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CHARTERED ACCOUNTANTS

ACCOUNTING & REPORTING INSIGHTS

Ind AS 118

Presentation and Disclosure in Financial Statements

A new face for the Statement of Profit and Loss

- Five P&L categories
- New mandatory subtotals
- Management-defined performance measures
- Implementation & system readiness

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1 Introduction: the clock has already started

If a company reports under Ind AS on a 1 April year, the first comparative year under Ind AS 118 is already running. Ind AS 118 is expected to apply from 1 April 2027, with retrospective application. That means the figures for FY 2026-27 — the year we are closing books for right now — will have to be re-cut into the new format and reconciled line by line when the FY 2027-28 accounts are published.

Ind AS 118, *Presentation and Disclosure in Financial Statements*, will replace Ind AS 1, a standard that has shaped Indian financial statements since the Ind AS roadmap began in 2016. It is the Indian counterpart of IFRS 18, which the International Accounting Standards Board (IASB) issued in April 2024 and which applies globally from 1 January 2027.

The Indian journey so far is short and clear:

- **6 January 2025** — the Accounting Standards Board of ICAI issued the Exposure Draft of Ind AS 118, proposing application from annual periods beginning on or after 1 April 2027. Comments closed on 6 May 2025.
- **22 December 2025** — at its 22nd meeting, NFRA deliberated on Ind AS 118, endorsed full convergence with IFRS 18 without carve-outs, and recommended it to the Central Government. NFRA also suggested that entities with a calendar financial year be allowed to early adopt from 1 January 2027, so that subsidiaries of foreign groups stay in step with their IFRS 18 parents.
- **As on date** — notification by the Ministry of Corporate Affairs is still awaited. Even the Companies (Ind AS) Amendment Rules notified on 12 August 2026 record that the standard corresponding to IFRS 18 is “under formulation”.

2 Ind AS 118 does not change a single rupee of profit

> Recognition and measurement stay exactly where they are. What changes is how profit is *told* — the structure of the statement of profit and loss, the subtotals in it, how much detail goes on the face versus the notes, and, for the first time, a formal place inside the audited financial statements for the “adjusted EBITDA”-type measures that managements love to quote in investor presentations.

That sounds like a reporting exercise. In practice, as the rest of this article argues, it is a data, systems and governance exercise — and the Big 6 firms in India are unanimous on that point.

3 What Ind AS 118 actually requires

The standard answers three long-standing investor complaints: profit and loss subtotals are not comparable across companies, non-GAAP measures are opaque, and useful detail is either missing or buried. Its response comes in five building blocks.

A. Five categories for every rupee of income and expense

Every item in profit or loss must be classified into one of five categories:

a. **Operating** — the residual, or "default", category. Anything that does not belong elsewhere lands here, including volatile, unusual or non-recurring items.

b. **Investing** — income and expenses from assets that generate a return individually and largely independently of the entity's other resources: equity-accounted associates and joint ventures, cash and cash equivalents, investment property, and other financial investments.

c. **Financing** — all income and expenses from liabilities that involve only the raising of finance (borrowings, debentures), plus interest and interest-rate effects on other liabilities such as lease liabilities, defined benefit obligations and discounted provisions.

d. **Income taxes**

e. **Discontinued operations**

Two cautions. First, these categories do **not** mirror Ind AS 7. A gain on sale of factory equipment is an investing cash flow but an *operating* item in profit or loss. Second, interest earned on cash and bank balances goes to *investing*, even though Ind AS 7 treats cash equivalents as held for operating commitments.

B. Two new mandatory subtotals

Every entity must present **operating profit or loss** and **profit or loss before financing and income taxes**, in addition to profit for the year. Both must appear even if they are numerically identical. Schedule III today has no operating profit line at all, so this is genuinely new for Indian preparers.

C. Specified main business activities

Banks, NBFCs, housing finance companies, insurers, investment entities and investment property companies cannot sensibly push their core interest or investment income below operating profit. Ind AS 118 therefore requires entities whose *main business activity* is investing in assets or providing finance to customers to move those items into the operating category. Whether that is the case is a matter of fact, supported by evidence such as segment information and the subtotals management uses internally and with investors — not a matter of assertion.

D. Management-defined performance measures (MPMs)

An MPM is a subtotal of income and expenses that the company uses in public communications outside the financial statements, that conveys management's view of an aspect of performance of the entity as a whole, and that is not specified by Ind AS. "Adjusted EBITDA", "adjusted PAT" and "recurring PAT" are typical examples. Free cash flow, net debt, return on equity and customer counts are not MPMs, because they are not subtotals of income and expenses.

For each MPM, a single note must explain why it is used, how it is calculated, and reconcile it to the closest Ind AS subtotal — showing the **income-tax and non-controlling-interest effect of every reconciling item**. Because the note sits inside the financial statements, it is audited. Investor presentations, press releases and the front half of the annual report count as public communication; oral remarks on an earnings call and social media posts do not.

E. Aggregation, disaggregation and labelling

The standard defines the roles of the primary statements (a "useful structured summary") and the notes (material detail). Items are grouped on shared characteristics and split when a dissimilar characteristic is material. Large "other expenses" lines are discouraged. Operating expenses may now be shown **by nature, by function, or on a mixed basis**, whichever gives the most useful summary. Where any line is presented by function, the note must disclose specified nature-wise amounts — depreciation, amortisation, employee benefits, impairment and inventory write-downs.

4 Consequential changes elsewhere

- **Ind AS 7** — the indirect method starts from operating profit. For most non-financial companies, interest and dividends received move to investing activities and interest paid to financing activities, removing today's choices.
- **Ind AS 33** — an additional per-share figure is allowed only if its numerator is an Ind AS 118 subtotal or an MPM, and only in the notes.
- **Ind AS 34** — MPM disclosures and the aggregation principles apply to interim reports too.
- **Ind AS 8** — renamed *Basis of Preparation of Financial Statements*, absorbing going concern, compliance statement and accounting-policy disclosures from Ind AS 1.

5 Transition

Application is retrospective. In the first annual financial statements, a line-by-line reconciliation from the Ind AS 1 presentation to the Ind AS 118 presentation is required for the immediately preceding comparative year. Interim reports in the first year need the same reconciliation for both the comparative quarter and the cumulative comparative period.

6 Illustration: the same numbers, re-told

The table below is a simplified example of a manufacturer with no specified main business activity (figures in ₹). Profit for the year is identical; only the route to it changes.

Line item	Schedule III today	Ind AS 118	Category under Ind AS 118
Revenue from operations	398,700	398,700	Operating
Operating expenses (materials, inventory change, employee, depreciation, other)	(314,600)	(314,600)	Operating
Operating profit	*not presented*	**84,100**	**Mandatory subtotal**
Other income — interest on fixed deposits	700 (in total income)	700	Investing
Share of profit of equity-accounted investees	1,000	1,000	Investing
Profit before financing and income taxes	*not presented*	**85,800**	**Mandatory subtotal**
Finance costs	(1,800) (in total expenses)	(1,800)	Financing
Profit before tax	84,000	84,000	—
Tax expense	(325)	(325)	Income taxes
Profit for the year	**83,675**	**83,675**	**Mandatory total**

Table 1 · Schedule III presentation versus Ind AS 118 presentation for the same entity

The picture below shows how the five categories stack into the new statement.

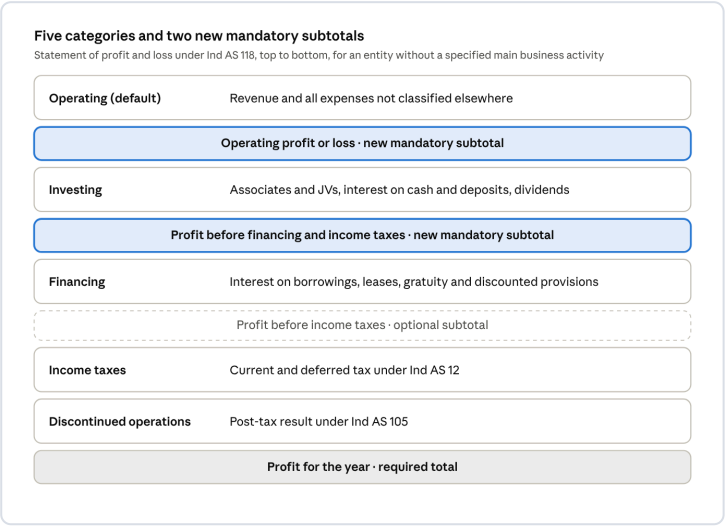


Figure 1 · Ind AS 118 statement of profit and loss — five categories, two new mandatory subtotals

7 Ind AS 118 versus IFRS 18 and Ind AS 1

> **On the text, Ind AS 118 is IFRS 18 without carve-outs.** NFRA said so when it recommended the standard, and KPMG in India and EY India say the same in their 2026 publications. The real gap for Indian companies is not between Ind AS 118 and IFRS 18. It is between Ind AS 118 and the way Indian accounts look today under Ind AS 1 read with Schedule III and the SEBI results format.

Area	Ind AS 1 + Schedule III (today)	IFRS 18 (IASB)	Ind AS 118 (as recommended by NFRA)
Effective date	In force	Annual periods from 1 January 2027	Annual periods from 1 April 2027; early adoption from 1 January 2027 recommended for calendar-year entities
Structure of profit or loss	Total income less total expenses; no categories	Five categories: operating, investing, financing, income taxes, discontinued	Same as IFRS 18
Operating profit	Not a Schedule III line; not generally presented	Mandatory subtotal	Mandatory subtotal
Profit before financing and income taxes	Not presented	Mandatory subtotal (limited exception for some financing entities)	Same as IFRS 18
Analysis of operating expenses	**Nature only** — a carve-out from IAS 1, which already allowed function	Nature, function or mixed, with nature-wise note for function lines	Same as IFRS 18 — **the old carve-out is withdrawn**
Share of profit of associates and JVs	Shown just before profit before tax	Always investing; never inside operating profit	Same as IFRS 18
Interest on bank deposits and cash	Part of "other income"	Investing	Investing
"Exceptional items"	Commonly a separate Schedule III line	No exceptional category; unusual items stay in their category with disclosure	Same as IFRS 18; the fate of the Schedule III line awaits MCA
Non-GAAP / adjusted measures	Outside the financial statements, unaudited	MPMs in one audited note with reconciliation, tax and NCI effects	Same as IFRS 18
Cash flow statement (indirect method)	Starts from profit before tax; choices for interest and dividends	Starts from operating profit; choices largely removed	Same as IFRS 18
General requirements (going concern, compliance, policies)	In Ind AS 1	Moved to IAS 8, renamed	Moved to Ind AS 8, renamed *Basis of Preparation of Financial Statements*
Regulatory format overlay	Schedule III (MCA) and SEBI LODR results format	None	Schedule III and SEBI formats to be aligned; NFRA has asked both. Pending as on date

Table 2 · Comparison of current Indian practice, IFRS 18 and Ind AS 118

8 Where India will still look different

Three practical differences remain, none of them in the standard itself.

- **Timing.** IFRS 18 reporters begin on 1 January 2027; most Indian companies begin on 1 April 2027. Subsidiaries of foreign groups on a calendar year can early adopt, but those on a March year will report on a different basis from their parents for one quarter.
- **Schedule III and SEBI LODR.** Ind AS 118 lets the entity choose labels and adds subtotals; Schedule III prescribes a nature-based layout. Until MCA amends Schedule III and SEBI revises the Regulation 33 results format, preparers will be reconciling two masters. BDO India notes a live debate on whether Schedule III must be amended at all or can absorb Ind AS 118 through its "addition or substitution" mechanism.
- **Interpretations.** The IFRS Interpretations Committee has already issued agenda decisions on IFRS 18 — for example, that levies which are not income taxes cannot sit in the income tax category, that two views are acceptable for exchange differences on eliminated intragroup balances, and that a pure holding company may have investing as a specified main business activity in its separate accounts. Indian practice will need to track these, as ICAI typically aligns with IFRIC conclusions.

9 Practical difficulties in implementation

> **The hardest part of Ind AS 118 is not understanding it; it is producing two years of data that was never captured in the required shape.** Nine difficulties stand out for Indian companies.

A **The comparative year is already behind us in part.** Because application is retrospective, FY 2026-27 must be presented under Ind AS 118, with a line-by-line reconciliation to the old format. KPMG in India advises that systems and controls should ideally be in place from the start of the comparative period, that is, 1 April 2026. Most companies are therefore already reconstructing history rather than capturing it at source.

B **Classification happens at the transaction, not the trial balance.** Exchange differences must follow the item that gave rise to them: those on trade payables stay in operating, those on foreign-currency borrowings go to financing. Most ERPs book all exchange differences into one or two ledgers. The "undue cost or effort" relief exists, but it applies only to the differences that genuinely cannot be traced, and auditors will expect that judgement to be documented. Similar granularity is needed for derivatives, hedging gains and losses, and for liabilities that mix operating and financing features.

C **Liabilities must be sorted into two kinds.** Borrowings that only raise finance go fully to financing. For other liabilities — trade payables on extended credit, lease liabilities, gratuity obligations, discounted provisions — only the interest and interest-rate effects go to financing;

remeasurements stay in operating. Supplier finance, bill discounting, factoring with and without recourse, loan commitment fees and government grants presented gross or net all need case-by-case analysis.

D **"Main business activity" is a judgement with group-wide consequences.** NBFCs and banks are clear cases. Harder ones are automobile and consumer-durable companies with captive finance arms, conglomerates with treasury-heavy holding companies, and parents whose separate accounts mainly hold subsidiaries. EY India points out that a subsidiary and its group can reach different conclusions, so the same item may be classified differently in standalone and consolidated statements.

E **The "exceptional items" habit.** Indian results routinely carry a separate exceptional items line below operating results. Under Ind AS 118, an impairment, a VRS cost or a one-off settlement stays inside operating profit, with disclosure. Managements that want to show a "clean" number will have to do it through an MPM — and then reconcile it, show its tax and NCI effects, and have it audited.

F **Identifying MPMs requires finance, investor relations and legal to agree.** Grant Thornton Bharat and EY India both stress that MPM identification must be repeated at every reporting date and will force far closer coordination with investor relations than is normal today. Every adjusted EBITDA in an analyst deck becomes a potential audited disclosure. Calculating the tax and NCI effect of each reconciling item is a new obligation for most companies.

G **Regulatory formats are still moving.** The amended Schedule III and the revised SEBI Regulation 33 format are awaited. In the first year, listed companies must also present each new subtotal, with comparatives, in their quarterly results. Preparers are designing to a target that has not been finalised.

H **Ripple effects beyond the accounts.** Loan covenants written on "EBITDA as per audited accounts", bonus and ESOP vesting conditions, earn-out clauses and credit-rating models may all shift when the subtotals change. BDO India also flags the re-tagging of XBRL filings, since the new subtotals will need new taxonomy elements.

I **People and audit capacity.** Classification calls, MPM judgements and the main-business-activity assessment all need written accounting papers. Finance teams, audit committees and auditors will each need training before the first dry run, not after it.

10 System readiness: what has to change under the hood

> **Ind AS 118 cannot be delivered by a year-end Excel reclassification.** The standard is not simply a reporting policy shift; it requires data and system design that supports the new structure. Six areas need attention.

A **Chart of accounts and general ledger.** Each GL account, and in some cases each posting, needs an Ind AS 118 category attribute — operating, investing, financing, income taxes or

discontinued — so that classification happens throughout the year and not only at close. New GL codes will be needed to separate exchange differences by source, interest on borrowings from interest on leases and gratuity, unwinding of discount from remeasurement of provisions, and fair value changes by asset class. NBFCs and investment-led groups will need condition-based rules, because the same expense can be operating for one liability and financing for another.

B **Consolidation and group reporting.** Consolidation tools must now *reclassify* as well as add up. Where a subsidiary's main business activity differs from the group's, its items may need re-mapping on consolidation. Reporting hierarchies, elimination rules and group adjustments must be rebuilt around operating profit and profit before financing and income taxes, rather than around today's nature-wise heads.

C **An MPM data book.** One controlled repository should hold every MPM: its definition, formula, reconciliation, tax and NCI effects, and the external documents in which it was used. Version control and an audit trail are essential, and the book should be cross-checked against investor presentations and press releases before each results announcement.

D **Controls and the close calendar.** Internal financial controls over reporting (IFCR) need new checkpoints: category mapping reviews, MPM calculation and reconciliation controls, and sign-off on the main-business-activity assessment. Groups running more than one ERP may need a central classification engine to keep categories consistent.

E **Parallel reporting.** Until Schedule III and SEBI formats are amended, and through the comparative year, companies will need to produce both the old and the new presentation. A dual-track reporting layer — not two separate closes — is the efficient answer.

F **Downstream systems.** Management information, budgets, board packs, covenant compliance certificates, incentive calculations and XBRL tagging all read from the same numbers and must be re-pointed to the new subtotals.

The timeline below shows why the work cannot wait for MCA's notification.

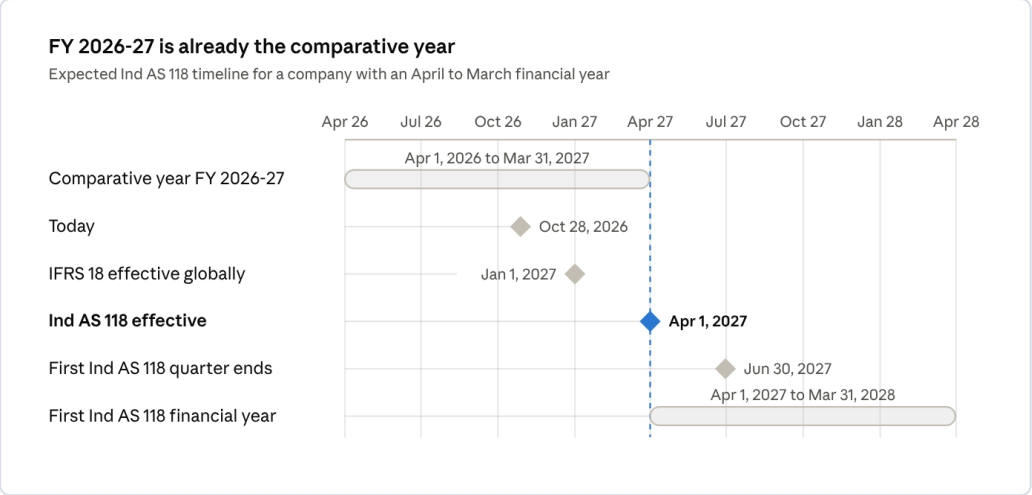


Figure 2 · Expected Ind AS 118 timeline — comparative year to first Ind AS 118 year

Seven months of the comparative year are already on the books, and MCA has yet to notify the standard.

11 Concluding thoughts

Ind AS 118 is the most visible change to Indian financial statements since the Ind AS roadmap itself. Every Ind AS company's profit and loss statement will look different, even though no profit will change. Three messages are worth carrying into the next audit committee meeting.

- **Treat FY 2026-27 as year one.** The comparative year is running now. Capturing data correctly from here on is far cheaper than reconstructing it in mid-2027.
- **Decide your story before the standard decides it for you.** Choose the expense presentation, settle the main-business-activity question, and agree which adjusted measures you will continue to publish — knowing each one becomes an audited MPM.
- **Do not wait for MCA.** The text is settled and NFRA has recommended it without carve-outs. Schedule III and SEBI formats may change the labels, but they will not change the classification work or the system build.

Ind AS 118 is an opportunity to retire the patchwork of adjusted numbers that has crept into Indian results and to give investors one consistent, audited view of operating performance.

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For any query on Ind AS 118 readiness, classification, MPM disclosures or system design, please get in touch with us.

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