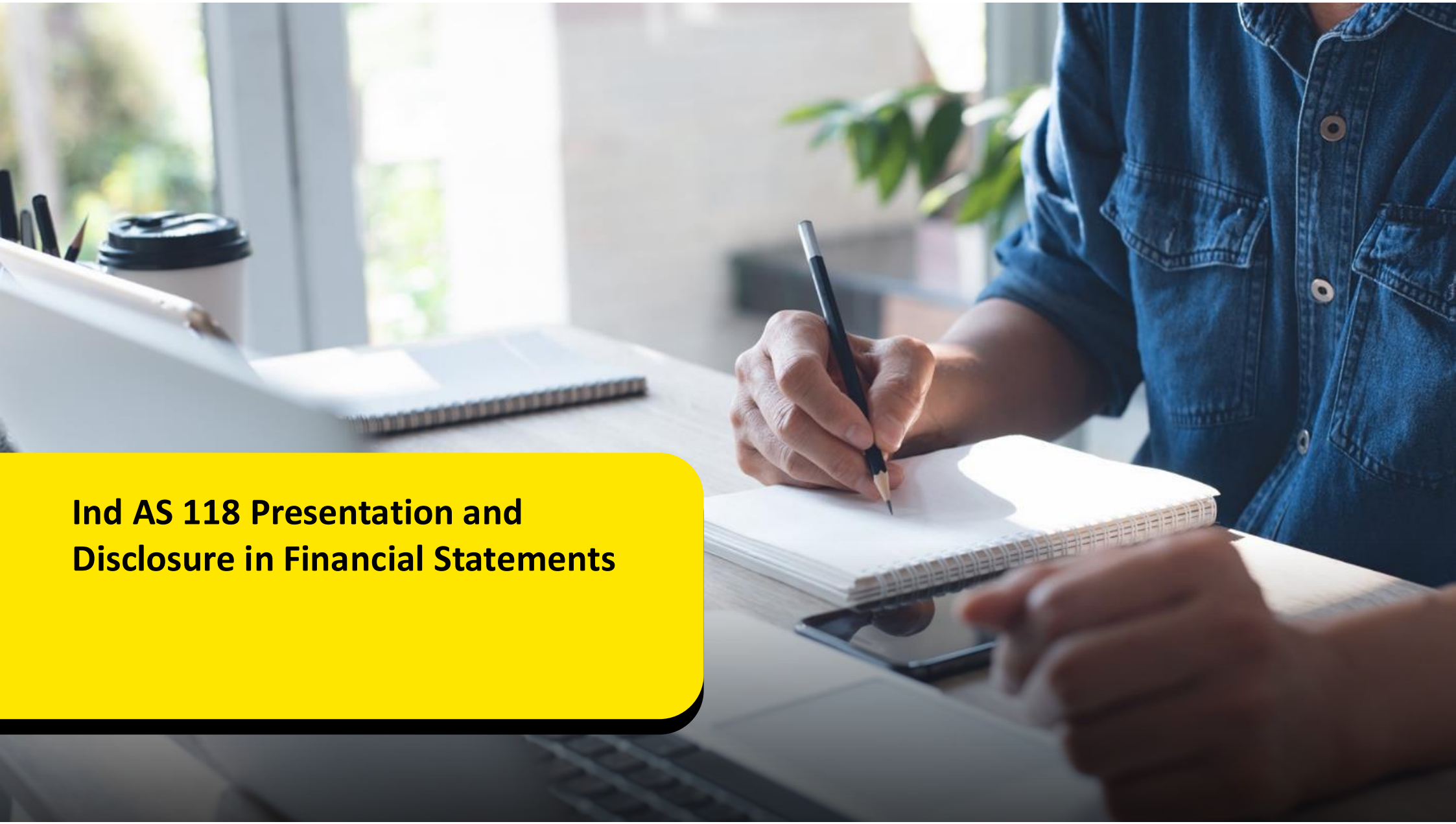


Ind AS 118 Presentation and Disclosure in Financial Statements

Status update



- IFRS 18 issued in 2024 & applicable for annual reporting period beginning 1 January 2027
- ASB had issued Exposure Draft of Ind AS 118 (corresponding to IFRS 18)
- Proposed changes in Ind AS ED vs. IFRS 18
  - Expected to apply from financial year beginning 1 April 2027
  - Only single statement approach allowed for presentation of the statement of profit or loss
  - Usage of different terminology – Such as Balance Sheet vs Statement of financial position and Statement of Profit and Loss instead of Statement of Financial Performance etc.
- Will replace IAS 1/ Ind AS 1
- Consequential amendments made to other Ind AS/ Ind AS, e.g., Ind AS 7, Ind AS 8, Ind AS 33 and Ind AS 34
- NFRA in its meeting held during Dec 2025 recommended notification of Ind AS 118 to Central Govt. Gist of NFRA recommendation :
  - Applicable for periods beginning 1 April 2027, companies reporting on calendar year basis may early adopt from 1 January 2027
  - Ministry of Corporate Affairs to evaluate necessary amendments to Schedule III of the Companies Act, 2013.
  - SEBI to review and update its circulars or guidance to align with the implementation of Ind AS 118.

What has changed?





New categories and required subtotals in statement of profit or loss



Disclosures about management-defined performance measures (MPMs)



Enhances requirements on aggregation and disaggregation

New categories in the statement of profit and loss



Category and subtotals in the statement of profit

Revenue	Operating
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and JVs	Investing
Gains on disposals of associates and JVs	
Profit before financing and income tax	
Interest expense on borrowings & lease liabilities	Financing
Interest expense on pension liabilities	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

New Items Required items

Key changes include

- Income and expenses classified into **three new categories** - depending on a company's main business activities
- **Two newly required subtotals** on the face of P&L
- **Results of equity-accounted investees** no longer presented as part of operating profit

- Careful assessment required for classification of income and expenses
- Determination of **main business activity can be relevant in some cases**

Operating Category

What is included in the operating category?



Income and expenses arising from:

- Entity's main business activities
- Operating assets
- Residual category

Also includes volatile/ unusual income and expenses



Provides a picture of the entity's operations

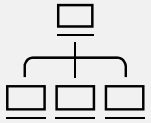
Investing Category

What is typically included in the investing category?



Income and expenses from assets generating return <u>individually</u> and <u>largely independently</u> of other resources held by an entity,:

- Rental income and remeasurement (if allowed) of investment property
- Interest income and fair value changes of financial assets



Income and expenses from subsidiaries, associates and joint ventures – SFS

Income and expenses from associates and joint ventures – CFS



Income and expenses from cash and cash equivalents

Whether all income and expenses from investing assets be classified in investing category?

Specific Income and Expenses in Investing category
Income generated by the assets
Income and expenses from the initial and subsequent measurement of the assets
Incremental expenses directly attributable to the acquisition and disposal of the assets
Upon eventual disposal, any income / expense that will result from derecognition

Assets Returns Analysis



Assets	Returns are generated	
	Individually	Largely independently of other resources of the entity
Trade receivables	Yes	No
Inventory	Yes	No
Plant and equipment used by a manufacturing entity	No	No
Equity instruments issued by the entity	Yes	Yes
Debt instruments issued by the entity	Yes	Yes
Investment properties and rent receivables generated	Yes	Yes

Investment property

Fact pattern

- Entity A holds investment property which generates rental income and is measured at cost.
- It incurs various expenses in running the property as below:
  - Maintenance, property taxes and cost of supplies.
  - Transaction costs and selling costs for other investment property.
  - Employee compensation who monitors the performance of the investment property.
  - These employees also manages other activities of entity A.
- Entity A does not have a main business activity of investing in assets.



Q How should entity A classify the related incomes and expenses in the statement of profit or loss?

Income and Expenses:	Pre – Ind AS 118	Post – Ind AS 118
Rental income	Other Income	Investing Category
Maintenance, property taxes and the cost of supplies	Other Expenses	Operating category
Transaction costs and selling costs	Other Expenses	Investing Category
Employee compensation expense relating to investment property	Employee benefit costs/other expenses	Operating category

Classification of income and expenses related to investment properties

Investing category 	Income generated by the investment property (e.g., rental income)	*Ind AS 118.54*
	Incremental expenses directly attributable to the acquisition and eventual disposal of the investment property (e.g., transaction costs and costs to sell the investment property)	
	Income and expenses that arise from the initial and subsequent measurement of the investment property (e.g., the fair value gains and losses on remeasurement of the investment property)	
	Upon eventual disposal, any income / expense that will result from derecognition	
Operating category 	Expenses incurred to operate the property (e.g., supplies, council taxes, maintenance of the property) will be included within the operating category.	

Financing Category



What is typically included in the financing category?

Type 1 liabilities	Type 2 liabilities
Liabilities from transactions involving only raising of finance, e.g.: ▪ Debt instruments to be settled in cash, e.g., bank loan, debenture and corporate bond ▪ Supplier finance arrangement resulting in derecognition of trade payable	**Other liabilities** ▪ Trade payable including payables involving deferred payment terms ▪ Contract liabilities ▪ Lease liabilities ▪ Defined benefit pension liabilities

Interest expense and effect of changes in interest rates are included in financing category.	• Interest expense and effect of changes in interest rates are included in financing category.
	• Expenses due to other changes (e.g. given below) will be included in operating category
	  • Expenses recognised on consumption of good & services
	  • Current and past service costs from a defined benefit plan
	  • Fair value measurements of a contingent consideration liability arising in a business combination
	  • Expense relating to cash settled SBP

What You Need to Know

1. Are categories in the statement of profit and loss aligned with those in cash flow statement?
2. Whether all income and expense of subsidiaries are classified under investing category in both SFS and CFS?
3. Can income and expense on equity accounted investees be classified under the Operating Category in CFS?
4. Are classification requirements same for Financial Institutions and Investment Companies?

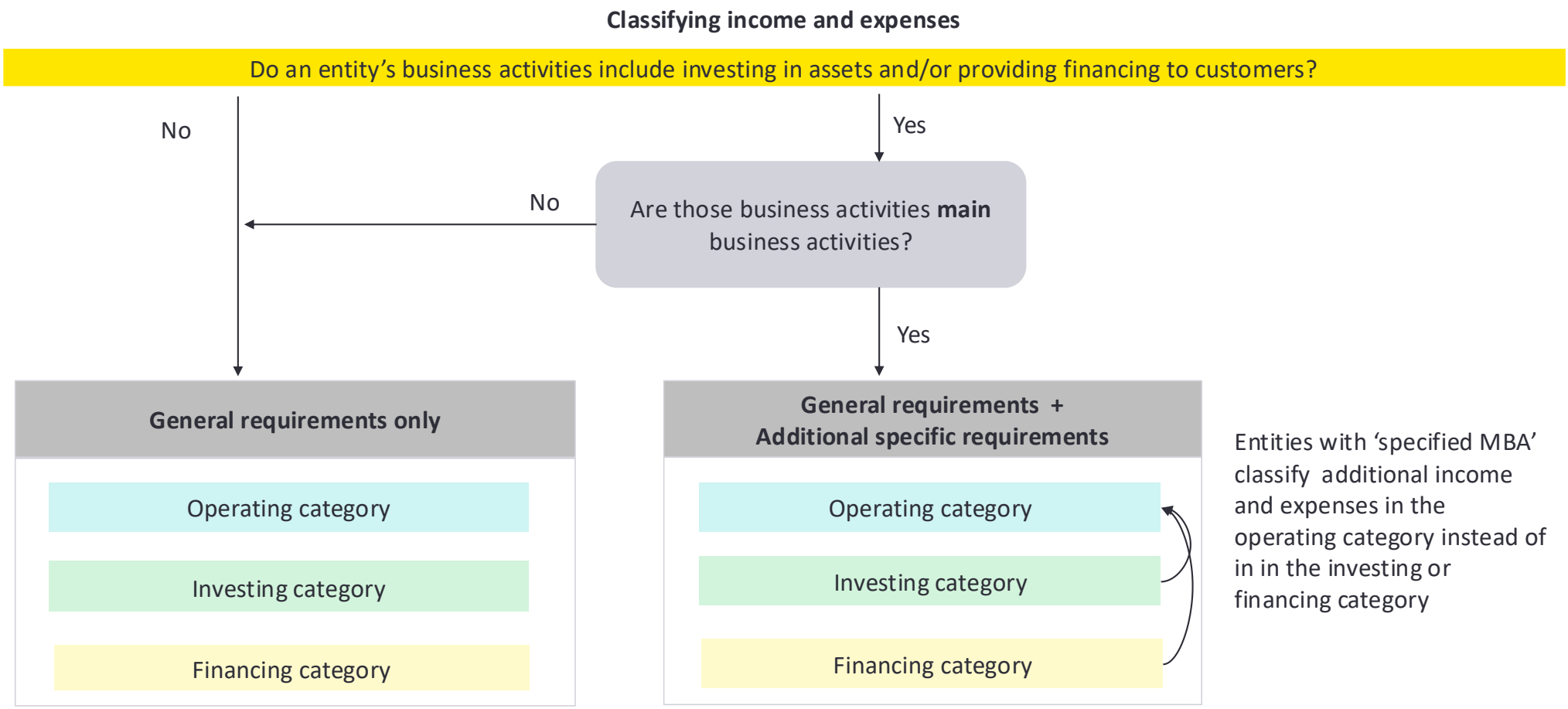


Specified Main Business Activity (MBA)



Relevance of MBA

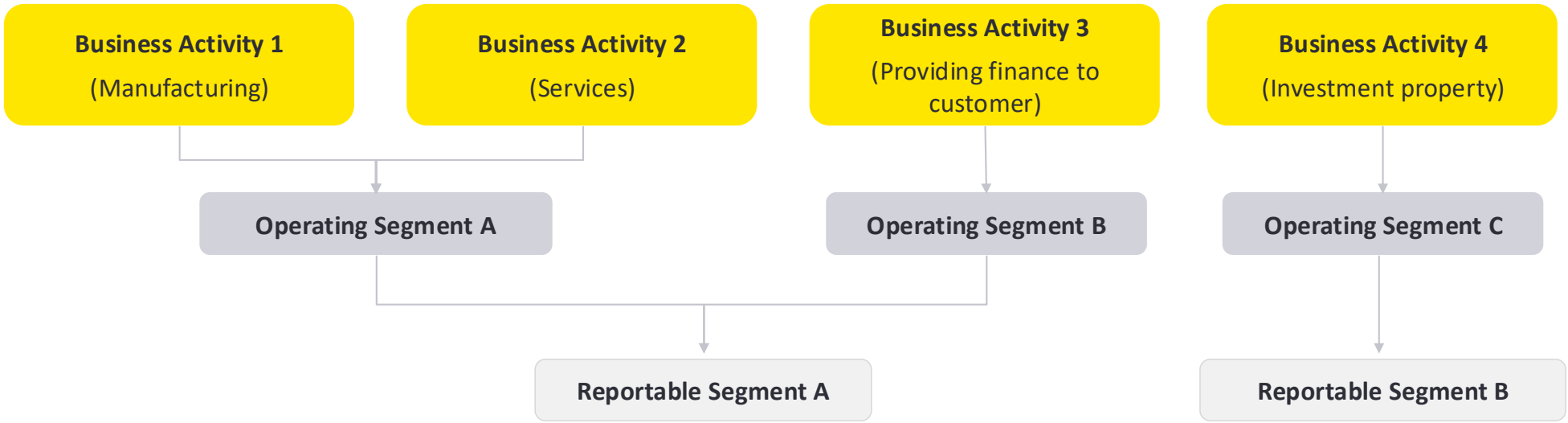




Entities with 'specified MBA' classify additional income and expenses in the operating category instead of in in the investing or financing category

Interaction with operating segments

Entity X identifies operating segments and reporting segments as below as per Ind AS 8:



Q

Help Entity X in identification of its main business activities?

Assessment of specified main business activities within group



Fact pattern

- Group comprises parent P (a car manufacturer) and its subsidiaries.
- All subsidiaries are also in the business of car manufacturing or related activities, except one subsidiary S, which is an investment property company.
- In S's SFS, it reports a single reportable segment comprising of investing in property.
- In CFS, the business activity of investing in property does not form an operating segment on its own.

Q

How is the specified main business activity determined in below scenarios:

- SFS of S
- SFS of P
- CFS of P

Main business activities: Investing in assets



Income and expenses from

Assets that generate a return individually and largely independently of the Company's other resources	Investments in subsidiaries, associates and joint ventures ***not*** **accounted for using the equity method**	Investments in subsidiaries, associates and joint ventures accounted for using the equity method

Is **investing in the asset** a main business activity

Yes → Operating

No → Investing

Main business activities: Financing to customers



Interest expense related to other liabilities – **Type 2 Liabilities**

Income and expenses from liabilities that arise from transactions that involve only the raising of finance – **Type 1 Liabilities**

- Other than those related to providing finance to customers
- Related to providing finance to customers

Other income and expenses from other liabilities – **Type 2 Liabilities**

Accounting policy choice

Financing

Operating

Entity needs to disclose the fact it has provision of financing to customers as its main business activity.

Delta Limited- Company Background: (1/4)



Fact pattern

- Delta Limited specialises in manufacturing of fast-moving consumer goods
- Functional currency of the group is INR
- Main drivers of profitability: Cost of raw materials consumed and employment

Delta Limited - Consolidated Statement of Profit & Loss of : (2/4)



Particulars	Ind AS 118 Classification?
Revenue from operations:	
Revenue from contract with customers	**Operating**
Other Operating revenue	**Generally Operating. Also, refer subsequent slide**
Other Income:	
Interest income on debt instruments	**Investing**
Dividend Income from equity investments at FVTPL	**Investing**
Rental Income on Investment Property	**Generally Investing. Also, refer subsequent slide**
Net gain on disposal of property, plant and equipment (used in operations)	**Operating**
Net gain on disposal of Investment property	**Generally Investing. Also, refer subsequent slide**
Total Income	

Delta Limited - Consolidated Statement of Profit & Loss of : (3/4)

Particulars	Ind AS 118 Classification?
Expenses:	
Cost of raw material and components consumed	**Operating**
(Increase)/ decrease in inventories of finished goods and work-in-progress	**Operating**
Employee benefits expense	**Operating (Generally operating expect the below item)**
Expenses on Defined benefit plan (DBP) **includes net interest on defined benefit plan**	**DBP excluding net interest- Operating** **Net interest on DBP- Financing**
Finance Costs:	
Interest cost on financial liabilities at amortised costs	**Financing**
Interest expense on lease liabilities	**Financing**
Other bank Charges	**Generally Operating. Also, refer subsequent slide**
Depreciation:	
Depreciation - PP&E	**Operating**
Depreciation – ROU assets	**Operating**
Depreciation – Investment property	**Investing**
Impairment losses on financial instrument and contract assets:	
Impairment on Trade receivable	**Operating**
Impairment on investment in debt instruments	**Investing**

Delta Limited - Consolidated Statement of Profit & Loss of : (4/4)



Particulars	Ind AS 118 Classification?
Expenses- cont.:	
Other Expenses:	
Legal & Professional fees	Operating
Fair value loss on financial assets/ liability at fair value through profit or loss	Investing/ Financing
Fair value loss on contingent consideration payable on acquisition of subsidiary	Operating
CSR expenditure	Operating
Repairs and Maintenance	Operating
Exchange difference	Operating/Investing/Financing
Payment to Auditors	Operating
Power & Fuel	Operating
Total Expenses	
Profit before share of profit of an associate, exceptional and tax	
Share of profit of an associate, net of tax	**Investing**
Profit before exceptional item and tax	
Exceptional item	Categorization principles to be followed.
Profit before tax from continuing operations	
Income Tax expense	**Income tax expense**
Profit for the year	

Classification of income and expense in operating category



Classification of operating expenses in P&L



A. Method that provides the most useful structured summary:

- By Nature
- By Function
- Mixed

B. Factors for Selection:

- Profitability Drivers: Key components influencing profitability
- Management practices: How the business is managed and reported internally
- Industry Standards: Common practices within the industry

C. Mixed presentation is useful:

- Allocating certain expenses to functions would be arbitrary
- Different types of main business activities, each of which requires a different presentation
- In case of mixed presentation, entity describes the resulting line items in a way that clearly identifies which expenses are included in each line item.

D. Additional notes:

In case of functional classification

- Disclose in notes information about the nature of expenses
- Cost of sales to be presented separately

A change in the classification and presentation of expenses in the income statement is a change in accounting policy.

Examples of presentation



Nature	
Revenue	X
Purchases of material	(X)
Transport costs	(X)
Depreciation	(X)
Employee costs	(X)
Operating profit	**X**

Function	
Revenue	X
Cost of Goods sold	(X)
Gross profit	**X**
R&D expenses	(X)
Admin expenses	(X)
Operating profit	X

Mixed	
Revenue	X
Cost of Goods sold	(X)
Gross profit	**X**
Impairment expenses	(X)
Admin expenses	(X)
Operating profit	X

Additional disclosures - when operating expenses are presented by Function



- If operating expense are presented by function on face of P&L:
  - Present a separate cost of sale line item (where relevant);
  - Describe the nature of expenses in each functional line item.
- In addition, in a single note, disclose quantitative and qualitative information for each of five 'nature' operating expenses covering both capitalised and expensed amounts.

Example: Notes to the Income Statement:

Operating expenses by nature [a]	Depreciation	Amortisation	Employee benefits	Impairment losses/reversals	Inventory write-downs/ reversals
Total amount recognised in the period	89[b]	X	X	X	X
Total amount included in:					
Cost of goods sold	50				
Admin expenses	4				
Research and development expenses	16				
Total amt included in operating category	**70**[b]	X	X	X	X

a. The amounts disclosed are those expensed during the period, except for depreciation which includes amounts capitalized to inventory

b. The difference between these totals relates to depreciation included in *[line item X]* in investing category.

Management defined performance measures

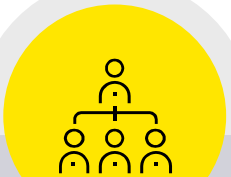


Management-defined performance measures (MPMs) : Definition

MPM is a subtotal of income **AND** expenses that:



Used in public communications outside financial statements



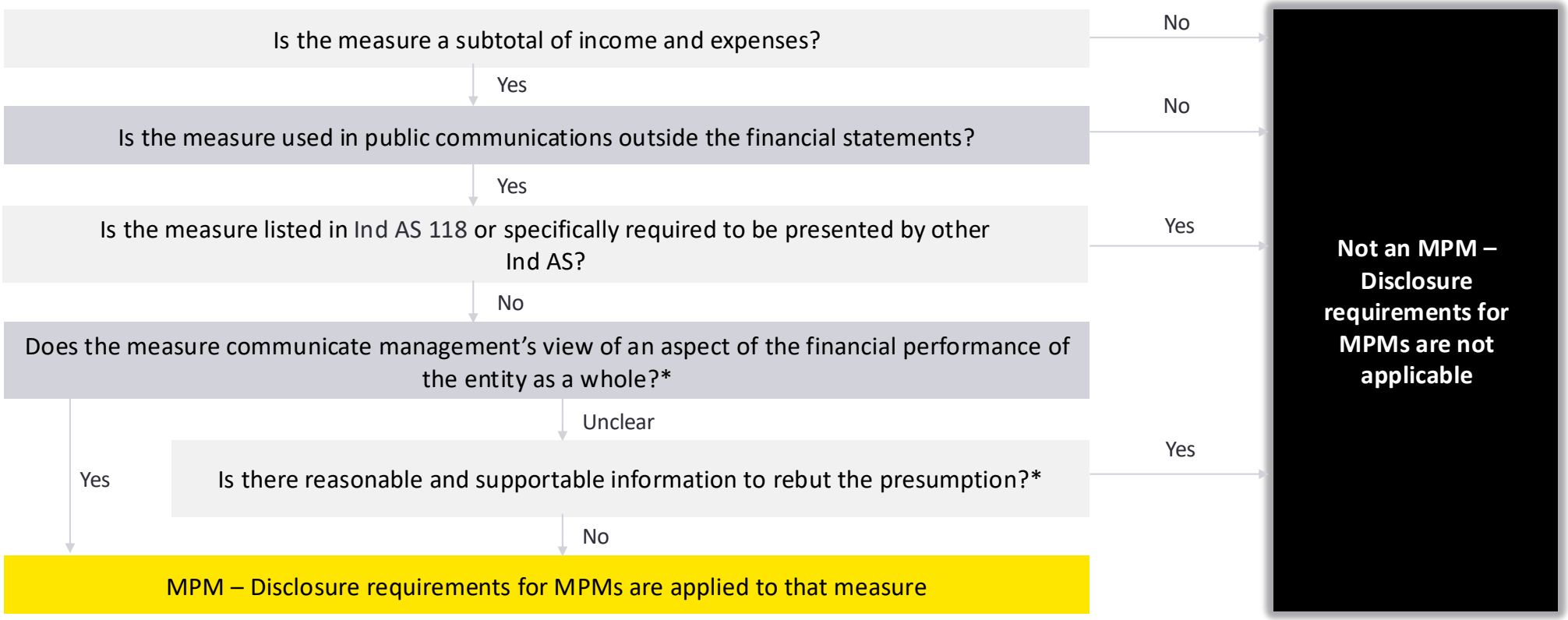
Measures that communicate management's view of an entity's financial performance



Is not listed in paragraph 118 of Ind AS 118, or specifically required to be presented or disclosed by Ind AS Accounting Standards.

Identifying MPMs





***There is a rebuttable presumption that a subtotal of income and expenses used in public communications communicates management's view**

MPMs: A subset of performance measurers



Performance measures

Financial performance measures

Subtotals of income & expenses

MPMs

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Ind As specified

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

Other measures that are ***not*** subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt
- Adjusted revenue

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

Reminder : Subtotals which are ***not*** MPMs

Subtotals specifically required by Ind AS 118
Operating profit or loss
Profit or loss before financing and income taxes
Profit or loss

Subtotals listed in Ind AS 118.
Gross profit or loss (revenue minus cost of sales) and *similar subtotals*
Operating profit or loss before depreciation, amortisation and impairments within the scope of Ind AS 36 *Impairment of Assets (OPDAI)*
Operating profit or loss and income and expenses from all investments accounted for using the equity method
For an entity that applies the accounting policy choice to present income and expense from liabilities that do ***not*** relate to the provision of financing to customers in the operating category, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category
Profit or loss before income taxes
Profit or loss from continuing operations

Used in public communications outside financial statements



For the purpose of defining MPMs, 'public communications':

Includes ✓	Excludes ✗
▪ Management commentary ▪ Press releases ▪ Investor presentations ▪ Annual Report/ Offer document	▪ Oral communications ▪ Written transcripts of oral communications ▪ Social media posts

There is a *rebuttable presumption* that a subtotal of income and expenses used in public communications communicates management's view.

This presumption can only be rebutted with reasonable and supportable information.

MPMs: Required disclosures



Ind AS 118 introduces requirement to disclose in a single note:

- Description of the entity's financial performance that, in management's view, is communicated by the MPM.
- Explanation of **why** the management believes that the MPM provides useful information about entities financial performance.
- How the MPM is calculated
- Reconciliation with Ind AS-defined number
- Additionally , provide specific disclosures when Entity:
  - Changes how it calculates its MPMs;
  - Adds a new MPM
  - Ceases using a previously disclosed MPM;

What if (MPM)



Can a ‘what if’ income and expense based alternative performance measure be an MPM?

- MPMs includes measures calculated using a ‘non-Ind AS’ basis (popularly know as Non-GAAP measure) if it meets conditions provided in the standard.
- Rather than prohibiting such measures, Ind AS 118 requires accurate labelling and MPMs to be described in a clear and understandable manner to ensure such measures are not misleading.
- If a subtotal which meets the definition of an MPM in Ind AS 118 is used in public communication outside the financial statements, the MPM disclosures within the notes to the financial statements are required, even if the management defined measure includes adjustments which are not in accordance with IFRS accounting standards.

Q Is Including what if MPM’s Optional? (i.e. is it an accounting policy choice)

Inclusion of disclosure about ‘what if’ alternative performance measures used by management is not optional if these measures meet the definition of an MPM

Aggregation and disaggregation



Role of the primary financial statements and the notes



Financial Statements	
Primary financial statements (PFS) to provide **useful structured summary to:**	**Notes** to provide **material information necessary :**
(a) Obtain an **understandable overview** of the entity's assets, liabilities, equity, income, expenses and cash flows (b) Make **comparisons** between entities and reporting periods; (c) **identify** items or areas users may wish to seek additional information on in the notes.	(a) To enable understanding of the line items presented in PFS (b) Supplement the PFS with additional information
More aggregated	**More disaggregated**

Ind AS 1: cross-refer each item in PFS to any related information in the notes.
Ind AS 118: Additionally, cross refer notes to PFS, when amount in notes are included in one or more lines in PFS

Principles of aggregation and disaggregation



Aggregate:	Assets, liabilities, equity, income, expenses or cash flows into items based on **shared characteristics**
Disaggregate:	Items based on **dissimilar characteristics**
Aggregate or Disaggregate:	Items to present line items in PFS that provide useful structured summaries or to disclose material information in notes
Ensure:	Aggregation and disaggregation do not obscure material information

Principles of aggregation and disaggregation

Examples of the characteristics an entity considers in making the judgements:

Examples given in relation to ***both*** transactions and balances	Examples given in relation to income and expenses	Examples given in relation to assets, liabilities and items of equity
▪ Nature ▪ Function (or role) within the activities of the entity ▪ Measurement basis ▪ Measurement uncertainty, outcome uncertainty or other risks associated with the items ▪ Size ▪ Geographical location or regulatory environment ▪ Tax effects	▪ Persistence **(including the frequency of the item of income or expense or whether it is recurring or non-recurring)** ▪ Timing of recognition (whether arising on initial recognition of an item or from subsequent change in an estimate relating to the item)	▪ Duration and timing of recovery or settlement ▪ Liquidity ▪ Type (for example, type of good, service or customer) ▪ Restrictions on the use or transferability of the item


Thankyou