



REGULATORY UPDATE

Exposure Draft

Ind AS 118

Presentation and Disclosure in Financial Statements

*Proposed key amendments from Ind AS I and its implications.
For: CFOs, Finance controllers, Accounting & reporting teams, Financial reporting professionals.*

Why this matters now

Ind AS 118 will replace Ind AS 1 and is converged with IFRS 18, representing the most significant change to the face of the income statement in over two decades. While net profit is unchanged, almost every listed and large unlisted company will see a redesigned statement of profit or loss, new audited disclosures of non-GAAP measures, and crisp guidance on aggregation and disaggregation.

Early preparation is essential. Introduction of new categories necessitates one time reassessment and mapping of chart of accounts. Amendment will impact the starting point for the statement of cash flows, while management performance measures [MPMs] used in earnings releases & investor communications are subject to statutory audit requirements.

At a glance

- Replaces** : Ind AS 1
- Converged with** : IFRS 18
- Effective (India)** : 1 April 2027*
- Effective (IFRS)** : 1 January 2027
- Comparatives** : Restated

**Subject to notification by MCA.
Final Indian standard awaited.*

Overview of changes under Exposure Draft - Ind AS 118

01

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 Operations (existing)
- Choice in presentation of expenses by Nature or Function or Mix (whichever most useful)
- **Does not change overall profit, but only presentation**

02

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 transparently explained

03

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

04

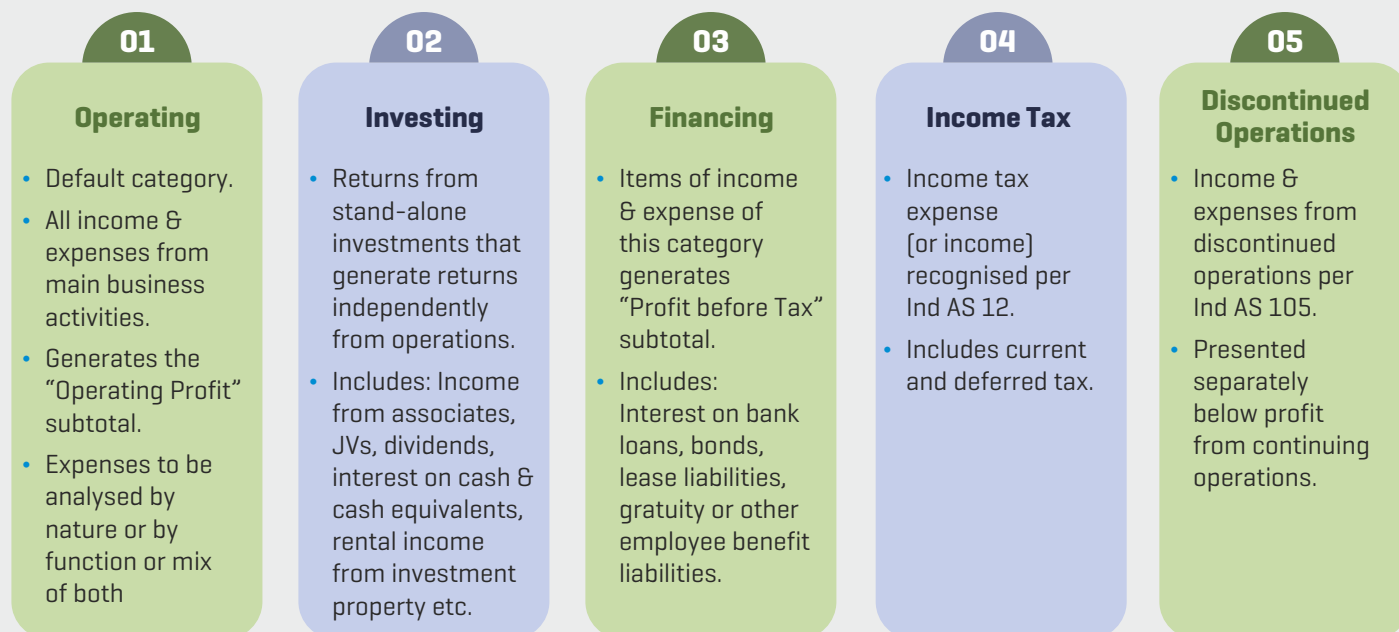
Enhanced Aggregation & Disaggregation

- 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 clear in aggregated line items
- Notes provide disaggregation & supplemental info to support primary statements



1. 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.



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

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	XXX

Choice of presentation: by Nature, by Function or Mixed

Entities must select the method that gives the "most useful structured summary" of operating expenses. If a function-based presentation is used on the face, additional nature-wise disclosures (e.g. depreciation, amortisation, employee benefits) are required in the notes.

By Nature	By Function	Mix Approach
<ul style="list-style-type: none"> - Cost of materials, - employee benefits, - depreciation & amortisation, - other operating expenses. <p>Best for service entities and where allocation to functions would be arbitrary.</p>	<ul style="list-style-type: none"> - Cost of sales, - selling, R&D, - general & admin, - other operating expenses. <p>Discloses Gross Profit. Suits manufacturers and retailers managed by function.</p>	<ul style="list-style-type: none"> - A combination — e.g. Cost of sales [function] plus depreciation and employee benefits [nature] on the face. <p>Permitted where it gives the most useful structured summary.</p>

Factors for assessing Function Vs. Nature classification

<p></p> <p>Main drivers of profitability</p> <p>Manufacturer / retailer : cost of sales dominates → by Function may provide useful summary</p> <p>Service provider : staff costs dominates → by Nature may provide useful summary</p> <p>FUNCTION NATURE</p>	<p></p> <p>The way business is managed</p> <p>Manufacturer : Multi-function management (production, R&D, distribution, admin) → by Function may provide useful summary</p> <p>Service provider : Single predominant activity → by Nature may provide useful summary</p> <p>FUNCTION NATURE</p>
<p></p> <p>Industry practice</p> <p>Aligning with peers improves comparability for analysts and investors. Adopt the prevailing convention in the sector.</p>	<p></p> <p>in case arbitrary allocation, use by nature presentation</p> <p>If allocating costs across functions would be arbitrary or unreliable, the function-based view loses meaning—default to Nature.</p> <p>→ DEFAULT TO NATURE</p>



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 – Providing a more transparent view of core operating performance.



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

[Specified Main Business Activity]

Additional items reclassified into Operating



Rental income

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 earns from its core operating activities

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



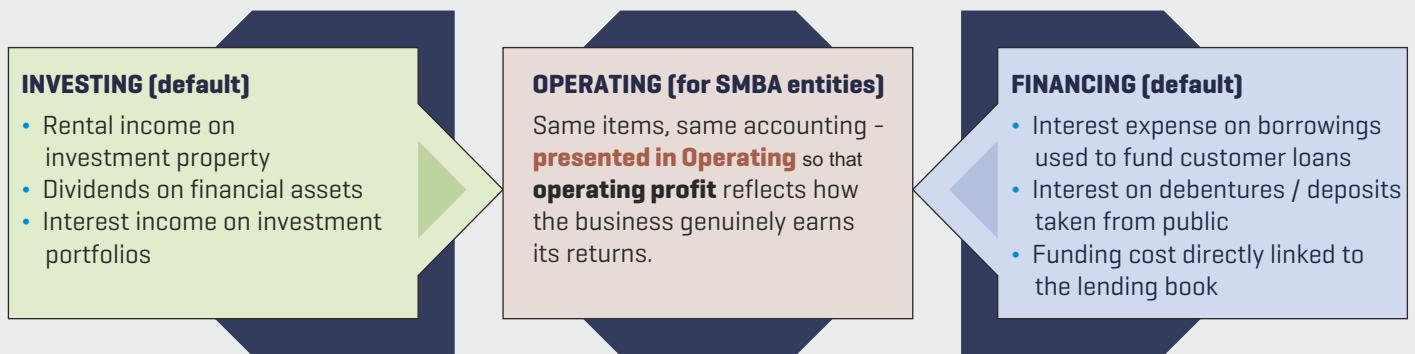
- Investments in subsidiaries / JV / associates, Investment property etc.

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.



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 into Operating



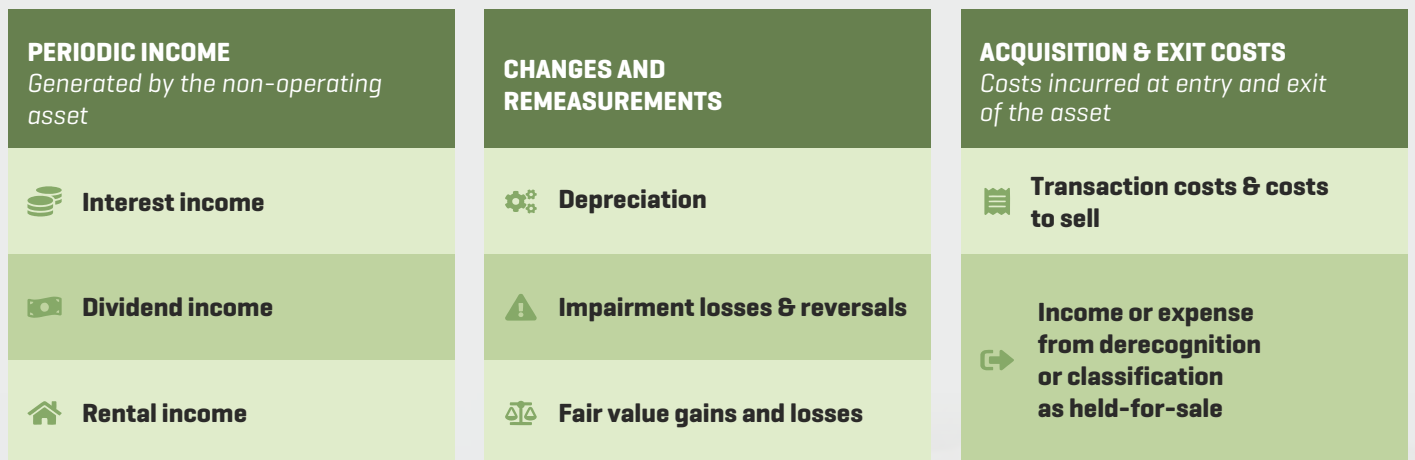
Classification of income or expenses – Investing activity

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



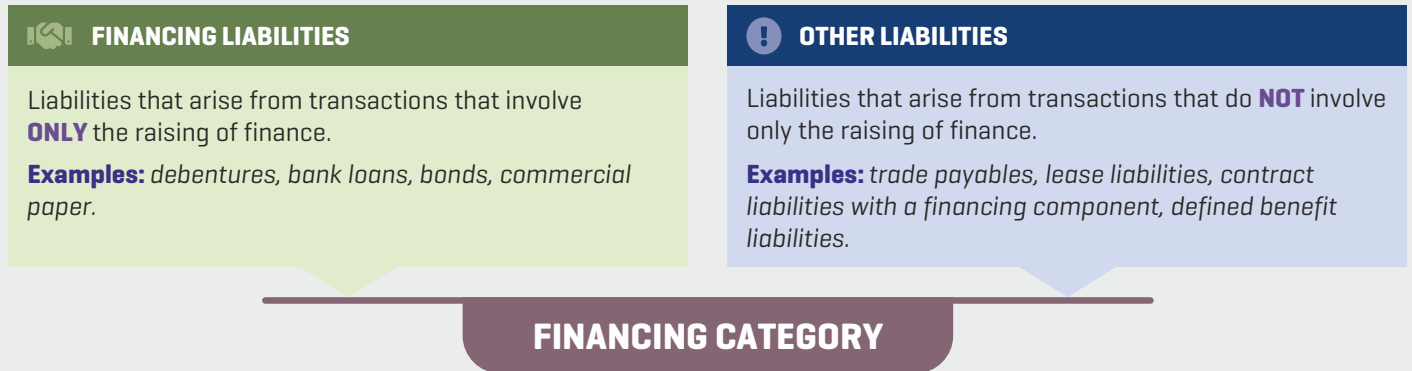
INCOME & EXPENSES CLASSIFIED IN THIS CATEGORY



Classification of income or expenses – Financing activity

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










THE EXCEPTION

Entities providing financing to customers as a main business activity

Financing-related income and expenses otherwise eligible to be classified within the Financing Category are reclassified to **OPERATING** category to reflect the entity's core lending activities.

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.

Income and expenses classified in this category

FINANCING LIABILITIES Liabilities arising solely from the raising of finance	OTHER LIABILITIES Liabilities with a financing component embedded in them
<p> Interest expenses on debentures, loans, bonds and other borrowings</p>	<p> Trade payables Interest expenses on overdue or financed trade payables</p>
<p> Fair value gains and losses on a liability designated at FVTPL</p>	<p> Contract liabilities Interest on a contract liability with a significant financing component</p>
<p> Dividends on issued shares classified as financial liabilities</p>	<p> Lease liabilities Interest expenses on lease liabilities under Ind AS 116</p>
	<p> Defined benefit obligation Net interest expense / [income] on a net defined benefit liability / [asset]</p>

2. Management Performance Measures (MPMs)

For the first time, certain non-GAAP measures used by management in public communications will be required to be published within the audited financial statements, with prescribed disclosures.

What qualifies as a Management Performance Measure?

A subtotal of income and expenses that (i) is used in public communications outside the financial statements, and (ii) communicates management's view of an aspect of the entity's financial performance — and is not a subtotal already specified by Ind AS.

Common examples

- EBITDA
- Adjusted EBITDA
- Adjusted EBIT
- Underlying / Normalised PAT
- Cash profit
- Operating profit before exceptional items

A Single, audited note

All MPMs are disclosed together in one dedicated note. They form part of the audited financial statements — a first under Ind AS.

B Description and rationale

Describe the aspect of performance the MPM communicates and why management believes it provides useful information.

C Reconciliation to the nearest Ind AS subtotal

Reconcile each MPM, line-by-line, to the most directly comparable subtotal required by Ind AS [e.g. operating profit, profit before tax].

D Tax and NCI effect

For every reconciling item, disclose the income tax effect [and how it was determined] and the effect on non-controlling interests.

E Consistency over time

Apply MPMs consistently across reporting periods. Any change in definition or calculation must be explained, with restated comparatives.

F Governance

Consider board / audit committee oversight: MPM definitions, calculations and the reconciliation note are now in scope of audit and statutory review.



3. Other Important Changes

Area	What changes under Ind AS 118
Goodwill on balance sheet	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".
Cash flow statement	Indirect-method operating cash flows must start from the new "Operating Profit" subtotal. The free choice for classifying interest paid, interest received and dividends received under Ind AS 7 is removed; classification is now prescribed by entity type.
Aggregation & disaggregation	Items must be grouped on shared characteristics; material items must be clear. Use of "Other" labels is restricted — entities must use descriptive labels [e.g., "Other operating expenses — repairs and consumables"].
Operating expenses by function	If operating expenses are presented by function on the face, additional disclosure of specified expenses by nature [e.g. depreciation, amortisation, employee benefits, impairment, write-downs of inventory] is mandatory in the notes.

What CFOs and finance teams should do now

- 1** Map the chart of accounts to the five categories; identify items requiring classification between Investing, Financing and Operating.
- 2** Assess whether the entity has a "specified main business activity" — the SMBA conclusion drives a different P&L profile.
- 3** Inventorise every non-GAAP measure used in earnings releases, investor Communications, MD&A and analyst calls; test each against the MPM definition.
- 4** Decide presentation method for operating expenses — by nature, by function or mixed — and assess the requirement for the additional nature-wise disclosure note .
- 5** Run a parallel "Pro-Forma" P&L for FY 2026-27, update ERP systems and consolidation tools.
- 6** Engage early with the audit committee, statutory auditors, and Investor relations teams.



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