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Boundaries of management performance measures (MPMs) disclosed in primary financial statements prepared in accordance with new standard planned to supersede IAS 1

Abstract
We outline the management performance measures (MPMs)' boundaries based on the upcoming introduction of MPM's definition to International Financial Reporting Standards (IFRS). The literature investigates business performance measures concentrating on managers' needs, while IFRS aims to provide financial information to external users who provide resources to the entity. This indicates a gap between how performance metrics have been investigated so far and how IFRS will adopt them. We used analysis of the exposure draft of the planned standard together with working materials developed in the consultation process. Further, a case study is presented. Results show that the scope of MPM to be introduced to IFRS is limited compared to the broad spectrum of performance measures presented in the literature. We contribute by showing the avenues for future performance measures research using signalling and agency theory and by indicating the limited scope of MPMs and thus bound prospects for using them for a full assessment of the entity's performance.

Keywords
management performance measures | MPM | performance measurement | IAS 1 | IFRS 18 | signalling theory | agency theory

JEL Codes
M00, M40, M41

1. Introduction

In 2014, International Accounting Standards Board (hereinafter IASB) has started a project named "Primary Financial Statements." The project aims to increase transparency and comparability of financial statements, thus enhancing the relevance of the information disclosed. As a result, an exposure draft was published in 2019, General Presentation and Disclosures ED/2019/7 (later referred to as ED), which presents a standard planned to supersede IAS 1 "Presentation of Financial Statements". Since then, the European Financial Reporting Advisory Board (EFRAG), working on developing IFRS Standards from a European perspective, in parallel collects opinions and organises field tests of the ED. It led to amendments within the scope and content of the planned IFRS 18 Presentation and Disclosure in Financial Statements (IFRS Accounting, 2023, July). The authors were a part of the expert groups testing and stating their opinions on the original ED and its amended versions.

This article aims to outline the boundaries of the MPM based on the upcoming changes to financial reporting. This need arises from the fact that the definition of MPM will be introduced by IFRS for the first time in 2024 (IFRS Foundation, 26.07.2023), with an effective date in 2027. Based on the analysis of regulations developed since 2019, the authors show the necessity for preparers of financial statements to examine the new regulations as well as the obligation for the users of financial statements to understand these new elements of financial statements to properly use them in their decision-making processes. To achieve the stated objective, the authors ask a research question: What are the boundaries of MPM prepared in accordance with the planned standard? This question is essential, as performance measures (business performance measures, performance measurement and management systems (PMMSs), or performance metrics) already exist in the theoretical and empirical literature. Further, qualitative characteristics of financial reports are built upon faithful representation and relevance; thus, MPM, being a part of IFRS, must comply with them, forcing managers to make well-thought-out decisions about the type of MPM that is made public and used by the economy participants.

2. Business Performance Measurement: Literature Review

The importance of business performance measurement in assessing the efficiency and effectiveness of an entity's past actions is broadly emphasised in management literature, including accounting studies (Mavropulo et al., 2021; Neely et al., 2000). Hence, it is an area of constant research, both theoretical and practical. Considerable interest in this topic began with the criticism of business performance metrics used in the 1970s and 1980s (Berliner & Brimson, 1988; Chandler, 1977; Cooper & Kaplan, 1988). The main complaint was that business performance measures do not provide a clear answer as to which actions influenced which results (Taticchi et al., 2009), and thus different performance measurement and management models were designed like the Du Pont Pyramid of Financial Ratios (1977), results and determinants framework (Brignall et al., 1991), the performance pyramid (Lynch & Cross, 1991), the balanced scorecard (Kaplan & Norton, 1992), the process-based approach (Neely et al., 2000) or the Cambridge performance measurement process (Neely, 2002). Further, developed measures were adjusted and/or amended to the changing business environment (Kennerley & Neely, 2003). In addition, the literature as a whole deals with the adjustment of designed models to the needs of small and medium entities that have some specific characteristics, such as no separation of the owner from the manager, lack of formal strategy that should be included in the model, or no clear organisational structure, and concern mainly for short-term cash flows (Bahrl et al., 2016). This stream of literature clearly indicates that performance measures are mainly based on the information disclosed in the financial statements but also on non-financial measures. This is because performance measures must measure both financial and non-financial aspects of performance (Bahrl et al., 2016), like profitability, efficiency, customer satisfaction, or quality of services (goods produced). Clever integration of financial and non-financial and internal and external data builds the strength of performance measurement used in contemporary entities. Further, performance measures should be prepared based on the information available in the entity (as additional collecting of data makes the system too expensive). They should not only measure past performance but, beyond the above, guide managers for future activities, and in addition, they should implicitly convey the entity's strategy (Boselie et al., 2005; Van der Hauwaert et al., 2022). The above description of performance metrics is incomplete, as the literature highlights various characteristics central to the approaches under investigation (Taticchi et al., 2009), indicating a multifaceted approach to evaluating an entity's performance, aiming at complete business description.

To summarise, research interest in measuring business performance seems to adhere to the principle that when one can measure something, one possesses knowledge about it; thus, one can improve it (Micheli & Mari, 2014). Sharing knowledge with those outside the entity seems to be a basic premise for introducing MPM into IFRS.

3. Theoretical Underpinning

For many years in the accounting literature, a great deal of attention was paid to the need of market participants for reliable and relevant information (Chen et al., 2021; Cutler et al., 1989; Kadous et al., 2012; Marilen et al., 2013) as well as to the accounting struggle for achieving it (Alexander & Archer, 2003; Burchell et al., 1985; Hartmann et al., 2018; Lambert et al., 2007; Macintosh, 2009; Macintosh et al., 2000; 7). One can say that researchers agree on the need to provide information about the entity's performance that market participants use to make their decisions.

Signalling theory and agency theory seem to dominate the literature cited above. Both theories refer to managers who decide about the information provided to investors, creditors, and other uninformed parties outside the entity. Based on signalling theory, it can be argued that managers—who have superior knowledge, inter alia, about the entity's future cash flows—make accounting choices to reveal their expectations to uninformed participants of the economy (Holthausen, 1990). Signals derive from an intent to imply something in the hope that the market (external parties) will change the company's valuation (Connelly et al., 2011). The theory was widely used over the years with relation to accounting (Aljughaiman et al., 2023; Gomoi & Pantea, 2016; Khan et al., 2019). Management performance metrics investigated in the prior literature, as well as MPM in a way defined in the planned IFRS, provide information about the entity's present condition and prospects.

We also underpin our research on agency theory, which describes the incentive problems caused by the separation of ownership and management, called the principal-agent problem (Ross, 1973). Agency theory is one of the four most used concepts within behavioural accounting (Chapman et al., 2007). It results in managers' use of discretionary accounting choices influencing finance management, earnings management (Białek-Jaworska and Dec; 2019; Harrison & Harrell, 1993; Jassim et al., 1988; Liang et al., 2023), and financial reporting (Ayu et al., 2020; Knoeber & McKee, 1991; Maruszewska et al., 2023; Palas et al., 2023). Thus, agency theory can be used not only for accounting policy choices and voluntary disclosures but also for obligatory disclosures in the form of, e.g., managerial commentary where managers are to decide about the details of data presented and the form of presentation of financial information. Thus, we argue that new MPM requirements under planned standard can also be subject to the agency problem.

As both theories address similar accounting issues, concentrating on the provision of information to those outside the entity, it should be noted that agency theory pays little attention to signalling, while signalling theory ignores the agency problem (Morris, 1987), we find both theories as suitable theoretical background for our study. On the one hand, the planned introduction of MPM can be seen as an opportunity to signal positive outcomes of an entity's performance. However, on the other hand, when negative information is revealed through MPM, it can be subject to the agency problem.

4. MPMs in the Planned Standard

4.1. The Understanding and the Scope of MPMs

The changes in financial statements upcoming in the new standard have been divided by IASB into four main areas:

1) classification and presentation of operations in the profit-and-loss statement,
2) management performance measures (hereinafter MPMs),
3) classifications of operating costs by function and by nature,
4) unusual incomes and expenses (EFRAG IASB Joint Online Roundtable, 2022, November).

Regarding the classification and presentation of operations in the profit-and-loss statement, the planned changes include (among others) the introduction of financial and investment activities segments besides the already existing operation activities segment. It also introduces unusual incomes and expenses and forces new presentation of operating costs. New segmentation is important from the point of view of MPM, as new categories among profit-and-loss segments may end up with changed or new perspectives for business performance measurement.

Regarding MPM, the project of the new IFRS states that "Management Performance Measures are subtotals of income and expenses not specified by IFRS Accounting Standards that are used in public communication outside financial statements" (ED, 2019).

Drawing from this definition, a few key points require explanation and were already clarified in the development of the new standard process. Regarding the first part of the definition, IASB proposed a graph to clarify the scope of MPMs, as per Figure 1.

The definition states that MPMs are subtotals of income and expenses. That implies that only measures resulting from the subtraction of income and expenses are within the scope of MPMs. As shown in Figure 1, the above excludes all performance metrics that are not drawn from financial values, but also all the financial indicators that are not a result of subtraction of income and expenses, like return on assets,

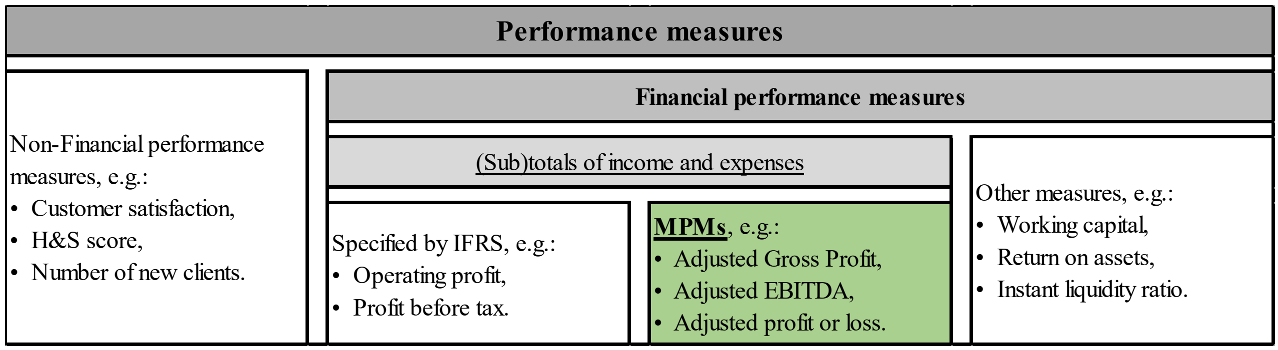

Figure 1. Scope of Management Performance Measures
Source: (IFRS Accounting, 2023, July)

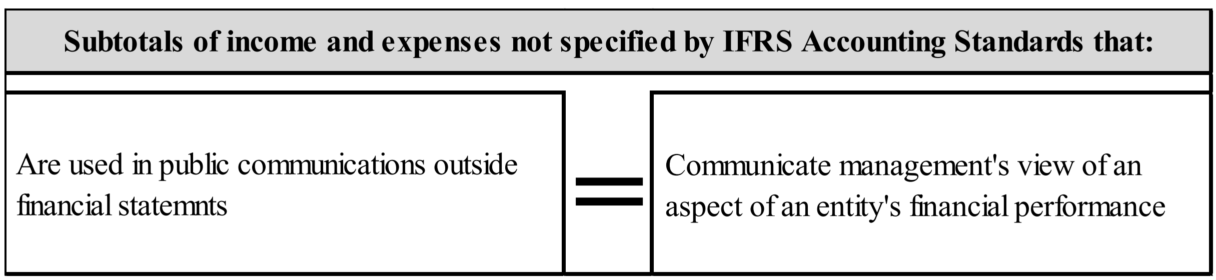

Figure 2. Rebuttable Presumption for the Definition of MPM
Source: EFRAG, 2022, September

earnings per share, or economic value added (EVA). In addition, ED states that MPMs are not specified by IFRS Accounting Standards, meaning that, as shown in Figure 1, operating profit is not MPM, as it will be required per standard to present the operating profit on the profit-and-loss statement scheme. The second part of the definition, "used in public communication outside financial statements", brought much discussion, as there was confusion about whether any verbal communication or any statement placed on social media would automatically incline to include a specific measure to MPM if it meets the first part of the definition. Accordingly, the IASB has tentatively decided to add a note that the definition excludes "oral communication, transcripts and social media posts" and add a rebuttable presumption, presented in Figure 2.

As observed, the rebuttable presumption is used as a form of logical explanation that when an entity uses a measure in its public communication, it communicates management's view of an aspect of an entity's financial performance. The rebuttable presumption is meant to be used as guidance and reduction of subjectivity, but also as a possibility to avoid the requirement to present a measure that is not in its essence an MPM but happened to be communicated in public. Therefore, the new standard will mandate the presentation of a measure communicated in public if there is reasonable and supportable evidence that it communicates management's view and is done consistently. As a result, the company could not enumerate a specific measure as MPM if it was used incidentally. This is important for preparers of financial statements, but also for users of financial statements, who should be aware of this fact to differentiate MPMs from other performance information that does not meet strict requirements reducing, e.g., subjectivity. Once management decides on a measure that falls within the MPM definition, it is required to prepare a disclosure within the financial statement. IASB has outlined four main points for the disclosure note, as presented in Figure 3.

As shown in Figure 3, the first and probably the most time-consuming part of the disclosure preparation will be the reconciliation of the MPM to the closest subtotal that IFRS specifies. The closest subtotal means the subtotal presented in the profit-and-loss statement prepared according to the standards. The reconciliation builds the high quality of the information disclosed with MPMs in terms of faithful representation and relevance, as it makes it transparent and sometimes may enable users of financial statements to compare MPMs between

Disclosure requiremenets for MPMs	
Reconciliation	Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests
Why an MPM communicates management's view	Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary
Not necessarily comparable with other entities	A statement that MPM provides management's view of an aspect of the entity's financial performance and is not necessarily comparable with measures provided by other entities
Changes in calculation	Explanation of and reasons for any changes in how the entity calculates its MPMs or which MPMs it provides

Figure 3. Required Disclosures Regarding MPM
Source: Own elaboration based on FASB IASB Joint Educational Meeting (2022, September)

entities based on the algorithms used. However, it is necessary to remind the reader that MPM may not necessarily be comparable between entities to avoid direct comparison of measures with the same name without checking how they were calculated. Also, the company must outline the changes to how MPM was presented or calculated between successive years if any changes were made.

Further, the entity is to explain reasons for including specific measures such as MPM, focusing on its usefulness to the user of financial statements. Although the scope of MPM is limited to financial information and incomes and expenses only, the link between performance results and the entity's strategy and/or short-term entity's objectives articulated by investors, products' groupings (or assortments), or a sale's geographical differentiation can be described. New financial and investing segments in profit-and-loss statements show prospects to disclose MPM informing about these activities in the form of revenues and expenses from financial and investing managerial decisions.

4.2. Reconciliation between MPM and the Most Directly Comparable Subtotal Specified by IFRS

As there is a requirement for each MPM disclosed in the financial report to provide a reconciliation, an example is presented in Figure 4.

In the example presented in Figure 4, the adjusted operating profit in MPM disclosed in the financial report is a management view of operating profit, excluding incidental restructuring in country X. Through subtraction of restructuring costs and revenue adjustments, it is reconciled to the most direct subtotal, which in this case is operating profit. The two right columns affect income tax and non-controlling interests (later referred to as NCIs), as the entity is also obligated to include these effects for each reconciliation.

The new standard does not include a graphical sample of the reconciliation. During the discussion at the IASB meeting in July 2023, there seemed to be an agreement that the standard would not require one specific methodology with regards to reconciliations but might propose examples to ease the process for entities having trouble accommodating the differences

Adjusted operating profit (MPM)	60,000	Tax effect	NCI
- Restructuring in Country X (incl. In employee benefits)	-5,000	1,000	-800
- Revenue adjustment (incl. in revenue)	-6,000	1,200	-
Operating Profit (IFRS-specified)	**49,000**		

Figure 4. Reconciliation of the MPM
Source: Own elaboration based on FASB IASB Joint Educational Meeting (2022, September)

between MPM and the most directly comparable subtotal specified by IFRS. One of the points was of the new methodology was to show the MPM first (at the top), which then gets reconciled to a subtotal.

4.3. Tax Effect on Reconciled Items

Another topic discussed was the proposal to include the tax effect of reconciled items. On the one hand, tax effect was requested by the users of financial statements. It was strongly voiced as necessary to strengthen the reliability of financial statements and the ability to analyse them properly. On the other hand, preparers voiced difficulty in calculating the tax effect, which may be affected by many factors that might be difficult to explain to the user of financial statements and hence actually hurt the faithful representation and relevance. To satisfy both sides, IASB tentatively decided to include a requirement to show the tax effect on reconciled items but to allow simplification of this by applying either (IFRS Accounting, 07.2023):

- Statutory tax rate(s) applicable to underlying transaction(s) in the relevant jurisdiction(s), or,
- reasonable pro rata allocation of the current and deferred tax, or,
- another method achieving a more appropriate allocation due to specific circumstances.

Irrespective of the chosen methodology, the entity ought to explain how the income tax effect was calculated and should be presented separately for each item if more than one method was used.

In summary, the overall description of MPM in the planned standard does not provide detailed information about what should be disclosed as MPM. Instead, it focuses on a framework (or model approach), as standards used to be. This, on the one hand, leaves room for management to decide what to choose as MPM and to show management's view on the entity's performance, allowing for selected, and not very detailed information. On the other hand, it underlines that an individual approach directed at high-quality MPM is crucial for users of financial statements, and it should guide a manager when making decisions. From the preparers' point of view, the decision about MPM should encompass technical issues as a possibility to make detailed reconciliation, including the tax issues.

5. Case Study

The case study is based on company A, whose data were drawn from accounting books for three consecutive years, from 2020 to 2022. The company chosen for this case study prepares its financial data following IFRS for consolidation purposes only. The data presented in the case study were anonymised, maintaining the scale of significance of individual transactions discussed in the case study. In this empirical part, the project of the upcoming IFRS standard will be recalled as "IFRS X". Company A uses presentation per function for providing operating costs in its statement of financial performance and decided to distinguish the gross profit. For the three analysed periods, the company paid the income tax at a lower effective rate than the nominal tax rate because it was granted a tax exemption for investing in a special economic zone. The short version of the current statement of financial performance as per IAS 1 is presented in Table 1.

To be able to present the notes regarding MPMs, there is a need to present a transformed statement of financial performance in accordance with new IFRS X guidelines and explain the main differences. Transformed data from company A are presented in Table 2.

When comparing statements of financial performance prepared per IAS 1 and IFRS X, the first difference worth noting is an introduction of additional segments: investing and financing.

Table 1. Statement of Financial Performance for 2020–2022 in Accordance With IAS 1

Year (amounts in PLN)	2022	2021	2020
Revenue from the sale of goods	22,132,991	16,381,185	11,589,068
Cost of goods sold	–15,447,701	–11,298,542	–8,178,590
Gross profit	**6,685,290**	**5,082,644**	**3,410,478**
Other income	410,245	201,756	414,358
Selling expenses	–1,701,360	–1,192,527	–914,645
General and administrative expenses	–2,554,044	–2,208,843	–1,738,436
Other expenses	–453,009	–399,870	–514,536
Finance costs	–8,058	–10,119	–153
Profit before tax	**2,379,064**	**1,473,041**	**657,067**
Income tax expense	128,469	154,669	57,164
Profit for the year from continuing operations	**2,250,595**	**1,318,372**	**599,903**
Loss for the year from continuing operations	0	0	0
Profit for the year	**2,250,595**	**1,318,372**	**599,903**

Source: Own elaboration

Table 2. Transformed Statement of Financial Performance for 2020–2022 in Accordance With IFRS X

Year (amounts in PLN)	2022	2021	2020
Revenue from the sale of goods	22,132,991	16,381,185	11,589,068
Cost of goods sold	–15,447,701	–11,298,542	–8,178,590
Gross profit	**6,685,290**	**5,082,644**	**3,410,478**
Other income	265,245	102,756	376,358
Selling expenses	–1,701,360	–1,192,527	–914,645
General and administrative expenses	–2,554,044	–2,208,843	–1,738,436
Other operating expenses	–444,009	–401,108	–510,036
Operating profit	**2,251,122**	**1,382,922**	**623,720**
Investment income	145,000	99,000	38,000
Investment costs	–9,000	–6,000	–4,500
Profit before financing and income tax	**2,387,122**	**1,475,922**	**657,220**
Finance income	0	0	0
Finance costs	–8,058	–2,882	–153
Profit before tax	**2,379,064**	**1,473,041**	**657,067**
Income tax expense	128,469	154,669	57,164
Profit for the year from continuing operations	**2,250,595**	**1,318,372**	**599,903**
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Source: Own elaboration

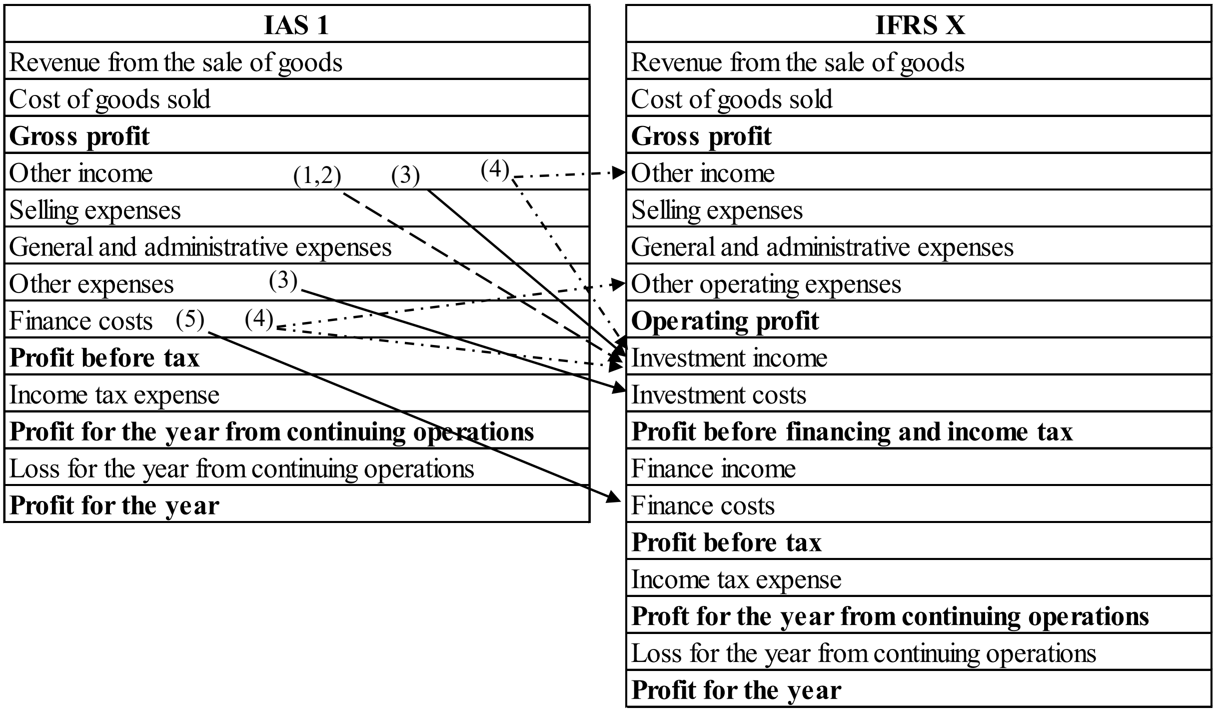

Figure 5. Changes in Classification Between IAS 1 and IFRS X
Source: Own elaboration

Additional segments are essential to note, as they change how certain transactions are presented within the statement of financial performance and, in consequence, how the financial statement should be read by management, investors, and other stakeholders. The main changes in classification between the segments are:

1) Dividends received were moved from other incomes in the general segment to investment incomes within the investment segment.
2) Interest received was also moved in the same manner as dividends.
3) Incomes and costs of investment properties were moved from other incomes and other expenses within the general segment into the investment segment.
4) Exchange rate gains and losses were also decided to be reclassified. IFRS X requires that they be presented in the same section as the transaction from which the exchange rate gain or loss occurred.
5) Interest raised from accruals for employee benefits calculations was moved into the financial segment.

The movement between segments between IAS 1 and IFRS X is summarised in Figure 5.

As described in the section above, IFRS X proposes an introduction of management performance measures. To showcase measures that would fall into the MPM definition, the authors discussed with the company what measures are used to review the financial performance of specific entities within a group, as well as what is provided in public communication. Four measures were presented by the company that meet MPM definition and scope: (1) adjusted gross profit, (2) adjusted Earnings Before Interests Taxes Depreciation and Amortization (EBITDA), (3) adjusted Earnings Before Interests and Taxes (EBIT), and (4) adjusted profit before financing and income tax.

The following part of the case study presents a sample of disclosure notes for MPM based on four disclosure requirements recognised by IFRS X. The company must reconcile the MPM to the most directly comparable subtotal or total specified within IFRS, including the effect of tax and non-controlling interests. In this case, the study of non-controlling interests is disregarded, as the company under investigation does not invest in shares of any other company and is 100% owned by its parent company.

As presented above, the management of the company decided to use adjusted gross profit, adjusted EBIT, adjusted EBITDA, and adjusted profit before financing and income tax to communicate the financial results of the company to the users of financial statements. They conclude that the chosen MPM reflects management's overview of the company's financial performance. The company believes that presented management performance measures help readers of the financial report to understand the results of decisions made during the accounting period and to show the trend creation of the value for owners. They are not specified within IFRS standards, and therefore, they may not be comparable with similar measures presented in the financial statements of other companies, but they may be used to compare performance results between companies within the capital group in which the company is operating (assuming other entities use the same MPM).

The statutory tax rate for a company's profit is 19%. After the correction of incomes and costs of the company for each year per tax regulations, an effective tax rate was computed. Due to investment in the special economic zone, the company received an additional tax exemption for a specified group of finished goods (services) and a specified amount of tax. As a result, the effective tax rate after applying for the special economic zone tax exemption was computed, which is lower than the nominal and effective tax rate before applying for the tax exemption. For the three following years, tax rates are presented in Table 3.

The tax exemption is granted for specific products and services; thus, the effective tax rate for the year is known after separating activities with and without tax exemption and after the allocation of joint expenses between these two groups. Examples of joint expenses are administrative (general) expenses that are incurred but are impossible to specify precisely how much is attributable to tax-exempt and taxable activities. Because of the above-described tax calculations, it is challenging (and time-consuming) to calculate the actual effective tax rate for items reconciled within MPM; therefore, the company chooses to present the pro rata allocation based on the global effective tax rate applicable to the whole company for the specific period. The company predicts that the tax exemption amount granted will be sufficient to cover profits for the next three years; therefore, the company believes the data are accurate and helpful for next years' predictions.

From the four MPMs presented earlier, not all of them would be used by the company every single year. The IFRS X allows that but requires the company to explain reasons for changing MPMs presented in

Table 3. Tax Rates Applicable to the Company for 2020–2022

Year	2022	2021	2020
Nominal tax rate	19%	19%	19%
Effective tax rate before applying tax exemption	14%	21%	20%
Effective tax rate after applying tax exemption	5%	11%	9%

Source: Own elaboration

the financial statement. Company A refrained from using adjusted gross profit from 2022 financials, as reasons to adjust gross profit did not prevail anymore (the incidental cost reduction appeared once in 2020; therefore, there is no value in correcting and showing the adjusted gross profit in the financial statement for the year 2022 and following). At the same time, the company started using adjusted profit before financing and income tax as a separate MPM from adjusted EBIT and EBITDA from 2021 to show the impact of occasional loans given, which, in the view of the company, will not be a prevalent activity in the company.

For reconciliation purposes, the company decided to adjust the subtotals by following incomes/expenses:

- Incidental cost reduction: A cost reduction of salaries that occurred in 2020 as many countries received help from the government due to the COVID-19 pandemic. It was a reduction of salary burdens, which were accounted as cost reductions within the cost of goods sold, sales costs, and administrative costs.
- Incidental expenses and incomes: Each year, the company has some expenses that happened once and, in the view of the company, are unlikely to appear again; therefore, the financial results should be viewed separately. The following table shows what incidental expenses and incomes occurred each year.
- Internal group costs are incurred for internal group settlements that should be deducted from financial results, as they are outside the managing directors' jurisdiction.
- Depreciation and amortisation cost.
- Interest received from loans.
- Exchange rates gain/loss from interest.

Table 4. List of Incidental Income and Expenses in Company A for 2020–2022

Items	2022	2021	2020
Incidental income	Settlement with a customer over a dispute	Insurance compensation for a car broken in an accident	
Incidental expense	Cost of cancelled orders already prepared which could not be sold to another customer	Costs of repair of car broken in an accident	Donation to fund masks for a hospital (COVID pandemic)

Source: Own elaboration

Table 5. Reconciliation of Adjusted Gross Profit

	2022		2021		2020	
Adjusted Gross Profit	**6,685,290**	**Tax effect**	**5,082,644**	**Tax effect**	**3,210,792**	**Tax effect**
- incidental cost reduction	0	0	0	0	199,686	17,373
Gross Profit	6,685,290		5,082,644		3,410,478	

Source: Own elaboration

The reconciliation of the adjusted gross profit with the subtotal presented in the statement of financial performance is presented in Table 5.

The company used adjusted gross profit in 2020 to present an incidental cost reduction of costs presented in the gross profit section, as the company felt that this one-time cost reduction had a clear impact on the view of the company's earnings and might lead to false judgements by the users of the financial statements had they not known the value of gross profit if the cost reduction had not occurred. Since the cost reduction did not occur again in the following years, the company decided to refrain from presenting this MPM in the financial statements from 2022 onwards, as the adjusted gross profit would not be different from the gross profit itself (the reasons to calculate adjusted gross profit and the present has ceased).

The reconciliation of adjusted EBITDA and EBIT with the subtotal presented in the statement of financial performance is presented in Table 6.

For all three years, company A used adjusted EBITDA and adjusted EBIT as their MPMs. Incidental transactions are excluded from financial profits before evaluating the company's performance. Further, internal group costs are subtracted from the financials to receive adjusted EBIT, which is further corrected by depreciation and amortisation costs, which concludes with adjusted EBITDA. Both are presented on reports regarding company and total capital group performance, meeting the MPM definition.

While EBIT and EBITDA are commonly presented measures by companies, the computation presented in Table 7 provides precious information to the users of financial statements, as they have direct and accessible data as to how EBIT and EBITDA presented in various companies' reports were calculated and what transactions were subtracted from the profits. That highly increases transparency.

Lastly, Table 7 presents a reconciliation of adjusted profit before financing and income tax, which company A decided to start using due to the introduction of IFRS X, which adds additional mandatory subtotals: investing and financing segments.

The company presented an adjusted profit before financing and income tax by subtracting gains on interest loans and exchange rate gains and losses from said interest. In the company's view, the given loans, while intentional, will probably not be a recurring transaction; therefore, the company wanted to show the possible results had the loans not been given.

The company is also considering using another MPM for the financing segment due to its introduction by IFRS X. However, to date, the volume of transactions in the financing segment is irrelevant, and the company decided to refrain for now to preserve the balance between the informativity and usefulness of the financial statement.

Table 6. Reconciliation of Adjusted EBITDA and EBIT

	2022		2021		2020	
Adjusted EBITDA	**3,284,290**	**Tax effect**	**2,211,128**	**Tax effect**	**1,094,873**	**Tax effect**
- depreciation and amortisation	–576,849	–31,150	–432,542	–45,417	–387,866	–33,744
Adjusted EBIT	**2,707,441**		**1,778,586**		**707,008**	
- Internal group costs	–352,095	–19,013	–320,195	–33,620	–386,420	–33,618
- incidental incomes	46,518	2,512	22,741	2,388	0	0
- incidental expenses	–14,743	–796	–5,210	–547	–7,500	–653
- incidental cost reduction	0	0	0	0	344,132	29,939
Profit before financing and income tax	2,387,122		1,475,922		657,220	

Source: Own elaboration

Table 7. Reconciliation of Adjusted Profit Before Financing and Income Tax

	2022		2021		2020	
Adjusted profit before financing and income tax	**2,351,122**	**Tax effect**	**1,447,922**	**Tax effect**	**657,220**	**Tax effect**
- interests received from loan	30,000	1,620	25,000	2,625	-	
- exchange rates gain/loss from interests	6,000	324	3,000	315	-	
Profit before financing and income tax	2,387,122		1,475,922		657,220	

Source: Own elaboration

The company did not decide to present additional measures used in public communication outside of financial statements because the company feels the use was incidental. In essence, public communications do not communicate management's view of any aspect of an entity's financial performance, and thus does not meet the rebuttable presumption specified within the MPM scope.

6. Discussion

The first important finding from the analysis of the ED and the case study conducted is that MPMs are a much narrower category than the metrics described so far in the management literature (e.g., Kaplan & Norton, 1992; Kennerley & Neely, 2003; Neely et al., 2000). By narrowing the MPM to the categories of revenues and costs (expenses), the IFRS prioritises presenting financial results over providing information about changes in the value of assets or sources of its financing. This indicates that the new standard will not provide more detailed information about the assets with which the company achieves results but will only focus on the results achieved that will be presented in a new, more detailed disclosure. Also, the described boundaries of MPM exclude non-financial measures widely developed in the management performance measures literature (Bahrl et al., 2016).

Further, as the planned standard does not provide a list of MPMs, one can expect managers—who have superior knowledge about future cash flows—to reveal their expectations through metrics included in the MPM of the entity. The above is derived from signalling theory, pinpointing the need to inform investors about the degree of the implementation of their demands.

In turn, agency theory points out that principal-agent problems might result in discretionary choices made by managers, encompassing the metrics included in MPM. This is even more important when the entity operates in a highly competitive environment, so it tries to protect itself from competitors. In such a case, the set of MPM might not, in practice, be the set of performance measures used by managers in making day-to-day business decisions. This may apply to differences between detailed and aggregated financial data disclosed and keeping secret data indicating the reasons for maintaining a competitive advantage. Due to the above-described boundaries of MPMs and their limits in a comprehensive assessment of the entities' performance, it would be interesting to investigate, in future research, the relations between signalling theory and agency theory when managers decide about the set of performance metrics used as MPM.

Further, our study points out that despite the planned definition of MPM, one cannot expect uniform (identical) measures to be presented by different companies, even those in the same sector. Indeed, one can expect similar measures presented by entities because the reflection of the management's view should be linked to metrics used internally to make decisions in the company and within revenues and costs (expenses), the number of metrics is somehow limited. This result calls for future research regarding the similarities and differences between sets of MPMs used by entities in the same geographical region or within a specific sector. It would also be interesting to investigate what factors may influence what MPMs are shown by companies from particular industries or who are performing specific activities.

Another important finding of our study is that the requirements of presentation, together with a reconciliation of MPMs, serve the transparency of the presented measures and, above all, impose mandatory high qualitative characteristics appropriate for each component of the financial statement. Comparing this IFRS requirement with already used performance metrics in the entities indicates that preparers of financial reports should verify the metrics incorporated into MPMs in terms of their compliance with strict quality requirements imposed by the planned standard, e.g., subjectivity limiting. This seems crucial when there is a decision to use some of the metrics already existing within the management accounting system of the entity. For future research, it would be stimulating to examine whether and how much the metrics already used in management decision-making processes are to be modified to fit the plan requirements of MPM in financial reporting.

In addition, our study clearly highlights that a single presentation of a certain measure of an entity's performance—following the new regulations—does not mean that this measure is automatically included among MPMs, which should be clearly signalled in financial reporting. Thus, both preparers and users of financial statements should remember what metrics are included in MPM and what is communicated once, or occasionally. The latter does not have to conform to strictly defined quality characteristics, making these metrics less reliable but not less relevant in many cases. In addition, it should be clearly stated that the comprehensive assessment of the entity's wealth and performance should be done based on MPM as well as on other measures not presented among MPMs. Thus, we call for future research on how the inclusion of MPMs into financial reporting changes the way financial statement users judge a report's reliability and relevance and how it changes the way they search for additional information outside the data provided by the entities.

7. Conclusions

The conclusions of the analysis of the planned IFRS, together with the case study, can be presented separately for preparers of financial statements (together with those who provide software for entities' accounting information systems), external users of financial reporting, and the researchers interested not only in financial reporting but also in management accounting. The planned standard to supersede IAS 1 requires that preparers formulate a well-thought-out set of MPMs used in the entity's financial reporting. It might require changes in the accounting information systems of the entities, e.g., in the form of new modules or additional software to already existing software to ease the preparation (and/or conversion) of financial data used as MPMs. Regarding the users of financial reports that include MPMs, it is crucial to bear in mind the boundaries of planned performance metrics and thus not rely solely on those metrics presented by managers of the entity.

For research, in addition to the paths already presented in the previous paragraph, we suggest developing models or frameworks helpful in managers' decisions about the MPM catalogue that will meet the

IFRS's faithful presentation and relevance criteria. From the point of view of users of financial reporting, future research can help develop a set of MPMs that are perceived as the most relevant and faithful for their users. A completely new stream of research may investigate the relation between the set of MPMs and the valuation of the entity, as well as the impact of the assessment of the entity's performance (based on MPM) on share prices.

As with all research, this study has a number of limitations that must be considered when interpreting its results. Its main limitation comes from the qualitative method used, namely, text analysis and a case study of one entity, which results in findings bound by time and the activity of entity A. Second, the scope of the standard, though revised, is still not final and is subject to changes (although most likely minor ones) until the final version is published in the first months of 2024, following the information provided on ifrs.org at the time of the preparation of this paper. Despite its limitations, the methodology used in this research allowed the authors to provide an in-depth understanding of MPMs in their real-life context.

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