FINANCIAL REPORTING / CORPORATE FINANCE / GOVERNANCE

Beyond the Bottom Line.

PSAK 118 and the New Language of Financial Performance

EFFECTIVE 1 JANUARY 2027



THE CENTRAL DISTINCTION

The reporting format changes. Business performance still requires interpretation - especially for valuation, financing and investor communication.

GENERAL INFORMATION ONLY. NOT TAX, LEGAL, ACCOUNTING OR OTHER PROFESSIONAL ADVICE.

THE REPORTING BASELINE

A different way to read earnings.

PSAK 118 introduces a more structured presentation of profit or loss and new disclosures designed to make performance easier to compare.

2027

EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER

1 January 2027

01 **A NEW BASELINE**

PSAK 118 replaces PSAK 201 and is based on IFRS 18. The principal changes affect profit or loss and related notes.

02 **FIVE CATEGORIES**

Income and expenses are organised into operating, investing, financing, income taxes and discontinued operations.

03 **NEW PERFORMANCE DISCLOSURES**

Defined subtotals and certain management-defined measures bring greater structure to reported performance.

Transition: 2026 comparatives are generally restated on first application. Classification also depends on the entity's main business activities.

THE NEW PROFIT OR LOSS STRUCTURE

Where the subtotals create clarity.

A simplified reading guide - illustrating the reporting logic, not a prescribed format for every entity.

FIVE CATEGORIES

1 **OPERATING**
Core and residual income / expenses

2 **INVESTING**
Returns from qualifying investments

3 **FINANCING**
Costs and effects of raising finance

4 **INCOME TAXES**
Income tax expense or income

5 **DISCONTINUED**
Results of discontinued operations

DEFINED TOTALS

01

Operating profit

Operating category

02

Profit before financing and income taxes

Operating + investing

03

Profit or loss

All five categories

IMPORTANT DISTINCTION

Reclassification changes how performance is presented. It does not, by itself, change net profit or determine taxable income.

MANAGEMENT-DEFINED PERFORMANCE

When management explains performance.

PSAK 118 brings additional discipline to certain management-defined performance measures (MPMs / UKTM) used in public communications.

THE DISCLOSURE BRIDGE

01 Identify the measure
Does it meet the standard's definition of an MPM?

02 Explain its purpose
Why does management believe the measure is useful?

03 Show the calculation
Reconcile it to the most directly comparable PSAK 118-defined subtotal.

04 Clarify the adjustments
Explain reconciling items and relevant income-tax effects.

Not every KPI is an MPM.

The classification depends on how a measure is defined and used. Specific requirements apply to qualifying measures only.

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THE CORPORATE FINANCE LENS

Same numbers. A different conversation.

A new performance presentation can influence how results are interpreted - even without changing the underlying economics.

01 VALUATION

Operating profit becomes a more clearly defined reference point, while cash flows and valuation assumptions still require separate analysis.

02 FINANCING & COVENANTS

Changes in reported subtotals can matter for discussions with lenders; contractual definitions govern covenant calculations.

03 M&A & DUE DILIGENCE

Historical earnings bridges and consistent comparative information may affect how parties analyse trends and adjusted results.

04 INVESTOR COMMUNICATION

Management-defined measures and their reconciliation can improve the transparency of the company's performance narrative.

SECTOR-SPECIFIC JUDGEMENT

Banks, insurers and investment-led entities require careful assessment of their main business activities; classifications are not universal.

CLOSING PERSPECTIVE

Reporting changes. Governance responds.

The value of PSAK 118 is not simply a different profit or loss format. It is a clearer language for interpreting performance and communicating it to capital providers.

FOUR QUESTIONS FOR FINANCE LEADERS

01

2026 COMPARATIVES

Can prior-year figures be mapped and reconciled to the new categories?

02

REPORTING SYSTEMS

Are chart-of-accounts, controls and reporting packages ready?

03

PERFORMANCE METRICS

Which externally communicated measures qualify for MPM disclosures?

04

BUSINESS INTERPRETATION

How will changes be explained to boards, lenders and investors?

Accounting presentation is distinct from tax treatment. Any tax consequences require separate consideration under applicable tax law.

SOURCES: DSAK IAI (28 MAY 2025) | IFRS FOUNDATION - IFRS 18

REFERENCE: IKPI EDUCATIONAL INFOGRAPHIC.

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