IFRS 18 and Oracle Cloud EPM

Managing the Parallel Run Phase

Purpose statement

This document provides an overview of the IFRS 18 reporting capabilities available in Oracle Cloud EPM, with a particular focus on the parallel run phase. It is intended to help organizations understand the key functional enhancements, assess the business and compliance benefits of adopting IFRS 18, and plan the implementation of the related EPM configurations and reporting structures.

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Introduction

IFRS 18 replaces IAS 1 and refocuses the statement of profit or loss: it requires entities to classify income/expenses into a small set of prescribed categories (five categories), show new required subtotals (including a defined *operating profit*), and add stronger rules on aggregation/disaggregation and on disclosure of management-defined performance measures (MPMs). It is retrospective and requires comparatives (effective for annual periods beginning on or after 1 Jan 2027 —comparatives for 2026 will be required).

Impact on ERP (Transactional Systems)

- **Nature of change:** Minimal in the short term. IFRS 18 does not alter recognition or measurement, so underlying journal postings remain valid.

- **What's affected:** Chart of accounts, account tagging, and posting attributes—mainly to enable mapping to the new IFRS 18 categories and subtotals.

- **When to change:** In later phases, once reporting design is validated. Early ERP redesign is risky and unnecessary during the parallel-run phase.

Impact on EPM (Group Reporting)

- **Primary impact area.** IFRS 18 is fundamentally a presentation change, so most transformation occurs in the EPM layer, where trial balances are consolidated and reclassified.

- **Required updates:**

  o Build new **P&L structures** reflecting IFRS 18 categories and subtotals.

  o Implement **mapping and transformation rules** from legacy accounts to the new structure.

  o Add **MPM calculations** and **disclosure templates**.

  o Support **comparative restatements** and maintain reconciliation between old and new formats.

Recommended Phasing

Phase 1 — Parallel Run (Initial implementation)

- Keep existing ERP setup; extract balances to EPM.

- Configure IFRS 18 mapping, categories, and subtotals in EPM.

- Run parallel reporting (legacy vs. IFRS 18 view) and validate reconciliations.

- Develop disclosure and MPM templates within EPM.

Phase 2 — ERP Optimization (Later phase)

- Adjust chart of accounts or introduce tagging to feed IFRS 18 categories directly.

- Refine governance and automate classifications.

- Retire manual mapping once stable.

This paper focuses on how Oracle Cloud EPM can help companies address the new IFRS 18 requirements—especially in the initial phase—through its native functionalities and flexibility. The illustrative examples discussed are drawn from the IFRS Reporting Sample Kit, a library of working examples and best practices available to customers and implementation partners to accelerate adoption. This represents one possible approach; alternative solutions may also be considered.

The Kit guides the business user through the entire IFRS 18 process, including the following steps (as shown in the springboard):

- **Old/New CoA Comparison:** Review and compare the chart of accounts before and after IFRS 18 adoption.

- **Data Integration:** Map transactional data under the IFRS 18 classification regime.

- **Data Validation:** Ensure proper use of categories (e.g., the 'Other' category should be used sparingly and only for income and expenses that do not fit the specified categories).

- **Comparative Reporting and MPM Disclosure:** Generate comparative reports and disclose management-defined performance measures.
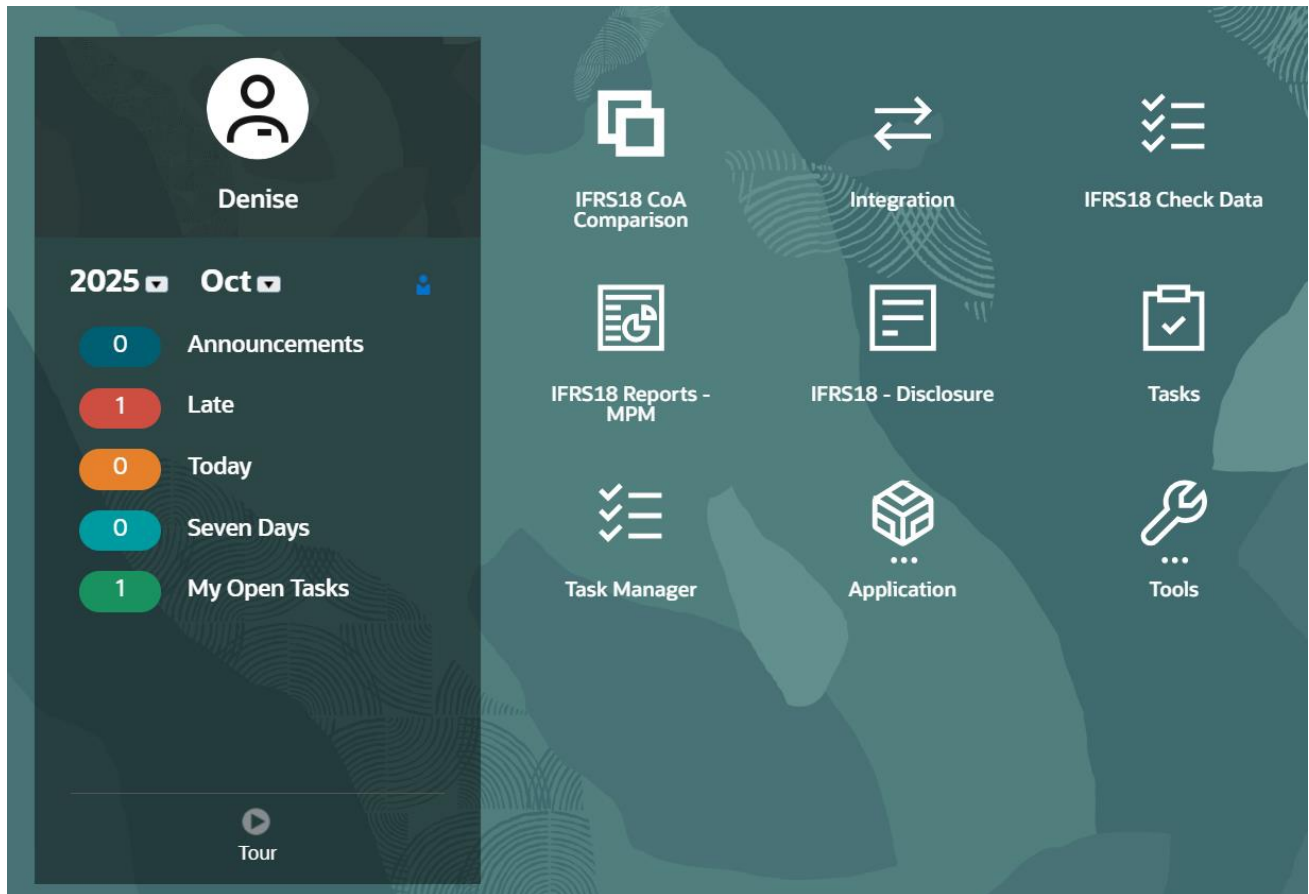
Pre- and Post-IFRS 18 Chart of Accounts Comparison

The first step is to create a new account hierarchy that reflects the classifications required by IFRS 18. Oracle Financial Consolidation and Close provides the capability to define alternative hierarchies using the same underlying leaf accounts as the existing structure.

The "IFRS18 Hierarchy Comparison" form provides an overview of both hierarchies: the one used before IFRS 18 adoption and the one implemented afterward. This comparative view not only enables verification of subtotals but also, through specialized conditional formatting, provides an immediate visual representation of the reclassifications performed.

Data Integration

The approach adopted in the Sample Kit is to use the same data extracted from the ERP system twice, loading both the pre- and post-IFRS 18 scenarios simultaneously. With a single run—which can also be scheduled at a specific date and time—the user triggers a pipeline (a defined sequence of automated steps) that reads the ERP data and maps it to the two different scenarios. Using two scenarios ensures consistent comparability of the data.

For the first scenario, the mapping is identical to that used before IFRS 18 adoption. For the second scenario, the mapping can leverage specific fields or information from the ERP system to **route** the original transactions to the new detailed accounts organized into the subtotals required by IFRS 18. Subsequently, the consolidation rules are automatically applied in both scenarios.
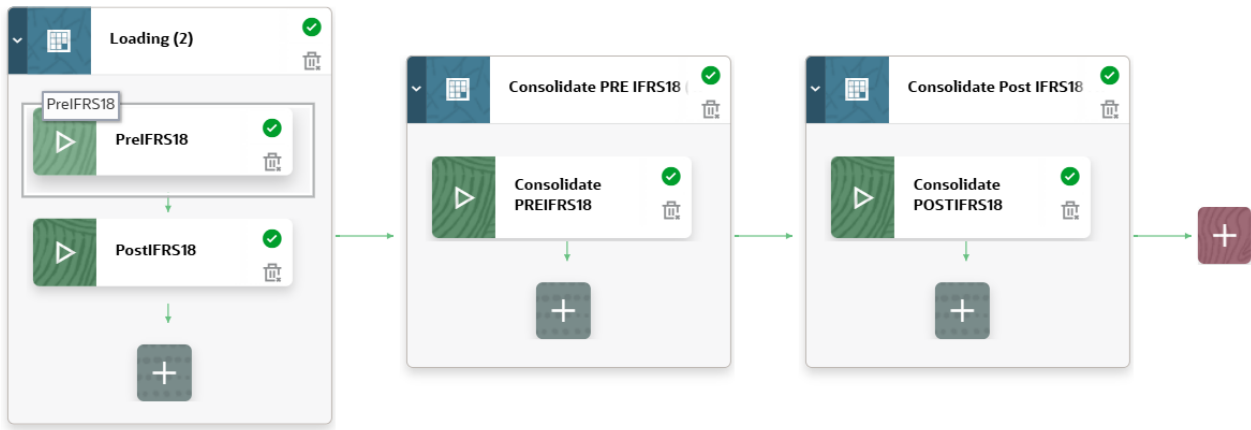
Under IFRS 18, assets must be categorized, typically as **operating** or **investing**, to provide clearer insight into how resources are used. Companies can leverage existing ERP attributes—such as account segments, asset categories, or cost centers —to automate much of this classification, enabling consistent mapping to IFRS 18 categories.

However, the final categorization is often managed in EPM to maintain flexibility. By using **supplemental data manager**, companies using Oracle Cloud EPM can retain additional details and attributes, allowing them to verify, adjust, or override category assignments if needed, while ensuring auditability and comparability across reporting periods.

With respect to the total balance of a given account (for example, depreciation), the user can enter all of its individual components, along with qualitative information (such as how the account was mapped before and after the adoption of IFRS 18), select the appropriate classification — Operating, Investing, or Financing — from the drop-down menu, and finally enter the amount.

The system will then aggregate the items based on the selected category and map the resulting data to the corresponding account within the Profit and Loss hierarchy.

Data validation

As part of the governance process, it is essential to perform a **materiality check** once the data has been loaded into the system. Under IFRS 18, residual income statement items (for example, "Revenue from Other Services") should not exceed a materiality threshold, which must be disclosed in the notes to the financial statements. The Sample Kit comprises a control dashboard that highlights any exceedances of this user-defined threshold. If a residual item exceeds the limit, the check is marked in red and the approval process is blocked; otherwise, the check remains green, and the process can proceed.
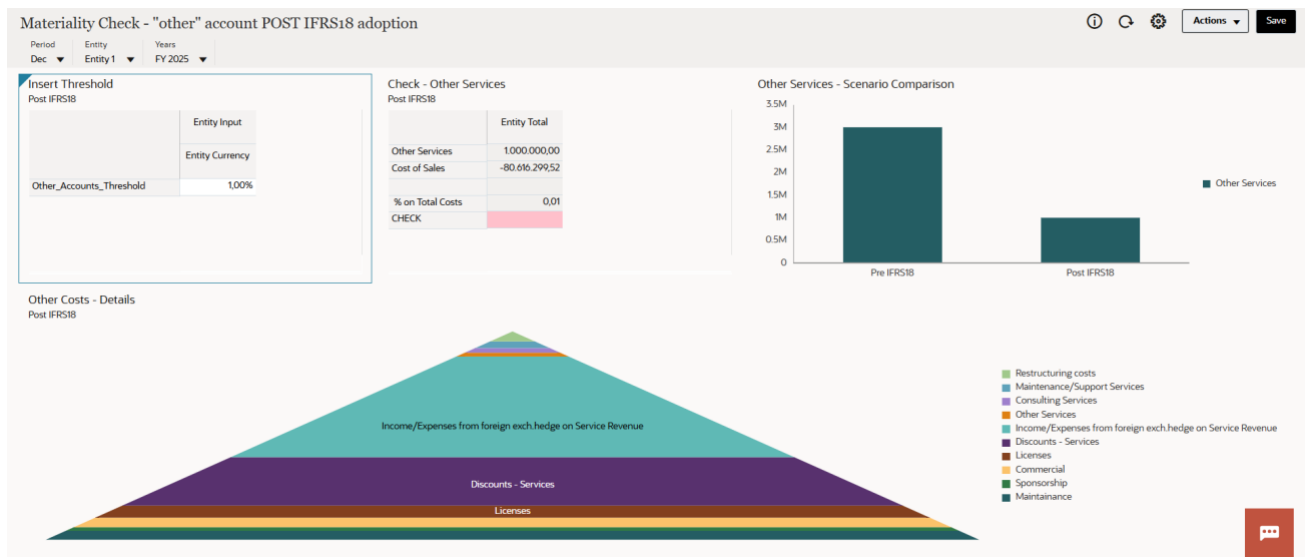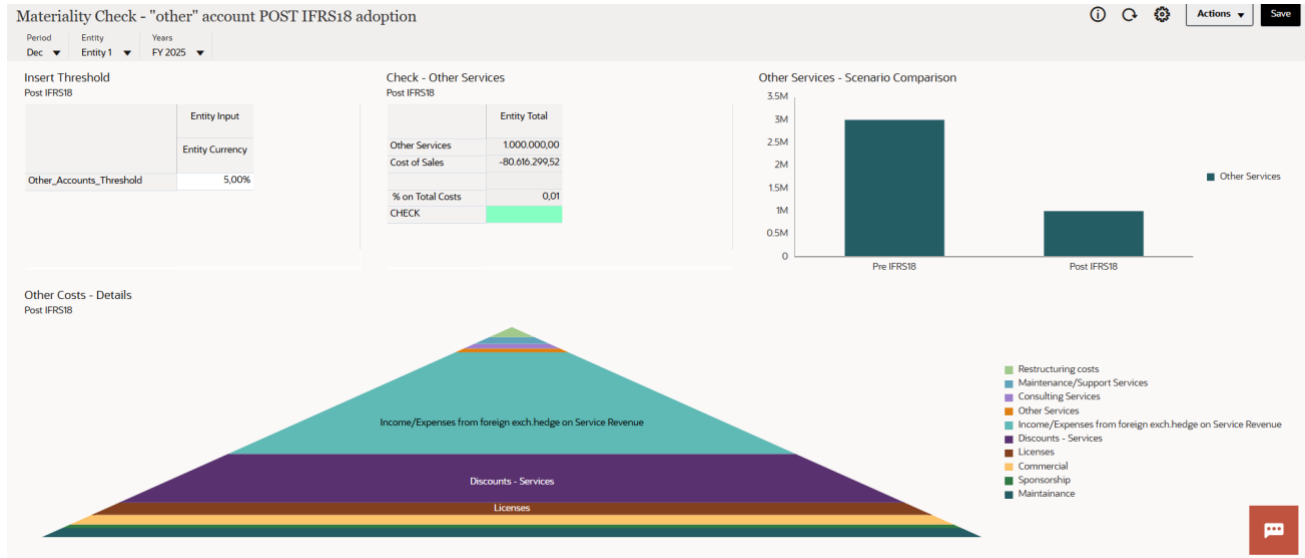
Comparative Reporting and MPM Disclosure

Accurate and structured financial reporting is a cornerstone of compliance with IFRS 18, as it ensures transparency, comparability, and reliability in the presentation of an entity's financial performance. Under IFRS 18, organizations are required not only to report standard financial statements but also to provide detailed disclosures that clearly communicate the classification of income and expenses, the reconciliation of management-defined performance measures, and the composition of subtotals in the statement of profit or loss.

The two scenarios—one representing financial data prior to IFRS 18 adoption and the other reflecting data after adoption—ensure complete comparability, as required during the IFRS 18 transition year. The report included in the Sample Kit presents this information in detail, with reclassifications clearly displayed in separate columns.

By right-clicking, a new detailed report can be accessed, showing the amounts both prior to and following the IFRS 18 reclassification.

IFRS 18 also requires a detailed presentation of the composition of declared Management-Defined Performance Measures (MPMs). In the Sample Kit, the calculation of these measures is fully automated, as they are directly derived from the account hierarchy. This is achieved through appropriate mathematical operators defined within the hierarchy. These measures are continuously and automatically calculated and reconciled. Users can navigate them by drilling down through each component to the underlying base elements, ensuring full transparency.

In addition, **Narrative Reporting** can be leveraged to provide all the narrative required to explain how MPMs have been calculated and reconciled. This allows companies to document assumptions, methodologies, and any adjustments in a structured, auditable manner, linking the narrative directly to the underlying data. By combining automated calculation in EPM with narrative explanations, organizations can meet IFRS 18 disclosure requirements efficiently while maintaining clarity and traceability for auditors and stakeholders.

By requiring reconciliation to IFRS-defined subtotals, IFRS 18 also strengthens the reliability of adjusted metrics and mitigates the risk of selective or inconsistent presentation. Overall, this framework contributes to more meaningful and informative financial reporting, aligning internal performance indicators with externally reported financial information.

The following table presents the detailed composition of Adjusted EBITDA, Adjusted EBIT and Adjusted Operating Profit, showing the reconciliation to the most directly comparable IFRS measures.

		Post IFRS18 Total Consolidated Results
EBITDA	(+)	17,327
EBIT	(+)	19,327
Gross Profit	(+)	35,813
Operating Expenses	(-)	16,486
Amortizations - Investment Property Building	(-)	3,000
Gains/Losses from disposal of Investment Property	(+)	1,000
Non-recurring income	(-)	(161)
Gain on disposal of property, plant and equipment	(+)	408
Restructuring costs	(+)	569
EBITDA Adjusted		**17,165**

The Role of AI in Supporting IFRS 18 Compliance

AI can play a valuable role in helping organizations handle the new IFRS 18 requirements within Oracle Cloud EPM. Through embedded data science and anomaly-detection capabilities, Insights can automatically analyse financial data to uncover patterns, trends, and outliers. For example, the system can detect period-over-period variations in residual items labelled as "Other," which IFRS 18 discourages except in limited circumstances. These exceptions can be automatically highlighted and accompanied by contextual narrative to support downstream explanations and audit readiness.

In addition, AI can help identify which entities, business units, or accounts contribute most to a specific residual category, guiding users toward targeted remediation. This accelerates root-cause analysis and supports governance by enabling earlier adjustments, improved classification practices, and more consistent application of IFRS 18 principles across the group.

Conclusions

Oracle Cloud EPM provides a comprehensive and efficient platform for achieving IFRS 18 compliance. As demonstrated through the examples included in the IFRS 18 Sample Kit, the solution supports companies during the transition and parallel-run phases by enabling the creation of alternate account hierarchies and the simultaneous loading of pre- and post-IFRS 18 scenarios through appropriate mappings. This ensures full comparability throughout the transition year. Transactional details can be loaded as Supplemental Data, allowing category assignments to be reviewed or overridden when needed, while automated materiality checks monitor residual items (such as "Other") and can block approval workflows if thresholds are exceeded. Management-Defined Performance Measures (MPMs) are automatically calculated and reconciled, and detailed, integrated reporting is available out of the box.

By leveraging Oracle Cloud EPM and the IFRS 18 Sample Kit—or equivalent templates provided by partners—organizations can streamline the compliance process, reduce implementation time, strengthen governance and data integrity, and gain immediate access to clear, actionable financial insights in line with IFRS 18 disclosure requirements.

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