Does IFRS 18 Improve the Usefulness of Operating Income? Evidence from Korea

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Abstract

This study examines whether the new definition of operating profit under IFRS 18 improves the usefulness of financial information relative to K-IFRS. In Korea, although IFRS was adopted in 2011, operating profit has traditionally followed a cost-based definition—revenues minus cost of goods sold and selling, general, and administrative expenses—similar to U.S. GAAP. This provides a natural setting to assess the implications of IFRS 18's broader, residual definition, which includes all items not classified as investing, financing, taxation, or discontinued operations.

Using 21,272 firm-year observations of non-financial firms listed on KOSPI and KOSDAQ from 2012–2023, we evaluate four dimensions of earnings quality: value relevance, earnings persistence, cash flow predictability, and accounting conservatism. The results show that K-IFRS operating profit delivers stronger value relevance, persistence, and predictive power for cash flows than IFRS 18. Although IFRS 18 appears somewhat more conservative, the difference is not statistically significant, and K-IFRS retains higher explanatory power. Robustness checks with foreign exchange items confirm these findings.

Overall, IFRS 18's residual definition does not consistently enhance the decision-usefulness of operating profit. These results provide early evidence on IFRS 18 and offer important implications for regulators, practitioners, and investors in international capital markets.

Keywords: IFRS 18, K-IFRS, Operating profit, Earnings quality, Value relevance

1. Introduction

The International Financial Reporting Standards (IFRS) are designed to enhance the comparability, transparency, and relevance of financial information across jurisdictions (IFRS Foundation 2018; Dolgikh 2022; Mohammed et al. 2024). To achieve these objectives, many countries—including Canada, Australia, and Korea—have adopted IFRS either in full or with minor adaptations (IFRS Foundation 2021; Dolgikh 2022). Korea adopted IFRS in 2011, and it has since served as the foundation of financial reporting in the country (Ki et al. 2019; Key and Kim 2020). As the global economic environment evolves and demand intensifies for decision-useful financial information, the IFRS framework has undergone continual revisions aimed at improving the consistency and informativeness of reporting (IFRS Foundation 2024). Among recent developments, the issuance of IFRS 18, Presentation and Disclosure in Financial Statements, marks a significant shift in the structure and presentation of the income statement (IFRS Foundation 2024). IFRS 18 replaces IAS 1 and introduces standardized subtotals—such as 'Operating Profit'—while mandating a more systematic classification of income and expenses into operating, investing, and financing categories.

The most notable feature of IFRS 18 is the adoption of a residual approach to defining operating profit. Under this approach, any income or expense presented in the statement of profit or loss that is not specifically classified under investing, financing, tax, or discontinued operations is included in operating profit (IFRS Foundation 2024). This structural shift substantially expands the scope of operating profit and is expected to influence how users perceive and interpret a firm's financial performance. By incorporating a broader set of items—including impairment losses (or reversals) and gains (or losses) on disposals of tangible and intangible assets—within the definition of operating profit, IFRS 18 may fundamentally alter both the comparability and perceived persistence of reported earnings (IFRS Foundation 2024).

This potential shift is particularly relevant in Korea Although Korea adopted IFRS in 2011, its financial reporting practices have retained a traditional format in presenting operating profit—calculated as gross revenue minus cost of goods sold (COGS) and selling, general, and administrative expenses (SG&A) (KASB, 2023). This presentation format, while implemented within the IFRS framework, closely resembles the structure traditionally associated with U.S. GAAP, where operating profit excludes non-recurring and non-operating items. Accordingly, the transition to IFRS 18 may result in a notable departure from established Korean reporting practices, potentially influencing the informational content and interpretability of operating profit figures. Given these structural and definitional shifts, it remains an open empirical question whether the newly defined operating profit under IFRS 18 provides superior informational value compared to the traditionally defined operating profit under K-IFRS. This issue is particularly relevant for jurisdictions such as Korea, where the practical application of operating profit has historically adhered to a format similar to U.S. GAAP despite the formal adoption of IFRS.

Accordingly, this study seeks to evaluate and compare the relative information usefulness of operating profit as defined under IFRS 18 and K-IFRS. Specifically, we examine four key dimensions of accounting quality—value relevance, earnings persistence, cash flow predictability, and accounting conservatism—to determine whether IFRS 18 improves or diminishes the decision-usefulness of reported performance measures. By conducting empirical tests based on a large sample of Korean listed firms, this paper provides timely evidence on the potential impact of IFRS 18 and offers important implications for standard setters, practitioners, and stakeholders seeking to interpret financial statements in an evolving regulatory landscape.

This study contributes to the literature in several important ways. First, it provides one of the earliest empirical assessments of IFRS 18's impact on earnings quality, addressing a timely

yet underexplored question in financial reporting research. By evaluating whether the structural revisions under IFRS 18 enhance the usefulness of accounting information, the study directly engages with the core objective of financial reporting. Second, Korea's financial reporting environment offers a unique empirical setting to assess the practical implications of IFRS 18. Although Korea formally adopted IFRS in 2011, the presentation of operating profit has remained closely aligned with the U.S. GAAP tradition, emphasizing a cost-based subtotal structure. This coexistence of conceptual frameworks enables a natural comparison between IFRS 18's principles-based approach and a more conventional reporting practice. Finally, the study offers policy-relevant insights for global standard setters, including the International Accounting Standards Board (IASB), by providing evidence on how income statement structure affects the informativeness and relevance of reported earnings. The findings may inform ongoing deliberations regarding the balance between conceptual consistency and practical applicability in standard setting.

2. Theoretical background and hypotheses

2.1 Evolution of Operating Profit Reporting: From IAS 1 to IFRS 18

The definition and presentation of operating profit have long posed challenges within the IFRS framework. IAS 1, Presentation of Financial Statements, did not explicitly define operating profit. As a result, firms retained substantial discretion over which components to include or exclude (Kawa, 2023). Consequently, even companies with similar business structures often reported operating profit in markedly different ways. Such discretion not only reduced the comparability of financial information but also created interpretive ambiguity, leaving investors, analysts, and regulators with substantial uncertainty regarding firms' true

economic performance. This absence of a standardized definition undermined the decision-usefulness of financial statements and raised persistent concerns over the reliability of operating profit as a key performance indicator.

In response to these criticisms, the International Accounting Standards Board (IASB) issued IFRS 18, Presentation and Disclosure in Financial Statements, in 2024, as a replacement for IAS 1 (IFRS Foundation 2024). IFRS 18 introduces transformative changes aimed at standardizing the structure and interpretation of the income statement. Chief among these is the formal definition of operating profit using a residual approach. Under this framework, operating profit includes all income and expenses reported in the statement of profit or loss unless specifically classified under four categories: investing, financing, income taxes, or discontinued operations. This shift broadens the scope of operating profit by incorporating items previously treated as non-operating—such as impairment losses or reversals, and gains or losses from the disposal of tangible and intangible assets.

By adopting this residual category, IFRS 18 is intended to reduce managerial discretion, promote greater consistency, and enhance comparability across firms and jurisdictions. Moreover, the standard seeks to mandate a more systematic classification of line items into operating, investing, or financing activities, thereby addressing inconsistencies that had previously hindered cross-sectional and temporal analysis. Collectively, these changes are expected to potentially improve the transparency, reliability, and decision-usefulness of financial reporting, thereby offering stakeholders a more consistent basis for evaluating firm performance.

2.2 The Korean Context: Distinctive Practices in Operating Profit Presentation

Korea adopted IFRS as its national accounting standard in 2011 under the designation K-

IFRS. Although Korea has fully adopted IFRS, the reporting of operating profit retains a distinctive cost-based definition, typically calculated as revenue minus cost of goods sold (COGS) and selling, general, and administrative expenses (SG&A) (KASB, 2023). This practice, while formally consistent with IFRS, closely mirrors the approach under US GAAP, where operating profit is reported as a subtotal excluding non-recurring and non-operating items.

The persistence of this cost-based definition within the Korean reporting environment reflects the practical norms of financial analysis and regulation in Korea, where operating profit serves as a central indicator of managerial performance and business profitability. Consequently, the shift toward IFRS 18's broader and more conceptually grounded definition of operating profit may represent a significant departure from entrenched practices. This provides a valuable empirical context to assess the comparative usefulness of the two definitions: the traditionally defined K-IFRS operating profit versus the IFRS 18-based measure.

The implementation of IFRS 18 is likely to affect the interpretation of financial results, the structure of performance metrics, and ultimately, the decision-making processes of stakeholders. The extent to which the expanded definition improves or weakens the informativeness of operating profit remains an empirical matter with important implications for both standard setters and financial statement users.

2.3 Information Usefulness of Operating Profit

2.3.1 Value relevance

Value relevance refers to the extent to which accounting information is reflected in stock prices and returns, thereby indicating its usefulness for investors' valuation and decision-

making. Since the seminal evidence of Ball and Brown (1968), a vast body of literature has investigated whether reported earnings and related measures provide information that markets incorporate into pricing (Beaver et al. 1980; Collins and Kothari 1989; Easton and Zmijewski 1989; Ali and Zarowin 1992; Ohlson 1995; Feltham and Ohlson 1995). This line of research has established value relevance as a criterion for assessing the decision usefulness of accounting information.

Earnings comprise both permanent and transitory elements, and the permanent components are generally associated with future performance and market values (Lipe 1986; Elliott and Shaw 1988; Ali and Zarowin 1992; Francis et al. 1996; Brown and Sivakumar 2003). Building on this distinction, later studies have examined whether focusing on core and recurring earnings provides a clearer and more value-relevant measure of firm performance. Adjusted measures that exclude special or nonrecurring items are generally more strongly associated with stock prices and returns (Bradshaw and Sloan 2002; Brown and Sivakumar 2003), although some unusual items can also convey useful signals about future performance (Elliott and Shaw 1988; Francis et al. 1996; Jones and Smith 2011). These findings highlight the critical role of earnings classification in determining their informativeness, and suggest that the definition of operating profit is not neutral but central to its value relevance.

These insights are particularly important in the context of IFRS 18, which substantially alters the definition of operating profit. By adopting a residual approach, IFRS 18 broadens operating income to include items previously classified as non-operating under K-IFRS, such as certain impairments and disposal gains. On the one hand, the standard's explicit definition and mandatory classification rules may enhance comparability and strengthen the association with market values. On the other hand, the inclusion of more transitory items may dilute its informativeness. Which of these two opposing effects dominates is ultimately an empirical question.

Hypothesis 1 (Value Relevance). Operating profit as defined under IFRS 18 exhibits greater value relevance than the traditionally defined operating profit under K-IFRS.

2.3.2 Earnings persistence

Earnings persistence refers to the extent to which current earnings are sustained over time and thus provide a reliable basis for forecasting future performance (Sloan 1996). It is widely recognized as a key attribute of earnings quality and a critical input into valuation models, since more persistent earnings enhance investors' ability to assess firm value and reduce uncertainty (Dechow and Schrand 2004).

A large body of research has examined the determinants of earnings persistence. Lipe (1990) shows that disaggregating earnings into different components reveals heterogeneity in persistence across items. Sloan (1996) demonstrates that accruals are less persistent than cash flow components, highlighting the role of earnings composition in explaining variation in persistence. Richardson et al. (2005) show that less reliable accruals reduce earnings persistence and that investors do not fully anticipate this effect, leading to mispricing. Their findings highlight that the quality of accruals is a key determinant of earnings persistence and market efficiency. Subsequent research shows that persistence decreases substantially when firms frequently report special or nonrecurring items. Fairfield et al. (2009), in particular, document that impairments, restructuring charges, and other unusual items significantly reduce persistence, as these components are transitory and less reflective of sustainable performance. Taken together, this evidence highlights that persistence is fundamentally shaped by the extent to which earnings capture recurring rather than transitory elements, making it a useful lens for evaluating definitions of operating profit.

In this regard, operating profit has often been regarded as a more persistent measure than net

income, because it excludes certain non-operating or extraordinary items. However, IFRS 18 significantly changes the definition of operating profit by adopting a residual approach. Under this definition, operating profit may incorporate more transitory items such as impairment losses, reversals, and disposal gains. While the inclusion of these items could potentially reduce persistence, the explicit definition and standardized classification under IFRS 18 may also improve comparability and enhance the consistency of reported operating profit. Whether the new definition ultimately enhances or weakens persistence is therefore an empirical question that requires investigation.

Hypothesis 2 (Earnings Persistence). Operating profit as defined under IFRS 18 exhibits greater persistence than the traditionally defined operating profit under K-IFRS.

2.3.3 Cash Flow Predictability

Cash flow predictability refers to the extent to which current earnings provide information for forecasting future cash flows. Because cash flows are central to firm valuation, contracting, and liquidity assessment, the ability of earnings to predict future cash flows is widely regarded as a key dimension of earnings quality (Dechow 1994; Dechow et al. 1998; Barth et al. 2001; Kim and Kross 2005). Predictive ability enhances the decision usefulness of financial reporting by allowing investors and creditors to better anticipate future operating performance and assess firms' capacity to generate value.

Prior research demonstrates that the predictive content of earnings varies depending on their composition. Dechow (1994) finds that earnings generally predict future cash flows better than current cash flows themselves, but this predictive ability is weakened when earnings contain large accrual components. Barth et al. (2001) extend this by showing that disaggregating earnings into accrual and cash flow components improves forecasts of future cash flows,

emphasizing that the informativeness of earnings depends critically on how items are classified. Other studies highlight that recurring operating income tends to have stronger predictive power, whereas special items and non-operating components contribute little to predicting future cash flows (Lev and Nissim, 2006; Richardson et al., 2005). Complementing these findings, Chen and Wang (2004) document that operating income exhibits greater persistence and predictive ability than other income, but that certain components of other income also display future persistence and predictive value.

These findings are particularly relevant for IFRS 18, which redefines operating profit using a residual approach. By including items such as impairment losses, reversals, and disposal gains within operating profit, IFRS 18 may weaken its ability to forecast future cash flows, since these items are largely transitory and not closely linked to future operating performance. On the other hand, the standard's explicit classification rules may improve consistency across firms and enhance the comparability of predictive relations between earnings and future cash flows. Whether IFRS 18 improves or diminishes the cash flow predictability of operating profit is therefore an empirical question.

Hypothesis 3 (Cash Flow Predictability). Operating profit as defined under IFRS 18 exhibits greater ability to predict future cash flows than the traditionally defined operating profit under K-IFRS.

2.3.4 Accounting conservatism

Accounting conservatism refers to the asymmetric recognition of economic gains and losses in financial reporting, whereby losses are recognized in a timelier manner than gains (Basu, 1997). This principle is viewed as an important attribute of earnings quality, as it enhances the credibility of reported information, mitigates managerial opportunism, and provides investors

and creditors with early warning signals about potential downside risks (Watts, 2003). By recognizing bad news more promptly than good news, conservatism reduces information asymmetry and can play a critical role in contracting and corporate governance.

A substantial body of research documents the role and consequences of accounting conservatism. Basu (1997) formalizes an empirical measure of conditional conservatism by examining the asymmetric timeliness of earnings relative to stock returns. Ball and Shivakumar (2005) show that conservatism arises partly from debt contracting and litigation risk, reflecting market demand for timely loss recognition. Further studies emphasize that conservatism enhances the efficiency of debt markets, reduces the cost of capital, and constrains earnings management by disciplining managers (LaFond and Watts, 2008; García Lara et al., 2009).

At the same time, critics argue that excessive conservatism may impair the relevance of earnings by understating economic performance, especially in growth-oriented firms (Gigler and Hemmer, 2001). Later studies further emphasize this concern: Guay and Verrecchia (2006) contend that conservatism can distort information in a way that undermines market efficiency, while Gigler et al. (2009) argue that conservative reporting may bias accounting numbers and lead to inefficient decision-making. Collectively, the literature highlights a trade-off: while conservatism improves reliability and governance, it may reduce relevance and predictive ability when applied too stringently.

These debates are highly relevant for IFRS 18. By redefining operating profit under a residual approach, IFRS 18 broadens the set of items included in operating income, such as impairments and disposal gains. Since conservatism is often operationalized through the asymmetric recognition of impairments and write-downs, the incorporation of such items into operating profit under IFRS 18 may strengthen the conservative nature of the measure. On the other hand, if these inclusions increase volatility and blur the line between recurring and transitory performance, they could reduce the informativeness of operating profit for assessing

sustainable earnings. Whether IFRS 18 enhances or diminishes accounting conservatism therefore remains an open empirical question.

Hypothesis 4 (Accounting Conservatism). Operating profit as defined under IFRS 18 reflects a greater degree of accounting conservatism than the traditionally defined operating profit under K-IFRS.

3. Research design

3.1 Sample selection and data

Our sample consists of non-financial firms listed on the Korea Exchange (KOSPI and KOSDAQ) over the period 2012-2023. Korea formally adopted IFRS in 2011, which provides a sufficiently long post-adoption window to examine the relative usefulness of operating profit measures under both the traditional K-IFRS definition and the new IFRS 18 definition. Financial institutions are excluded because their financial reporting structures and regulatory environments differ substantially from those of non-financial firms, making the measurement of operating profit less comparable. We also exclude firms with incomplete data for key variables, firms with non-December fiscal year-ends, and firms under restructuring to ensure the robustness of our analyses. The accounting and financial statement data, including stock price and return information, are obtained from the Value Search and FnGuide databases, which provide standardized firm-level data for Korean listed companies. The final sample consists of 21,272 firm-year observations. All continuous variables are winsorized at the 1st and 99th percentiles to mitigate the influence of outliers. To enhance comparability across firms of different sizes, financial variables such as operating profit and cash flows are scaled by lagged total assets. Industry and year fixed effects are included in all regressions to control

for systematic differences in operating environments and time-specific shocks.

3.2 Variable measurement

Our dependent variables capture four dimensions of earnings quality. To test value relevance (H1), we adopt the Ohlson (1995) price-level model and use the stock price three months after fiscal year-end as the dependent variable. This approach ensures that accounting information disclosed in annual reports is reflected in market valuations. For earnings persistence (H2), we measure the extent to which current operating profit predicts future operating profit, both scaled by lagged total assets, with the autoregressive coefficient capturing the degree of persistence, following Sloan (1996), who assesses earnings persistence using the first-order autocorrelation between current and future net income. Cash flow predictability (H3) is assessed by examining whether current earnings improve forecasts of future operating cash flows, following Dechow et al. (1998) and Barth et al. (2001). Finally, accounting conservatism (H4) is operationalized using the Ball and Shivakumar (2005) asymmetric timeliness model, in which total accruals are regressed on cash flows, a dummy for negative cash flows, and their interaction, with the interaction term indicating the timeliness of loss recognition.

The key independent variable of interest is operating profit. Under K-IFRS, operating profit follows the traditional cost-based definition, calculated as revenues minus cost of goods sold and selling, general, and administrative expenses. In contrast, under IFRS 18, operating profit is defined residually, including all items not classified as investing, financing, taxation, or discontinued operations. This redefinition incorporates components such as impairments and disposal gains into operating profit, which may alter its informational properties by increasing the weight of transitory items. To allow a direct comparison, non-operating income is also defined consistently under each framework, facilitating an assessment of the relative informativeness of operating versus non-operating components. In the value relevance analysis,

book value per share is additionally included to capture the role of equity values alongside earnings in explaining stock prices.

3.3 Empirical models

To empirically test the hypotheses, we estimate regression models that evaluate the relative information usefulness of operating profit under K-IFRS and IFRS 18.

3.3.1 Value Relevance (H1)

Based on Ohlson (1995), we estimate a price-level regression to test whether IFRS 18 operating profit exhibits greater value relevance than K-IFRS operating profit.

$$Price_{it+1} = \alpha_0 + \alpha_1 BPS_{it} + \alpha_2 SOI\_IFRS18_{it} + \alpha_3 SNOI\_IFRS18_{it} + \sum Industry + \sum Year + \epsilon_i \quad (1\text{-}1)$$

$$Price_{it+1} = \beta_0 + \beta_1 BPS_{it} + \beta_2 SOI\_KIFRS_{it} + \beta_3 SNOI\_KIFRS_{it} + \sum Industry + \sum Year + \epsilon_i \quad (1\text{-}2)$$

where $Price_{it+1}$ denotes the stock price of firm *i* three months after fiscal year-end *t*, BPS_{it} is book value per share of firm *i* in year *t*. SOI_IFRS18_{it} and $SNOI\_IFRS18_{it}$ represent operating income per share and non-operating income per share, respectively, calculated under IFRS 18 definition. SOI_KIFRS_{it} and $SNOI\_KIFRS_{it}$ represent operating income per share and non-operating income per share, respectively, calculated under K-IFRS definition. $\sum Industry$ denotes industry fixed effects, and $\sum Year$ denotes year fixed effects. A larger α_2 than β_2 indicates that operating profit under IFRS 18 is more strongly associated with stock prices, reflecting greater value relevance.

3.3.2 Earnings Persistence (H2)

Based on Sloan (1996), we examine whether operating profit defined under IFRS 18 exhibits greater persistence than that defined under K-IFRS. Earnings persistence is assessed by examining the extent to which current operating profit is associated with future operating profit, with the coefficient on current profit capturing the degree of persistence.

$$OI\_IFRS18_{it+1} = \alpha_0 + \alpha_1 OI\_IFRS18_{it} + \sum Industry + \sum Year + \epsilon_i \quad (2\text{-}1)$$

$$OI\_KIFRS_{it+1} = \beta_0 + \beta_1 OI\_KIFRS_{it} + \sum Industry + \sum Year + \epsilon_i \quad (2\text{-}2)$$

where OI_IFRS18_{it+1} and OI_KIFRS_{it+1} denotes the operating profit of firm i in year $t+1$, scaled by lagged total assets. OI_IFRS18_{it} and OI_KIFRS_{it} represent operating profit of firm i in year t, scaled by lagged total assets. A larger α_1 than β_1 indicates that operating profit under IFRS 18 is more strongly associated with future operating profit, reflecting greater earnings persistence.

3.3.3 Cash Flow Predictability (H3)

Based on Dechow et al. (1998), and Barth et al. (2001), we examine whether operating profit defined under IFRS 18 provides greater predictive ability for future operating cash flows than operating profit defined under K-IFRS. Cash flow predictability is assessed by regressing future operating cash flows on current earnings measures, with the coefficient on operating profit capturing its forecasting power.

$$OCF_{it+1} = \alpha_0 + \alpha_1 OI\_IFRS18_{it} + \alpha_2 OCF_{it} + \sum Industry + \sum Year + \epsilon_i \quad (3\text{-}1)$$

$$OCF_{it+1} = \beta_0 + \beta_1 OI\_KIFRS_{it} + \beta_2 OCF_{it} + \sum Industry + \sum Year + \epsilon_i \quad (3\text{-}2)$$

where OCF_{it+1} denotes the operating cash flow of firm i in year $t+1$, scaled by lagged total

assets. A larger α_1 than β_1 indicates that operating profit under IFRS 18 is more strongly associated with future cash flows, reflecting greater cash flow predictability.

3.3.4 Accounting conservatism (H4)

Based on Ball and Shivakumar (2005), we evaluate whether operating profit defined under IFRS 18 reflects a greater degree of accounting conservatism than operating profit under K-IFRS. Conservatism is assessed using an asymmetric timeliness framework, where total accruals are regressed on operating cash flows, a dummy for negative cash flows, and their interaction. The coefficient on the interaction term captures the timeliness of loss recognition.

$$TACC\_IFRS18_{it} = \alpha_0 + \alpha_1 DOCF_{it} + \alpha_2 OCF_{it} + \alpha_3 DOCF_{it} \times OCF_{it} + \sum Industry + \sum Year + \epsilon_i \quad (4\text{-}1)$$

$$TACC\_KIFRS_{it} = \beta_0 + \beta_1 DOCF_{it} + \beta_2 OCF_{it} + \beta_3 DOCF_{it} \times OCF_{it} + \sum Industry + \sum Year + \epsilon_i \quad (4\text{-}2)$$

where $TACC\_KIFRS_{it}$ denotes the total accruals of firm i in year t, scaled by lagged total assets, calculated under K-IFRS definition. $TACC\_IFRS18_{it}$ denotes the total accruals of firm i in year t, scaled by lagged total assets, calculated under IFRS18 definition. $DOCF_{it}$ is a dummy variable that equals 1 if operating cash flow is negative and 0 otherwise. $DOCF_{it} \times OCF_{it}$ represents the interaction term capturing asymmetric timeliness, with the coefficient on this term measuring the degree of accounting conservatism. A larger α_3 than β_3 indicates that operating profit under IFRS 18 recognizes losses more promptly relative to gains, reflecting a greater degree of accounting conservatism.

[Insert Table 1 about here]

4. Empirical results

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the main variables used in the empirical analyses. The final sample comprises 21,272 firm-year observations over the 2012–2023 period. The average stock price (Price) and book value per share (BPS) are KRW 22,715 and 14.539, respectively, with substantial dispersion, as indicated by standard deviations of KRW 46,949 and 33.717. This wide variation reflects the coexistence of large firms alongside much smaller firms in the sample. Regarding performance measures, operating profit per share under IFRS 18 (SOI_IFRS18) and K-IFRS (SOI_KIFRS) both average around 0.966–0.994, while non-operating income per share is negative on average (–0.237 to –0.261), indicating that firms more often report non-operating losses than gains. Profit margins under IFRS 18 and K-IFRS (OI_IFRS18 and OI_KIFRS), measured as operating profit scaled by lagged total assets, are positive but relatively small, averaging around 3% with moderate dispersion. Operating cash flows (OCF) average 4% of lagged total assets. Accrual-based measures also reveal important patterns. Total accruals (TACC_IFRS18 and TACC_KIFRS) are negative on average (–0.01), reflecting conservative accounting practices and the tendency for non-cash expenses to exceed non-cash revenues. Finally, the dummy for negative operating cash flows (DOCF) equals one in 27% of firm-years, highlighting that a sizable proportion of firms report cash flow shortfalls despite reporting positive operating profits. Taken together, these descriptive patterns underscore the heterogeneity of earnings components and reinforce the importance of evaluating whether the redefined operating profit under IFRS 18 enhances or diminishes its informational usefulness relative to the K-IFRS.

[Insert Table 2 about here]

4.2 Regression results

4.2.1 Value relevance

Table 3 presents the regression results testing whether the value relevance of operating income differs significantly between IFRS 18 and K-IFRS. Value relevance refers to the extent to which accounting earnings affect firm value in capital markets and serves as a key indicator of the usefulness of financial information for investors' decision-making.

The results show that the coefficients on operating income are positive and highly significant under both accounting regimes, indicating that operating profit consistently conveys value-relevant information for stock prices. However, the coefficient on SOI_KIFRS (6,141.212, t=44.444) is significantly larger than that on SOI_IFRS18 (5,778.568, t=42.160), with the cross-model t-test (t=1.863, p=0.062) confirming the difference at the 10% significance level. This suggests that operating income under K-IFRS exhibits stronger value relevance than under IFRS 18. In terms of explanatory power, the adjusted R-squared is 53.0% for the IFRS 18 model and 53.4% for the K-IFRS model. The Vuong test, which formally compares the two non-nested models, yields a statistic of 3.324 (p=0.001), indicating at the 1% level that the K-IFRS specification provides superior explanatory power relative to the IFRS 18 specification.

Regarding control variables, book value per share (BPS) is positive and statistically significant at the 1% level in both models. Non-operating income (SNOI_IFRS18 and SNOI_KIFRS) is also positive and significant, but the difference in coefficients across the two regimes is not statistically significant. This implies that classification differences do not materially affect the value relevance of non-operating components. Taken together, these findings indicate that operating income under K-IFRS exhibits stronger value relevance than under IFRS 18, suggesting that K-IFRS definition provides more useful information for financial statement users in valuing firms.

[Insert Table 3 about here]

4.2.2 Earnings persistence

Table 4 presents the regression results testing whether the persistence of operating income differs between IFRS 18 and K-IFRS. Earnings persistence refers to the extent to which current earnings are sustained into the future, and is widely regarded as a key attribute of earnings quality since more persistent earnings provide a reliable basis for forecasting future performance.

The results show that the coefficients on operating income are positive and highly significant under both accounting regimes, indicating that current operating profit consistently predicts future operating profit. Specifically, the coefficient on OI_KIFRS (0.652, t=141.695) is larger than that on OI_IFRS18 (0.639, t=133.626), with the cross-model t-test (t=1.988, p=0.047) confirming the difference at the 5% significance level. This suggests that operating income under K-IFRS exhibits stronger persistence than under IFRS 18. In terms of explanatory power, the adjusted R-squared is 49.8% for the K-IFRS model compared to 46.7% for the IFRS 18 model. The Vuong test statistic of 23.781 (p=0.000) further indicates at the 1% level that the K-IFRS specification provides significantly greater explanatory power than the IFRS 18 specification.

Overall, these results suggest that operating income under K-IFRS is more persistent than under IFRS 18. This finding implies that definition of operating profit under K-IFRS better captures sustainable earnings and provides more reliable information for forecasting future firm performance.

[Insert Table 4 about here]

4.2.3 Cash flow predictability

Table 5 presents the regression results examining whether the ability of operating income to predict future operating cash flows differs between IFRS 18 and K-IFRS. Cash flow predictability captures the extent to which current earnings provide information about future cash flows, a key dimension of earnings quality because it directly relates to firm valuation, liquidity assessment, and investors' forecasting ability.

The results show that operating income is positively and significantly associated with future cash flows under both regimes, indicating that earnings information contains predictive content. However, the coefficient on OI_KIFRS (0.443, t=52.542) is significantly larger than that on OI_IFRS18 (0.392, t=49.887). The cross-model t-test (t=4.432, p=0.000) confirms this difference at the 1% significance level, suggesting that operating income under K-IFRS exhibits stronger predictive power for future cash flows relative to IFRS 18. With respect to explanatory power, the adjusted R-squared is higher for the K-IFRS model 29.1% than for the IFRS 18 model 28.3%. The Vuong test yields a statistic of 6.221 (p=0.000), confirming at the 1% level that the K-IFRS model provides superior explanatory power in predicting future cash flows.

Taken together, these results indicate that the predictive ability of operating profit for future cash flows is stronger under K-IFRS than under IFRS 18. This finding suggests that the residual definition of operating profit under IFRS 18, by including more transitory items, may weaken its usefulness for forecasting firms' future operating cash flows.

[Insert Table 5 about here]

4.2.4 Accounting conservatism

Table 6 presents the regression results testing whether the degree of accounting conservatism

embedded in operating income differs between IFRS 18 and K-IFRS. Accounting conservatism plays a critical role in financial reporting by ensuring timely recognition of economic losses, thereby enhancing the credibility of earnings, mitigating managerial opportunism, and providing investors and creditors with early warning signals of downside risk.

The results indicate that the interaction term (DOCF × OCF) is positive and statistically significant under both regimes, confirming that accruals incorporate losses more promptly than gains. This finding is consistent with the presence of accounting conservatism in reported earnings. The coefficient on the interaction term is larger under IFRS 18 (0.095, t=6.734) than under K-IFRS (0.084, t=6.308). However, the cross-model t-test (t=–0.607, p=0.544) shows that the difference is not statistically significant. In terms of explanatory power, the adjusted R-squared is higher under K-IFRS (22.2%) than under IFRS 18 (19.0%). The Vuong test yields a statistic of 22.637 (p=0.000), confirming at the 1% level that the K-IFRS model provides superior explanatory power in accounting conservatism.

Taken together, the results suggest that operating income under IFRS 18 exhibits a tendency toward greater conservatism compared to K-IFRS, but the difference is not statistically significant. Moreover, the stronger explanatory power of the K-IFRS model indicates that IFRS 18 may not provide a substantive improvement over the traditional standard in terms of accounting conservatism.

[Insert Table 6 about here]

4.3 Additional analysis

To further assess the robustness of our findings, we redefined IFRS 18 operating profit by incorporating foreign exchange–related items, namely foreign exchange gains, foreign

currency translation gains, foreign exchange losses, and foreign currency translation losses. This alternative specification is motivated by the possibility that, under IFRS 18's residual approach, such foreign exchange outcomes may reasonably be considered part of operating activities, particularly for firms with substantial exposure to international trade.

We reconstructed operating profit by adding these foreign exchange components to the original IFRS 18 definition and re-estimated all empirical models corresponding to Hypotheses 1 through 4. Across all tests—including value relevance, earnings persistence, cash flow predictability, and accounting conservatism—the results under this alternative definition were virtually identical to our baseline findings.

Overall, the evidence indicates that including foreign exchange gains and losses in IFRS 18 operating profit does not materially alter its informational properties in the Korean setting. Taken together, this additional analysis reinforces our main conclusion: the new definition of operating profit under IFRS 18 does not provide superior information usefulness, even when foreign exchange items are alternatively treated as part of operating activities. The detailed regression results supporting this analysis are reported in Appendix.

5. Conclusion and implications

5.1 Summary of findings

This study investigates whether the newly defined operating profit under IFRS 18 would enhance the usefulness of financial information compared with the existing K-IFRS. Using a large sample of non-financial firms listed on KOSPI and KOSDAQ from 2012 to 2023, we evaluate four dimensions of earnings quality: value relevance, earnings persistence, cash flow predictability, and accounting conservatism.

The results can be summarized as follows. First, K-IFRS operating profit exhibits stronger value relevance than IFRS 18, suggesting that investors in Korea currently place greater weight on the traditional cost-based measure. Second, while both regimes demonstrate persistence, K-IFRS measures display higher predictive power for future earnings. Third, operating profit under both standards significantly predicts future operating cash flows, though the K-IFRS definition provides somewhat stronger predictive content. Fourth, IFRS 18 appears more conservative in coefficient terms, but the difference is not statistically significant, and explanatory power remains higher under K-IFRS. Taken together, these findings provide ex ante evidence that the expected benefits of IFRS 18 may not emerge as strongly in the Korean context.

5.2 Academic implications

Our findings contribute to the literature on earnings quality and international accounting standard setting in several ways. First, this is among the earliest empirical studies to examine IFRS 18, providing timely evidence on its potential effects. Second, by comparing earnings attributes across two reporting regimes within the same institutional setting, we provide a controlled test of how changes in accounting definitions influence information usefulness. Third, the results suggest that a broader, residual definition of operating profit does not necessarily enhance value relevance or predictive ability, at least ex ante, underscoring the importance of evaluating how new standards interact with existing reporting practices.

5.3 Practical Implications

For regulators and standard setters, our evidence underscores that the transition to IFRS 18 may not automatically yield improvements in decision usefulness in all settings. Instead, the ultimate impact of the new definition may depend on institutional traditions and market environments. For preparers and users, this finding highlights the need to carefully interpret IFRS 18 operating profit alongside other performance measures, especially during the initial adoption phase. For investors and analysts, IFRS 18 offers a more standardized and internationally comparable measure of operating profit, but complementary indicators may still be useful for valuation and forecasting.

5.4 Limitations and Future Research

This study has several limitations. First, the analysis is limited to Korean listed firms; cross-country studies are needed to generalize the results. Second, our empirical design focuses on four specific attributes of earnings quality, while other dimensions such as comparability or timeliness were not considered. Third, since IFRS 18 has not yet been implemented, operating income under IFRS 18 was estimated based on its definition, which represents an important limitation of this study.

Future research could build on our findings in several ways. First, once IFRS 18 is officially adopted, it will be crucial to re-examine whether actual market reactions differ from our exante estimates. This would allow researchers to evaluate not only the accounting properties of IFRS 18 earnings but also their practical relevance in real-world decision-making contexts. Second, future studies could investigate whether the usefulness of IFRS 18 operating income varies across firm characteristics such as size, growth opportunities, ownership structure, or financial constraints. Further work in these directions would provide deeper insights into how IFRS 18 shapes the informational role of accounting standards in international capital markets.

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Table 1 Variable definitions

Variable	Definition
Price	Stock price; Stock price three months after fiscal year-end.
BPS	Book value per share; total equity divided by shares outstanding.
SOI_IFRS18	Operating income per share; operating income defined under IFRS 18, scaled by shares outstanding.
SNOI_IFRS18	Non-operating income per share; non-operating income defined under IFRS 18, scaled by shares outstanding.
SOI_KIFRS	Operating income per share / operating income defined under K-IFRS, scaled by shares outstanding.
SNOI_KIFRS	Non-operating income per share; non-operating income defined under K-IFRS, scaled by shares outstanding.
OI_IFRS18	Operating income; operating income under IFRS 18, scaled by lagged total assets.
OI_KIFRS	Operating income; operating income under K-IFRS, scaled by lagged total assets.
OCF	Operating cash flow; net cash flow from operating activities, scaled by lagged total assets
TACC_IFRS18	Total accruals; operating income under IFRS 18 - operating cash flow, scaled by lagged total assets
TACC_KIFRS	Total accruals; operating income under K-IFRS - operating cash flow, scaled by lagged total assets
DOCF	Dummy for negative operating cash flow; equals 1 if OCF < 0, 0 otherwise.

Note: Operating income under K-IFRS is defined as revenues minus cost of goods sold (COGS) and selling, general, and administrative expenses (SG&A). Under IFRS 18, operating income follows a residual definition that additionally includes various transitory items such as disposal gains/losses and impairment charges/reversals on property, intangibles, inventories, and trade receivables.

Table 2 Descriptive statistics

Variable	Mean	S.D.	Min	Q1	Median	Q3	Max
Price	22,715	46,949	486	3,260	7,280	19,055	319,500
BPS	14.539	33.717	0.115	1.696	4.391	10.598	235.534
SOI_IFRS18	0.966	2.741	-2.377	-0.009	0.186	0.767	18.407
SNOI_IFRS18	-0.237	1.171	-6.916	-0.266	-0.055	0.019	4.382
SOI_KIFRS	0.994	2.767	-2.045	0.002	0.191	0.778	18.813
SNOI_KIFRS	-0.261	1.220	-7.287	-0.286	-0.062	0.016	4.407
OI_IFRS18	0.027	0.097	-0.351	-0.002	0.029	0.070	0.320
OI_KIFRS	0.030	0.092	-0.320	0.001	0.030	0.070	0.318
OCF	0.040	0.101	-0.331	-0.005	0.041	0.092	0.336
TACC_IFRS18	-0.013	0.078	-0.249	-0.052	-0.013	0.021	0.265
TACC_KIFRS	-0.010	0.075	-0.227	-0.049	-0.011	0.022	0.261
DOCF	0.273	0.446	0	0	0	1	1

Note: This table presents descriptive statistics for the sample of 21,272 firm-year observations from non-financial firms listed on the Korea Exchange between 2012 and 2023. All variable definitions are provided in Table 1.

Table 3 Value relevance of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Price			
	IFRS 18	K-IFRS	T-test	
	(1)	(2)	$\alpha_2 : \beta_2$	$\alpha_3 : \beta_3$
BPS	622.722*** (61.427)	589.058*** (56.727)		
SOI_IFRS18	5,778.568*** (42.160)		-1.863* (0.062)	
SOI_KIFRS		6,141.212*** (44.444)		
SNOI_IFRS18	1,848.190*** (8.317)			0.265 (0.791)
SNOI_KIFRS		1,766.811*** (8.354)		
Constant	-682.070 (-0.127)	-137.333 (-0.026)		
Industry	Yes	Yes		
Year	Yes	Yes		
R-squared	0.530	0.534		
F-value	888.1	902.8		
Vuong test (P-value)	3.324*** (0.001)			
Observations	21,272	21,272		

Note: This table reports the estimated effects of operating income under IFRS 18 and K-IFRS on stock prices. Column (1) presents results using IFRS 18 definitions of operating and non-operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 4 Persistence of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Operating income		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_1 : \beta_1$
OI_IFRS18	0.639*** (133.626)		-1.988** (0.047)
OI_KIFRS		0.652*** (141.695)	
Constant	0.001 (0.025)	0.002 (0.146)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.467	0.498	
F-value	747.0	844.4	
Vuong test (P-value)	23.781*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether the persistence of operating income under IFRS 18 and K-IFRS. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 5 Predictability of IFRS 18 and K-IFRS operating income for future cash flows

Variable	Dependent variable: Operating cash flow		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_1 : \beta_1$
OI_IFRS18	0.392*** (49.887)		-4.432*** (0.000)
OI_KIFRS		0.443*** (52.542)	
OCF	0.151*** (20.083)	0.127*** (16.684)	
Constant	0.021 (1.533)	0.021 (1.541)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.283	0.292	
F-value	323.5	336.5	
Vuong test (P-value)	6.221*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether current operating income predicts future operating cash flows. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 6 Conservatism of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Total accruals		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_3 : \beta_3$
OCF	-0.327*** (-39.224)	-0.324*** (-41.520)	
DOCF	0.010*** (6.662)	0.014*** (9.420)	
DOCF x OCF	0.095*** (6.734)	0.084*** (6.308)	0.607 (0.544)
Constant	0.014 (1.161)	0.010 (0.909)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.190	0.223	
F-value	186.4	226.2	
Vuong test (P-value)	22.637*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether operating income reflects accounting conservatism. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Appendix

Table A1 Value relevance of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Price			
	IFRS 18	K-IFRS	T-test	
	(1)	(2)	$\alpha_2 : \beta_2$	$\alpha_3 : \beta_3$
BPS	618.932*** (61.093)	589.058*** (56.727)		
SOI_IFRS18	5,799.415*** (42.501)		-1.760* (0.078)	
SOI_KIFRS		6,141.212*** (44.444)		
SNOI_IFRS18	1,771.082*** (8.041)			0.014 (0.989)
SNOI_KIFRS		1,766.811*** (8.354)		
Constant	-701.632 (-0.131)	-137.333 (-0.026)		
Industry	Yes	Yes		
Year	Yes	Yes		
R-squared	0.531	0.534		
F-value	891.5	902.8		
Vuong test (P-value)	2.464*** (0.014)			
Observations	21,272	21,272		

Note: This table reports the estimated effects of operating income under IFRS 18 and K-IFRS on stock prices. Column (1) presents results using IFRS 18 definitions of operating and non-operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table A2 Persistence of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Operating income		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_1 : \beta_1$
OI_IFRS18	0.629*** (130.251)		
			-3.437*** (0.001)
OI_KIFRS		0.652*** (141.695)	
Constant	0.003 (0.274)	0.002 (0.146)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.456	0.498	
F-value	713.4	844.4	
Vuong test (P-value)	21.911*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether the persistence of operating income under IFRS 18 and K-IFRS. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table A3 Predictability of IFRS 18 and K-IFRS operating income for future cash flows

Variable	Dependent variable: Operating cash flow		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_1 : \beta_1$
OI_IFRS18	0.386*** (49.351)		-4.968*** (0.000)
OI_KIFRS		0.443*** (52.542)	
OCF	0.156*** (20.775)	0.127*** (16.684)	
Constant	0.021 (1.569)	0.021 (1.541)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.282	0.292	
F-value	320.9	336.5	
Vuong test (P-value)	5.607*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether current operating income predicts future operating cash flows. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table A4 Conservatism of operating income under IFRS 18 and K-IFRS

Variable	Dependent variable: Total accruals		
	IFRS 18	K-IFRS	T-test
	(1)	(2)	$\alpha_3 : \beta_3$
OCF	-0.324*** (-38.645)	-0.324*** (-41.520)	
DOCF	0.011*** (6.965)	0.014*** (9.420)	
DOCF x OCF	0.088*** (6.156)	0.084*** (6.308)	0.207 (0.836)
Constant	0.012 (1.035)	0.010 (0.909)	
Industry	Yes	Yes	
Year	Yes	Yes	
R-squared	0.193	0.223	
F-value	187.6	226.2	
Vuong test (P-value)	22.774*** (0.000)		
Observations	21,272	21,272	

Note: This table reports the regression results examining whether operating income reflects accounting conservatism. Column (1) presents results using IFRS 18 definitions of operating income, while Column (2) uses K-IFRS definitions. All models include industry and year fixed effects. The t-test reports coefficient differences between IFRS 18 and K-IFRS specifications, and the Vuong test compares explanatory power across non-nested models. ***, *, and * denote significance at the 1%, 5%, and 10% levels, respectively.