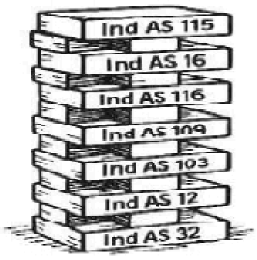
IND AS Insights



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Note on Major Changes in the Presentation of Financial Statements Due to Ind AS 118: Presentation and Disclosure in Financial Statements

The National Financial Reporting Authority ("NFRA"), in its 22nd meeting held on 22 December 2025, approved the draft of Ind AS 118, "Presentation and Disclosure in Financial Statements". This standard is designed to enhance the communication of financial information, with a particular focus on the statement of profit and loss.NFRA has decided to suggest MCA and SEBI to consider any required changes in Schedule III of Companies Act 2013 and circular or guidance that may be required to be carried out by SEBI in consonance with the notification of Ind As 118, as and when required.

Ind AS 118 does not alter the measurement of financial performance but significantly impacts the presentation and disclosure of such performance. The standard aims to improve financial reporting by mandating:

- The presentation of newly defined subtotals in profit or loss;
- Disclosures regarding management-defined performance measures; and
- Enhanced requirements for the grouping (aggregation and disaggregation) of information.

Ind AS 118 replaces Ind AS 1, Presentation of Financial Statements. Consequently, the requirements in Ind AS 1 have been:

- Replaced by new requirements in Ind AS 118;
- Transferred to Ind AS 118 with only limited wording changes; or
- Moved to amended Ind AS 8, Basis of Preparation of Financial Statements, or Ind AS 107, Financial Instruments: Disclosures, with only limited wording changes. There are also consequential amendments to other Ind ASs.

Effective Date:

Globally, IFRS 18 is effective for accounting periods beginning on or after 1 January 2027. In India, the proposed effective date for Ind AS 118 is for annual reporting periods beginning on or after 1 April 2027.

Summary of Key Changes:

1. Changes in the Profit or Loss Section of the Statement of Profit and Loss:

   Entities are required to present two additional subtotals in the profit and loss section:

   - Operating profit or loss; and
   - Profit or loss before financing and income taxes (unless prohibited in specific circumstances).

   These subtotals provide a consistent structure, improving comparability without affecting the measurement of financial performance or the overall profit figure.

   Categories for Classifying Income and Expenses:

   Income and expenses in the profit or loss section must be classified into five categories:

   a) Operating category
   b) Investing category
   c) Financing category
   d) Income taxes category

e) Discontinued operations category

a) The operating category is the default and includes all income and expenses not classified elsewhere. It provides a comprehensive view of a company's operations, including both main and additional business activities, unless they meet criteria for other categories. Presentation and Disclosure of Expenses in the Operating Category:

Expenses must be presented in a structured summary, classified by:

- Nature (e.g., raw materials, salaries, advertising costs); or
- Function (e.g., cost of sales, distribution costs, administrative expenses).

Companies must choose the classification that provides the most useful information to investors, considering what best represents profitability drivers and internal management reporting. If expenses are classified by function, additional disclosures are required for depreciation, amortisation, employee benefits, impairment losses, and inventory write-downs.

b) Investing Category:

This category enables separate analysis of returns from stand-alone investments, including:

- Income and expenses from assets generating returns independently of business activities (e.g., investment property rentals, dividends from shares);
- Income and expenses from cash, cash equivalents, and investments in associates and joint ventures.

c) Financing Category:

This category, along with the subtotal for profit before financing and income taxes, allows analysis of performance before financing effects. It includes:

- Income and expenses on liabilities from pure financing transactions (e.g., bank loans, bonds);
- Interest expenses on all liabilities, including leases and pensions.

d) and e)Income Taxes and Discontinued Operations Categories:

- The income taxes category includes income tax expense or income as per Ind AS 12.
- The discontinued operations category includes income and expenses from discontinued operations as per Ind AS 105.

2. Entities with Specified Main Business Activities:

Entities primarily engaged in investing or financing (e.g., insurers, banks) must classify related income and expenses in the operating category, even if they would otherwise be classified as investing or financing for other companies.

3. Disclosures about Management-Defined Performance Measures (MPMs):

The standard introduces a definition for MPMs and requires disclosure of all such measures in a single note to enhance transparency. MPMs are subtotals of income and expenses used in public communications outside financial statements to convey management's view of financial performance. Disclosures must include:

- Reconciliation to the most comparable subtotal in Ind AS 118 or other Ind ASs;
- Description of the measure's purpose and calculation;
- Explanation of changes in MPMs or their calculation;

- Statement on the non-comparability of MPMs with similarly labelled measures by other companies.

4. Enhanced Requirements for Aggregation and Disaggregation of Information:

   Primary financial statements include the statement of profit and loss, balance sheet, statement of changes in equity, and statement of cash flows. The standard provides principles for determining whether information should be in the primary statements or notes, and for the appropriate level of detail. Aggregation and disaggregation must not obscure material information, and items should be grouped or separated based on shared or distinct characteristics. The use of the label 'other' is restricted to cases where no more informative label is available.

5. Consequential Amendments to Other Ind ASs:

   - Ind AS 7 (Statement of Cash Flows): Aligns with global amendments, requiring the operating profit subtotal as the starting point for the indirect method and specific classification of cash flows for entities with main business activities in investing or financing.

   - Ind AS 33 (Earnings per Share): Additional earnings per share disclosures are permitted only if based on totals or subtotals identified in Ind AS 118 or an MPM.

   - Ind AS 34 (Interim Financial Reporting): Requires disclosure of MPMs in interim financial statements, with other changes applicable to condensed statements in interim reports.

Conclusion:

The introduction of Ind AS 118 marks a significant advancement in the presentation and disclosure of financial statements in India. By enhancing the structure, transparency, and comparability of financial information, the standard aims to provide stakeholders with clearer insights into a company's financial performance. The changes, effective from 1 April 2027, will require companies to adapt their reporting practices, ensuring that financial statements continue to meet the evolving needs of users and align with global best practices.

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