRS PROJECT SUMMARY](#) | [IFRS EFFECTS ANALYSIS](#)

FEDERAL REGISTER + ASIC

[Registered instrument AASB 18 - F2024L00708](#)

[Corporations Act 2001](#)

[ASIC financial reporting and audit](#)

[ASIC guidance for directors](#)

IMPORTANT NOTE

This guide is general information, current as at 8 September 2026. It is not accounting, audit, legal, financial or tax advice. Requirements depend on the reporting framework, entity type and facts. Check publisher permissions before commercially re-hosting official PDFs that contain IFRS Foundation copyright material.

AUTHOR

Hassan Ahmed, CPA

Prepared and reviewed

[VIEW LINKEDIN](#)