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Ind AS 118 - Presentation and Disclosure in Financial Statements (Exposure draft)

IFRS 18 — Global Regulatory Journey

From IASB issuance to global adoption: where IFRS 18 stands worldwide?

Apr 2024	Feb 2026	Dec 2025	FY 2026	1 Jan 2027
IASB issues IFRS 18	EU adopts IFRS 18 (Reg. 2026/338)	UK Endorsement Board adopts	Comparative period begins	IFRS 18 effective globally

Why IFRS 18 was issued

Investor demand for **consistent, comparable, transparent** presentation of financial performance — addressing 20+ years of mixed practice under IAS 1.

Three structural fixes:

- Inconsistent operating profit definitions across companies
- Limited transparency on non-GAAP / alternative performance measures
- Over-aggregation that hides material detail

Adoption status worldwide

European Union	Adopted
United Kingdom	Adopted
Australia, Canada	Adopted
India (Ind AS) *MCA notification awaited*	ED Issued

What this means for preparers

Effective date: Annual reporting periods beginning **on or after 1 January 2027**

Application: Retrospective — **FY 2026 comparatives must be restated**

Early adoption: Permitted, with disclosure

Net profit: Unchanged. Only presentation and disclosure are reshaped.

Ind AS 118 — India Regulatory Journey

ICAI exposure draft to MCA notification: where Ind AS 118 stands today?

Jan 2025	Apr 2025	2025–26	Pending	1 Apr 2027
ICAI ASB issues Exposure Draft	Public comment period closes	NFRA recommends 1 April 2027 date	MCA to notify final Ind AS 118	Proposed effective date in India

Key facts — Ind AS 118 (proposed)

Issuing body	ICAI Accounting Standards Board (ASB)
Notifying authority	Ministry of Corporate Affairs (MCA)
Recommending body	NFRA — recommended 1 April 2027
Replaces	Ind AS 1 — Presentation of FS
Convergence	Substantially aligned with IFRS 18
Application	Retrospective, with relief on Ind AS 8 quantitative disclosure

Current status & what to watch

STATUS: Exposure Draft stage — MCA notification pending

What to watch over the next 12 months

- MCA notification under Companies (Indian Accounting Standards) Rules, 2015 and Regulation 33 of SEBI (LODR)
- ***Possible India-specific carve-outs or carve-ins*** in the final standard
- ***Consequential amendments*** to Ind AS 7, Ind AS 8, Ind AS 33 and Ind AS 34
- ***Schedule III alignment*** by MCA for presentation format
- ICAI guidance and educational material post-notification

Overview of changes under Ind AS 118

1. Income statement structure

- **2 new mandatory subtotals in P&L:**
  - Operating Profit / Loss
  - Profit before Financing & Income Taxes
- **3 new categories for income and expenditure:**
  - *Operating, Investing, Financing (newly introduced)*
  - Income Tax, Discontinued Ops (existing)
- Choice in presentation of expenses by *Nature or Function or Mix* (whichever most useful)
- **Does not change overall profit, but only presentation**

2. Management-defined Performance Measures (MPM)

- Identification of **MPMs** (non-GAAP measures) used in public communications (e.g., EBITDA, Adjusted EBIT)
- **All MPMs** to be defined and disclosed in a single audited note
- **Reconciliation** to nearest Ind AS subtotal required (incl. tax effect & NCI)
- Period-over-period consistency required; changes must be explained
- **Must be audited** by statutory auditor

4. Balance Sheet Face and Cash flow statement

- **Goodwill must be presented separately** on the face of the Balance Sheet
- Cannot be clubbed with “Other Intangible Assets” on BS face
- Ind AS 7 amended: **Operating Profit is starting point** for indirect cash flow method

3. Enhanced Aggregation & Disaggregation

- Role of ***primary financial statements*** and notes is defined
- Restrictive use of “Other” label — must use descriptive labels (e.g., “Other Operating Expenses”)
- Material information must be disaggregated and not obscured in aggregated line items
- Notes provide disaggregation & supplemental info to support primary statements

Necessary components of the financial statements

1. **Statement (or statements) of financial performance;**
2. Statement of financial position;
3. Statement of changes in equity;
4. Statement of cash flows;
5. Notes;
6. Comparative information in respect of preceding period;
7. Statement of financial position as at the beginning of the preceding period in case of following:
   - change in accounting policy;
   - correction of an error;
   - reclassification of an item in the financial statements

- **The statements from 1 to 4 above - 'primary financial statements' (incl comparative)**
- **Each of the primary financial statements shall have equal prominence**

Existing statement of profit or loss (presentation of expenses by nature)

Particulars	Note No.	Amount CY	Amount PY
Revenue From operations			
Other Income			
Total Income			
<u>EXPENSES</u>			
Cost of materials consumed			
Purchases of Stock-in-Trade			
Changes in inventories of finished goods, Stock-in -Trade and work-in-progress			
Employee benefits expense			
Finance costs			
Depreciation and amortization expenses			
Other expenses			
Total expenses			
Profit/(loss) before exceptional items and tax			
Exceptional Items			
Profit/ (loss) before tax			
Tax Expense: Current tax + Deferred tax			
Profit from Continuing operations			
Profit / loss from discontinued operations (net of tax)			
Profit for the period			

Income statement structure – Newly required categories

- The ***key premise of Ind AS 118*** **-** ***operating category and operating profit, provides a complete picture of an entity's operations*****.**
- **Classification** of income and expenses **depends on the *main business activities*** of an entity.

1	2	3	4	5
Operating	**Investing**	**Financing**	**Income Tax**	**Discontinued Operations**
▪ Default category ▪ All income & expenses from main business activities ▪ Generates the "Operating Profit" subtotal ▪ Expenses analysed by ***nature or by function or mix of both***	▪ Returns from stand-alone investments that generate returns independently from operations ▪ Includes: Associates, JVs, dividends, interest on cash & cash equivalents, investment property etc.	▪ Costs of raising finance. ▪ Generates "Profit before Tax" subtotal ▪ Includes: Interest on bank loans, bonds, lease liabilities, pension liabilities	▪ Income tax expense (or income) recognised per Ind AS 12 ▪ Includes current and deferred tax expense	▪ Income & expenses from discontinued operations per Ind AS 105 ▪ Presented separately below profit from continuing operations

- Classification of income and expenses may vary between different industries – e.g. manufacturers, banks, insurers and investment property companies

Illustrative statement of profit or loss (without specified main business activities) - Proposed

Categories	Particulars	Amount (INR)
1. Operating (new category)	Revenue	XXX
	Operating expenses (to be analysed and presented either by nature or by function or mix of both)	XXX
New subtotal	**Operating profit or loss**	**XXX**
2. Investing (new category)	Share of profit or loss of equity-accounted investees	XXX
	Income from other investments	XXX
	Interest income from cash and cash equivalents	XXX
New subtotal	**Profit or loss before financing and income tax**	**XXX**
3. Financing (new category)	Interest expense on borrowings and lease liabilities	XXX
	Interest expense on pension liabilities	XXX
	Profit or loss before income tax	**XXX**
4. Income tax	Income tax expense	XXX
	Profit or loss from continuing operations	**XXX**
5. Discontinued operations	Profit or loss from discontinued operation	XXX
	Profit or loss for the year	**XXX**

Presentation of expenses – Function Vs. Nature

Presentation by nature

Particulars	Amt. (INR)
Revenue	XXX
Cost of material consumed	XXX
Purchase of stock-in-trade	XXX
Changes in inventories of FG and WIP	XXX
Employee benefit expenditure	XXX
Finance cost	XXX
Depreciation, amortisation & Impair.	XXX
Other operating expenses	XXX
Operating profit	**XXX**
Share of profit from associates / JV	XXX
Profit before financing and income tax	**XXX**
Inte exp on borrowings and lease liab.	XXX
Int exp on pension liabilities	XXX
Profit before income taxes	**XXX**

Presentation by function

Particulars	Amt. (INR)
Revenue	XXX
Cost of sales	XXX
Gross profit	XXX
Selling expenses	XXX
Research and development exp.	XXX
General and admin expenses	XXX
Other operating expenses	XXX
Operating Profit	**XXX**
Share of profit from associates / JV	XXX
Profit before financing and income tax	**XXX**
Inte exp on borrowings and lease liabilities	XXX
Int exp on pension liabilities	XXX
Profit Before income taxes	**XXX**

Factors for assessing Function Vs. Nature classification

Ind AS 118 allows entities to present operating expenses by nature, function or a mix — whichever provides the most useful structured summary of expenses. Four factors drive the choice.

THE CHOICE

BY FUNCTION

Cost of sales • Selling • R&D • G&A • Other operating

Reveals **gross profit**. Typically suits **manufacturers and retailers** managed and reported along functional lines.

BY NATURE

Materials • Employee benefits • Depreciation • Other expenses

No gross profit. Typically suits **service providers, financial services** and entities where **function allocation would be arbitrary**.

THE FOUR FACTORS — each tilts the choice toward Function or Nature

Main drivers of profitability

Manufacturer / retailer: if cost of sales dominates → by Function may provide useful summary

Service provider: if staff costs dominates → by Nature may provide useful summary

FUNCTION | NATURE

How the business is managed internally

Manufacturer: Multi-function management (production, R&D, distribution, admin) → by Function may provide useful summary

Service provider: Single predominant activity → by Nature may provide useful summary

FUNCTION | NATURE

Industry practice

Aligning with peers improves comparability for analysts and investors. Adopt the prevailing convention in the sector.

FOLLOW PEER CONVENTION

Arbitrary allocation of expenses

If allocating costs across functions would be arbitrary or unreliable, the function-based view loses meaning — default to Nature.

DEFAULT TO NATURE

Classification of income or expenses – Operating activity

Operating is the default category. Anything not classified into Investing, Financing, Income Tax or Discontinued Operations is classified here — so that operating profit reflects how the business genuinely earns its returns.

DEFAULT CATEGORY

Operating profit captures income and expenses from an entity's **main business activities**.

It is the **default / residual category** i.e., items classified here unless Ind AS 118 classifies them into other category viz. Investing or Financing.

ALL ENTITIES
Common operating items

- **Revenue**
  from the sale of goods or services
- **Operating costs**
  materials, employee benefits, other expenses
- **Depreciation, amortisation, impairment**
  and impairment reversals of PPE / intangibles
- **Gains and losses on disposal**
  of PPE or intangible assets

SMBA ENTITIES ONLY
Additional items reclassified into Operating

- **Rental income & FV gains**
  on investment property
- **Dividends**
  on financial assets
- **Interest income & expense**
  on customer loans and the borrowings funding them

Why? *Operating profit must reflect how the business genuinely earns its returns.*

OPERATING PROFIT / LOSS

Specified Main Business Activity (SMBA)

Operating profit must give a complete picture of how the entity actually earns its returns.

Two business activities, when they are an entity's main business, qualify as 'Specified Main Business Activities' — and trigger a reclassification rule.

WHAT QUALIFIES AS SMBA

A **Investing in particular types of assets**
- Investments in subsidiaries / JV / associates, Investment property etc.

B **Providing financing to customers**
- Lending business of banks and other financial institutions, lessors in finance lease

THE RECLASSIFICATION RULE - *If activity A or B is the entity's main business, items that would otherwise be Investing or Financing are reclassified into Operating.*

INVESTING (default)
- Rental income & FV gains on investment property
- Dividends on financial assets
- Interest income on investment portfolios

OPERATING (for SMBA entities)
Same items, same accounting — **presented in Operating** so that **operating profit** reflects how the business genuinely earns its returns.

FINANCING (default)
- Interest expense on borrowings used to fund customer loans
- Interest on debentures / deposits taken from public
- Funding cost directly linked to the lending book

TYPICAL SMBA INDUSTRIES

SMBA IS A MATTER OF FACT AND NOT MERELY ASSERTION

Banks
Customer loan interest into Operating

NBFCs
Lending book net interest into Operating

Insurers
Investment returns backing policies into Operating

Investment property
Rental income & FV changes into Operating

Classification of income or expenses – Investing activity (1 of 2)

The Investing category captures income and expenses from non-operating assets — those that generate a return individually or largely independently of an entity's main business activities.

ASSETS GIVING RISE TO INVESTING ITEMS – NON-OPERATING ASSETS

Investments in associates, JV and unconsolidated subsidiaries

Equity-method or other holdings

Cash and cash equivalents

Liquid holdings generating returns

Other assets generating a return individually

e.g. investment property, financial assets

INVESTING CATEGORY

INCOME & EXPENSES CLASSIFIED IN THIS CATEGORY

PERIODIC INCOME

Generated by the non-operating asset

- Interest income
- Dividend income
- Rental income

CHANGES AND REMEASUREMENTS

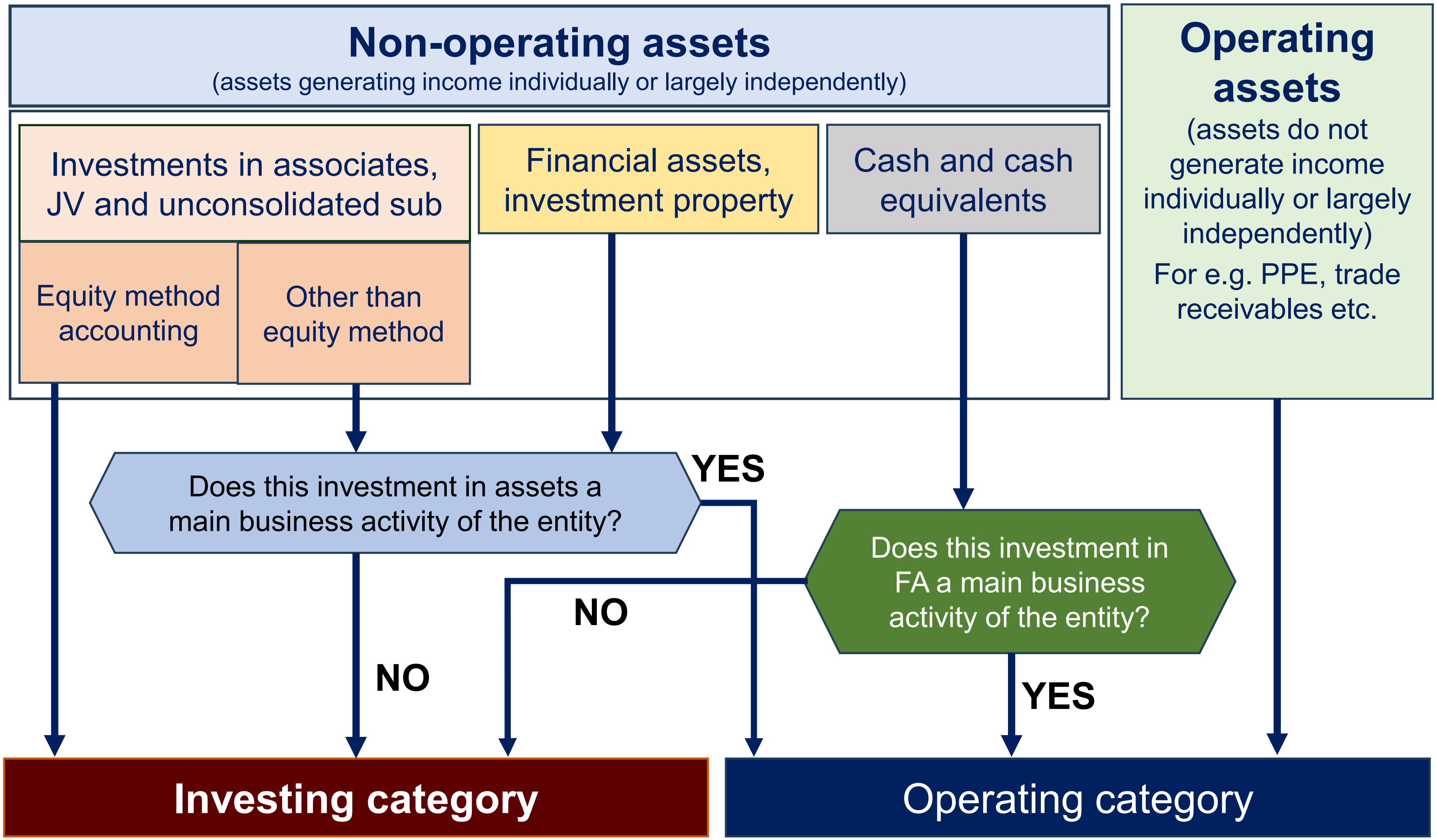
- Depreciation
- Impairment losses & reversals
- Fair value gains and losses

ACQUISITION & EXIT COSTS

Costs incurred at entry and exit of the asset

- Transaction costs & costs to sell
- Income or expense from derecognition or classification as held-for-sale

Classification of income or expenses – Investing activity (2 of 2) income from operating and non-operating assets



Classification of income or expenses – Financing activity (1 of 2)

The Financing category captures income and expenses arising from an entity's liabilities, both financing liabilities and other liabilities that have a financing component embedded in them.

LIABILITIES GIVING RISE TO FINANCING ITEMS

FINANCING LIABILITIES

Liabilities that arise from transactions that involve **ONLY** the raising of finance.

Examples: *debentures, bank loans, bonds, commercial paper.*

OTHER LIABILITIES

Liabilities that arise from transactions that do **NOT** involve only the raising of finance.

Examples: *trade payables, lease liabilities, contract liabilities with a financing component, defined benefit liabilities.*

FINANCING CATEGORY

THE EXCEPTION

Entities providing financing to customers as a main business activity

Reclassify into **OPERATING** the financing-related income and expenses that would otherwise fall in the Financing category — so operating profit reflects the actual lending business.

> **Example** — A bank or NBFC: interest expense on borrowings used to fund customer loans is classified as **Operating** (not Financing), because that funding cost is integral to the entity's main lending business.

Classification of income or expenses – Financing activity (2 of 2)

Few examples of income and expenses classified under the Financing category, organised by the type of liability they arise from:

FINANCING LIABILITIES

Liabilities arising solely from the raising of finance

Interest expenses

on debentures, loans, bonds and other borrowings

Fair value gains and losses

on a liability designated at FVTPL

Dividends

on issued shares classified as financial liabilities

OTHER LIABILITIES

Liabilities with a financing component embedded in them

Trade payables

Interest expenses on overdue or financed trade payables

Contract liabilities

Interest on a contract liability with a significant financing component

Lease liabilities

Interest expenses on lease liabilities under Ind AS 116

Defined benefit obligation

Net interest expense / (income) on a net defined benefit liability / (asset)

Management-defined Performance Measures (MPMs)

An MPM is a ***subtotal of income and expenses*** *that meets* ***all three*** *conditions in Ind AS 118.*

CONDITION 1

Public communications

Used by the entity **in public communications outside the financial statements** — e.g. press releases, investor presentations, management commentary, MD&A, analyst decks, stock-exchange filings.

AND

CONDITION 2

Management's view

Communicates management's view of an aspect of the financial performance of the entity as a whole — e.g. profitability, underlying performance.

AND

CONDITION 3

Not a specified subtotal

Not a subtotal listed in Ind AS 118 or specifically required to be presented or disclosed by any other Ind AS, and not one of the excluded subtotals.

MANAGEMENT PERFORMANCE MEASURE

COMMON EXAMPLES

- Adjusted Profit / Loss
- Adjusted Operating Profit
- Adjusted EBITDA
- Underlying / Normalised PAT
- Op. Profit Before Exceptional Items

Single-note discipline: All MPMs — with their descriptions, calculations, reconciliations, tax and NCI effects — are disclosed together in **ONE dedicated note** to the financial statements.

MPM — Disclosure Requirements (Single Note)

Ind AS 118 requires disclosure of information about every MPM in a single note to the financial statements with a three-step architecture: ***STATE, DESCRIBE, RECONCILE.***

01 STATE

The header statement

1. That MPMs provide management's view of an aspect of financial performance of the entity as a whole.
2. That MPMs are not necessarily comparable with similarly-labelled measures reported by other entities.

02 DESCRIBE

For each MPM

1. Aspect of financial performance that, in management's view, the MPM communicates.
2. Why the MPM provides useful information about the entity's performance.
3. How the MPM is calculated; its computation, key judgements and adjustments made.

03 RECONCILE

Line-by-line reconciliation

1. MPM to the most directly comparable subtotal or total specified by Ind AS 118 or any other Ind AS.
2. Income tax effect on each reconciling item, and how the tax was determined.
3. Effect on non-controlling interests (NCI) for each reconciling item.

MPM disclosures form part of the audited financial statements. Non-GAAP measures, historically outside the auditor's remit in India, now fall within the scope of the statutory audit through the MPM note.

Aggregation and Disaggregation — Principles & Process

*Items are **aggregated based on shared characteristics** and **disaggregated based on characteristics that are not shared.***

AGGREGATE

Group items **based on shared characteristics** to produce a **useful structured summary** on the face of the primary financial statements.

Applies to assets, liabilities, equity, income, expenses and cash flows.

DISAGGREGATE

Split items **based on characteristics that are not shared** so that **material information** is not obscured — typically in the **notes**.

Must always disaggregate when the resulting information is material.

THE THREE-STEP PROCESS

1 IDENTIFY

assets, liabilities, equity, income, expenses and cash flows arising from transactions and events

2 AGGREGATE

items with shared characteristics into meaningful groups for presentation on the face of the PFS

3 DISAGGREGATE

items with dissimilar characteristics when the resulting information is material — typically in the notes

CHARACTERISTICS THAT DRIVE GROUPING

NATURE
e.g. equity vs debt securities

FUNCTION
e.g. cost of sales vs administrative

MEASUREMENT BASIS
e.g. amortised cost vs FV

SIZE / MATERIALITY
individually large or aggregate size

GEOGRAPHICAL LOCATION
e.g. domestic vs foreign operations

REGULATORY ENVIRONMENT
e.g. regulated vs unregulated

Aggregation and Disaggregation — Application & Examples

Primary financial statements aggregate for a structured summary; notes disaggregate to reveal material detail.
The 'Other' catch-all label is restricted.

PRIMARY FINANCIAL STATEMENTS

Role: provide a **useful structured summary** of the entity's position and performance for cross-entity and cross-period comparison.

→ **More aggregated.** Line items are grouped on *shared characteristics*.

NOTES

Role: provide **material information** necessary to understand line items presented in the PFS and additional supplementary information.

→ **More disaggregated.** Items are split on *dissimilar characteristics*.

The 'Other' catch-all rule: labels like ***"Other expenses" or "Other income"*** are restricted. When used, an entity must disclose the **composition and, if material, disaggregate them** further in the notes.

EXAMPLES

Revenue from contracts with customers

PFS PFS shows a single line, 'Revenue', aggregating several customer transactions.

NOTES Notes disaggregate by product / service line, geography, timing (point-in-time vs over-time), or customer segment where dissimilar characteristics are material.

Operating expenses — beyond "Other"

PFS Instead of a single "Other expenses" line, aggregate by nature: employee benefits, depreciation & amortisation, professional fees, utilities.

NOTES Where a residual 'Other' line remains, its composition must be disclosed in the notes; material sub-items must be disaggregated further.

Other Changes — Statement of Cash Flows

Two targeted amendments *to Ind AS 7 : a new indirect-method starting point, and the elimination of the classification choice for interest and dividend cash flows.*

01 INDIRECT METHOD — NEW STARTING POINT

BEFORE (Ind AS 1 / Ind AS 7)

Starting point: Profit before tax

No standardisation — entities adjusted profit-before-tax for non-cash items, working-capital movements and investing/financing items.

AFTER (Ind AS 118)

Starting point: Operating Profit / Loss

The new subtotal on the face of the P&L is the mandatory starting point — simpler reconciliation because most non-operating items are already excluded.

02 CLASSIFICATION OF INTEREST & DIVIDEND CASH FLOWS

CASH FLOW ITEM	BEFORE — choice permitted	AFTER — fixed classification
Interest paid	*Operating OR Financing*	FINANCING
Interest received	*Operating OR Investing*	INVESTING
Dividends received	*Operating OR Investing*	INVESTING
Dividends paid	*Operating OR Financing*	FINANCING

Exception: *For entities with a specified main business activity (SMBA) — e.g. banks, NBFCs, insurers — cash flow classification follows the P&L classification under Ind AS 118.*

Other Changes — Balance Sheet & EPS

One balance-sheet change on the presentation of goodwill *and* ***tightened rules on additional EPS disclosures*** *via a consequential amendment to Ind AS 33.*

01 BALANCE SHEET — GOODWILL AS A SEPARATE LINE ITEM

Goodwill must be presented as a separate line item on the face of the balance sheet.

It can no longer be subsumed within ***"Other intangible assets"*** on the face of the balance sheet.

Users can now see the goodwill balance directly on the face of the balance sheet — an important signal for capital allocation, impairment risk and prior acquisition activity.

ILLUSTRATIVE — NON-CURRENT ASSETS

Property, plant and equipment	xxx
Investment property	xxx
Intangible assets	xxx
Goodwill	*New line* xxx
Investments in associates	xxx

02 EPS — CONSEQUENTIAL AMENDMENT TO IND AS 33

The rule

Basic and diluted EPS remain mandatory on the face of the P&L.

Entities may present **additional per-share amounts** (e.g. adjusted EPS, EBITDA per share) **only if** the numerator is one of the permitted measures listed to the right.

This closes off ad-hoc 'adjusted EPS' disclosures that lack a governed underlying measure.

PERMITTED NUMERATORS

A **Totals or subtotals** specified by Ind AS 118
e.g. Operating profit, Profit before financing & tax, Profit or loss

B **A Management-defined Performance Measure**
(disclosed and reconciled per the MPM note in Ind AS 118)

Way Ahead — A Governance Standard

*Ind AS 118 is **not primarily an accounting standard** — it is a **governance standard** that governs how management communicates performance, how auditors verify it, and how investors consume it.*

THE GOVERNANCE CYCLE

MANAGEMENT

Communicates performance

Presents operating profit, categories and MPMs — its view of how the business is genuinely earning.

AUDITORS

Verify that communication

MPMs, categorisation and disaggregation now sit within the audit perimeter — with prescribed reconciliations.

INVESTORS

Consume it consistently

Comparable operating profit and disciplined non-GAAP measures enable cross-entity and cross-period assessment.

ENTITIES MUST BE READY FOR

1. **Presentation of expenses**
Choose by nature, by function, or a mix — whichever gives the most useful structured summary.

2. **ERP system changes**
Re-configure master data, mappings and reporting layers for the new categories and subtotals.

3. **Chart of accounts changes**
Extend and re-map GL codes so every item routes to one of the five categories.

4. **MPM identification**
Inventorise every subtotal in public communications and test each against the MPM definition.

5. **MPM disclosures & reconciliation**
Build the single MPM note — description, calculation, reconciliation to nearest subtotal, tax and NCI effects.

6. **Educate accounting staff**
Train finance and reporting teams on classification judgement, MPM discipline and new disclosures.

7. **Discussion with auditors**
Early conversations on classification, MPM definitions and reconciliation — before year-end lock.


Q & A Sessions
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