PRESENTATION

Ind AS 118
Presentation and Disclosure in Financial Statements

(Eastern India Regional Council of ICAI)

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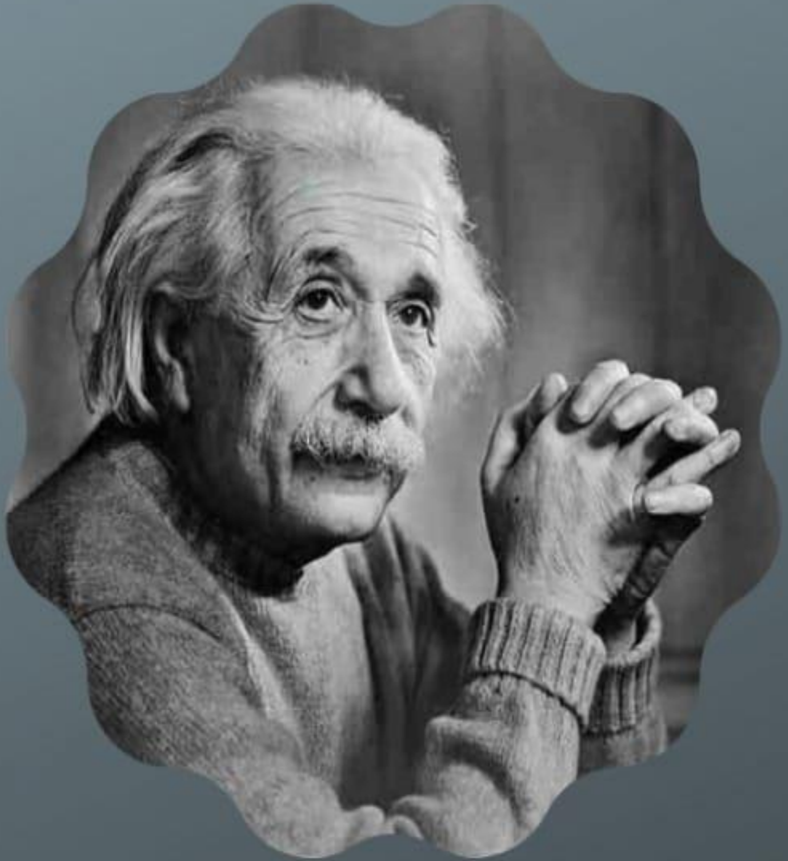
DISCLAIMER

This presentation provides an overview of Ind AS 118 & other regulatory updates for informational purposes only. It is not comprehensive and does not substitute the full standard, regulatory guidance, or professional advice. Users should consult the complete Ind AS texts and qualified advisors for entity-specific application. The views expressed are those of the presenter and should be applied with independent professional judgement after reference to the complete Ind AS Text.

Outline

for the Session



Albert Einstein

"The Measure of Intelligence is the Ability to Change."

Introduction

Introduction

- **In April 2024**, the International Accounting Standards Board **(IASB)** published a new IFRS accounting standard, viz., **IFRS 18,** dealing with presentation and disclosure in financial statements.

- To align the requirements of Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015 (as amended), the Institute of Chartered Accountants of India (ICAI), in **January 2025**, issued the Exposure Draft of Ind AS 118, Presentation and Disclosure in Financial Statements, for public comment. **The Exposure Draft has since been finalized.**

- Ind AS 118, and the consequential amendments to other standards, are expected to be effective for reporting periods beginning on or after **1 April 2027.** For entities following the **calendar year** as financial year, **early adoption from 1 January 2027 is recommended.**

Timelines & Implementation

Now

Not Yet Notified
Ind AS 118 has not yet been notified by MCA. NFRA recommended it to the Central Government in its meeting of 22 December 2025.

1 Jan 2027

Early adoption option for calendar year companies (subsidiaries of foreign parents following IFRS 18).

1 Apr 2027

Proposed effective date for all other Ind AS entities (subject to MCA notification). Retrospective application required.

31 Mar 2028

First annual financial statements under Ind AS 118; comparative year (FY 2026-27) must also be presented under Ind AS 118 with reconciliation.

Introduction……

- **Retrospective application** is required in **both annual and interim financial statements** along with specified **reconciliations** for certain comparative periods.

- The format of P&L prescribed under Ind AS compliant **Schedule III to the Companies Act, 2013** (as amended) and the Securities and Exchange Board of India(SEBI) Listing Obligations and Disclosure Requirements, 2015 (as amended) [‘LODR’]are also proposed to be changed.

- Limited, but widely applicable, amendments have been made to other Ind AS, most notably ***Ind AS 7-Statement of Cash Flows, Ind AS 33-Earnings per Share and Ind AS 34-Interim Financial Reporting.*** Some requirements previously included in Ind AS 1 have been moved to Ind AS 8, (*which will also be renamed as ‘Basis of Preparation of Financial Statements’*) and to a much lesser extent, Ind AS 107 Financial Instruments: Disclosures.

Key New Requirements in Ind AS 118

- Mandatory subtotals and categories of income and expense in the statement of profit and loss, as well as new requirements for the disclosure of operating expenses.

- Disclosures about management-defined performance measures (or MPMs) in the financial statements.

- Enhanced requirements for the aggregation, disaggregation and location of information presented in the primary financial statements and disclosed in the notes, as well as guidance on providing informative labels.

- The requirements in Ind AS 118 apply to both standalone financial statements (SFS) and consolidated financial statements (CFS). However, Ind AS 118 will generally not apply to the presentation and disclosure of information in the condensed interim financial statements prepared in accordance with Ind AS 34. With regard to interim financial results prepared in accordance with the requirements of the SEBI LODR, the changes are pending and, therefore, it is unclear at this stage the extent to which changes in presentation and related disclosures will be required.

New Concept- “Primary Financial Statements”

Ind AS 118 introduces the concept of ‘Primary Financial Statements’, encompassing:

- The statement of profit and loss
- The balance sheet
- The statement of changes in equity, and
- The statement of cash flows

- A complete set of financial statements, therefore, comprises the primary financial statements and the notes.

- Another key change is that Ind AS 118 differentiates between ‘**presentation’ and ‘disclosure.**’ It explains that *“an entity presents information in the primary financial statements and discloses information in the notes”.* This is in contrast to Ind AS 1, which mostly used the terms interchangeably.

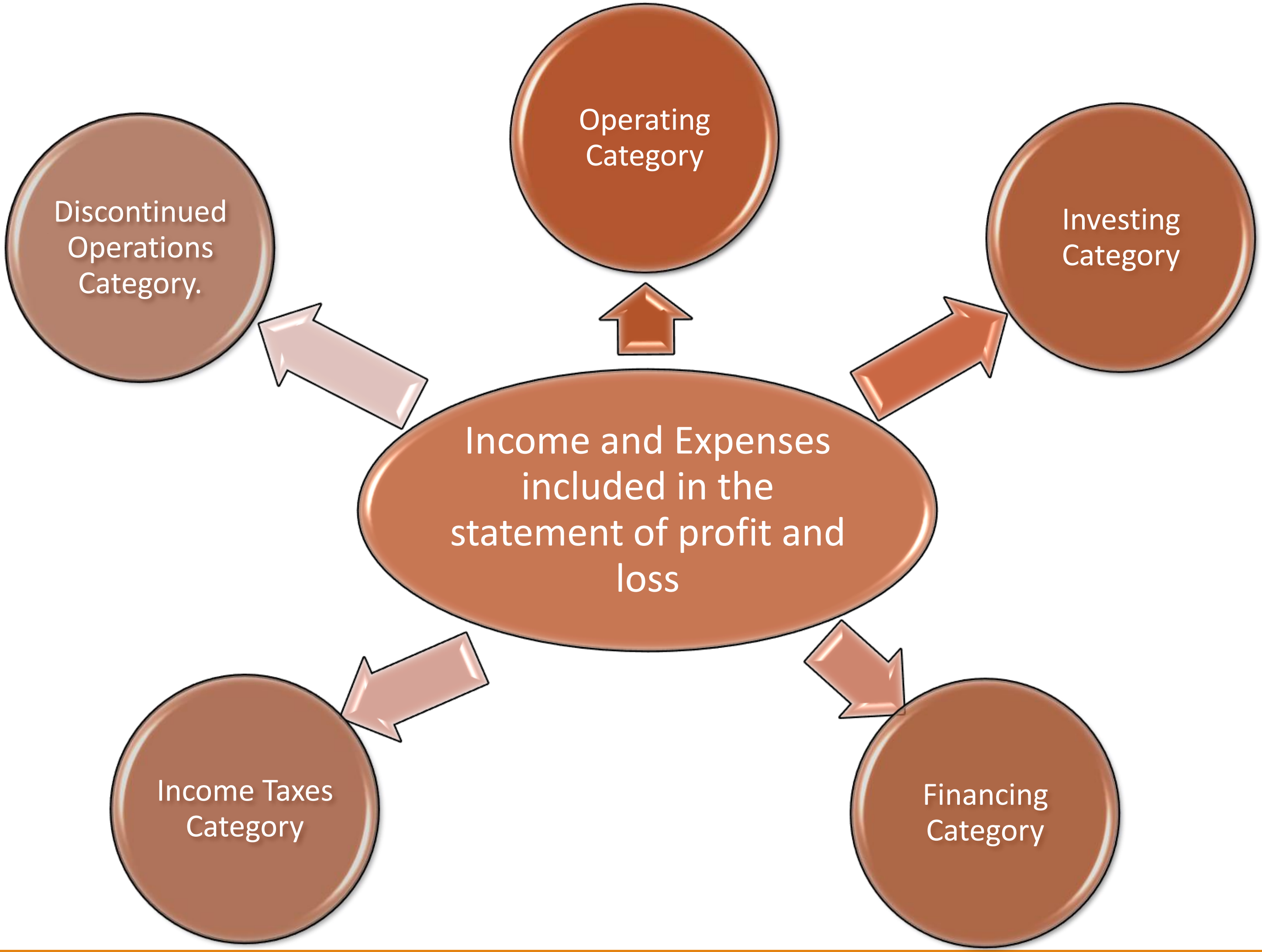
Topics Substantially Unchanged from Ind AS 1

Key Topics	Summary
Most requirements applicable to the preparation of PFS other than the Statement of Profit and Loss	Ind AS 118 does not significantly affect how other PFS are prepared, other than the introduction of new aggregation and disaggregation requirements, with some exceptions.
Presentation of true and fair view and explicit and unreserved statement of compliance with Ind AS	Relocated to Ind AS 8 -- Substantially unchanged
Going concern	Relocated to Ind AS 8 -- substantially unchanged
Offsetting, Frequency of reporting, Comparative information, Consistency of presentation, Structure of notes	Substantially unchanged from Ind AS 1
Disclosure of accounting policy information	Relocated to Ind AS 8 -- Substantially unchanged
Disclosures about judgements and sources of significant estimation uncertainty	Relocated to Ind AS 8 -- Substantially unchanged
Capital disclosures (Para 134-136 of Ind AS 1)	Substantially unchanged from Ind AS 1
Disclosures about puttable financial instruments classified as equity	Relocated to Ind AS 107 -- substantially unchanged
Miscellaneous other disclosures (declared dividends, cumulative preference dividends not recognized, domicile and legal form, description of the nature of the entity's operations, etc.)	Substantially unchanged from Ind AS 1

Statement of Profit and Loss:

General and Entity Specific requirements

“New” Statement of Profit & Loss



“New” Statement of Profit & Loss

A) Present expenses classified in the operating category either by the **“function”** or by the **“nature”** method, or by a combination of both, based on what provides the most useful structured summary of operating expenses.

B) Present at a minimum **two new subtotals**, viz.,

- operating profit or loss, and
- profit or loss before financing and income tax, in addition to total profit or loss.

Currently, Ind AS 1 read with Schedule III do not require classification of income and expense into operating, investing and financial categories. Also, they do not allow expense classification using the function method or mixed approach. Thus, the application of Ind AS 118 will be significant change for most entities.

“New” Statement of Profit & Loss

The information requirements of users with regard to the statement of profit and loss are different vis-à-vis those for the statement of cash flow.

Also, the purpose of these two statements is different. Consequently, despite using **similar terminology, there is no alignment between the categories used in the two statements.**

Statement of Profit and Loss
"Illustrative"

Presentation of the statement of profit and loss example

Statement of profit and loss

Revenue from contracts with customers		
Other operating revenue		
Total revenue		
Operating expenses		
Changes in inventories of finished goods and work in progress		**Operating**
Raw material used		
Employee benefits		
Depreciation, amortisation and impairment		
Other operating expenses		
Operating profit		
Share of the profit from associates and joint ventures		**Investing**
Gains on disposals of associates and joint ventures		
Profit before financing and income tax		
Interest expense on borrowings and 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

Investing Category

Income and expenses to be classified as investing activity

In accordance with Ind AS 118, the following income and expenses arising from the **Assets generating return individually and largely independently of other resources** are classified as investing category:

- Income generated by those assets, e.g., interest revenue from debt investments, dividend income from equity instruments and rental income from investment properties
- Income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the asset e.g. impairment losses and reversal of impairment losses on investment properties
- Incremental expenses directly attributable to the acquisition and disposal of the assets, e.g., transaction costs and costs to sell the assets

Ind AS 118 is clear that only the 'specified' income and expenses stated above are classified in the investing category. This implies that income and expenses other than those listed above arising from these assets are included in the operating category. For example, expenses on day-to-day operation and maintenance of these assets are classified in the operating category. This is because classifying all expenses directly related to such assets as investing would be too complex and costly in practice.

Investing Category

Question: How are expenses related to holding investment property classified in profit or loss?

Answer: The standard only requires specific expenses occurring in defined circumstances to be classified in the **investing category.** Therefore, other expenses that arise from holding the investment –for example, maintenance expenses or rates and taxes levied on an investment property, salaries to employees that manage the investment property, investment management fees paid to a third party –will be classified in the **operating category** since this type of expenditure does not fall within the categories of expenditure required to be classified in the investing category.

Investing Category

Income and expense arising from investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures in separate financial statements

- In their separate financial statements, parent/ investor entities need to account for their investments in subsidiaries, associates and/or joint ventures either at cost less impairment or at fair value in accordance with Ind AS 109. In such cases, such income and expenses arising from the investment are also classified in the **investing category,** unless those entities have a main business activity of investing in such assets.

Equity method investees in consolidated financial statements (CFS)

- All entities irrespective of their main business activity are required to classify their share of profit or loss and other income and expenses arising from an equity accounted investees in the **investing category** in their consolidated financial statements (CFS).

Financing

To determine income and expenses to be classified in the financing category, Ind AS 118 requires an entity to differentiate all its liabilities between two types. Let us say Type 1 and Type 2

1. Type 1: Liabilities that arise from transactions that involve only the raising of finance, and

2. Type 2: All other liabilities (i.e., liabilities other than those under Type 1)

The financing category will include:

- All income and expenses from Type 1 liabilities, i.e., liabilities arising from transactions that involve only the raising of financing (for example, income and expenses from bank loans)

- Interest expense and the effects of interest rate changes recognized in P&L while applying Ind AS to Type 2 liabilities (for example, interest expenses recognized on a lease liability under Ind AS 116 Leases or the unwinding of discounting on a long-term provision under Ind AS 37)

Note that, for Type 2 liabilities, only interest income and expense and the effects of interest rate changes are classified in the financing category; all other changes, such as the re-measurement of a provision, are classified in the operating category.

Financing

Type 1 liabilities

Liabilities arising from transactions involving only the raising of finance (i.e., Type 1 liabilities) are liabilities where the entity:

(a) Receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of its own equity instruments, and

(b) At a later date, will return in exchange of cash or its own equity instruments.

Some of examples of Type 1 liabilities:

- A debt instrument that will be settled in cash, such as debentures, loans, notes, corporate bonds and mortgages
- A liability under a supplier finance arrangement when the payable is derecognized, i.e., where the entity derecognizes the original trade payable and recognizes a new liability
- A bond settled through delivery of the entity's own shares, i.e., convertible debentures or preference shares treated as financial liability under Ind AS 32.
- An obligation for an entity to purchase its own equity instruments

Financing

Type 2 liabilities

Type 2 liabilities are all liabilities that are not Type 1 liabilities. The following are examples of Type 2 liabilities in accordance with Ind AS 118:

- Payables for goods and services including payables with an extended payment terms.
- Contract liabilities, i.e., advance received for sale of goods and services
- Lease liabilities.
- Defined benefit liabilities.
- Decommissioning provisions.
- Provisions for litigation

The above list is not exhaustive and other types of liabilities may also get included here if they do not meet criteria for classification as Type 1 liability.

Operating

- Ind AS 118 defines the operating category as the residual category that includes all items of income and expense not classified in either the investing, financing, income taxes or discontinued operation categories. As a result, all items of income and expense arising from an entity's operations are classified as operating, including not only its main business activities but also supporting activities that do not directly generate revenue as well as items of income and expense which are not classified within the other four categories. This requirement is apparently based on key assumption that all items of income and expense included in the statement of profit and loss, which do not relate to another category, arise from an entity's operations.

- This residual approach is intended to work for different business models and ensure that all items of income and expenses from an entity's main business activities are included in operating category. The only **exception** relates to entities which consider their equity accounted investments (viz., investment in associate and joint ventures in their consolidated financial statements) to be their main business activity. Ind AS 118 requires that any income or loss from investments accounted for using the equity method are included in the investing category. This is despite the fact that the management considers these to be part of the entity's main business activities.

Income Taxes

An entity is required to classify tax expense or tax income that are included in the statement of profit and loss applying Ind AS 12, and any related foreign exchange differences, in the income taxes category. Income and expenses classified in the income tax category are not subject to the requirements for classifying income and expense in the operating, investing and financing categories. The presentation of income and expenses related to income tax in that category complies with the presentation requirements of Ind AS 12. Although this category does not result in a required subtotal, generally entities present profit before income taxes as a subtotal when it is applicable.

Discontinued Operations

An entity is required to classify in the discontinued operations category income and expenses from discontinued operations as required by Ind AS 105. Income and expenses classified in the discontinued operations category are not subject to the requirements for classifying income and expense in the operating, investing and financing categories. The presentation of income and expenses related to discontinued operations in that category complies with the presentation requirements of Ind AS 105. Although this category does not result in a required subtotal, generally entities present profit before discontinued operations as a subtotal when it is applicable.

Sub Totals

Ind AS 118 requires entities to present at a minimum two new subtotals, viz.,

(i) operating profit or loss, and
(ii) profit or loss before financing and income tax, in addition to total profit or loss.

The first subtotal is intended to give a relevant representation of an entity's operations, while the second is intended to allow users to analyze the performance of an entity before the effect of its financing decisions.

Note that even if the profit or loss before financing and income tax subtotal is the same as the operating profit subtotal, both must still be presented.

Specified Main Business Activity

Ind AS 118 introduces a new concept of a **‘specified main business activity’.** When classifying its income and expenses, an entity is required to assess whether it has one or both specified main business activities of:

(a) Investing in particular types of assets (referred to as ‘investing in assets’), and/ or

(b) Providing finance to customers

The identification of main business activities is limited to these two types as there are specific classification requirements for entities with either or both of those specified main business activities. However, it is not necessary to identify all the main business activities of the entity.

For certain entities, applying the general requirements would result in classification of income and expenses from their main business activities in categories outside the operating category. Therefore, as an exception to the general requirements, the standard requires entities with a ‘specified main business’ activity to classify ***some of their income and expenses in the operating category that would otherwise have been included in investing or financing.***

Specified Main Business Activity

Examples of the types of entities that might fall into these categories:

a) Investing in assets:
- Investment entities (as per Ind AS 110 Consolidated Financial Statements),
- Investment property companies, and
- Insurers/ insurance companies.

b)Provide financing to customers:
- Banks and other lending institutions,
- Entities which provide financing to customers to enable those customers to buy the entity's products, and
- Lessors which provide financing to customers in finance leases.

In accordance with Ind AS 118, segment information under ***Ind AS 108 Operating Segment*** can also provide evidence of whether an entity's main business activities are investing in assets or providing financing to customers.

Specified Main Business Activity Disclosures

Entities with a specified main business activity must make certain disclosures to enable users to understand the assessment of their main business activity, as follows:

a. If an entity invests in assets as a main business activity, it will disclose that fact.

b. If an entity provides financing to customers as a main business activity, it will disclose that fact.

c. If an entity identifies a different outcome from its assessment of whether it invests in assets or provides financing to customers as a main business activity, it will disclose:

i. The fact the outcome of the assessment has changed and the date of the change.
ii. The amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for the items for which the classification has changed because of the changed outcome of the assessment, unless it is impracticable to do so. If an entity does not disclose the information because it is impracticable to do so, the entity shall disclose that fact.

Classification requirements for entities with investing as the main business activity

Income from asset + **Income and expense from initial and subsequent measurement (including derecognition)** + **Incremental expenses directly attributable to acquisition and disposal**

Assets that generate a return individually and largely independently of the entity's other resources

Investments in subsidiaries, associates and joint venture not accounted for using equity method

Investments in associates and joint venture accounted for using the equity method

Is investing in the asset a main business activity?

Yes

No

Operating

Investing

Change in Main Business Activity

The assessment regarding main business activities is carried out at a point in time, based on facts at that time. This means that if, at a later date, there is a different outcome to the assessment, it will be based on new facts at that moment in time. As a result, any change is treated as a prospective adjustment from the date of the reassessment and there is no need to reclassify comparative amounts. However, to provide useful information to a user, disclosure of the amount and classification of items of income and expense immediately before and after the date of change in the current period is required, as well as information about the amount and classification in the prior period.

Items to be presented in the statement of Profit and Loss

Items to be presented in the statement of Profit and Loss

Like Ind AS 1, Ind AS 118 specifies line items to be presented in the statement of profit and loss, though those line items are no longer described as **‘minimum’** line items. Ind AS 118 provides guidance to determine when additional line items are required and situations in which the specified line items may not be required.

Ind AS 118 also introduces new requirements relating to the presentation of expenses classified in the operating category. Operating expenses will now be presented either by **“function”** or by **“nature”**, and additional disclosure requirements have also been added for entities choosing to present these items by function.

Items to be presented in the statement of Profit and Loss

The standard specifies the below line items to be presented separately in the statement of profit and loss:

- Revenue, presenting separately
  - Interest revenue calculated using the effective interest rate method, and
  - Insurance revenue

- Operating expenses, presenting separate line items using one or both of the characteristics of:
  - The nature of the expenses, or
  - The function of the expenses within the entity

- Cost of sales, if the entity classifies some of its operating expenses in functions that include a cost of sales function
- Insurance service expenses from contracts issued within the scope of Ind AS 117
- Income or expenses from reinsurance contracts held
- Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Ind AS 109

Items to be presented in the statement of Profit and Loss

The standard specifies the below line items to be presented separately in the statement of profit and loss:

- Gains and losses arising from the derecognition of financial assets measured at amortised cost
- Any gain or loss arising from the difference between the fair value and the previous amortised cost of a financial asset reclassified from amortised cost to fair value through profit or loss
- Any cumulative gain or loss previously recognized in other comprehensive income, reclassified to profit or loss relating to the reclassification of a financial asset from fair value through other comprehensive income to fair value through profit or loss.
- Insurance finance income or expenses from contracts issued within the scope of Ind AS 117
- Finance income or expenses from reinsurance contracts held
- Share of the profit or loss of associates and joint ventures accounted for using the equity method
- Income tax expense or income, and
- A single amount for the total of discontinued operations.

Items to be presented in the statement of Profit and Loss

Following the introduction of the categories within the statement of profit and loss, an entity might need to present a required line item in more than one category. For example, impairment losses could arise on receivables for goods and services, as well as on financial assets that generate a return individually and largely independently of the entity's other resources. Such impairments recognized by an entity without a specified main business activity would be classified in the operating and investing categories, respectively. The standard requires any line item presented in more than one category to be described in a way that faithfully represents the characteristics of that item (which could be, for instance, ***'expected credit losses on trade receivables balances'*** and ***'expected credit losses on other financial assets'*** in this example).

Presentation and disclosure of expenses classified in the operating category

An entity must use one, or both of the following characteristics to present its operating expenses in P&L:

- The nature of expenses
- The function of expenses within the entity

However, for some entities a mixture of both could provide the most useful structured summary.

Operating expenses are classified and presented consistently from one reporting period to another, unless the conditions set out below apply:

(a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for selecting and applying accounting policies in Ind AS 8, or

(b) An Ind AS requires a change in presentation, disclosure or classification.

Separate presentation of “non-recurring” items

Under current (Ind AS 1 and Schedule III) practice, some entities present material ***‘non-recurring’*** or ***‘unusual’*** items (often referred to as ***“exceptional items”***) separately on the face of P&L.

Ind AS 118 mentions that ***‘non-recurring income and expenses’*** might have sufficiently dissimilar characteristics that presentation (i.e., in a separate line item) in P&L may be necessary to provide a useful structured summary. Further to this, Ind AS 118 indicates persistence as a characteristic which could be sufficiently dissimilar to warrant separate presentation on the face of P&L.

From the above, it is apparent that Ind AS 118 does not prohibit separate presentation of ‘non-recurring’ items and could, in fact, require the same in certain cases to provide a useful structured summary.

Management-defined performance measures (MPM)

Identification of MPMs

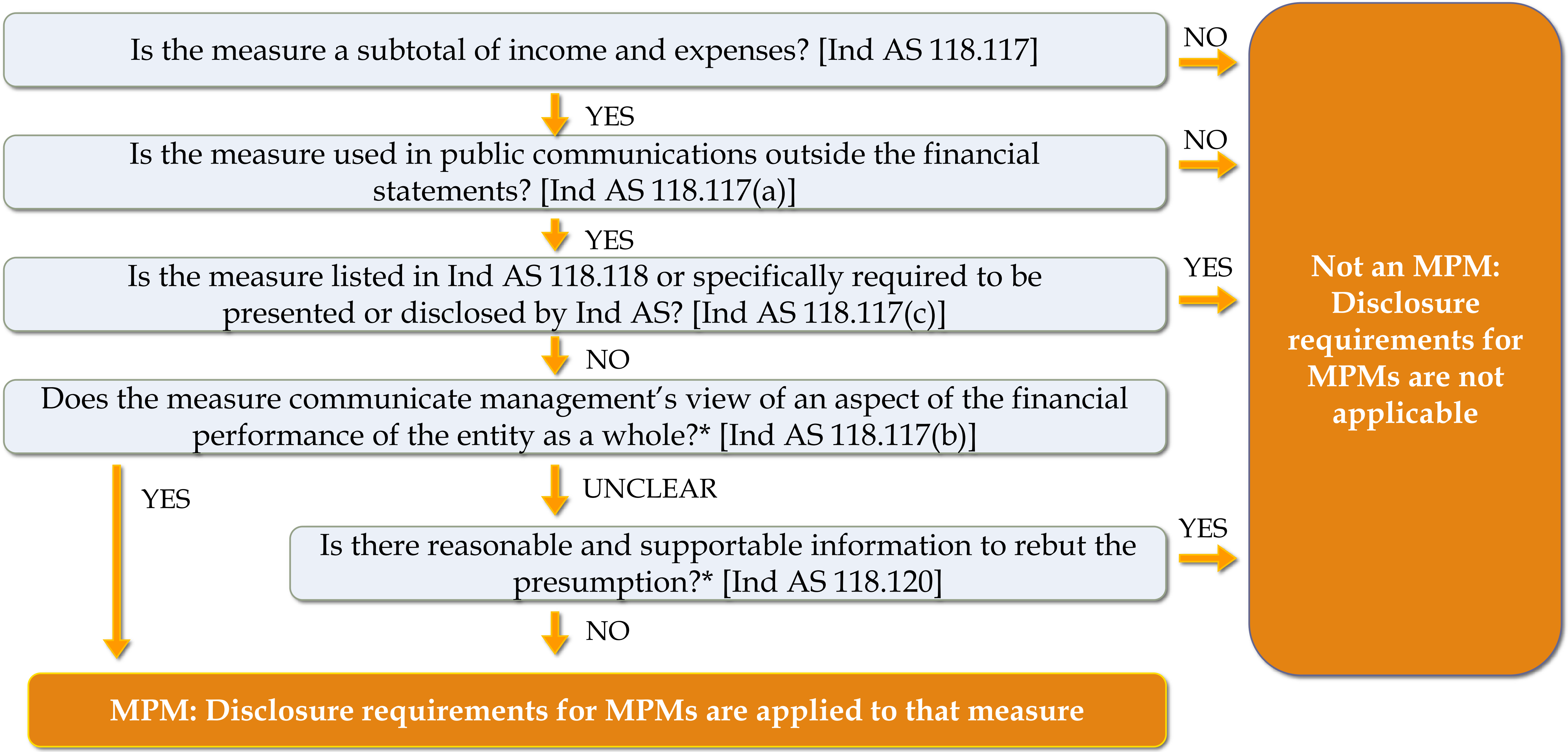
In accordance with Ind AS 118, management-defined performance measure is a subtotal of income and expenses that:

a) An entity uses in public communications outside financial statements,

b) An entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, and

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

Identifying Management Performance Measures (MPMs)



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

MPMs versus other performance measures

Performance measures			
Financial performance measures			Non-financial performance measures - e.g.:
Subtotals of income and expenses		Other measures that are not subtotals of income and expenses - e.g.:	▪ Number of subscribers ▪ Customer satisfaction score ▪ Store surface
MPMs - e.g.: ▪ Adjusted profit / loss ▪ Adjusted operating profit ▪ Adjusted EBITDA	Required or specified by Ind AS - e.g.: ▪ Operating profit ▪ Operating profit before depreciation, amortisation and specified impairments	▪ Free cash flow ▪ Return on equity ▪ Net debt ▪ Adjusted revenue	

Financial Ratio as MPM?

Q. Can the numerator of a ratio be an MPM, even if the numerator is never communicated by itself outside the financial statements?

A. Many entities use an adjusted earnings ratio (e.g., adjusted operating profit divided by capital employed) as a key performance indicator in their public communications outside the financial statements. However, the value of the numerator is not always specifically indicated in public communications as some entities just disclose the formula used to derive the overall ratio.

Ind AS 118 is clear that while a financial ratio is not an MPM (as it does not represent a subtotal of income or expense) the numerator or denominator in such a ratio could be an MPM if it had met the definition of an MPM had it not been used in a ratio.

Thus, an entity is required to assess the numerator against the definition of an MPM and can ignore the requirement that the numerator is used by itself in public communications outside the financial statements. It is sufficient that the ratio in which the numerator is included is used in public communications outside the financial statements to communicate management's view of an aspect of the entity as a whole. If an entity concludes such a subtotal meets the definition of an MPM, the disclosure requirements will apply to the numerator rather than the financial ratio itself.

Meaning of “Public Communications”

A subtotal only meets the definition of an MPM if it is used by an entity in public communications outside the financial statements.

Public communications include:

- Management commentary
- Press releases
- Investor presentations

However, for the purpose of defining MPMs, public communication excludes:

- Oral communications
- Written transcripts of oral communications
- Social media posts

Meaning of "Public Communications"

While it is common for entities to issue public communications, such as press releases, before or at the date the financial statements are approved for issue, some public communications (for example, investor presentations) might not be made available until after the financial statements are approved for issue. Ind AS 118 requires an entity that routinely issues public communications containing performance measures after the financial statements are approved for issue to consider what measures it included in the previous period's public communications when identifying MPMs for the current period. However, an entity is not required to include a measure identified in the prior period as an MPM where evidence indicates it will no longer be included in the public communications to be issued for the current reporting period. When a measure was previously disclosed as an MPM but is not identified as an MPM for the current reporting period, the disclosure requirements for a change to, or cessation of, an MPM will apply.

Entity as a Whole

To meet the definition of an MPM, the measure must communicate management's view of an aspect of the financial performance of the entity as a whole to users. For example, a subtotal of income and expenses related to a reportable segment (disclosed in accordance with Ind AS 108) that does not provide information about an aspect of the financial performance of the entity as a whole, does not meet the definition of an MPM. However, in some cases, a subtotal of income and expenses related to a reportable segment could provide information about an aspect of the financial performance of the entity as a whole and, therefore, meet the definition of an MPM. An indicator of this is where a reportable segment contains a single main business activity of an entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit and loss.

Rebuttable Presumption

The standard contains a ***rebuttable presumption*** that a subtotal of income and expenses used in public communications outside the entity's financial statements communicates to users management's view of an aspect of the financial performance of the entity as a whole.
An entity can only **rebut this presumption** (i.e., assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole) if it is able to demonstrate, using reasonable and supportable information that:

1. The subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole, and
2. There is a reason for using the subtotal in the entity's public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole.

MPM related Disclosures

Ind AS 118 requires an entity to disclose information about all its MPMs in a single note to the financial statements and requires that each MPM is labelled and described in a clear and understandable manner and specifically requires the entity to make the following disclosures for each MPM:

(a) A description of the aspect of the entity's financial performance that, in management's view, is communicated by the MPM, including an explanation of why management believes that the MPM provides useful information about the entity's financial performance.

(b) How the MPM is calculated.

(c) A reconciliation to the most directly comparable total or subtotal specifically required by Ind AS or one of the common subtotals listed in Ind AS 118 (i.e., those which are not required, or defined, by Ind AS but which are commonly used by entities and well understood by users).

MPM related Disclosures

(d) The income tax effect and the effect on non-controlling interests for each reconciling item disclosed in the reconciliation required by (c) above.
(e) A description of how the entity determined the income tax effect required by (d) above

Comparative numbers are also required for all MPM disclosures.

Any changes in MPMs need to be explained and comparative information must be restated to reflect these changes, unless it is impracticable to do so.

Changes to MPM

When an entity changes how it calculates an MPM, starts using a new MPM, stops using a previously disclosed MPM, or changes how it determines the income tax effects of any items disclosed in the reconciliation required for each MPM, it must disclose:

(a) An explanation enabling users to understand the change, addition or cessation and its related effects

(b) The reasons for the change, addition or cessation, and

(c) Restated comparative information reflecting the change, addition or cessation unless it is impracticable to restate comparatives

If an entity is not able to disclose the restated comparative information because it is impracticable to do so, the entity must disclose that fact.

Case Study

Viva Tech Ltd. publishes its annual Q4 earnings press release and investor presentation. Management highlights several key metrics to explain the company's performance for the year.

Metrics from the Press Release (Amounts in ₹'000):

1. Revenue: 30,000
2. Gross Profit: 18,000
3. Operating Profit before D&A (EBITDA): 9,000
4. Adjusted Operating Profit: 7,600 (Calculated by taking the standard Operating Profit of 6,000 and adding back an 1,600 one-time factory relocation cost).
5. Free Cash Flow: 2,400

Case Study

Ind AS 118 Analysis & Conclusion

Metrics	Amount	Is it an MPM?	Ind AS 118 Justification
Gross Profit	18,000	No	Specifically exempted under para 118(a) as a standard subtotal .
Operating Profit before D&A	9,000	No	Specifically exempted under para 118(a) . Even though it is a subtotal of income/ expenses , Ind AS 118 categorizes it as a standard measure , not an MPM .
Adjusted Operating profit	7,600	YES	It is a subtotal of income and expenses , used in a public communication (press release), communicates management's view of "recurring" performance , and is not listed in the Para 118 exemption .
Free Cash Flow	2,400	No	It is a measure of liquidity /cash flow , not a subtotal of income and expenses from the statements of profit and loss .

Case Study

Fine Energy Corp. operates in a highly regulated utility market. In its annual investor presentation (a public communication), it includes a slide detailing its financial performance.

Data Presented (Amounts in '000):

- Ind AS Operating Profit: 10,000
- Statutory Grid Profit : 8,200 (A custom subtotal calculated by deducting specific government-mandated grid maintenance reserves from operating profit).

The Presumption : Because " Statutory Grid profit “ is a subtotal of income / expenses shared in an investor presentation, Ind AS 118 presumes it is an MPM.

Case Study

Fine Energy Corp. operates in a highly regulated utility market . In its annual investor presentation (a public communication), it includes a slide detailing its financial performance.

The Rebuttal Process: Management decides to rebut this presumption using the following reasonable and supportable evidence:

1. Alternative Purpose: The subtotal is strictly required by the National Energy Regulatory Board for compliance reporting. It was included in the presentation solely to satisfy requests from institutional investors who track regulatory compliance.

2. Lack of Internal Prominence: Management evaluates internal performance and compensates executives based purely on the Ind AS Operating Profit of 10,000. They do not use Statutory Grid Profit internally.

3. Lack of External Prominence: The subtotal is placed in the "Appendix" of the presentation with a disclaimer stating it is for regulatory reconciliation only, rather than front-and-center as a driver of core performance.

Conclusion: Fine Energy Corp. successfully rebuts the presumption. "Statutory Grid Profit" is not classified as an MPM, and therefore, the entity is exempt from providing the detailed MPM reconciliation notes for this specific metric.

Aggregation and labelling

Minimum Line Items – Balance Sheet

An entity should present in the balance sheet line items for:

a. Property, plant and equipment
b. Investment property
c. Intangible assets
d. Goodwill
e. Financial assets (excluding amounts shown under (g), (j) and (k))
f. Portfolios of contracts within the scope of Ind AS 117 that are assets, disaggregated as required by paragraph 78 of Ind AS 117
g. Investments accounted for using the equity method
h. Biological assets within the scope of Ind AS 41 Agriculture
i. Inventories
j. Trade and other receivables
k. Cash and cash equivalents

Minimum Line Items – Balance Sheet

l. The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105

m. Trade and other payables

n. Provisions

o. Financial liabilities (excluding amounts shown under (m) and (n))

p. Portfolios of contracts within the scope of Ind AS 117 that are liabilities, disaggregated as required by paragraph 78 of Ind AS 117

q. Liabilities and assets for current tax, as defined in Ind AS 12,

r. Deferred tax liabilities and deferred tax assets, as defined in Ind AS 12, and

s. Liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105

Cross references between the primary financial statements and the notes

Ind AS 118 requires an entity to cross-reference each item in the primary financial statements to any related information in the notes. However, an amount disclosed in a note is often included in **one, or more, line items** in the primary financial statements. In such cases, Ind AS 118 adds a requirement to disclose in that note the **line item(s)** in the primary financial statements in which the amounts are included.

Aggregation and disaggregation

Ind AS 118 requires an entity to aggregate and disaggregate information with reference to similar and dissimilar characteristics. The application guidance sets out that items aggregated and presented as line items in the primary financial statements must have “at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses, or cash flows.”

Using the label "Other"

Currently, some entities present or disclose a large amount of 'other' income or expenses without explaining what those 'other' items include. To address this concern, the standard contains application guidance which requires that if an entity cannot find a more informative label than 'other':

(a) ***For any aggregation***

The entity needs to use a label which describes the aggregated item as precisely as possible (for example, 'other operating expenses' or 'other finance expenses').

(b) ***For an aggregation comprising only immaterial items***

An entity could aggregate immaterial items despite them having dissimilar characteristics, resulting in an aggregated item that is cumulatively large. Where that is the case, the entity may consider including an explanation that the aggregated amount comprises several immaterial items, along with an indication of the nature and amount of the largest item.

Consequential amendments to other standards

Ind AS 7 Statement of Cash Flows

It is proposed to amend Ind AS 7 to:

- Require all entities to use the operating profit subtotal as the starting point for the indirect method of reporting cash flows from operating activities.
- Require entities that do not have a specified main business activity of investing in assets or providing finance to customers to classify interest paid as financing activities, and interest and dividends received as cash flows from investing activities.
- Require entities that have a specified main business activity of investing in assets or providing finance to customers to classify cash flows from dividends received, interest paid and interest received as cash flows from operating activities.

This means that entities will determine how to classify dividends received, interest received, and interest paid in the statement of cash flows by referring to how the related dividend income, interest income and interest expenses are classified in the statement of profit and loss.

Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments, once effective, will change the scope and title of Ind AS 8, due to certain sections previously included within Ind AS 1 being moved to Ind AS 8.

The requirements moved are:
(a) The concepts of 'true and fair view' and compliance with Ind AS
(b) Whether an entity is a going concern
(c) The accrual basis of accounting
(d) Disclosure of an entity's selection and application of accounting policies
(e) Disclosure of judgments and sources of estimation uncertainty

These relocated requirements are in addition to the guidance currently included in Ind AS 8 on accounting policies, changes in estimates and errors. The title of the amended Ind AS 8 would be changed to Basis of Preparation of Financial Statements to better reflect the updated content of Ind AS 8.

Ind AS 33 Earnings per share

The amended Ind AS 33, once effective, will permit entities to disclose additional amounts per share, if the numerator used in the calculation meets specified criteria.

Therefore, an entity can only use additional numerators that are amounts attributable to ordinary equity holders of the parent entity of:

- A total or subtotal identified in Ind AS 118, or
- A management-defined performance measure as defined by Ind AS 118.

Once amended Ind AS 33 becomes effective, an entity will not be allowed to disclose an additional earnings per share measure based on a numerator that does not comply with the above requirements.

Ind AS 34 Interim Financial Reporting

Ind AS 118, once effective, will impact the disclosure requirements for interim financial reporting. Under Ind AS 34 (as amended), an entity will be required to make disclosures about its MPMs, as defined in Ind AS 118, in the notes to the condensed interim financial statements. The scope of these disclosures in the condensed interim financial statements is the same as that required in an entity’s complete set of financial statements.

Transition

The Practical Transition Roadmap

1. **Mobilize:**
Form a dedicated cross-functional transition team (Accounting, Treasury, IT).

2. **Assess:**
Map current P&L categories and identify all existing MPMs against the new decision tree. Review the present **Chart of Accounts (COA)**

3. **Update:**
Reconfigure ERP, accounting systems, and internal controls for new granular data tagging.

4. **Review:**
Analyze external debt covenants and bonus plans tied to old metrics.(e.g., old EBITDA definitions)

5. **Engage:**
Bring auditors in early during FY 2026-27 to test comparative data architecture before mandatory dual-reporting begins.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