Proposed Ind AS 118 – Presentation and Disclosure in Financial Statements

By:

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Status: Proposed standard. ICAI's Accounting Standards Board issued the Exposure Draft on 6 Jan 2025 (comments closed 6 May 2025); final draft approved by NFRA on 22 Dec 2025; MCA notification pending. Proposed effective date 1 Apr 2027, so FY 2026-27 is the comparative year. Paragraph references are to the Exposure Draft.



Agenda

01 **Setting the context**
Why Ind AS 118, what changes vs. Ind AS 1 and the hidden quirks

02 **Structure of the statement of profit and loss**
Five categories and required subtotals

03 **Operating expenses: nature vs function**
Nature, function or mixed presentation and sector practice

04 **Management-defined performance measures**
What is (and is not) an MPM, reconciliation and disclosure

05 **Transition and impact on other Ind AS**
Effective date, comparatives and Ind AS 7, 8, 33, 34, 107

06 **Getting ready**
Early adopters, way forward and implementation checklist

07 **Key takeaways and questions**
What matters most – and open discussion

Quiz checkpoints (13 MCQs in total) run through sections 02–05 to test understanding.



Section 01 of 07

Setting the context

Ind AS 118 – ‘fact’ vs ‘fiction’?

Setting the context…



Why Ind AS 118?

What investors said:

'The structure and content of the statement of profit or loss vary even between companies operating in the same industry.'

'Inconsistencies in classification of income and expenses can reduce comparability.'

'We need comparable subtotals as a starting point for analysis, including screening and ratio analysis.'

What investors said:

'Companies often disclose items of large amounts labelled as "other" with no information provided about what is included in the amount, which reduces comparability of information.'

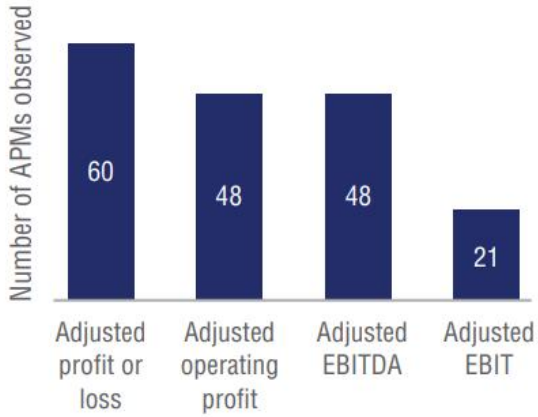
A survey by the CFA Institute in 2016 found that 46% of 431 respondents (mostly buy-side analysts) use EBIT in their analysis.[14]

Operating profit is one of the most commonly presented subtotals in financial statements. In the IASB's sample of 100 companies, 61 companies presented in the statement of profit or loss a measure labelled operating profit (or similarly labelled subtotal, such as profit from operations), using at least nine different definitions.

Research on line items and subtotals presented by companies from 46 countries showed that 'value relevance' is highest for measures in the middle of the statement of profit or loss, for example, in the operating profit subtotal.[13]

Figure 11 shows the diversity in companies' selection of APMs. Companies do not always explain how they calculate their APMs or why they are providing such measures.

Figure 11—Common APMs other than those labelled operating profit, EBIT, profit before financing or EBITDA[25]



Source: IASB® – Effects analysis - IFRS 18 (April 2024)

Why it changed vs. what changes

51 years
IAS 1 dates back to 1975 (originally 'Disclosure of Accounting Policies') – now to be replaced

10 years
Global standard-setting effort to fix one page – the Statement of Profit and Loss

Converged
Paragraph numbering kept the same as IFRS 18; limited India-specific modifications (ED Appendix 1)

Theme	The old problem (IAS 1 / Ind AS 1)	The new rulebook (IFRS 18 / Ind AS 118)
Operating profit	**9 different definitions** of 'operating profit' found in a 100-company IASB study – none defined by the standard	**5 mandatory P&L categories** (operating, investing, financing, income taxes, discontinued) + 2 new subtotals
Performance measures	**'Adjusted' (non-GAAP) metrics** widely used in press releases and investor presentations, outside the audit scope	**1 single audited note** for all MPMs, with tax and NCI effects
Balance sheet & expenses	**Goodwill often buried** inside 'other intangibles' on the balance sheet*	**1 dedicated line** for goodwill on the balance sheet + 5 nature expenses disclosed when P&L is by function

* **India:** Schedule III (Division II) already requires goodwill as a separate line – no practical change for Schedule III reporters. Ind AS 118 is proposed (ED), subject to MCA notification.

By the numbers: Ind AS 1 vs. Ind AS 118

Component	Ind AS 1 / IAS 1	Ind AS 118 / IFRS 18	Key insight
Main body	Paras 1–139 plus many lettered paras (e.g., 139A onwards); several 'Deleted'	Paras 1–132, numbering kept as IFRS 18 (paras 13, 22(b), 29 deleted)	General requirements (e.g., going concern, accounting policies) move to Ind AS 8
Application guidance	0 paras (no Appendix B)	Appendix B (B1–B142)	New application guidance supports P&L classification and MPM rules
Status in India	Notified standard	Exposure Draft (ICAI, 6 Jan 2025); NFRA approved on 22 Dec 2025	Not yet notified by MCA – requirements remain proposed
India-specific differences	Several (e.g., loan covenant breach)	Limited – listed in ED Appendix 1	Single Statement of Profit and Loss; no 52-week periods; bargain purchase gain to OCI/capital reserve; B44(a) deleted; Indian terminology

Appendix B

New application guidance (B1–B142) supports classification in the Statement of Profit and Loss and MPM requirements

Ind AS 118 vs IFRS 18 – India-specific differences

The differences are **administrative, calendar-based, and regulatory** – to fit Indian corporate law

1 April 2027
Mandatory date shifted three months from IFRS 18's 1 January 2027 to match the Indian statutory financial year

1 January 2027
NFRA-recommended early adoption, only for calendar-year reporters (e.g. Indian subsidiaries of foreign MNCs)

Schedule III
Currently mandates expenses by nature – MCA must amend it before 'by function' or 'mixed' presentation can be used

Area	IFRS 18 (global)	Ind AS 118 (India)
Terminology	**'Statement of profit or loss and OCI'** and 'statement of financial position'	**'Statement of Profit and Loss'**; 'Balance Sheet' used alongside 'statement of financial position'
P&L and OCI presentation	**One statement or two** separate statements permitted	**Single continuous statement** – consistent with existing Ind AS practice and Schedule III
Cross-references	**IAS / IFRS numbers** (e.g. IAS 7, IAS 33, IAS 34)	**Ind AS numbers** (e.g. Ind AS 7, Ind AS 33, Ind AS 34)

India: Unlike standalone IFRS 18, Ind AS 118 must align with Schedule III to the Companies Act, 2013 (MCA) and SEBI listing formats. Ind AS 118 is proposed (ED), subject to MCA notification.

Ind AS 118 Presentation and Disclosure in Financial Statements

Key changes from Ind AS 1 Presentation of Financial Statements

Enhanced principles of aggregation and disaggregation



Statement of profit and loss

Sub-totals: Predefined

Categories: Operating, investing, financing, income tax and discontinued operations.

Presentation of expenses: By function, by nature or a mix of both (India: subject to Schedule III amendment)



Statement of cash flows

Defined starting point for cash flows when using indirect method = operating profit or loss.



Balance sheet

No changes other than goodwill presented separately (India: no practical change for Schedule III reporters).



Other comprehensive income and statement of changes in equity

No substantive change – OCI groupings relabelled only.



Additional disclosures related to items of profit or loss

- Management performance measures (MPMs).
- P/L by function: Disclosure to include breakdown of expenses by nature for certain items.

Quiz time – MCQ 1 of 13

QUIZ 1/13

Test your knowledge: Carve-outs from IFRS 18



Question

Is the exposure draft of Ind AS 118 converged with IFRS 18, or does it contain carve-outs?



Options

A. Fully mirrors IFRS 18, with zero carve-outs

B. Converged, but with differences reflecting existing Ind AS positions

C. Carve-out mandating nature-only presentation of expenses

D. Carve-out removing MPM disclosures for listed entities

MCQ 1 – Answer and explanation

ANSWER 1/13

Test your knowledge: Carve-outs from IFRS 18



Question

Is the exposure draft of Ind AS 118 converged with IFRS 18, or does it contain carve-outs?

Answer: (B) Converged, but with differences reflecting existing Ind AS positions



Explanation

- Ind AS 118 is converged with IFRS 18, with limited India-specific modifications listed in ED Appendix 1.
- Single Statement of Profit and Loss only (para 12 modified; paras 13, 22(b) deleted); no 52-week periods (para 29 deleted); bargain purchase gain to OCI/capital reserve; B44(a) deleted; Indian terminology.
- IFRS 18 paragraph numbering is kept, so cross-referencing to global guidance stays straightforward.



Section 02 of 07

Structure of the statement of profit and loss

Structure of the statement of profit and loss

New categories (plus income taxes and discontinued operations)



Operating

- **Residual** category, not defined.
- Includes:
  - Income and expenses from an entity's **main business activity**.
  - Volatile and unusual income and expenses.
- Present by nature or by function (or possibly both).



Investing

- Income and expenses (incl. acquisition and disposal effects) on:
  - Associates and JVs (and, in separate FS, investments in subsidiaries).
  - Cash and cash equivalents.
  - Other assets generating a return individually and largely independently of other resources.



Financing

- All income and expenses from **liabilities that involve only the raising of finance.**
- Interest expense and the effects of changes in interest rates from **other liabilities** (e.g., unwinding of discount on provisions, net interest on pension liabilities).

But what about entities that provide financing to customers (e.g., banks) or invest in certain assets as part of their core operations (e.g., investment entities)?

Ind AS 118 requires an entity to assess whether it has a specified main business activity – investing in assets or providing financing to customers. If so, the related income and expenses are classified in operating.

The classification engine

Operating is a residual – test the other categories first

1	**Income taxes?**	→	**Income taxes** – classify in the income taxes category (Ind AS 12 amounts)
2	**Discontinued operation?**	→	**Discontinued operations** – classify in the discontinued operations category (Ind AS 105)
3	**A specified investing return?**	→	**Investing** – unless investing in such assets is a specified main business activity
4	**A specified financing item?**	→	**Financing** – unless providing financing to customers is a specified main business activity
5	**None of the above?**	→	**Operating** – the residual category, not a category of 'good' or 'core' items

Quiz time – MCQ 2 of 13

QUIZ 2/13

Test your knowledge: Right-of-use asset and lease liability



Question

A lessee recognises depreciation on its right-of-use (ROU) asset and interest on its lease liability under Ind AS 116. How are these classified?



Options

A. Both in the operating category

B. Depreciation – operating; Interest – financing

C. Both in the financing category

D. Depreciation – investing; Interest – financing

MCQ 2 – Answer and explanation

ANSWER 2/13

Test your knowledge: Right-of-use asset and lease liability



Question

A lessee recognises depreciation on its right-of-use (ROU) asset and interest on its lease liability under Ind AS 116. How are these classified?

Answer: (B) Depreciation – operating; Interest – financing



Explanation

- A lease liability does not arise only from raising finance – the lessee receives an ROU asset (para B53(c)).
- Interest on the lease liability under Ind AS 116 is classified in the financing category (paras 61(a), B54(c)).
- ROU depreciation stays in operating (default, para 52) and forms part of the para 83 depreciation note if expenses are presented by function.

Quiz time – MCQ 3 of 13

QUIZ 3/13

Test your knowledge: Gratuity – interest cost



Question

Mfg Ltd's gratuity (defined benefit) plan gives rise to current service cost and net interest cost on the net defined benefit liability. Where is the net interest cost classified?



Options

A. Operating, together with current service cost
B. Investing
C. Financing
D. Other comprehensive income

MCQ 3 – Answer and explanation

ANSWER 3/13

Test your knowledge: Gratuity – interest cost



Question

Mfg Ltd's gratuity (defined benefit) plan gives rise to current service cost and net interest cost on the net defined benefit liability. Where is the net interest cost classified?

Answer: (C) Financing



Explanation

- A defined benefit liability arises from a transaction that does not involve only the raising of finance – the entity receives employee services (para B53(d)).
- Interest identified for applying other Ind ASs goes to financing; this includes net interest on the net defined benefit liability (paras 61(a), B54(d)).
- Current and past service cost remain in the operating category (para B55(b)); remeasurements stay in OCI under Ind AS 19.

Quiz time – MCQ 4 of 13

QUIZ 4/13

Test your knowledge: Interest on late payment of trade receivables



Question

Mfg Ltd charges interest to a customer for late payment of a trade receivable arising from sale of goods. In which category is this interest income classified?



Options

A. Operating

B. Investing

C. Financing

D. Other income, shown outside the categories

MCQ 4 – Answer and explanation

ANSWER 4/13

Test your knowledge: Interest on late payment of trade receivables



Question

Mfg Ltd charges interest to a customer for late payment of a trade receivable arising from sale of goods. In which category is this interest income classified?

Answer: (A) Operating



Explanation

- Trade receivables arise from supplying goods and services and are used with other resources – they do not generate a return individually and largely independently (para B48(b)).
- So income from them, including interest for late payment, is not investing (para 53(c)) and stays in the operating category (para 52).
- Contrast: interest on a loan given or a deposit that generates a return independently is investing (paras 53(c), B46).

Quiz time – MCQ 5 of 13

QUIZ 5/13

Test your knowledge: Classification of income and expenses



Question

Mfg Ltd (not an investment entity or a lender) earns dividend income on a 5% equity investment measured at FVTPL and incurs interest on a bank term loan. How are these classified in the statement of profit and loss under the proposed Ind AS 118?



Options

A. Both in the operating category
B. Dividend – investing; Interest – financing
C. Dividend – operating; Interest – financing
D. Both in the financing category

MCQ 5 – Answer and explanation

ANSWER 5/13

Test your knowledge: Classification of income and expenses



Question

Mfg Ltd (not an investment entity or a lender) earns dividend income on a 5% equity investment measured at FVTPL and incurs interest on a bank term loan. How are these classified in the statement of profit and loss under the proposed Ind AS 118?

Answer: (B) Dividend – investing; Interest – financing



Explanation

- Investments that generate a return individually and largely independently of other resources: income goes to the investing category (paras 53–54).
- Liabilities from transactions that involve only the raising of finance: interest expense goes to the financing category (paras 59–60).
- Operating is only the default category for what is not classified elsewhere (para 52) – a trap in option (A).

Structure of the statement of profit and loss (continued)

Foreign currency gains and losses

Putting it into practice …

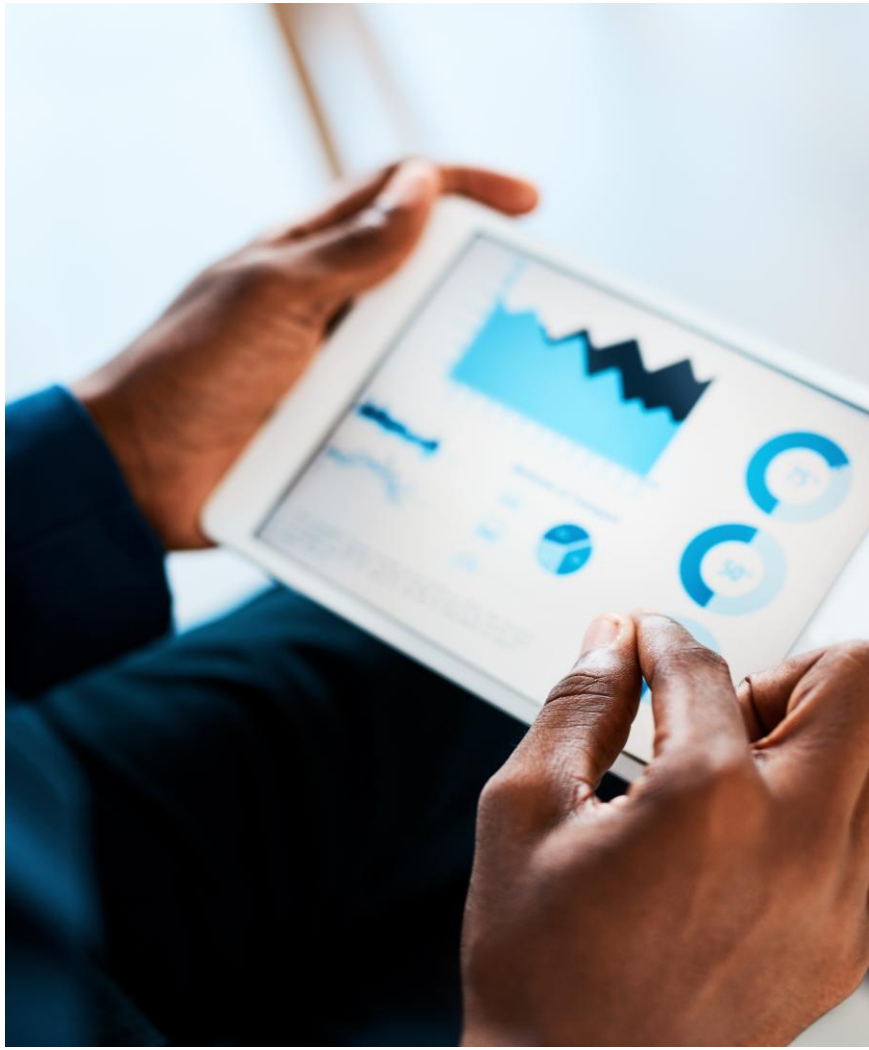
Question

How should the Company present foreign currency gains and losses in the statement of profit and loss?

Answer

Foreign exchange differences are included in the statement of profit and loss in the same category as the income and expenses from the items that resulted in the foreign exchange differences unless this would involve undue cost or effort (in which case they should be classified in the operating category).

For example, foreign exchange differences on a foreign currency receivable for goods would be classified in the operating category.



Structure of the statement of profit and loss (continued)

Investment properties

Putting it into practice …

Question

The Company owns an investment property which it leases to its tenants under operating leases. The ownership and leasing of investment property is not a main business activity of the Company.

The Company incurs property tax relating to the investment property.

In which category will management classify the following items under the proposed Ind AS 118?

- rental income
- property tax expenses

Answer

Operating lease income

Investing category: The investment property generates returns individually and largely independently of the Company's other resources, and the Company does not invest in the property as a main business activity.

India: Ind AS 40 permits only the cost model – depreciation/impairment of the investment property (subsequent measurement) is also investing.

Property tax

Operating category: These expenses are not specified expenses in proposed paragraph 54 of Ind AS 118. These expenses should be classified in the operating category of the Company's statement of profit and loss.



Quiz time – MCQ 6 of 13

QUIZ 6/13

Test your knowledge: Profit on sale of PPE



Question

Mfg Ltd sells an old machine used in its factory and earns a profit on sale. How is this profit classified in the statement of profit and loss?



Options

A. Operating category

B. Investing category

C. Financing category

D. Shown below profit before tax as an exceptional item

MCQ 6 – Answer and explanation

ANSWER 6/13

Test your knowledge: Profit on sale of PPE



Question

Mfg Ltd sells an old machine used in its factory and earns a profit on sale. How is this profit classified in the statement of profit and loss?

Answer: (A) Operating category



Explanation

- Gains and losses on derecognition are classified in the same category as the income and expenses from the asset before derecognition (para B60).
- PPE used in operations: gain or loss on disposal is operating (para B60(a)).
- Contrast: disposal of an investment property not held as a main business activity is investing (para B60(b)).

Structure of the statement of profit and loss (continued)

Entities with specified main business activities

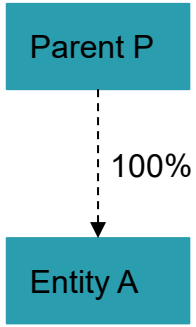
Putting it into practice …

Question

Entity A provides financing to customers as a main business activity.

Parent P owns 100% of entity A. Entity A is not material to the consolidated financial statements of parent P.

Parent P has determined that the consolidated group does not provide financing to customers as a main business activity. Would this be reasonable?



Answer

Yes

The specified main business activity assessment is done at the reporting entity. The assessment at the group might differ from the assessment at the subsidiary.

This might result in differences in classification of items in the statement of profit and loss.



Structure of the statement of profit and loss (continued)

Disposal of a business

Putting it into practice …

Question

Entity A had a subsidiary, B, which it sold during the period.

Subsidiary B owned and operated a manufacturing plant and had a number of assets that supported its operations.

How should the gain or loss on disposal be treated in entity A's consolidated financial statements?

Assume that subsidiary B does not meet the definition of a discontinued operation.

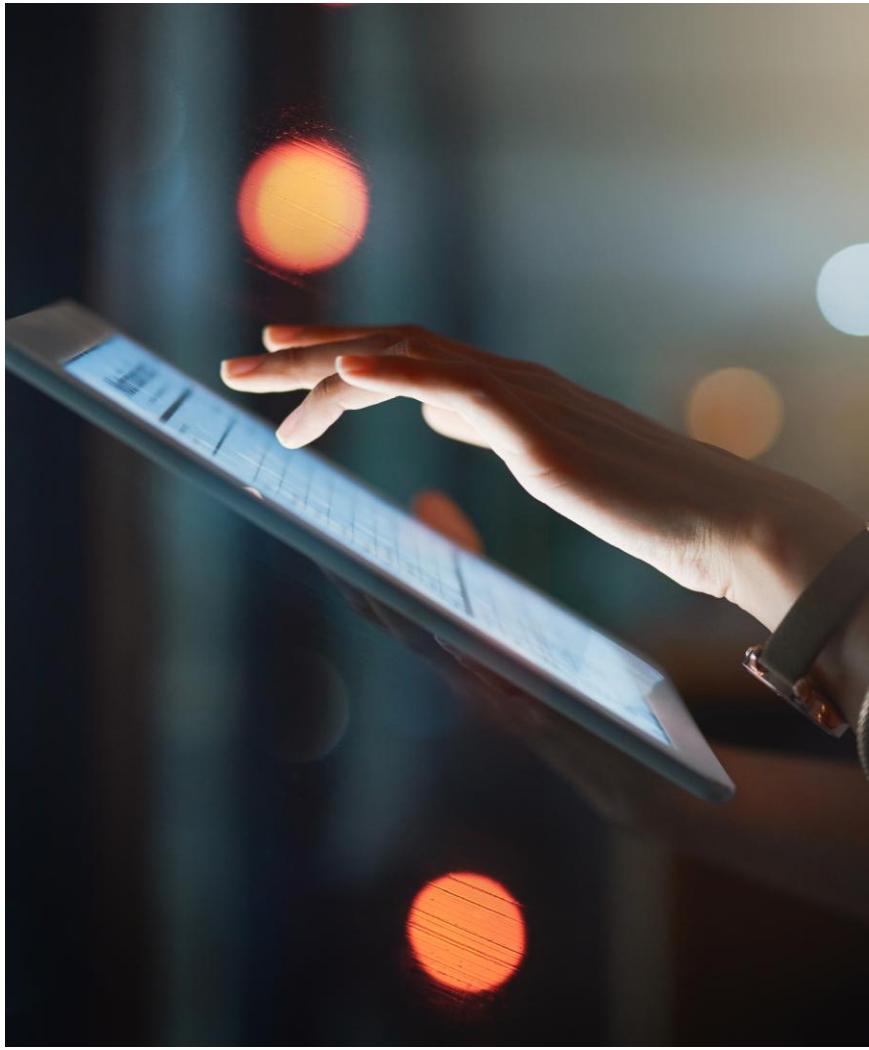
Answer

Subsidiary B's assets supported its manufacturing operations, so their income and expenses would have been in the operating category.

Conclusion: gain/loss on disposal → operating category.

As a follow up…

Where do you think this item will be classified in the Statement of Cash Flows?



Quiz time – MCQ 7 of 13

QUIZ 7/13

Test your knowledge: Derivative gains and losses



Question

Mfg Ltd takes a forward contract (not designated as a hedge) to manage foreign currency risk on its export revenue. In which category are the fair value gains on the forward classified?



Options

A. Operating

B. Investing

C. Financing

D. Income taxes

MCQ 7 – Answer and explanation

ANSWER 7/13

Test your knowledge: Derivative gains and losses



Question

Mfg Ltd takes a forward contract (not designated as a hedge) to manage foreign currency risk on its export revenue. In which category are the fair value gains on the forward classified?

Answer: (A) Operating – same category as the income affected by the managed risk



Explanation

- Hedging instruments and derivatives used to manage identified risks follow the category of the items affected by that risk (paras B70, B72).
- If that would require grossing up gains and losses, or involve undue cost or effort, classify all gains and losses in operating (para B72).
- Derivatives not used to manage risks: financing if they relate to a transaction that only raises finance; otherwise operating (para B73).

Quiz time – MCQ 8 of 13

QUIZ 8/13

Test your knowledge: Dividends paid



Question

Mfg Ltd (no specified main business activity) declares and pays an equity dividend. Where is the dividend paid reflected?



Options

A. Financing category of the statement of profit and loss

B. Not in profit or loss; financing activities in the statement of cash flows

C. Operating activities in the statement of cash flows

D. Investing activities in the statement of cash flows

MCQ 8 – Answer and explanation

ANSWER 8/13

Test your knowledge: Dividends paid



Question

Mfg Ltd (no specified main business activity) declares and pays an equity dividend. Where is the dividend paid reflected?

Answer: (B) Not in P&L; financing activities in the cash flow statement



Explanation

- A dividend is a distribution to owners, not an expense, so it never enters any category of profit or loss.
- Proposed Ind AS 7 para 33A: an entity shall classify dividends paid as cash flows from financing activities.
- Para 34A: interest paid goes to financing; interest and dividends received go to investing (other than entities in para 34B).

Show of hands…

Putting it into practice …



Question

Can entities continue to present ‘exceptional items’ in the statement of profit and loss?



Vote

A. Yes

B. No

Show of hands – answer

Putting it into practice …



Question

Can entities continue to present ‘exceptional items’ in the statement of profit and loss?



Answer

No – there is no separate section outside the five categories.

Material unusual items may be shown as separate line items within the relevant category (usually operating).

India: Schedule III's 'Exceptional items' line before profit before tax depends on MCA amending Schedule III.



Section 03 of 07

Operating expenses: ‘nature’ vs ‘function’ vs ‘mixed’

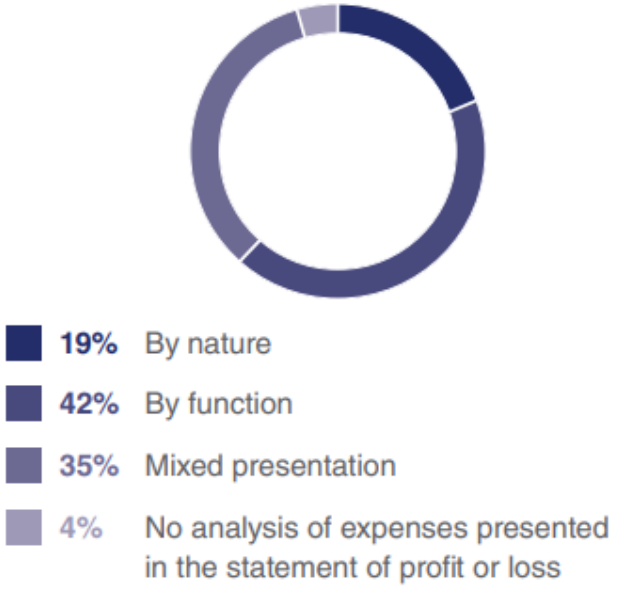
The ‘functional’ debate…

A study of financial statements of 197 European companies applying IFRS Accounting Standards showed that whether they present expenses by nature or function was influenced mainly by their country or industry and to some degree by their audit firm.[17]



The IASB’s analysis of 100 companies also showed that the presentation of operating expenses in current practice varies by company (see Figure 8).

Figure 8—Presentation of expenses in the statement of profit or loss



ICAI – ASB view

The ASB was of the view that allowing only nature-wise classification of expenses might prevent an entity from presenting operating expenses in a way that contributes to providing the most useful structured summary of its expenses.

NFRA observation

With different industries having different economic realities, a single mandatory format could perhaps be problematic. Allowing both functional and nature-wise classifications, therefore, would help entities present information that best reflects their business model and enhances comparability within their specific industry.

Sources: ICAI ASB – Exposure Draft of Ind AS 118 (Jan 2025); NFRA recommendation on Ind AS 118 (Dec 2025)

The ‘functional’ debate…

India: function-wise or mixed presentation subject to Schedule III amendment

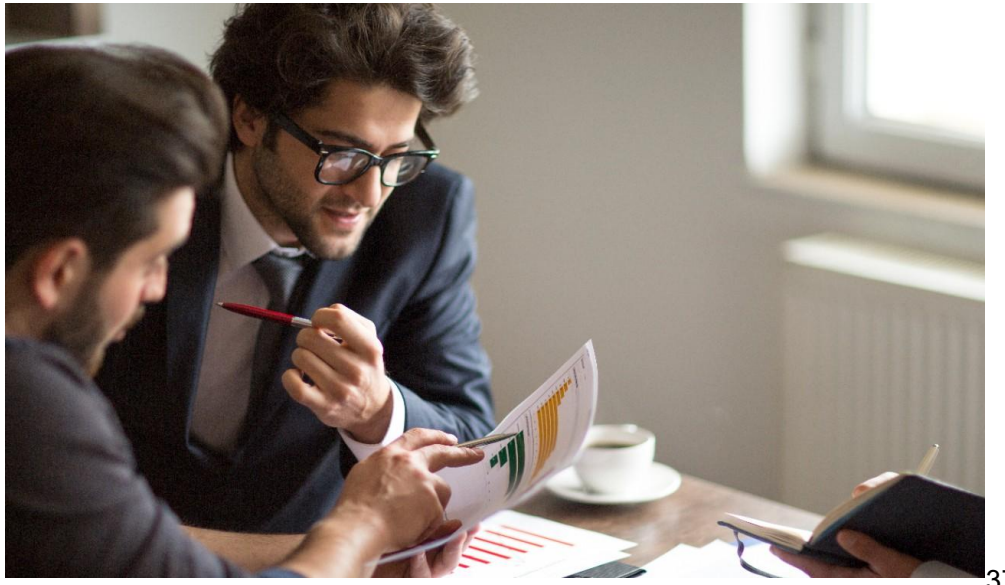
Factors determining the presentation [NOT a free choice]

- Information about the main components or drivers of the entity’s profitability
- Most closely represents the way the business is managed and how management reports internally
- The standard practice in the industry

‘Mixed’ presentation could help in presenting useful information in the statement of profit and loss

For instance…

- Entities with different types of main business activities
- Difficulty in allocating operating expenses to functions in a non-arbitrary manner (e.g., impairment of goodwill, which does not relate to a single function)



Structure of the statement of profit and loss

Note: 'Other income' as reported today must be split – interest and dividends typically go to investing; only operating items stay here. Function-wise presentation in India is subject to Schedule III amendment.

Presentation by a general corporate

Classify income and expenses into categories

Simplified for a general corporate – by nature		
Revenue	X	Operating
Other operating income (e.g., scrap sales)	X	
Changes in inventories of finished goods and work in progress	(X)	
Raw materials used	(X)	
Employee benefits	(X)	
Depreciation	(X)	
Amortisation	(X)	
Professional fees and other expenses	(X)	
Operating profit	**X**	
Share of profit of associates and joint ventures accounted for using the equity method	X	Investing
Income and expenses from investments	X	
Income and expenses from cash and cash equivalents	X	
Profit before financing and income tax	**X**	
Income and expenses from borrowings	(X)	Financing
Unwinding of discount on provisions	(X)	
Profit before tax	**X**	
Income tax	(X)	Income tax
Profit for the year	**X**	

Expenses in operating category presented based on 'nature'

Present required subtotal

Present required subtotal

Present required total

Structure of the statement of profit and loss

India: function-wise presentation is subject to Schedule III amendment – Ind AS 1 and Schedule III Division II currently require nature-wise presentation.

Presentation by a general corporate

Classify income and expenses into categories

Simplified for a general corporate – by function		
Revenue	X	Operating
Cost of goods sold	(X)	
Gross profit	**X**	
Selling expenses	(X)	
General and administrative expenses	(X)	
Research and development expenses	(X)	
Operating profit or loss	**X**	
Share of profit of associates and joint ventures accounted for using the equity method	X	Investing
Interest income from cash and cash equivalents	X	
Profit or loss before financing and income tax	**X**	
Income and expenses from borrowings	(X)	Financing
Interest expense on other liabilities	(X)	
Profit before tax	**X**	
Income tax expense	(X)	Income tax
Profit or loss from continuing operations	**X**	
Loss from discontinued operations	(X)	Discontinued operations
Profit for the year	**X**	

Expenses in operating category presented based on 'function'

Present required subtotal

Present required subtotal

Present required total

General presentation by sector

By Function…

- Pharma / Biotech
- Consumer Goods / FMCG
- Mining & Metals
- Industrials / Aerospace
- Support Services
- Real Estate
- Retail / Consumer
- Technology / Software
- Hospitality / Leisure

By Nature…

- Energy
- Utilities
- Asset management
- Telecom

Indicative – global practice. India: function-wise/mixed presentation subject to Schedule III amendment.

Let’s reflect – ‘nature’ vs ‘function’

Putting it into practice…





Section 04 of 07

Management-defined performance measures

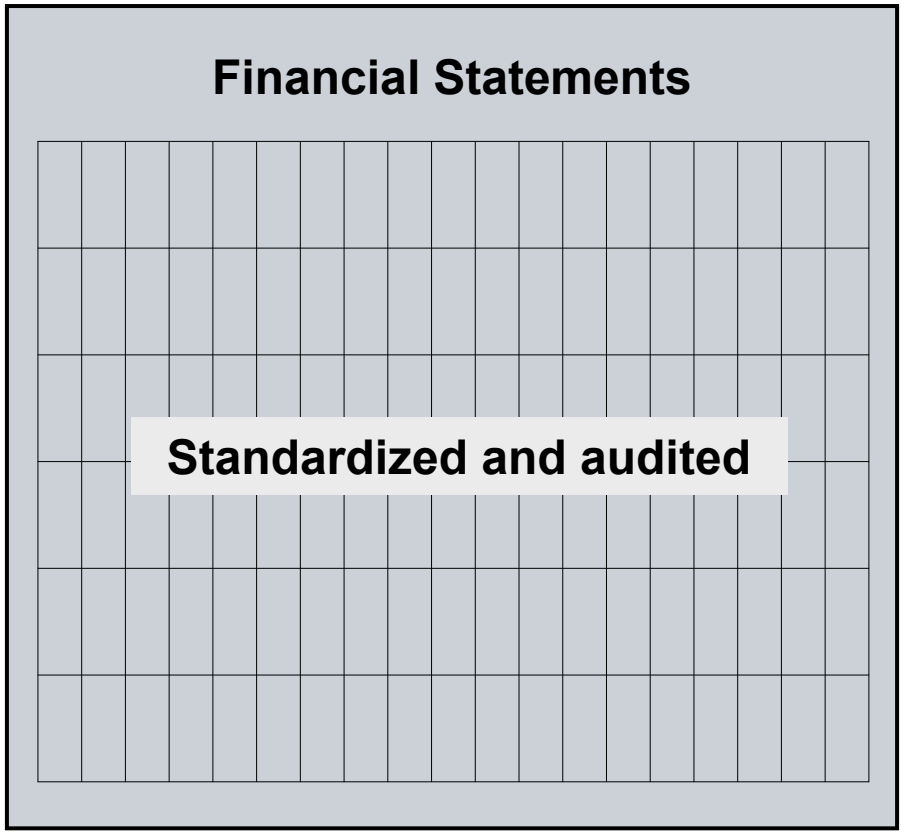
Alternate measures of performance

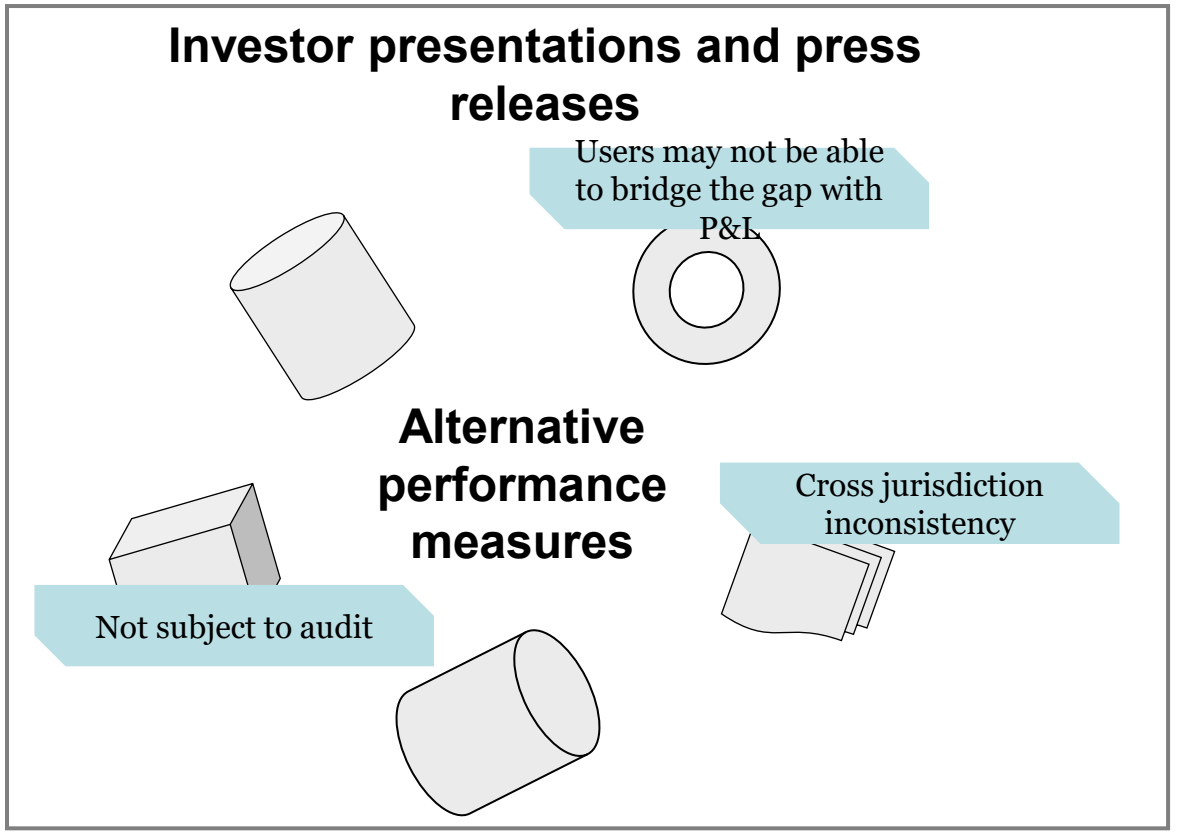
Setting the context…



Management-defined performance measures

Why?





Alternate / Non-GAAP performance measures

By Industry…

Automotive 	*Adjusted EBITDA*	*Free cash flow*	*Segmental EBITDA*	
Consumer / FMCG 	*Constant currency revenue growth*	*Segmental EBITDA*	*Underlying Revenue Growth*	*Organic net sales growth*
Healthcare 	*Average revenue per occupied bed*	*Occupancy rate (%)*	*Revenue per patient*	
IT Services 	*Adjusted EBITDA*	*Revenue per employee*	*Constant currency revenue growth*	*EBIT margin*
Retail 	*Average revenue per operating store*	*Like-for-like sales growth*	*Revenue per square foot*	

Alternative performance measures – only subtotals of income and expenses (e.g., Adjusted EBITDA) can be MPMs. Free cash flow, ratios, growth rates and operating KPIs are not; segment measures disclosed under Ind AS 108 are also excluded.

Management-defined performance measures

Why and What?

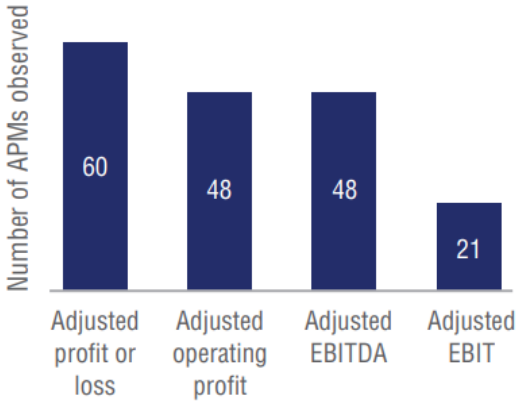
Investors' concerns about APMs

What investors said:

'The disclosure of APMs sometimes lack transparency into the calculation and reasons for providing those measures.'

'Even when companies do provide information about APMs in public communications, it is often difficult to find.'

Figure 11—Common APMs other than those labelled operating profit, EBIT, profit before financing or EBITDA[25]



Performance measures

Non-financial performance measures

For example:
- Number of subscribers
- Customer satisfaction
- Carbon emissions

Financial performance measures

(Sub)totals of income and expenses

Ind AS-specified

For example:
- Gross profit
- Operating profit
- Operating profit before depreciation, amortisation and impairments within the scope of Ind AS 36
- Other required sub-totals

MPMs

For example:
- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

MPM only if ALL 3 met:
- Income/expense subtotal
- Used in public comms
- Mgmt's view (presumed)

Other measures that are not subtotals of income/expenses

For example:
- Constant currency revenue growth
- Free cash flow
- Return on equity
- Same-store sales

Note: a ratio is not an MPM, but an MPM used as its numerator is

Performance measures that are not MPMs

Statement of Profit and Loss – by nature	
Revenue	X
Changes in inventories of finished goods and work in progress	(X)
Raw materials used	(X)
Employee benefits	(X)
Professional fees and other expenses	(X)
Operating profit or loss before depreciation, amortisation and impairments	**X**
Depreciation and amortisation	(X)
Impairment	(X)
Operating profit or loss	**X**
Share of profit of associates and joint ventures accounted for using the equity method	X
Operating profit or loss including share of profit or loss of equity method investments	**X**
Income and expenses from investments	X
Profit or loss before financing and income tax	**X**
Income and expenses from borrowings	(X)
Profit before tax	**X**
Income tax	(X)
Profit or loss from continuing operations	**X**
Discontinued operations	X
Profit or loss	**X**

These measures are readily determinable from the face of the statement of profit and loss.

4 Measure specifically excluded

1 Required sub-total

7 Measure specifically excluded

2 Required sub-total

5 Measure specifically excluded

6 Measure specifically excluded

3 Required sub-total

Performance measures that are not MPMs

Statement of Profit and Loss – by function	
Revenue	X
Cost of sales	(X)
Gross profit or loss	**X**
Other operating income	X
Selling expense	(X)
Research and development expenses	(X)
General and administrative expenses	(X)
Other operating expenses	(X)
Operating profit or loss	**X**
Share of profit of associates and joint ventures accounted for using the equity method	X
Operating profit or loss including share of profit or loss of equity method investments	**X**
Income and expenses from investments	X
Profit or loss before financing and income tax	**X**
Income and expenses from borrowings	(X)
Profit before tax	**X**
Income tax	(X)
Profit or loss from continuing operations	**X**
Discontinued operations	X
Profit or loss	**X**

These measures are readily determinable from the face of the statement of profit and loss.

8 Measure specifically excluded

1 Required sub-total

7 Measure specifically excluded

2 Required sub-total

5 Measure specifically excluded

6 Measure specifically excluded

3 Required sub-total

Management-defined performance measures

What are they?



Financial performance measure consisting of a subtotal of income and expenses.

Measures specified or required by Ind AS are not MPMs, for example:

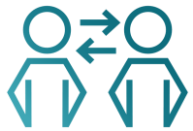
- Gross profit or loss.
- OPBDAI
- Profit or loss from continuing ops.
- Profit or loss before income tax.
- Operating profit or loss and income and expenses from investments accounted for using the equity method.
- Lenders applying para 73: operating profit + all investing income and expenses (para 118(f)).



Communicate management's view of an aspect of an entity's financial performance as a whole.

MPMs do not include measures based on:

- Aggregation of only income or only expenses (e.g., adjusted revenue)
- Statement of cash flows
- Balance sheet



Are used in public communications outside financial statements.

Rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements is an MPM – rebutted with reasonable and supportable evidence.

- Public communications **include** management commentary, press releases and investor presentations.
- Public communications **do not include** oral communications, their written transcripts or social media posts (B119).
- Public communication generally means that a measure must be communicated to **all users** of the financial statements and not only some users (for example, to a bank to demonstrate compliance with a loan covenant).
- An annual report is a 'public communication' if the public can access it without approval, even with a registration process or nominal fee.
- The requirement relates to measures covering the **same time period** as the financial statements.

Management-defined performance measures (continued)

Required disclosure for MPMs

01

State

- That MPM provides management's view of an aspect of the entity's financial performance.
- That is not necessarily comparable with measures provided by other entities.

02

Describe

- Aspect of financial performance that, in management's view, is communicated by the MPM.
- Why the MPM provides useful information about the entity's performance.
- How the MPM is calculated, including whether and how the measure differs from accounting policies in Ind AS.

03

Reconcile

Between MPM and the most directly comparable subtotal or total specified by Ind AS, including the income tax effect and effect on non-controlling interests (see next slide)

How the income tax effect is determined (para 123(e)).

04

Communicate changes

Explanation for users to understand changes in calculation of MPMs or which MPMs it provides **and** reason for change, addition or removal.

Restated comparative information for new/changed MPM is required, unless it is impracticable (reason to be disclosed).

All information required to be disclosed about MPMs shall be included in a **single** note.

Management-defined performance measures (continued)

Reconciliation between MPM and Ind AS defined subtotal



Reconciliation with most directly comparable subtotal/total specified by Ind AS

Example of a required reconciliation.

Adjusted operating profit (MPM)	**35,000**	**Income tax effect**	**Effect on NCI**	**P&L line item**
Restructuring costs	(7,000)	2,100	750	Other operating expenses
Impairment of non-financial assets	(8,000)	1,200	-	Impairment losses
Operating profit (Ind AS)	**20,000**	**3,300**	**750**	

Sign convention: positive = increase in the MPM / profit. Income tax effect at the statutory rate (30%); impairment partly non-deductible (effective 15%). NCI effect = NCI share of each item. Illustrative figures.

Quiz time – MCQ 9 of 13

QUIZ 9/13

Test your knowledge: Management-defined performance measures



Question

ABC Ltd uses the following subtotals in its investor presentation. Which one is a management-defined performance measure (MPM) under the proposed Ind AS 118?



Options

A. Gross profit

B. Operating profit before depreciation, amortisation and impairments

C. Profit before income taxes

D. Adjusted operating profit (excluding restructuring costs)

MCQ 9 – Answer and explanation

ANSWER 9/13

Test your knowledge: Management-defined performance measures



Question

ABC Ltd uses the following subtotals in its investor presentation. Which one is a management-defined performance measure (MPM) under the proposed Ind AS 118?

Answer: (D) Adjusted operating profit (excluding restructuring costs)



Explanation

- An MPM is a subtotal of income and expenses used in public communications outside the financial statements to convey management's view of performance (para 117).
- Proposed para 118 excludes gross profit, OPBDAI and profit before income taxes – options (A) to (C); the list also covers 118(f) for lenders.
- Disclose MPMs in a single note with a reconciliation, including the tax and non-controlling interest effects of each item.

Management-defined performance measures (continued)

Management-defined performance measures

Putting it into practice …

Question

Can a private entity have MPMs?

Answer

Yes

There is no distinction between public and private entities in Ind AS 118. If a private entity reports a subtotal of income and expenses in its public communications and it meets the rest of the definition in the standard, then it will need to be disclosed within the financial statements.



Quiz time – MCQ 10 of 13

QUIZ 10/13

Test your knowledge: Identifying an MPM



Question

Which of the following, used by Mfg Ltd in its investor presentation, is NOT a management-defined performance measure (MPM)?



Options

A. Adjusted profit after tax (excluding impairment losses)

B. Free cash flow

C. Adjusted EBIT (excluding restructuring costs)

D. Underlying operating profit (excluding litigation settlement)

MCQ 10 – Answer and explanation

ANSWER 10/13

Test your knowledge: Identifying an MPM



Question

Which of the following, used by Mfg Ltd in its investor presentation, is NOT a management-defined performance measure (MPM)?

Answer: (B) Free cash flow



Explanation

- An MPM must be a subtotal of income and expenses used in public communications outside the financial statements (para 117).
- Free cash flow is not a subtotal of income and expenses, so it is not an MPM (para B116).
- Public communications include press releases, management commentary and investor presentations, but exclude oral communications and social media posts (para B119).

Quiz time – MCQ 11 of 13

QUIZ 11/13

Test your knowledge: MPM disclosures



Question

For each MPM, which of the following is NOT required to be disclosed in the single MPM note?



Options

A. Why, in management's view, the MPM provides useful information

B. How the MPM is calculated

C. Reconciliation to the most directly comparable Ind AS subtotal, with income tax and NCI effects

D. Comparison with similarly labelled measures of peer companies

MCQ 11 – Answer and explanation

ANSWER 11/13

Test your knowledge: MPM disclosures



Question

For each MPM, which of the following is NOT required to be disclosed in the single MPM note?

Answer: (D) Comparison with peer companies' measures



Explanation

- Proposed para 123 requires a description and usefulness, the calculation, and a reconciliation with tax and NCI effects for each reconciling item.
- No peer comparison is required; instead the note must state that MPMs are not necessarily comparable with similarly labelled measures of other entities (para 122).
- All MPM information must be given in a single note (paras 122, B132).

Quiz time – MCQ 12 of 13

QUIZ 12/13

Test your knowledge: Change in an MPM



Question

Mfg Ltd changes how it calculates its ‘Adjusted EBITDA’ MPM. What does the ED of Ind AS 118 propose?



Options

A. Nothing – MPM selection is management’s choice

B. Account for it as a change in accounting policy under Ind AS 8

C. Explain the change and reasons, and restate comparatives unless impracticable

D. Restate comparatives only if the effect is material to the current year

MCQ 12 – Answer and explanation

ANSWER 12/13

Test your knowledge: Change in an MPM



Question

Mfg Ltd changes how it calculates its ‘Adjusted EBITDA’ MPM. What does the ED of Ind AS 118 propose?

Answer: (C) Explain the change and reasons, and restate comparatives unless impracticable



Explanation

- Proposed para 124 requires an explanation of the change and its effects, the reasons, and restated comparative information.
- Selecting an MPM is not an accounting policy choice, but impracticability is assessed using paras 50–53 of Ind AS 8.
- If restatement is impracticable, that fact must be disclosed (para 125).

Management-defined performance measures (continued)

Management-defined performance measures

Putting it into practice …

Question

Entity A reports the following **adjusted return on assets** ratio in its press release:

$$\frac{\text{Operating profit} + \text{Non-recurring expenses}}{\text{Total assets}}$$

= Adjusted operating profit ÷ Total assets

Question: is this ratio then an MPM?

Answer

No

The ratio cannot be an MPM because it is not a subtotal of income and expenses.

However, if a component of the ratio (either the numerator or denominator) meets the definition of an MPM, this component only would be an MPM.
In this case, the numerator 'Adjusted operating profit' would be an MPM disclosed within Entity A financial statements.





Section 05 of 07

Transition and impact on other Ind AS

Transition

Effective date

New IFRS
IFRS 18 was published on April 9, 2024.

Comparative information
Beginning of comparative period

Effective date
(proposed – subject to MCA notification)

Comparative period

Initial year of applying Ind AS 118

First issuance of annual financial statements applying Ind AS 118

April 2024 · · · · · **January 2025** · · · · · **1 April 2026** · **1 April 2027** · **31 March 2028** · · · · · · · · · · ▶

Ind AS 118: ICAI ED issued 6 Jan 2025; NFRA approved on 22 Dec 2025; MCA notification awaited

In the first year of application, a reconciliation is required between each line item in the statement profit or loss presented by applying Ind AS 1 and each line item presented under Ind AS 118 for the immediately preceding comparative period.

Illustration: Q1 FY 2027-28 (June 2027) interim results

Statement of Unaudited Standalone Financial Results for the quarter ended June 30, 2027

(Rs. in Millions, except per equity share data)

S. No	Particulars	Quarter ended			Year ended
		June 30, 2027	March 31, 2027	June 30, 2026	March 31, 2027
		(Unaudited)	(Refer note 5)	(Unaudited)	(Audited)
	Revenue from operations	5,027	5,802	4,720	20,809
	Cost of Sales	3,107	3,662	2,947	12,956
	Gross Profit	**1,920**	**2,140**	**1,774**	**7,853**
	Selling and Distribution Expenses	382	358	335	1,406
	General and Administrative Expenses	615	578	540	2,266
	Operating Profit	**923**	**1,204**	**899**	**4,182**
	Interest income from cash and cash equivalents	221	171	132	696
	Profit or loss before financing and income tax	**702**	**1,033**	**767**	**3,486**
	Interest expense on borrowings and leases	2	2	12	22
3	**Profit before tax**	**700**	**1,031**	**755**	**3,464**
4	**Tax expense:**				
	Current tax	182	268	196	901
	Deferred tax	(7)	(10)	(8)	(35)
5	**Net Profit for the period**	**525**	**773**	**566**	**2,598**

Transition – impact on other Ind AS

What happens to the existing requirements of Ind AS 1?

01

Ind AS 1

Many of the existing requirements in Ind AS 1 will be carried forward substantially unchanged.

02

Ind AS 8

Some requirements currently included within Ind AS 1 will be moved to Ind AS 8.

Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors will be renamed 'Basis of Preparation of Financial Statements'.

03

Ind AS 107

To a much lesser extent, some requirements will move to Ind AS 107 Financial Instruments: Disclosures.

04

Other Ind AS

Narrow scope consequential amendments have also been made to other Ind AS including:

- Ind AS 7 Statement of Cash Flows
- Ind AS 33 Earnings per Share
- Ind AS 34 Interim Financial Reporting

Ind AS 118 and consequential amendments to other Ind AS will be effective from **1 April 2027** (proposed; subject to MCA notification).

Consequential amendments – Ind AS 8, 33 and 34

What changes beyond the statement of profit and loss?

01

Ind AS 8

Renamed from '**Accounting Policies, Changes in Accounting Estimates and Errors**' to '**Basis of Preparation of Financial Statements**', absorbing several requirements currently in Ind AS 1.

02

Ind AS 33 – EPS

Additional EPS measures are restricted.

The numerator must be an Ind AS 118 identified total/subtotal or an MPM.

03

Ind AS 34 – Interim

MPM disclosures extend to interim financial statements, and certain new subtotal requirements affect condensed financial statements.

04

Adjusted EPS

Major implication for companies reporting "Adjusted EPS".

Implementation starts affecting **quarterly/half-year reporting**, not merely annual accounts.

Expanded Ind AS 8 – what it will cover

Renamed '**Basis of Preparation of Financial Statements**'

01

Existing Ind AS 8 requirements continue

- Accounting policies
- Changes in accounting policies
- Changes in accounting estimates
- Prior-period errors

02

PLUS – requirements moved in from Ind AS 1

- Going concern
- Accrual basis
- Basis-of-preparation requirements
- Material accounting-policy information
- Significant judgements
- Estimation uncertainty

Ind AS 8 keeps its existing content and **adds the general basis-of-preparation requirements** moved from Ind AS 1.

Quiz time – MCQ 13 of 13

QUIZ 13/13

Test your knowledge: Transition



Question

A listed company first applies Ind AS 118 for the year beginning 1 April 2027 (proposed effective date). Which statement on transition is correct?



Options

A. Apply prospectively; comparatives are not restated

B. Apply retrospectively and reconcile each P&L line item of the comparative period to amounts under Ind AS 1

C. Apply retrospectively, including the full para 28(f) quantitative disclosures of Ind AS 8

D. Application is optional until 1 April 2028

MCQ 13 – Answer and explanation

ANSWER 13/13

Test your knowledge: Transition



Question

A listed company first applies Ind AS 118 for the year beginning 1 April 2027 (proposed effective date). Which statement on transition is correct?

Answer: (B) Apply retrospectively and reconcile each P&L line item of the comparative period



Explanation

- Proposed effective date: annual periods beginning on or after 1 April 2027 (para C1) – subject to MCA notification.
- Apply retrospectively under Ind AS 8, with relief from the para 28(f) quantitative information (para C2).
- Disclose a reconciliation for each P&L line item of the preceding comparative period: restated amounts vs amounts previously presented under Ind AS 1 (para C3).



Section 06 of 07

Getting ready

IFRS 18 early adopters – case studies

Company	Industry / business model	IFRS 18 adoption	Key IFRS 18 point	Financial statements / source
Azbil Corporation	Industrial automation and control solutions, including Building Automation, Advanced Automation and Life Automation	Voluntary early adopter of IFRS 18, alongside first-time IFRS adoption	Non-financial corporate example. Shows Business Profit as an MPM, Operating Profit, Profit before Financing and Income Taxes, separate Investing/Financing categories, and CFS beginning with Operating Profit.	Azbil Corp., Consolidated Financial Results for Q2 of FY ending 31 Mar 2027 (IFRS), 10 Nov 2026
Sony Financial Group Inc.	Financial services group, principally insurance, banking and investment/financing activities	Early adopter of IFRS 18 in its first annual IFRS financial statements	Specified main business activities case study. Significant interest and investment-related income/expenses are Operating, while lease interest and defined-benefit net interest are Financing. Also provides an Adjusted Net Income MPM reconciliation.	Sony Financial Group, Consolidated Financial Statements under IFRS (Reference), FY ended 31 Mar 2026

Azbil – interesting facts

- Adopted IFRS voluntarily from H1 FY2026 (Apr–Sep 2026) and early adopted IFRS 18 (issued April 2024) at the same time
- H1 FY2026 (¥ mn): Revenue 142,850 (+7.2%); Business profit 18,027 (+1.4%); Operating profit 19,404 (+11.0%); Profit before tax 20,179
- Business profit (MPM) = revenue less cost of sales and SG&A; Operating profit is shown separately below it

Sony Financial Group – interesting facts

- First annual IFRS financial statements (reference) for the year ended 31 March 2026; total assets ¥20.8 trillion
- Adjusted net income (MPM): FY2025 ¥107.4bn (+75% YoY); FY2026 forecast ¥110.0bn
- Adjusted net income = net income less adjustments, e.g. variable-insurance investment income, ALM hedge valuation, securities gains/losses, one-time items

Sources: Azbil Corporation, Consolidated Financial Results for Q2 of FY ending 31 March 2027 (IFRS), 10 Nov 2026; Sony Financial Group, Consolidated Financial Statements under IFRS (Reference), FY ended 31 March 2026, and IR – Financial Results and Earnings Forecast. Japanese fiscal-year naming: Azbil 'FY2026' = year ending 31 March 2027; Sony FG 'FY2025' = year ended 31 March 2026.

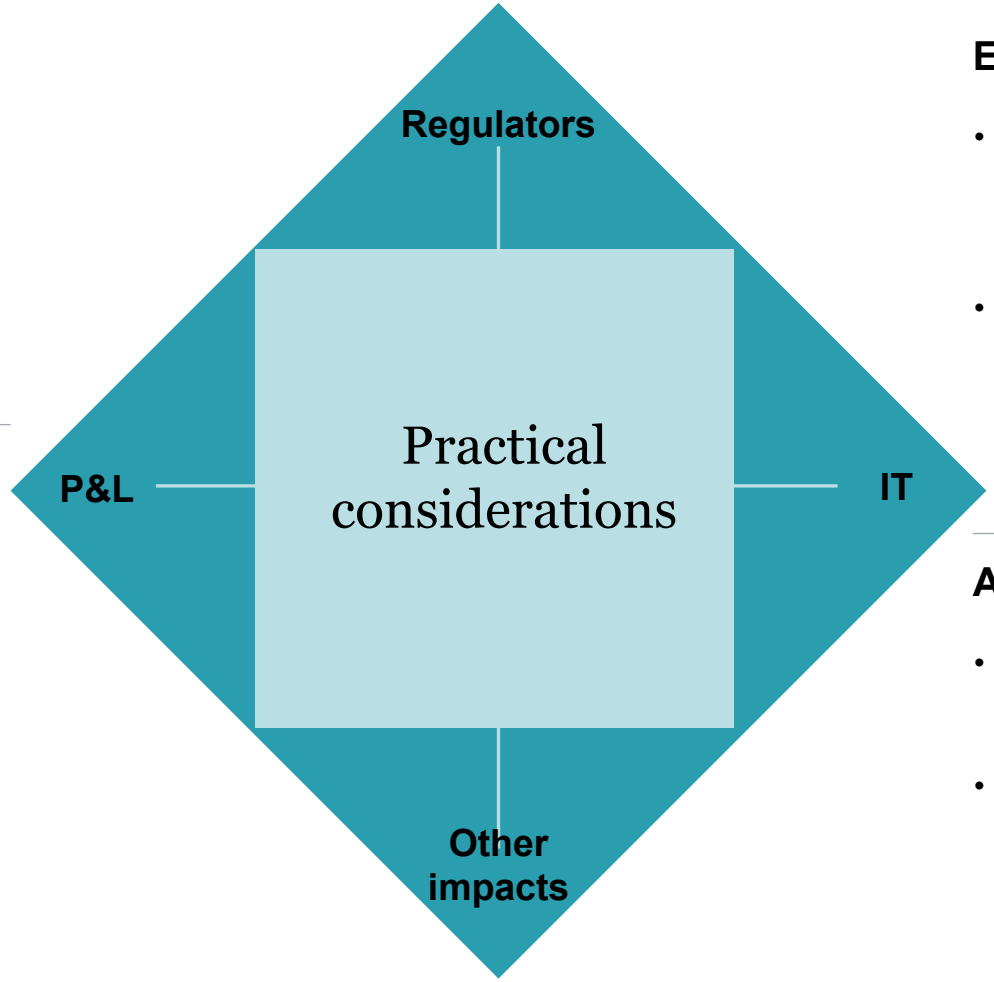
Way forward

Watch out for updates from regulators

- Look out for notification by MCA
- Await amendments to Schedule III
- Track changes to SEBI LODR financial results formats

Structure of P&L

- Evaluate presentation of P&L by nature vs function (subject to Schedule III amendment)
- Evaluate key measures to be presented on P&L (e.g., cost of sales / gross margin / OPBDAI)



Evaluate changes to IT

- Consider the need to collect data at a more granular level (e.g., forex gains / losses, derivatives)
- Early adjustments to IT systems may be necessary as comparatives are required to be restated (the FY 2026-27 comparative year is already running – capture data now)

Assess impact on other areas

- Engage with investors so that measures in investor comms align with Ind AS 118 measures
- Assess how changes in the structure of Statement of P&L may affect other areas. Eg- debt covenants, management compensation plans, how P&L sub-totals may have an impact on participation in tenders/ procurement processes

Implementation checklist

Practical steps to be ready for 1 April 2027 (proposed effective date)

01

Now – during the FY 2026-27 comparative year

- Map every P&L line item to the five categories
- Assess specified main business activities – entity and group level
- Choose nature, function or mixed presentation (subject to Schedule III)
- Upgrade IT to capture granular data (forex, derivatives, interest)
- Inventory public performance measures to identify MPMs

02

Before the first Ind AS 118 financial statements

- Draft the MPM note: reconciliations, tax and NCI effects
- Restate comparatives; reconcile Ind AS 1 to Ind AS 118 line items
- Update interim (Ind AS 34), EPS (Ind AS 33) and cash flow formats
- Review covenants, compensation plans and tender criteria
- Brief audit committee, auditors and investors; track MCA / SEBI updates

Tip: set up a **cross-functional working group (finance, IT, treasury, investor relations)** and agree a dry-run timeline with your auditors.



Section 07 of 07

Key takeaways and questions

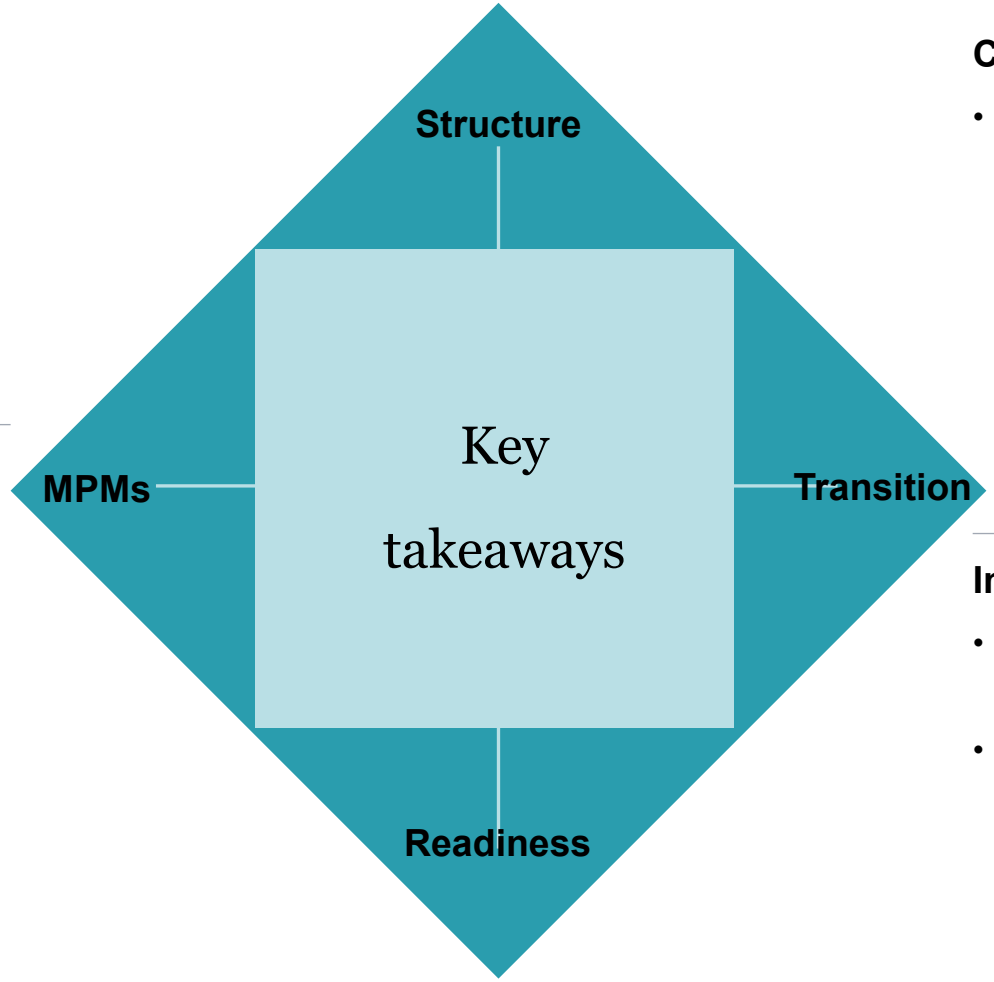
Key takeaways

A new P&L structure

- Five categories and two new mandatory subtotals – operating profit and profit before financing and income taxes

MPMs move into the audited accounts

- Adjusted measures used in public communications need one note with reconciliation, tax and NCI effects



Comparatives start now

- Effective 1 April 2027 (proposed); FY 2026-27 is the comparative year – capture data now and reconcile Ind AS 1 to Ind AS 118

Impact goes beyond accounting

- IT systems, covenants, compensation and investor messaging all need review
- Watch for MCA notification, Schedule III and SEBI LODR changes

Questions and discussion

Over to you…



Thank you

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