IFRS 18 Implementation in Brazilian Enterprises: Challenges and Opportunities

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Received: April 12, 2024 Accepted: May 13, 2024 Online Published: June 19, 2024

doi:10.5430/ijba.v15n2p102 URL: https://doi.org/10.5430/ijba.v15n2p102

Abstract

This article delves into the challenges and opportunities faced by Brazilian enterprises in adopting International Financial Reporting Standards (IFRS) 18. It examines four key areas: (i) the main proposed changes of the new standards, (ii) challenges and opportunities, (iii) legal obstacles, and (iv) feasibility of timely implementation. The discussion on challenges and opportunities underscores the need for companies to align their financial reporting practices with international standards while grappling with complexities in financial statement preparation and disclosure. Legal obstacles, particularly conflicts with the Lei das S.A. (Brazilian Corporation Law), pose significant hurdles to implementation, necessitating legislative amendments or regulatory exemptions to reconcile conflicting requirements. Feasibility of timely implementation is hindered by the prevalence of outsourced accountants in Brazil and the need to coordinate with multiple external parties. Proactive measures such as early planning and collaboration with legal experts are crucial for mitigating risks and ensuring timely compliance. Through a comprehensive exploration of these topics, this article provides valuable insights into the complexities and implications of adopting IFRS 18 in the Brazilian context, offering guidance for companies navigating the transition to international accounting standards.

Keywords: IFRS 18, financial statements, Brazilian enterprises

1. Introduction

In April 2024, the International Accounting Standards Board (IASB) finalized its efforts to enhance the clarity and comparability of information conveyed in financial statements. The newly introduced Standard, ‘IFRS 18 Presentation and Disclosure in Financial Statements’, aims to provide investors with increased transparency and consistency regarding companies' financial performance, ultimately empowering more informed investment decisions. Its impact will extend to all companies adhering to IFRS Accounting Standards (IFRS, 2024; PwC, 2024; Deloitte, 2024).

The IFRS 18 brings forth three sets of fresh requirements aimed at enhancing companies' disclosure of financial performance and providing investors with a more robust foundation for analysing and comparing enterprises. The objective of the new standard is to enhance the clarity of information conveyed in financial statements, particularly emphasizing improvements to the income statement and accompanying explanatory notes (IFRS, 2024; PwC, 2024; Deloitte, 2024).

Virtually every company utilizing IFRS standards in crafting their financial statements is impacted by IFRS 18. This is because IFRS 18 sets forth directives governing the presentation and disclosure of financial statements, thereby affecting all entities adhering to these standards (Grant Thornton, 2024).

The standard supplants ‘IAS 1 Presentation of Financial Statements’, which in Brazil corresponds to ‘CPC 26 (R1) – Presentation of Financial Statements’, and encompasses the following: (a) novel presentation and disclosure prerequisites within financial statements; (b) provisions carried forward from IAS 1 with minimal alterations in wording (these adjustments are not aimed at altering any requirements) (IFRS, 2024; CPC, 2024).

The introduction of the new standard also prompts modifications to other pronouncements, including (IFRS, 2024; CPC, 2024):

i. IAS 7 (CPC 03) - Cash Flow Statement;

ii. IFRS 12 (CPC 45) - Disclosures of Interests in Other Entities;

iii. IAS 33 (CPC 41) - Earnings per Share;

iv. IAS 34 (CPC 21) - Intermediate Statement;

v. IAS 8 (CPC 23) - Accounting Policies, Changes in Estimates and Rectification of Errors; and

vi. IFRS 7 (CPC 40) - Financial instruments – Disclosure.

The alterations introduced by the Standard are restricted solely to the cash flow statement (IFRS, 2024).

IFRS 18 takes effect for annual reporting periods commencing on or after 1 January 2027, with the option for companies to adopt it sooner if desired. The impact of changes to companies' reporting induced by IFRS 18 will hinge on their existing reporting methodologies and IT infrastructure (IFRS, 2024; PwC, 2024; Deloitte, 2024).

In Brazil, however, a challenge arises: despite the favourable reception within the local market, the country's legal framework may lead to potential legal conflicts with the standard. The issue stems from the Brazilian Corporation Law, established in 1976, which dictates how companies must disclose their results and certain profit subtotals, often conflicting with the stipulations outlined in this and other accounting standards (Valor, 2024).

2. Research Problem and Objectives

The latest standard by the International Accounting Standards Board (IASB) marks a significant milestone in financial reporting, representing the most substantial alteration to companies' financial performance presentation in over two decades (IFRS, 2024). This new standard introduces three pivotal sets of requirements aimed at providing investors with a more robust foundation for analysing and comparing enterprises. Firstly, it enhances the comparability of income statements. Secondly, it introduces new requirements to boost transparency regarding company-specific performance measures linked to the income statement, termed as management-defined performance measures by IASB. Thirdly, it offers improved guidance to enhance the utility of information grouping within financial statements (IFRS, 2024). Consequently, IFRS 18 supersedes IAS 1, although many requirements remain unchanged. Companies must adhere to these new standards starting from 2027, with no restrictions on early adoption.

In light of the aforementioned factors, this study endeavours to explore the ramifications for Brazilian enterprises in adopting the new standards outlined in IFRS 18. To achieve this objective, the research proposes a generic analysis encompassing the following aspects: (i) identifying the key alterations from IAS 1 to IFRS 18, (ii) assessing the challenges and opportunities confronting Brazilian companies during the implementation process, (iii) examining the legal obstacles within Brazil that may hinder the implementation of the new requirements, and (iv) evaluating the feasibility of Brazilian entities adopting the new regulations before 2027.

3. Theoretical Review

3.1 Analysis of Financial Statements

Financial analysis is an accounting method employed to assess a company's performance and viability. Its aim is to structure accounting data to facilitate and enhance the decision-making process, thereby meeting the requirements of users by furnishing tailored information to fulfil the entities' needs. This analysis of companies is conducted through financial statements, which serve to appraise the entity's current economic and financial standing, its progression, and the factors driving such changes. Furthermore, it enables the historical review of the past, analysis of the present, and forecasting of future trends (Silva, 2011; Graham, Zweig & Buffet, 2006).

Gitman and Zutter (2019) emphasize the critical role of financial statements in providing a comprehensive view of a company's financial health and performance. The authors highlight that financial statements are essential tools for stakeholders, including investors, creditors, and management, to assess the profitability, liquidity, and solvency of a business. Moreover, underscores the importance of financial statements in facilitating decision-making processes, such as investment decisions, credit assessments, and strategic planning. Overall, underscores that financial statements serve as the cornerstone of financial analysis and play a pivotal role in guiding various stakeholders in evaluating the financial position and performance of a company (Gitman & Zutter, 2019).

3.1.1 Accounting Statements

In Brazil, as outlined in Article 176 of Law No. 6,404/76, there exist four principal financial statements, namely: (i) the company's balance sheet, which offers a condensed overview of an organization's financial position as of a specific date; (ii) the income statement for the year (P&L), which furnishes a financial synopsis of the company's operational performance throughout a designated period; (iii) the cash flow statement, which encapsulates cash

inflows and outflows during a defined timeframe; and (iv) the statement of accumulated profits or losses, enabling the tracking of alterations in net profit (such as dividend distribution or share capital augmentation) or accumulated losses from the beginning to the end of the fiscal year (Brasil, 1976).

Standardized accounting statements enhance comparability and transparency in financial reporting. They enable stakeholders to easily analyse and compare the financial performance of different companies within the same industry or across industries. This comparability is crucial for investors, creditors, and other stakeholders in making informed decisions about resource allocation, investment opportunities, and risk assessment. Moreover, standardized accounting statements promote consistency and reliability in financial reporting, reducing the likelihood of manipulation or misinterpretation of financial information. Overall, the standardization of accounting statements plays a vital role in fostering trust and confidence in financial markets, ultimately contributing to economic stability and growth (Gitman & Zutter, 2019).

Given the objectives of this study, the focus will primarily be directed towards examining the theory surrounding the income statement, commonly referred to as the Profit or Loss Statement (P&L). This emphasis is due to the fact that IFRS 18 intends to alter both the structure and content of this particular statement, while not providing new directives regarding the other financial statements (IFRS, 2024; PwC, 2024; Deloitte, 2024).

3.1.2 Income Statement (P&L)

The income statement offers a comprehensive financial overview of a company's operational performance within a designated timeframe (Silva, 2011). While traditionally prepared annually for reporting requirements, these statements are typically computed on a monthly basis by management and quarterly for tax purposes (Schilit, Perler & Engelhart, 2018). Beyond their regulatory obligations, income statements serve as critical tools for assessing a company's profitability, revenue generation, and expense management. Monthly computations allow for closer monitoring of financial performance, enabling timely adjustments to strategies and resource allocation. Quarterly assessments for tax purposes ensure compliance with regulatory requirements and facilitate accurate reporting to tax authorities. Thus, the frequency of income statement preparation serves multifaceted purposes, encompassing both regulatory adherence and strategic financial management (Gitman & Zutter, 2019).

The Profit or Loss Statement (P&L) stands as one of the fundamental sources of data to fuel financial indicators. Essentially, this instrument provides a financial overview of the company's operational performance over a specified period, which may range from month to month or year to year, contingent upon the company's requirements and the extent of analysis (Iud ćibus, 2015; Ittelson, 2009).

Presently, and until the adoption of IFRS 18, the prevailing guidelines for constructing a Profit & Loss Statement (P&L) adhere to the IAS 1 standards, which are mirrored in Brazil by CPC 26 (R1). The table below, Table 1, illustrates the format of the P&L Statement utilized in Brazil in accordance with the current stipulations.

Table 1. Basic composition of the P&L according to CPC26 (R1)

Line item	***CU***
Gross Revenue	**X**
Sales deduction	(X)
Net Revenue	**X**
Cost of Goods Sold/ Cost of Product Sold/ Cost of Service Provided	(X)
Gross Profit	**X**
Sales Expenses	(X)
Administrative Expenses	(X)
Other Operating Expenses	(X)
Other Operating Revenue	X
Equity Income Result	X
Result before Financial Expenses/Revenues	**X**
Financial Expenses	(X)

Financial Revenues	X
Result before Taxes	**X**
Income Tax	(X)
Net Result from Continuing Operations	**X**
Result of Discontinued Operations Net of Taxes	X
Net Result for the Period	**X**

Source: CPC 26 (R1), 2011.

The P&L model depicted in the Table 1 above illustrates the nomenclature employed in each line, detailing the accounts to which the respective amounts correspond. The columns to the right should expand or contract depending on the duration of the period under examination. For instance, if monthly data analysis is necessary for a company's Income Statement, the document must encompass at least 13 columns, with one designated for account descriptions and the remainder to depict data for each month of the year. Parentheses are utilized to elucidate the movement associated with each account in relation to the represented amount. Specifically, when the impact results in a decrease in the amount, the symbol (-) is employed, whereas an increase is denoted by the symbol (+) (NEVES, 2022).

According to Iudícibus (2015), for better understanding, the elements that make up a P&L Statement must be understood as follows:

a) Gross Sales Revenue: total receipts to the company (sales) without any deductions.

b) Sales Deductions: these are direct taxes levied on goods (ISS, ICMS, PIS, COFINS, IPI, among others), discounts granted and other rebates on sales.

c) Net Sales Revenue: is the balance of gross sales revenue minus sales deductions.

d) Variable Costs: it can be Cost of Products Sold, in the case of an industry, or Cost of Goods Sales, in the case of a business, or Cost of Services Provided.

e) Gross Operating Result: is the balance of net sales revenue minus variable costs.

f) Fixed Costs: are all expenses and expenses that are not variable costs.

g) Net Operating Result: is the balance of gross operating result minus fixed costs.

h) Other Expenses: these are expenses that are not characterized as fixed costs. In general, independent accountants and auditors do not like to see balances in this account, as there is a possibility of correctly allocating any expenses.

i) Other Income: non-operating income that must be accounted for, such as the sale of a company asset.

j) Result Before Income Tax/Social Contribution: is the result before deduction of indirect taxes.

k) Income Tax/Social Contribution (IR/CS): Indirect taxes levied on company profits. In Brazil, these are the Corporate Income Tax (IRPJ) and the Social Contribution on Net Profit (CSLL).

l) Net Result for the Period: is the result after paying all taxes (direct and indirect), variable and fixed costs.

3.2 The IFRS 18 Key Points

The IASB has released IFRS 18, a new standard addressing presentation and disclosure in financial statements, primarily focusing on updates to the statement of profit or loss. The key innovations introduced in IFRS 18 encompass (IFRS, 2024; PwC, 2024):

- Revamping the structure of the statement of Profit or Loss (P&L).
- Mandating disclosures in the financial statements for specific profit or loss performance measures reported outside an entity's financial statements (referred to as management-defined performance measures).
- Enhancing principles on aggregation and disaggregation, applicable to both primary financial statements and accompanying notes.

IFRS 18 will supplant IAS 1, retaining many of its existing principles with limited modifications. While IFRS 18 will not affect the recognition or measurement of items in the financial statements, it may alter what an entity reports as its 'Operating Profit or Loss' (IFRS, 2024; PwC 2024).

The standard becomes effective for reporting periods starting on or after 1 January 2027, with applicability extending to comparative information. Implementation of the presentation and disclosure changes stipulated by IFRS 18 may necessitate system and process adaptations for numerous entities, underscoring the importance of proactive readiness efforts (PwC, 2024).

3.3 Key Alterations Introduced by IFRS 18

The primary modification in the new standard revolves around the structure for presenting the income statement, featuring five novel categories, including taxes before profit or loss (IFRS, 2024). The new requirements introduced in IFRS 18 aim to foster comparability in the financial performance of analogous entities, particularly concerning the definition of 'operating profit or loss'. Additionally, the mandated disclosures for certain management-defined performance measures will augment transparency (PwC, 2024).

3.3.1 Structure of the Statement of Profit or Loss (P&L)

IFRS 18 implements a structured framework for the statement of profit or loss. This structured approach aims to minimize variation in the reporting of the statement of profit and loss, thereby facilitating comprehension for users of financial statements and enabling more effective comparisons between companies. The framework comprises categories and mandatory subtotals:

I. Categories: Items within the statement of profit or loss must be categorized into one of five categories: operating, investing, financing, income taxes, and discontinued operations. IFRS 18 offers general guidelines for entities to allocate items among these categories, with the three primary categories being:

i. Operating - not defined by IFRS 18, this is the ‘residual’ category for income and expenses that are not classified in other categories. This will typically include the entity’s results from its main business activities.

ii. Investing - This category typically includes: (a) results of associates and joint ventures; (b) results of cash and cash equivalent; and (c) assets that generates a return individually and largely independently of other resources.

iii. Financing - this category includes: (a) all income and expenses from liabilities that involve only the raising of finance (such as typical bank borrowings); and (b) interest expense and the effects of changes in interest rates from other liabilities (such as unwinding of the discount on a pension liability).

The IFRS 18 introduces supplementary requirements for entities engaged in financing activities for customers (e.g., banks) or those investing in assets with distinctive features (e.g., investment entities) as their primary business endeavours. Certain income and expenses, typically categorized under investing or financing, based on general principles, will now be classified within the operating category for these entities. Consequently, the operating profit will encompass the outcomes of an entity's principal business operations.

II. Mandatory subtotals: IFRS 18 necessitates the presentation of specific totals and subtotals, with the primary alteration concerning the obligatory inclusion of 'Operating Profit or Loss'. The other mandated subtotals include 'Profit or Loss' and 'Profit or Loss before financing and income taxes', with certain exceptions (e.g., when a bank primarily engages in financing activities and has opted for specific presentation choices).

The Figure 1 illustrates, as an example, the Statement of Profit or Loss (P&L) of a general corporate.

Line item	***CU***	***Category***
Revenue	X	Operating
Cost of goods sold	(X)	
Gross profit	**X**	
Selling expenses	(X)	
General and administrative expenses	(X)	
Research and development expenses	(X)	
Operating profit or loss	**X**	**Required subtotal**
Share of profit from associates and joint ventures accounted for using the equity method	X	Investing

Interest income from cash and cash equivalents	X	
Profit or loss before financing and income tax	**X**	**Required subtotal**
Interest expense on borrowings	X	Financing
Interest expense on other liabilities	X	
Profit or loss before income tax	**X**	
Income tax expense	(X)	Income tax
Profit or loss from continuing operations	X	
Loss from discontinued operations	(X)	Discontinued operations
Profit or loss for the year	**X**	**Required subtotal**

Figure 1. Example of a Profit or Loss (P&L) statement for a typical corporate entity

Souce: PwC, 2024, modified by the author.

3.3.2 Disclosures Related to the Statement of Profit or Loss (P&L)

The updated Standard introduces precise disclosure obligations concerning the statement of Profit or Loss (P&L), as detailed below.

I. Management-defined performance measures: Management has the authority to establish its own performance metrics, occasionally termed 'alternative performance measures' or 'non-GAAP measures'. IFRS 18 delineates a subset of these metrics, which pertain to an entity's financial performance, as management-defined performance measures (MPMs). Information regarding these metrics must be disclosed in the financial statements within a single note, encompassing a reconciliation between the MPM and the most analogous specified subtotal in IFRS Accounting Standards. This procedure effectively integrates a segment of non-GAAP measures into the financial statements (IFRS, 2024).

II. For entities that present the statement of profit or loss by function, disclosure of expenses by nature is mandated: Entities will categorize expenses within the operating category by nature, function, or a combination of both. IFRS 18 provides guidance for entities to evaluate and select the most suitable approach based on the prevailing facts and circumstances. In instances where items are presented by function, entities are obliged to disclose information by nature for particular expenses (IFRS, 2024).

3.3.3 Aggregation of Expenses

This aspect will influence all primary financial statements and accompanying notes. IFRS 18 furnishes improved directives regarding the principles of aggregation and disaggregation, emphasizing the grouping of items according to their common attributes. These principles are applied universally throughout the financial statements, guiding the determination of which line items are included in the primary financial statements and the disclosure of information in the notes (IFRS, 2024; PwC, 2024).

3.3.4 Other Limited Changes

The new Standards will introduce a few additional adjustments to the presentation and disclosure requirements in financial statements. For instance, IAS 7, 'Statement of Cash Flows', will undergo modifications to:

i. Define 'operating profit or loss' as the initial reference point for reconciling cash flows from operating activities.

ii. Eliminate the existing alternatives for the presentation of interest and dividends paid and received.

PwC (2024) issued a report highlighting that the guidance regarding aggregation and disaggregation has been revised, necessitating entities to reassess their chart of accounts to determine whether their current presentation remains suitable or if enhancements can be implemented to better group and describe line items in the primary financial statements. Furthermore, alterations in the structure of the statement of profit or loss and additional disclosure requirements may compel entities to undertake substantial modifications to their systems, charts of accounts, mappings, etc. The magnitude of operational adjustments mandated by the new standard should not be underestimated, prompting entities to proactively address operational challenges at the earliest opportunity.

Identifying Management-defined Performance Measures (MPMs) might pose challenges, and auditors may need to undertake extensive procedures to ensure completeness (PwC, 2024).

4. Methodology Applied in This Research

The primary methodology employed in this study was document analysis. It involved scrutinizing documents and studies provided by authoritative organizations responsible for establishing globally recognized accounting practices, such as the International Financial Reporting Standards (IFRS) Foundation, alongside Brazilian laws and technical authorities like the Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis - CPC). Additionally, the analysis drew upon concepts advocated by esteemed authors, as referenced in the article, to fortify the analytical framework (Gil, 2022).

In terms of objectives, an exploratory approach was employed, aiming to gain a comprehensive understanding of the issue at hand for explanatory purposes. The technical methods primarily involved bibliographical research, relying on previously published works to inform the investigation (Lakatos & Marconi, 2021).

The research also adopts a descriptive approach, aiming to analyse, verify, and articulate a specific phenomenon within the investigated context (Gil, 2022).

To operationalize the research, the data acquired from specialized entities underwent processing, enabling the creation of graphs and tables using the Microsoft Excel application. This approach facilitated a clearer visualization of the information, aiding in qualitative comparison analysis and contributing to the study's conclusion.

5. Results and Discussions

This section is structured around the research objectives aiming: (i) challenges and opportunities, (ii) legal obstacles for the implementation of IFRS 18 in Brazil, and (iii) the feasibility of timely implementation in the country. Through a thorough analysis of these areas, this section aims to provide a comprehensive understanding of the implications of adopting IFRS 18 for Brazilian enterprises.

Firstly, it delves into the challenges and opportunities arising from the adoption of IFRS 18. By examining the potential benefits and drawbacks of the new standard, this section offers valuable insights into how Brazilian companies may navigate the transition and leverage opportunities for improvement in financial reporting practices.

Secondly, will explore the legal barriers that may hinder the implementation process in Brazil. It addresses issues such as conflicts with existing corporate laws and regulatory frameworks, shedding light on the legal complexities that organizations may encounter as they strive to comply with the new standard.

Lastly, the section evaluates the feasibility of adhering to the designated timeline for implementation, considering factors such as resource availability, organizational readiness, and external dependencies. By assessing the practical challenges associated with meeting implementation deadlines, this section provides valuable guidance for Brazilian enterprises seeking to ensure a smooth transition to IFRS 18. Through an in-depth exploration of these topics, the Results and Discussions section offers valuable insights into the complexities and implications of adopting IFRS 18 in the Brazilian context.

5.1 Challenges and Opportunities

The adoption of IFRS 18 presents both challenges and opportunities for Brazilian companies.

One significant challenge is the need for companies to align their existing financial reporting practices with the requirements of the new standard. This may involve significant adjustments to accounting systems, processes, and internal controls, requiring substantial time, resources, and expertise.

Moreover, the implementation of IFRS 18 may introduce complexities in financial statement preparation and disclosure, particularly regarding the classification of expenses and the presentation of performance measures. Companies will need to carefully evaluate their reporting frameworks to ensure compliance with the new standard while maintaining transparency and accuracy in financial reporting.

However, amidst these challenges, there are also opportunities for Brazilian companies. The adoption of IFRS 18 provides an opportunity for companies to enhance the comparability and transparency of their financial statements, aligning them with international best practices. This can improve access to capital markets, enhance investor confidence, and facilitate cross-border transactions.

Furthermore, by adopting IFRS 18, Brazilian companies can strengthen their corporate governance practices and demonstrate their commitment to transparency and accountability. This can enhance their reputation in the global business community and attract investment from international investors.

Overall, while the adoption of IFRS 18 poses challenges for Brazilian companies, it also offers opportunities for them to improve their financial reporting practices, enhance transparency, and strengthen their position in the global marketplace.

5.2 Legal Obstacles for the IFRS 18 Implementation in Brazil

The implementation of IFRS 18 in Brazil is met with significant legal obstacles, primarily stemming from conflicts with the country's corporate legislation, particularly the Lei das S.A. (Brazilian Corporation Law). This poses a substantial challenge for companies seeking to align their financial reporting practices with international standards while adhering to local regulatory requirements (Valor, 2024).

The Lei das S.A. outlines specific guidelines for financial reporting and disclosure in Brazil, dictating how companies must present their financial statements and report key financial metrics (Brasil, 1976). However, the requirements outlined in IFRS 18 may diverge from the provisions of the Lei das S.A., creating ambiguity and uncertainty for companies attempting to comply with both sets of regulations simultaneously (Valor, 2024).

One major point of contention lies in the presentation and disclosure of financial information, where IFRS 18 introduces new standards that conflicts with existing practices mandated by the Lei das S.A. This misalignment could lead to confusion among stakeholders and regulatory authorities, potentially resulting in legal disputes or non-compliance penalties for companies.

Moreover, the discrepancy between IFRS 18 and the Lei das S.A. may necessitate legislative amendments or regulatory exemptions to reconcile the conflicting requirements. However, navigating the legislative process in Brazil can be time-consuming and complex, further delaying the implementation of IFRS 18 for companies operating in the country.

Overall, the legal obstacles posed by conflicts with the Lei das S.A. present a formidable challenge for Brazilian companies seeking to adopt IFRS 18. Addressing these obstacles will require careful legal analysis, collaboration with regulatory authorities, and potentially legislative reforms to ensure a harmonized approach to financial reporting in Brazil.

5.3 Feasibility for the Implementation on Time

According to the 2022 research from Fundação Instituto de Administração (FIA - SP) in Brazil, 94% of the companies outsources its accounting services (FIA, 2022). Comparing this data with the information that exists 20.8 million active enterprises up to the end of August 2023 (Ministério do Desenvolvimento, Indústria, Comércio e Serviços, 2023), we can conclude that 19,6 million entities relies its accounting activities to a third party.

The feasibility of implementing IFRS 18 on time poses a significant challenge for Brazilian companies, especially considering the existing conflicts with local legislation and the prevalent reliance on outsourced accountants.

One major obstacle is the conflict between existing Brazilian corporate laws and the requirements of IFRS 18. The discrepancies between these regulations may complicate the adoption process and require companies to navigate legal complexities to ensure compliance with both sets of standards. This could result in delays and additional costs associated with legal consultations and regulatory adjustments (Valor, 2024).

Additionally, the reliance on outsourced accountants presents logistical challenges for implementing IFRS 18. With 94% of legal entities in Brazil using outsourced accounting services, companies may face coordination issues, communication barriers, and varying levels of expertise among service providers (FIA, 2022). This could impede the timely and effective implementation of the new standard, as companies may need to invest time and resources in coordinating with multiple external parties to ensure compliance.

Moreover, the widespread use of outsourced accountants may also pose challenges in terms of knowledge transfer and training. Companies may need to invest in educating their outsourced accounting teams about the requirements of IFRS 18 and providing ongoing support to ensure accurate and consistent implementation.

Overall, while Brazilian companies may face significant obstacles in implementing IFRS 18 on time, proactive measures such as early planning, collaboration with legal experts, and targeted training programs for outsourced accountants can help mitigate risks and improve the feasibility of timely compliance.

6. Conclusion

Based on the content outlined in this paper, the article successfully attains its objective by addressing the research problem while also providing clarity regarding the four previously stated objectives: (i) identifying the key alterations from IAS 1 to IFRS 18, (ii) assessing the challenges and opportunities confronting Brazilian companies

during the implementation process, (iii) examining the legal obstacles within Brazil that may hinder the implementation of the new requirements, and (iv) evaluating the feasibility of Brazilian entities adopting the new regulations before 2027.

Since its establishment in 2001, replacing the International Accounting Standards Committee (IASC) established in 1973, the IFRS Foundation has seen a widespread adoption of its standards. Embracing IFRS allows a business to align its financial statements with those of its foreign counterparts, simplifying comparisons. Additionally, companies with subsidiaries in jurisdictions mandating or allowing IFRS may adopt a uniform accounting language across the organization.

Investors, executives, and entrepreneurs have embraced a method to standardize financial statements, particularly the Profit & Losses (P&L) statement, enabling various forms of vertical and horizontal analysis. These analyses serve to gauge and steer business strategies effectively. With this in mind, coordinating efforts to adhere not only to best practices but also to facilitate collective learning for interpreting the new statement format and content will be crucial to ensure a seamless transition to the new standard without incurring losses.

In Brazil, where 94% of accountants are outsourced, the promptness and effectiveness of implementation will depend on professionals' ability to quickly grasp and apply the new standards within the context of their clients' operations. Moreover, for entities governed by the Lei das S.A. (Law 6,404, enacted in 1976), the challenge will be particularly significant. Presently, Brazilian law dictates the construction and presentation of financial statements, including the Profit & Loss (P&L) statement, which is now the focus of the recently issued IFRS 18.

On the other hand, Brazilian authorities have a significant opportunity to harmonize their legislation with global standards, following the lead of numerous other countries worldwide. This entails granting more flexibility to enterprises in constructing their financial statements, while still adhering to global best practices that evolve in tandem with market perceptions and requirements. Until the mandated adoption in 2027, we can anticipate extensive discussions and preparations for the transition. Moreover, early adoption could prove beneficial to facilitate the learning curve for professionals tasked with handling and analysing the new statements, thereby minimizing errors and undue haste.

The limitations of this research primarily stem from the scope and methodology employed. Firstly, as with any study, there may be limitations in the generalizability of findings due to the specific context. Additionally, the reliance on secondary data sources and literature review may introduce biases or overlook recent developments in the field. Furthermore, the complexity of regulatory environments and the dynamic nature of financial reporting practices may pose challenges in fully capturing all relevant factors influencing the adoption of IFRS 18 in Brazil. Lastly, the research may not fully address the perspectives and experiences of all stakeholders involved in the implementation process, potentially limiting the comprehensiveness of the findings.

Future research in this area could explore the long-term effects of adopting IFRS 18 on the financial reporting practices of Brazilian enterprises, including challenges encountered and strategies employed. Additionally, studies could focus on the impact of IFRS 18 adoption on stakeholders such as investors, creditors, and regulatory authorities, assessing changes in transparency, comparability, and decision-making processes. Furthermore, research could examine the effectiveness of regulatory interventions or legislative reforms aimed at harmonizing local legislation with international accounting standards, shedding light on the efficacy of policy measures in facilitating compliance and enhancing the overall quality of financial reporting. By addressing these areas, future studies can contribute to a deeper understanding of the implications of IFRS 18 adoption in Brazil and inform policymakers, practitioners, and academics in shaping future regulatory frameworks and best practices in financial reporting.

Acknowledgments

Not applicable.

Authors' contributions

Not applicable.

Funding

Not applicable.

Competing interests

The author declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of Sciedu Press.

The journal and publisher adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

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