

Advanced professional training workshop

IFRS 18

Presentation and Disclosure in Financial Statements

Restructuring the statement of profit or loss and bringing discipline to management performance reporting under the latest IASB standards — a practical professional guide to the key changes in the statement of profit or loss, cash flows and management-defined performance measures (MPMs).

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Mandatory application
2027



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مكتب الواحة لتدقيق الحسابات



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Workshop topic
**IFRS 18 – Presentation and Disclosure
in Financial Statements**



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Workshop agenda

Five parts that move from the reasons for the standard to its practical application in the statements and the notes.

1 Why IFRS 18?

Drivers of change and effective date · The three objectives · Comparison with IAS 1

2 The new statement of profit or loss

The five categories and subtotals · Short and detailed numerical models · Ambiguous items and the banking exception

3 Statement of cash flows

The new starting point · Classifying interest and dividends · Detailed cash flow model

4 Performance measures (MPMs)

Concept and disclosure requirements · Non-recurring gains and costs · Worked examples and reconciliations

5 Implementation and summary

Operational readiness and systems · Implementation roadmap · Executive summary and discussion

01

PART 1

Why IFRS 18?

- Drivers of change and effective date
- The three objectives and the effect of the standard on sectors
- A full comparison with the previous position

Drivers of change and effective date

The replacement for IAS 1: it restructures the presentation of financial performance and unifies the concepts of profitability.



Main objectives

To address the diversity in how companies present their operating profit, and to provide mandatory, uniform subtotals that let investors compare different entities fairly and directly.



Application timeline

April 2024

Standard issued

2026

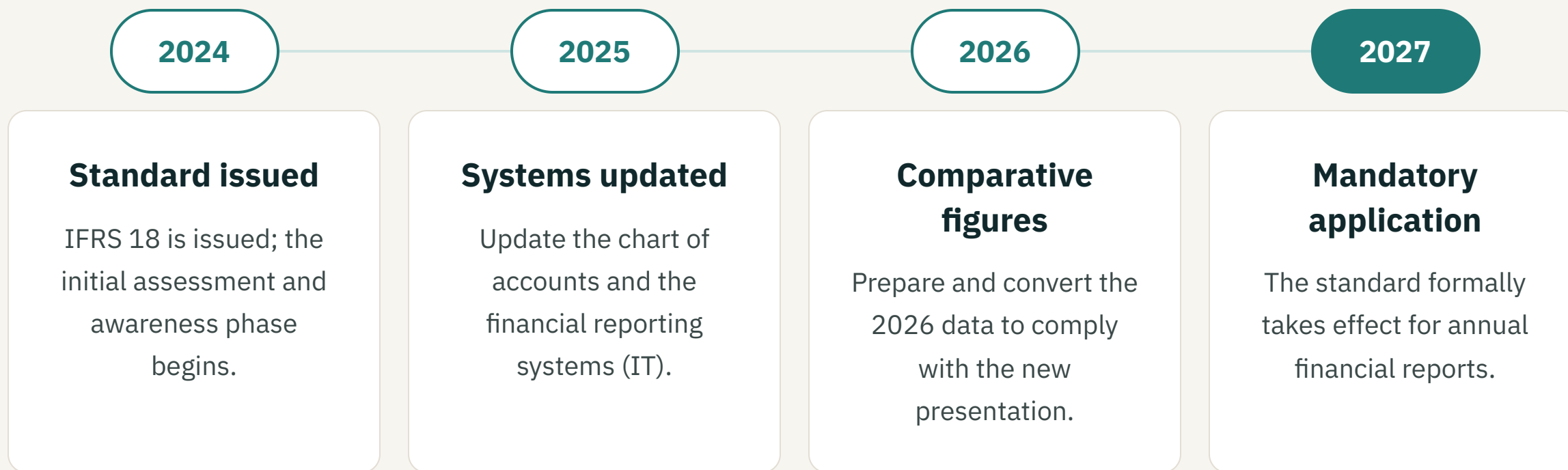
Year of comparative
figures

1 January 2027

Mandatory application begins

- Application is mandatory for financial periods beginning on or after **1 January 2027**; earlier application is permitted.
- The standard requires comparative figures for 2026 to be prepared on the new basis.

Transition timeline



The three objectives of the standard

IFRS 18 rests on three core pillars that reshape how financial statements are presented and strengthen their credibility.

1 A uniform structure for the statements

The statement of profit or loss must be split into 3 main categories (operating, investing, financing), giving full consistency, easy comparison between companies worldwide and a common basis of measurement.

2 Discipline over management's figures (MPMs)

Management-defined performance measures are brought under external audit scrutiny and disclosed in the notes, to prevent manipulation.

3 Full transparency and detail

Expenses may not be merged into loose items such as “other expenses”; salaries and depreciation are disaggregated and their nature made fully clear, instead of an opaque total.

Effect of the standard on sectors

The effect of the new classification varies with the entity's main business activity.



Banks and financial institutions

Interest and finance costs are classified within operating activities, given the nature of their core business.



Investment companies

Returns on investment assets and capital gains are included directly in operating activity.



Commercial and industrial sector

A precise, clear separation between operating results and secondary financing and investing activities.

Full comparison: the previous position versus IFRS 18

Previous position (IAS 1)	New standard (IFRS 18)
✗ No mandatory structure: companies differ widely in how they present the statements and structure the statement of profit or loss, which makes comparison difficult.	✓ 3 defined categories: one standard structure that ensures direct comparability, a mandatory split of income (operating, investing, financing) and compulsory subtotals.
✗ No specific or mandatory definition of “operating profit”.	✓ A mandatory operating profit with a precisely defined formula.
✗ Undisciplined flexibility: alternative performance measures such as EBITDA and adjusted profit sit outside the audit and the statements.	✓ MPMs regulated: management’s performance measures are brought into the notes and their tax effect is calculated.
✗ Opaque items: very large amounts aggregated under a vague item called “other expenses”.	✓ Aggregation and disclosure principles: strict rules to disaggregate expenses and limit the label “other”.
✗ Scattered cash flows: several options for classifying interest and dividends.	✓ IAS 7 unified: the starting point must be “operating profit”, the arbitrary options are removed, and interest and dividends have a specific mandatory classification.

02

PART 2

The new statement of profit or loss

- The five categories and the mandatory subtotals
- Aggregation and disaggregation rules
- Numerical models and the classification of ambiguous items

The concept of EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBITDA is one of the most important financial measures used to gauge companies' **core operating profitability**. It measures a company's performance and the cash it generates from its day-to-day operations alone, excluding the effect of financing decisions (such as debt), tax environments and non-cash accounting decisions.

 **Bottom-up**
Most common

$$\text{EBITDA Measure} = \text{Net income} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortisation}$$

 **Top-down**

$$\text{EBITDA Measure} = \text{Operating income EBIT} + \text{Depreciation} + \text{Amortisation}$$

The five categories of the statement of profit or loss

IFRS 18 requires all income and expenses in the statement of profit or loss to be classified into 5 main categories.

1 Operating

The main category, covering all the company's core activities, including sales revenue, cost of sales, marketing and administrative salaries.

2 Investing

Returns from investments and stand-alone non-operating assets, such as profits of associates and joint ventures, interest on deposits and bonds, and dividends on shares of other companies.

3 Financing

Transactions relating to capital and debt: borrowing costs and financing transactions such as interest expense on bank loans and bonds, and interest on leases (IFRS 16).

4 Income taxes

Tax expenses recognised (income tax expense or income).

5 Discontinued operations

Results of discontinued activities.

Final result: profit or loss for the year

The mandatory subtotals

2

Two new
mandatory subtotals

An end to individual interpretations in the discussion of profitability

The standard requires specified, uniform subtotals to be shown in the statement of profit or loss:

- 1 Operating profit or loss
- 2 Profit or loss before financing and income taxes

The new structure of the statement of profit or loss

Presentation logic: operating → investing → financing → tax → profit for the year

Operating

Income and expenses related to the core activity.



Investing

Returns on investments and on assets that generate returns independently.



Financing

Finance costs and financing liabilities.



Tax

Income tax expense.



Profit for the year

The final result, and the split of profit between the parent and non-controlling interests.

⌵ **Operating profit** appears after the operating category, and **profit before financing and income taxes** appears after the investing category. These are the two mandatory subtotals.

Aggregation and disaggregation rules



Presentation of expenses

Operating expenses are presented either by **nature**, such as depreciation and wages, or by **function**, such as cost of sales and marketing.



Limiting the label “other”

Material, dissimilar items may not be merged under general labels such as “other expenses”, and the details must be disclosed where items are merged.



Integration with the notes

A structural link is ensured between the information presented in the primary financial statements and the details given in the accompanying notes.

Short model – statement of profit or loss

This model illustrates the mandatory classification under IFRS 18.

Category / classification	Line item	Amount (KD)
Operating	Sales revenue	1,000,000
Operating	Cost of goods sold	(600,000)
Operating	Selling and administrative expenses	(200,000)
Operating category	Operating profit Mandatory	200,000
Investing	Interest income on investments + the company's share of profit of an associate	20,000
Subtotal	Profit before financing and income taxes Mandatory	220,000
Financing	Interest expense on bank loans and leases	(30,000)
Subtotal	Profit before tax	190,000
Taxes	Income tax expense	(19,000)
Final result	Profit for the year	171,000

Detailed model – consolidated statement of profit or loss (1 of 2)

This model illustrates the mandatory classification in detail under IFRS 18 – the operating category.

Operating category	Amount (KD)
Revenue from contracts with customers (sales)	1,500,000
(–) Cost of sales (cost of goods sold)	(850,000)
Gross profit	650,000
(–) Selling and distribution expenses (marketing and freight)	(120,000)
(–) General and administrative expenses (salaries, office rents)	(140,000)
(–) Allowance for expected credit losses (doubtful debts)	(10,000)
(+) Other operating income (gains on sale of operating equipment)	15,000
(–) Other operating expenses (losses on labour lawsuits)	(5,000)
Operating profit Mandatory	390,000

Summary of the full statement

Operating profit	390,000
Net investment income	70,000
Profit before financing and income taxes	460,000
Net finance costs	(58,000)
Profit before income tax	402,000
Income tax expense	(60,300)
Profit for the year	341,700

Detailed model – consolidated statement of profit or loss (2 of 2)

The investing and financing categories, then tax, down to profit for the year.

Investing category	Amount (KD)
From operating profit	390,000
(+) Share of profit of associates	35,000
(+) Interest income on bonds and bank term deposits	12,000
(+) Dividends received on shares of other companies	8,000
(+) Net fair value gains on investment properties	20,000
(–) Impairment losses on investment assets	(5,000)
Net investment income	70,000
Profit before financing and income taxes Mandatory	460,000

Financing category and tax	Amount (KD)
(–) Interest expense on loans and bank overdrafts	(40,000)
(–) Interest expense on bonds issued	(15,000)
(–) Interest expense on lease liabilities (IFRS 16)	(5,000)
(+) Gains on early settlement of debts or loans	2,000
Net finance costs	(58,000)
Profit before income tax	402,000
(–) Income tax expense (current and deferred)	(60,300)
Profit for the year of the consolidated company	341,700

Classifying ambiguous items (1 of 2)

Ambiguous item	New classification adopted	The rule and how the standard settles it
1. Foreign currency revaluation differences FX gains / losses	By underlying transaction	They follow the transaction that gave rise to them: differences on supplier and customer balances (a purchase of goods, for example) go to operating , and those on foreign currency borrowings (a US dollar loan, for example) go to financing .
2. Acquisition and merger costs Such as fees of advisers on company acquisitions	Operating category	In consolidated statements, legal and valuation fees for acquiring a subsidiary fall in the operating category, because the subsidiary is consolidated and is not an investing-category asset. Transaction costs on investing-category assets (such as financial investments) that are charged to profit or loss follow the investing category.
3. Non-capitalised research and development expenses R&D expenses	Operating category	Settled as “operating” because they aim to develop the company’s current products and the future of its core operations. They are treated as part of the operating activities of creating new products for the company and are deducted before operating profit.
4. Interest on leases IFRS 16 interest	Financing category	The standard removes any judgement: it is a mandatory finance cost and appears within net finance costs.
5. Gains/losses on disposal of assets Sale of property, plant and equipment	Operating category	If the assets are used in production or administration (operating assets), the results of their sale are included in other operating income/expenses.

Classifying ambiguous items (2 of 2)

Ambiguous item	New classification adopted	The rule and how the standard settles it
6. Branch closure and restructuring costs Restructuring costs	Operating category	They fall in operating, but management is entitled to explain them as an MPM in the notes, to adjust its profit, if they are very large and non-recurring.
7. Provisions for lawsuits and legal disputes Provisions	Operating category	Such as employee or environmental cases; they are included in other operating expenses because they arise from the risks of the company carrying on its day-to-day business.
8. Employee benefit plan costs Interest on defined end-of-service benefit obligations	Financing category	The “net interest” component on employee benefit obligations is now classified within finance costs, not operating.
9. Income from investment properties Leased out to others	Investing category	It falls here because the property generates a return (rent or an increase in value) entirely independently of the company’s production or trading activity.
10. Dividends received	Investing category	Settled conclusively for non-financial companies, to prevent profits on investment portfolios being mixed with profits on sales.

Ambiguous items — how are the classifications settled?

A short practical map of the ten items.

Foreign currency differences

Operating

Financing

By the source of the difference: trade balances → operating;
borrowings → financing.

Acquisition and merger costs

Operating

The cost of acquiring a consolidated subsidiary, which is not an investing-category asset.

Non-capitalised research and development

Operating

Linked to current products and the future of core operations.

Interest on leases (IFRS 16)

Financing

Within net finance costs.

Sale of operating assets

Operating

Results within other operating income/expenses.

Restructuring

Operating

May be explained as an MPM if very large and non-recurring.

Provisions for lawsuits

Operating

Linked to the risks of carrying on day-to-day business.

Net interest on employee benefits

Financing

The net interest component is classified in financing.

Income from investment properties

Investing

The property generates a return independently of operating activity.

Dividends received

Investing

For non-financial companies.

The exception for banks and financial institutions

 **A fundamental exception:** for companies whose main business activity is lending money or investing (such as financial companies and banks), interest expense and income move directly to the **operating category**, because financing is the core of their day-to-day business.

1 Dual-activity companies

A trading company that at the same time lends to customers at interest as a main business activity; here the standard allows the interest to be split:

Interest arising from financing customers



Operating category

Interest arising from loans the company has drawn from banks



Financing category

2 Financial companies (banks and investment companies)

- All the preceding explanations concern commercial and industrial companies such as retailers, real estate companies and factories.
- Interest expense and income of banks and finance companies do not fall in the financing or investing category; they go directly to the **operating category**.
- The reason: lending and borrowing money is the core of a bank's day-to-day business (its main operating activity).

Cases that call for professional attention



Banks and finance companies

Interest income



Operating

Interest expense



Operating

A logical exception: lending and borrowing are part of the core activity.



The dual-activity company

Interest on financing customers



Operating

Interest on loans drawn from banks



Financing

Where the trading company lends to customers as a main business activity.

03

PART 3

Statement of cash flows

- The new starting point: operating profit
- Classifying interest and dividends
- The detailed cash flow model

Statement of cash flows — the new starting point and the key amendments

IFRS 18 amended IAS 7 to align it with the new three-way classification.

▶ The indirect method must start from **operating profit**, not from profit for the year or profit before tax.

Operating

Starts from operating profit

346,000

Net cash flow

Among the main items

Operating profit **350,000**

Depreciation **45,000**

Expected credit losses (ECL) **5,000**

Investing

Asset purchases and investing receipts

(130,000)

Net cash flow

Among the main items

Purchase of property, plant and equipment **(120,000)**

Sale of equipment **10,000**

Interest received **8,000**

Financing

Loans, dividends, interest paid

(20,000)

Net cash flow

Among the main items

Issue of shares **50,000**

Loans **80,000**

Interest paid **(22,000)**

Dividends paid **(50,000)**

Key changes to the statement of cash flows (IAS 7)



A single starting point

All companies must start from the official “**operating profit**” figure defined in IFRS 18 when preparing cash flows under the indirect method; the use of “profit before tax” is discontinued.



Arbitrary options removed

The previous flexibility in classifying interest and dividends is removed: interest and dividends paid are classified as **financing** activities, while those received are classified as **investing** activities.



Financial sector exception

Banks and financial institutions classify interest received and paid and dividends received consistently with their presentation in the statement of profit or loss — usually within **operating** activities, as these are the core of their main operations.

Classifying interest and dividends in the statement of cash flows

The classification adopted for non-financial companies (financial companies and banks excepted).

Dividends received

Investing

Interest received

Investing

Dividends paid

Financing

Interest paid

Financing

🎯 **Objective:** to reduce differences in classification and improve comparability.

🏛️ **Financial companies — a specific exception:** interest received and paid and dividends received are classified consistently with their presentation in the statement of profit or loss — usually as operating, because interest is part of their main operating activity.

Detailed model – consolidated statement of cash flows (1 of 2)

Operating activities start from operating profit, and cash at the end of the year agrees with the balance sheet.

Operating activities	Amount (KD)
Operating profit Mandatory starting point	350,000
Adjustments for non-cash items	
(+) Depreciation and amortisation (fixed and intangible assets)	45,000
(+) Allowance for expected credit losses (doubtful debts)	5,000
(–) Unrealised gains on foreign currency revaluation	(2,000)
Changes in working capital	
(–) Increase in inventories	(25,000)
(–) Increase in receivables (customers)	(15,000)
(+) Increase in payables (suppliers)	18,000
Mandatory payments	
(–) Income taxes actually paid	(30,000)
Net cash generated from operating activities	346,000

Summary of the full statement

Net cash from operating activities	346,000
Net cash used in investing activities	(130,000)
Net cash used in financing activities	(20,000)
Net increase in cash and cash equivalents during the year	196,000
(+) Cash and cash equivalents at the beginning of the year	80,000
(+) Effect of foreign exchange rate changes on cash	4,000
Cash and cash equivalents at the end of the year	280,000

Detailed model – consolidated statement of cash flows (2 of 2)

The shaded items are those whose classification the standard has settled.

Investing activities	Amount (KD)
(–) Purchase of property, plant and equipment (fixed assets)	(120,000)
(+) Proceeds from sale of old equipment	10,000
(–) Acquisition of a subsidiary (net of cash acquired)	(40,000)
(+) Interest income actually received Mandatory: investing	8,000
(+) Dividends received from associates Mandatory: investing	12,000
Net cash used in investing activities	(130,000)

Financing activities	Amount (KD)
(+) Proceeds from issue of new shares (capital increase)	50,000
(+) Proceeds from drawing new bank loans	80,000
(–) Repayment of bank loan instalments	(60,000)
(–) Principal repayments on lease liabilities (IFRS 16)	(15,000)
(–) Interest actually paid Mandatory: financing	(22,000)
(–) Lease interest paid Mandatory: financing	(3,000)
(–) Dividends paid to shareholders of the parent Mandatory: financing	(45,000)
(–) Dividends paid to non-controlling interests (minority)	(5,000)
Net cash used in financing activities	(20,000)

04

PART 4

Management-defined performance measures (MPMs)

- The concept and the four disclosure requirements
- Non-recurring gains and costs
- Worked examples and reconciliations

Management-defined performance measures (MPMs)



What are MPMs?

- They are subtotals of income and expenses.
- International accounting standards do not specify them as mandatory.
- The company's management chooses them to communicate its view of financial performance.
- They are mostly used in public communications and board reports, outside the primary financial statements.



What IFRS 18 requires

The standard puts these measures under the microscope and imposes strict conditions on presenting them:



These figures may no longer be placed in an external “press release” without documentation; they must now be disclosed in **a single dedicated note** that forms part of the audited financial statements.

Common examples

Adjusted profit

EBITDA

Earnings before interest, taxes and depreciation

The four disclosure requirements when using MPMs

When a measure such as “adjusted operating profit” is used, the following must be disclosed in the notes:



Explain the purpose

Why does management believe this alternative measure gives investors a truer and more useful picture?



Method of calculation

State the detailed accounting formula and how the figure was calculated, precisely and transparently.



Reconciliation

Provide a reconciliation that links the measure to the nearest official figure in the statement of profit or loss.



Tax effect

Show the effect of tax and of non-controlling interests calculated on all the adjustments management has made.

The strategic effect of MPMs

In short: four direct effects on the quality of reporting and investor confidence.



Lower risk of being misled

Raises the reliability of financial and non-financial reports and protects investors from misleading measures.



A clearer view of real performance

Helps financial analysts and investors see actual operating performance from management's perspective, in a structured way.



Compliance with disclosure rules

Requires all listed companies to apply clear, uniform rules when presenting MPMs.



Stronger transparency and valuation

Provides accurate information that supports investment decisions based on sound accounting foundations.

What do non-recurring gains and costs mean?

+

Non-recurring expenses (added to profit)

- For example: the costs of closing a branch, restructuring or laying off employees.
- They are exceptional costs that occurred this year only and will not recur.
- **Why they are added:** to show the company's true earning power without the exceptional burdens that will not continue.

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Non-recurring gains (deducted from profit)

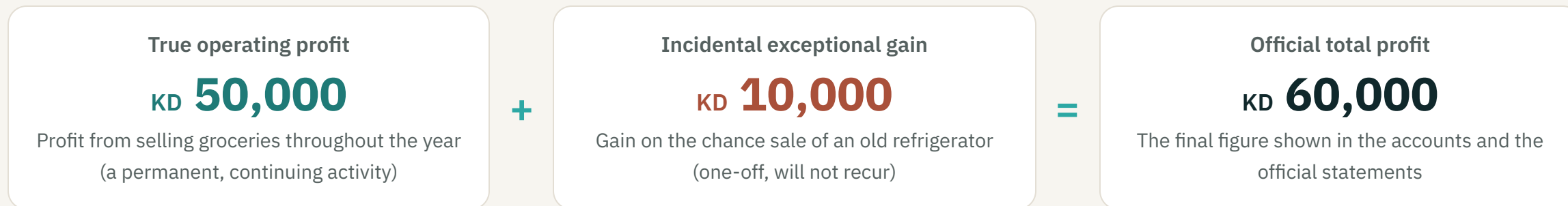
- For example: a gain on selling operating land or an old building for a large amount.
- The company made these gains by chance or on one occasion only.
- **Why they are deducted:** to remove the effect of incidental gains, so that investors are not misled into thinking the company will make the same profit every year.



In summary: the MPM isolates exceptional events, whether gains or expenses, to reflect the sustainable operating performance that can be relied on for the future.

Introductory example — non-recurring gains and costs

Imagine you own a **supermarket**: your profit from selling groceries is your permanent operating profit, and selling an old refrigerator is a one-off gain.



When you sit down with an investor who wants to buy the supermarket

Amounts in Kuwaiti dinars

Official total profit in the books	60,000
(-) Deduct: non-recurring gain on sale of the refrigerator	(10,000)
(=) Adjusted operating profit of the supermarket	50,000



The result: you show the investor that the shop is strong and can generate KD 50,000 a year from its continuing core activity, even if it sells no refrigerators in the future.

Worked example 1 – MPM reconciliation and tax effect

Reconciling the operating profit of KD 390,000 in the detailed model to adjusted operating profit.

Reconciling item and description	Amount before tax	Tax effect (15%)	Net effect on MPM
Reported operating profit (per the standard statement of profit or loss)	390,000	(58,500)	331,500
(+) Removal of exceptional restructuring costs	25,000	(3,750)	21,250
(+) Adjustment for non-recurring goodwill impairment	15,000	–	15,000
(–) Removal of non-recurring gain on sale of an operating property	(10,000)	1,500	(8,500)
Adjusted operating profit (MPM)	420,000	(60,750)	359,250

 **Explanation in the note:** management believes that adjusted operating profit shows the company's sustainable performance by excluding one-off and non-recurring transactions.

Worked example 2 – MPM reconciliation and tax effect

Official operating profit KD 400,000	+	Net adjustments KD 20,000	=	Adjusted operating profit (MPM) KD 420,000
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Reconciling item and description	Amount before tax	Tax effect (15%)	Effect on non-controlling interests	Net effect of reconciling items
Reported operating profit (per the standard statement of profit or loss)	400,000	–	–	–
(+) Non-recurring branch closure and staff redeployment costs	30,000	(4,500)	(500)	25,000
(–) Removal of non-recurring gain on sale of operating land	(10,000)	1,500	200	(8,300)
Adjusted operating profit (MPM)	420,000	(3,000)	(300)	16,700

 **Explanation in the note:** management believes that adjusted operating profit shows the company’s sustainable performance by excluding one-off and non-recurring transactions.

05

PART 5

Implementation and summary

- Operational readiness and systems
- Implementation and transition roadmap
- Summary of special cases and executive summary

Roadmap, operational readiness and systems

Applying IFRS 18 does not stop at the accounts department; it requires an integrated effort that reaches software systems and corporate governance.



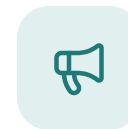
Update ERP software

Restructure the financial reporting matrices.



Link MPMs to the notes

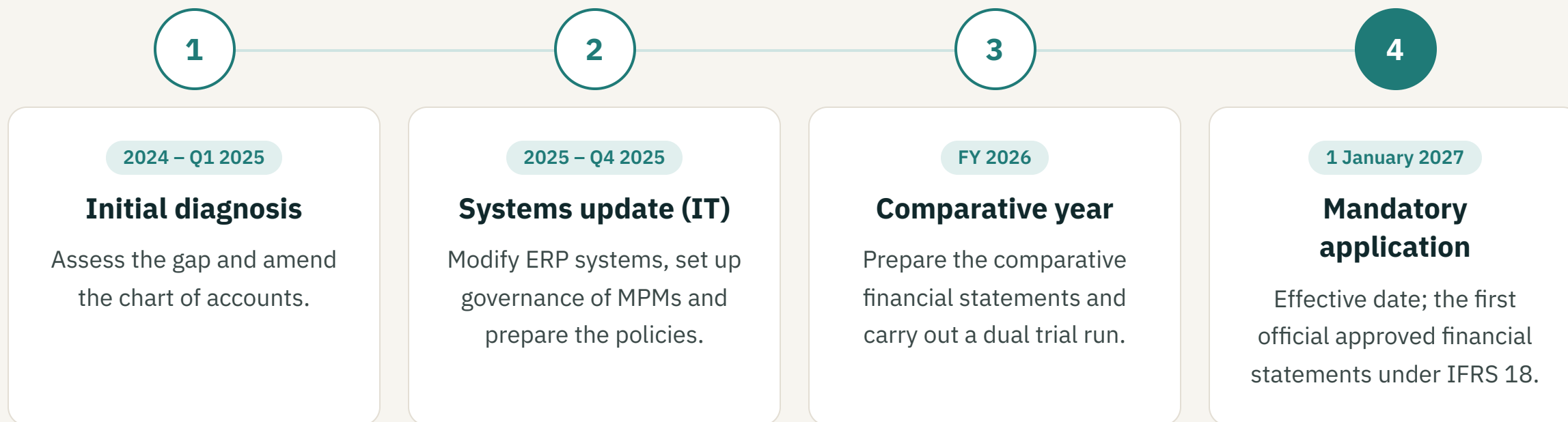
Governance of adjusted-profit reconciliations for leadership.



Communicate with investors

Explain the changes before the statements are issued.

Implementation and transition roadmap



Summary of special cases and dual-activity companies



Banks and financial institutions

Special rules apply to companies that provide financing to customers as a main business activity:

- ✓ Interest expense and income are included in the **operating category** instead of the financing category.
- ✓ Investment in securities is classified as an operating activity whenever it is part of the operating cycle.



Dual-activity companies

Companies that carry on trading and financing activities together (such as selling cars on instalments):

- ✓ **Splitting interest:** interest related to financing customers is classified as operating.
- ✓ **Ordinary loans:** interest arising from the company's general financing stays in the financing category.

Executive summary

What should the finance manager and the auditor pay attention to?



Statement of profit or loss

- ✓ Separate operating / investing / financing.
- ✓ Show operating profit.
- ✓ Disaggregate expenses instead of aggregating them.



Cash flows

- ✓ Tie the starting point to operating profit: previously one could start from profit for the year, profit before tax or operating profit; now the mandatory and only starting point is operating profit.
- ✓ Uniform classification of interest and dividends.
- ✓ Watch for the exceptions for financial companies.



MPMs

- ✓ Disclosure and a dedicated note.
- ✓ Purpose and method of calculation.
- ✓ Reconciliation to the official figure.
- ✓ Tax and non-controlling interests.

End of the workshop

Questions and closing discussion

Thank you for attending and for your professional engagement in the IFRS 18 workshop — let us stay in touch.



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