June 2025

EARLY IMPRESSIONS

Ind AS 118, Presentation and Disclosure in Financial Statements (Exposure Draft)

1. FOREWORD

The landscape of financial reporting is undergoing a profound transformation, driven by the increasing demand for greater transparency, consistency, and relevance in financial disclosures. In this evolving context, the introduction of the **Exposure Draft of Indian Accounting Standard (Ind AS) 118 – Presentation and Disclosure in Financial Statements** represents a significant milestone in India's journey toward global convergence and high-quality financial reporting.

Aligned with the recently issued IFRS 18 by the International Accounting Standards Board (IASB), Ind AS 118 aims to refine how entities present and communicate their financial performance. The standard marks a shift from a compliance-oriented approach to one that emphasizes effective communication, offering stakeholders insights that more accurately reflect how management views and operates the business.

Key features of the proposed standard include:

- Standardized performance subtotals to enhance comparability;
- Transparent disclosure of Management-Defined Performance Measures (MPMs);
- Improved disaggregation of financial information; and
- Clear presentation of unusual items.

These enhancements are both timely and essential in an era where decision-makers rely on agile, accurate, and meaningful financial narratives to guide strategic actions.

We view these changes as a vital step toward standardising financial reporting practices and improving transparency for stakeholders. We believe that the proposals will enhance the comparability and clarity of financial performance.

We sincerely hope you find the enclosed publication informative.

We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

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2. BACKGROUND

In April 2024, the IASB issued **IFRS 18**[1], Presentation and Disclosure in Financial Statements, aimed at enhancing the way companies communicate through their financial statements, particularly their financial performance through the Statement of Profit or Loss. Globally, IFRS 18 will be effective for annual reporting periods beginning on or after January 1, 2027.

In alignment with IFRS 18, the Institute of Chartered Accountants of India (ICAI), has issued an exposure draft of **Ind AS 118, Presentation and Disclosure in Financial Statements**, with a proposed effective date for annual reporting periods beginning on or after April 1, 2027. This proposed standard is based on IFRS 18, with appropriate modifications to reflect the Indian economic and regulatory environment

Ind AS 118 is intended to provide Indian companies a strong and globally aligned framework for presenting and disclosing financial performance. **Although it does not change how financial performance is measured, it substantially improves the way that performance is presented and conveyed to stakeholders.**

The proposed standard is built on the foundation laid by **Ind AS 1, Presentation of Financial Statements,** which established the principles for presenting general-purpose financial statements to ensure comparability across periods and entities. Ind AS 118 represents a major step forward in improving the transparency, structure, and consistency of financial reporting. When effective, Ind AS 118 will supersede Ind AS 1.

Ind AS 118 aims to improve financial reporting by requiring:

- Presentation of new subtotals in profit or loss;
- Disclosures about management-defined performance measures; and
- Enhanced requirements for grouping (aggregation and disaggregation) of information.

By mandating clearer presentation formats and more meaningful disclosures, Ind AS 118 aims to empower users of financial statements to make better-informed economic decisions.

[1] *To learn more about IFRS 18 "Presentation and Disclosure in Financial Statements.", refer to our recent publication titled, Early Impressions IFRS 18, Presentation and Disclosure in Financial Statements.*

3. SUMMARY OF PROPOSED CHANGES

The new standard has wide-ranging effects, influencing numerous aspects of financial statement presentation and disclosure, with the income statement being particularly impacted.

The main effects of Ind AS 118 can be summarized as follows:

A. Introduction of new categories and subtotals in the Statement of Profit and Loss	
Classification of items of income and expenses into newly defined five categories.	• All items of income and expenses to be classified into the following categories: • Operating • Financing • Investing • Income taxes • Discontinued operations
Required new subtotals	• Two newly defined subtotals are presented on the face of the Statement of Profit or Loss which includes • Operating profit or loss, and • Profit or loss before financing and income taxes.
B. Categorization of items of income and expenses	
Operating Category	• All items of income and expenses related to the entity's operations shall be included in this category. • Main business activities drive the Classification of income and expenses in the Operating category. • It is defined as the default category, which will comprise of all income and expenses not included in other defined categories. • Option to present an analysis of operating expenses either by nature, by function, or on a mixed basis on the face of the Statement of Profit or Loss in a way that provides more useful information to the readers. It may be noted that Ind AS 1 requires the classification of expenses by their nature.

Investing Category	• Items of income and expenses from assets that generate returns separately from a company's business activities and income and expenses from cash and cash equivalents, investments in associates, and joint ventures shall be included in this category.
Financing Category	• Income and expenses on liabilities arising from financing transactions and interest expenses on any other liability are included in this category.
Income Taxes Category	• Income tax expense or income is included in this category.
Discontinued Operation Category	• Income and expenses from discontinued operations recognised in accordance with Ind AS 105 are included in this category.
C. Classification considerations related to specific items of Income and expenses	
Classification of foreign exchange differences	• Foreign exchange differences are classified within the same category as the income and expenses related to the underlying items that caused those differences. • **Exception**- If such allocation would result in undue cost or effort, an entity is permitted to instead classify those differences within the operating category.
Classification of fair value gains and losses on derivatives and designated hedging instruments	**Gains and losses associated with derivative designated as a hedging instrument-** • Such gains are presented within the same category as the income and expenses that are subject to the risks being hedged by the derivative. • **Exception** - If a presentation in the same category requires grossing up of gains and losses which is prohibited, an entity will classify all gains and losses on the derivative in the operating category. **Gains and losses associated with derivatives not designated as hedging instruments but used to manage exposure to identified risk**

	• Presented within the same category as the income and expenses that are affected by the risks that the derivative is managing. • **Exception**- If Presentation in same category requires grossing up of gains and losses which is prohibited or requires undue cost or effort, an entity will classify all gains and losses on the derivative in the operating category.
Classification of income and expenses from hybrid contracts containing a host that is a liability	• The classification assessment of income and expenses is based on whether embedded derivative is separated from host liability or not.
D. Management-defined performance measures	
Disclosure of Management- defined performance measure (MPM)	• An MPM is a subtotal of income and expenses that a company uses in public communications outside financial statements. Such communication would not include oral communication. • The entity must disclose all MPMs within a single note. • Specific disclosures, including calculations, reconciliations, description of how the measure communicates management view are required. • Ind AS 118 requires companies to disclose information about MPMs, which will increase transparency and investors' understanding of how the measures compare with the measures defined by Accounting Standards. Investors use MPMs to get insight into how management views the company's financial performance, how the company is managed and how its financial performance is developing.
E. Other Key Considerations	
Enhanced requirements for aggregation & disaggregation of information	• Enhanced principles of aggregation vs disaggregation based on shared vs non-shared characteristics. • Companies must disaggregate information whenever doing so results in material disclosures. If such information is not presented in the primary financial statements, it must be provided in the notes.

F. Consequential amendments to other Ind ASs

Statement of Cash Flows	• The Indirect method starts with the operating profit subtotal.
Earnings per share	• Entities are permitted to disclose additional EPS calculated from any component of the statement of profit and loss, in addition to basic and diluted earnings per share, provided the numerator used in the calculation is either a total or subtotal specified in Ind AS 118 or a management performance measure (MPM).
Interim financial reporting	• Companies are required to disclose information about MPMs in interim financial statements. • In the first year of adoption the entity should present each heading it expects to use, and the subtotals required in Ind AS 118 in its condensed interim financial statements.

4. KEY HIGHLIGHTS OF NEW REQUIREMENTS PROPOSED IN IND AS 118

The following summarizes the key requirements of Ind AS 118-

New Categories of income and expenses	Management-defined performance measures (MPMs)	New subtotals	Enhanced aggregation and disaggregation requirement

A. Introduction of new categories and subtotals in the Statement of Profit and Loss

- Under Ind AS 1, there is no requirement to classify income and expenses into distinct 'categories', and presenting subtotals is not required. Notably, operating profit—one of the most commonly used performance metrics—has not previously been defined in Ind AS.
- As a result, entities have applied varying definitions to the same subtotal, leading to considerable inconsistency. This lack of standardization has made it challenging for users of financial statements to interpret the information presented in the Statement of Profit and Loss and to make meaningful comparisons across entities.
- To enhance consistency and improve comparability, Ind AS 118 includes the following changes in the Profit or Loss section of the Statement of Profit and Loss:

  a. Required subtotals:
  Ind AS 118 requires two new subtotals to enable analysis:
  - Operating profit or loss and
  - Profit or loss before financing and income taxes.

  b. Categories for classifying income and expenses:
  Ind AS 118 requires all items of income and expenses to be classified into the newly defined five categories:
  - Operating
  - Financing
  - Investing
  - Income taxes
  - Discontinued operations
- To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity.

- The purpose of adding a subtotal to the presentation requirement is to provide a meaningful representation of the entity's core operating activities, while the defined categorization aims to help users assess performance independently of financing decisions. These standardized categories and subtotals are intended to enhance consistency and comparability in the Statement of Profit and Loss
- It is essential to note that there is no direct alignment between the operating, investing, and financing categories used in the statement of profit or loss as required by Ind AS 118 and those in the statement of cash flows, as outlined in Ind AS 7 Statement of Cash Flows. Nonetheless, in many instances, similar classifications may be applied across both statements.
- Under Ind AS 118, the classification of income and expenses into different categories may vary between entities, as it requires entities to evaluate their main business activities.
  - For instance, a manufacturing company that invests surplus cash in publicly traded shares would not consider this a core business activity and would typically classify related income under the investing category. In contrast, a bank that actively trades a portfolio of publicly traded shares may view this activity as central to its operations and would likely classify the associated income under the operating category

Determining whether an entity engages in a specified main business activity depends on the specific facts and circumstances and involves the application of judgment. It is also possible for an entity to have more than one main business activity.

B. Categorization of items of income and expenses

Defined Category

Operating Category

This category is intended to include items of income and expenses related to the entity's operations. Ind AS 118 describes it as a **residual category**, so the operating category will comprise all income and expenses not included within the investing, financing, income taxes, or discontinued operations categories. As a default category, it:

- Encompasses all income and expenses related to a **company's operations**, even if they are volatile or unusual. Operating profit thus reflects a full representation of the company's performance during the period.
- Covers, but is not limited to, income and expenses from the company's main business activities. It also includes income and expenses from other business activities, provided they do not meet the criteria for classification under any of the other specified categories.

Implementation matters

- If an entity's specified main business activity involves investing in assets, the related income and expenses will be included in the operating category. For example, real estate companies would be required to present rental income within the operating category.

  The expense in the operating category may be presented either by:
  - Nature (raw materials, salaries, advertising costs), or
  - Function (cost of sales, distribution costs, administrative expenses) or
  - On a mixed basis (i.e. some expenses by nature and other expenses by function) on the face of the income statement.

Entities are encouraged to choose the presentation method that reflects the most useful structured summary of operating expenses in consideration of the following factors:

- Which line items provide the most useful information about the main components or drivers of the entity's profitability. For example: for a retail entity presentation of the cost of sales line item may provide relevant information in comparison to a service entity, where information of expenses by nature such as employee benefits may be more relevant
- Which line items most closely represent the way the business is managed and how management reports internally
- What standard industry practice entails
- Whether allocation of particular expenses to functions would be arbitrary such that the line items presented would not provide a faithful representation of the functions.

Note- The standard also mandates that companies classifying expenses by function must disclose the amounts of depreciation, amortization, employee benefits, impairment losses, and inventory write-downs included within each line item in the operating category of the statement of profit or loss.

The aforesaid is a significant change from the current requirements under Ind AS 1.

Investing Category

This category includes-

- Income and expenses from assets that generate returns **separately from a company's business activities.**
- Income and expenses from **cash and cash equivalents and investments in associates and joint ventures.**

Implementation matters

- **Example of items of income and expenses included in the Investing category**
  - Rental income arising from investment property.
  - Dividends from shares in other companies.
  - Share of profits from associates and joint ventures.
  - Income and expenses from unconsolidated subsidiaries (such as investments in subsidiaries held by an investment entity that are measured at FVTPL, investments in subsidiaries in separate financial statements that are accounted for at cost)

  - Income and expenses resulting from the initial and subsequent measurement of those assets, including any gains or losses recognized upon their derecognition (such as Impairment losses and reversals of impairment losses, fair value gains and losses).
  - Additional expenses that are directly related to the acquisition or disposal of those assets, such as transaction fees and selling costs.

- **One of the key criteria for an item of income or expense to be included in the investing category is that it should relate to assets that generate a return individually and largely independently of the entity's other resources.**
  - Income or expenses related to the assets that an entity uses in combination to produce or supply goods or services do not generate a return individually and largely independently of the entity's other resources and shall be classified as an operating category such as
    - Depreciation expenses, impairment losses or reversal of impairment losses, Gain or loss on derecognition of property, plant and equipment.
    - Interest income on financing to customers by banks.

Financing Category

This category includes-

- Income and expenses on **liabilities arising from financing transactions.**
- Interest expenses on **any other liability**

Implementation matters

- **Liabilities arising from financing transactions include-**
  - Issue of bonds or debentures redeemable in cash or the entity's equity shares.
  - Liability under a supplier finance arrangement when the payable for goods or services is derecognised.
  - Obligation for an entity to purchase its own shares.
  - Loans raised by the company.

Items of income and expenses related to these liabilities, such as interest expense on debt instruments issued, fair value gain or loss on liability designated as FVTPL, income or expense on derecognition of liability, and dividend on issued shares classified as liabilities, shall be classified under the financing category

- **Other liabilities includes liabilities arising from transactions that do not involve only the raising of finance such as-**
  - Payables for goods or services that will be settled in cash.
  - Lease Liabilities.
  - Defined benefit pension liabilities.
  - Decommissioning or asset restoration provisions.
  - Litigation provisions.

Interest expense on aforementioned liabilities shall also be classified under the financing category.

Income taxes

This category includes income tax expense (or income tax income) in the statement of profit or loss per the principles of ***Ind AS 12 Income Taxes.***

Implementation matters

Example of items of income and expenses included in the Income taxes category-

- Current tax expense
- Deferred tax expense/ (Credit)

Discontinued Operation Category

This category includes income and expenses from discontinued operations recognised in accordance with **Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.**

Illustrative Statement of Profit or loss-

Particulars	Category
Revenue	Operating
Operating expenses (analysed by nature, function or both as appropriate)	
Operating profit or loss	
Share of profit or loss of equity-accounted investees	Investing
Income from other investments	
Interest income from cash and cash equivalents	
Profit or loss before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit or loss before income tax	
Income tax expense (or income)	Income Tax
Profit or loss from continuing operations	
Profit or loss from discontinued operation	Discontinued operation
Profit or loss	

New subtotals

New Categories

C. Classification considerations related to specific items of Income and expenses

Classifying all items of income and expenses into one of the five defined categories can be difficult, especially for items that may fall into more than one category such as foreign exchange gain or loss.

To address this, Ind AS 118 provides specific guidance for the classification of certain specific types of income and expenses, as summarized below-

1. Classification of foreign exchange differences

Foreign exchange differences are classified within the same category as the income and expenses related to the underlying items that caused those differences. For example-

- Foreign exchange gain or loss on accounts receivable denominated in a foreign currency arising from the sale of goods is included in the operating category, as is the revenue from the sale of goods itself.
- Gain or loss arising from the restatement of a debt instrument denominated in foreign currency shall be included in the financing category, as is the expense related to a pure financing transaction.
- If allocation of foreign exchange differences to the same category as the related income and expenses would result in undue cost or effort, an entity is permitted to classify those differences within the operating category instead. In our view, the exception would be available only in very remote circumstances.
- Gains and losses on the disposal of a consolidated subsidiary, are classified in the operating category if the subsidiary included assets that generated income and expenses that the entity classified in the operating category immediately before the disposal. The gains and losses include the reclassification from equity to profit, or loss of foreign exchange differences required by Ind AS 21.

2. Classification of fair value gains and losses on derivatives and designated hedging instruments

Gains and losses arising on "derivatives designated as hedging instruments"

- **General rule-** Gains and losses associated with derivatives designated as hedging instruments are presented within the same category as the income and expenses that are subject to the risks being hedged by the derivative.
  - Gains and losses on an undesignated component of a designated hedging instrument in the same category as gains and losses on the designated component. Similarly ineffective portions of a gain or loss shall also be classified in the same category as the effective portions.
- **Exception to General rule**- If a presentation in the same category requires grossing up gains and losses, which is prohibited, an entity will classify all gains and losses on the derivative in the operating category.

  Illustrative example- Appendix B Application Guidance

  - An entity may use a derivative to manage both the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category).
  - In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expenses and the gains or losses on the derivative.

- However, the entity classifies the foreign exchange differences on the revenue in a different category from the foreign exchange differences on the interest expenses.

- To present the gain or loss on the derivative in each category, an entity would need to present each category a larger gain or loss than occurred on the derivative. Applying the requirements of Ind AS, an entity shall not gross up the gains or losses in this manner. Instead, it shall classify any gain or loss on the derivative in the operating category.

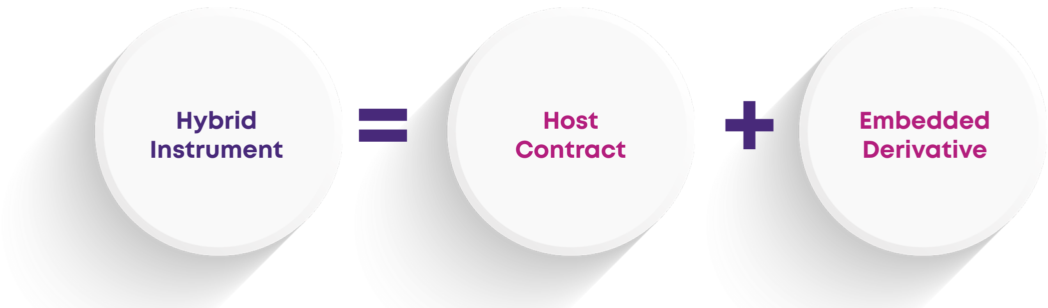
Gains and losses arising on "derivative not designated as hedging instruments but used to manage exposure to identified risk"

- **General rule-** Gains and losses associated with derivatives are presented within the same category as the income and expenses that are affected by the risks that the derivative is managing.

- **Exception to General rule**- If a presentation in the same category requires grossing up of gains and losses, which is prohibited or requires undue cost or effort, an entity will classify all gains and losses on the derivative in the operating category.

The requirements relating to derivatives specify only the appropriate classification category for the gains and losses arising from them; they do not override the provisions of other Ind ASs, nor do they prescribe the specific line item for presentation.

3. Classification of income and expenses from hybrid contracts containing a host that is a liability



The classification of income and expenses from a hybrid contract with a host liability depends on whether the embedded derivative is separated from the host contract.

a. Embedded derivative is separated from the host liability

- **Income and expenses related to separated host liability**- It will be classified in accordance with the requirements for classifying a similar liability that is not a host in a hybrid contract. (Refer to the section finance category above)

- **Income and expenses related to separated embedded derivative**- It is classified in accordance with the requirements for similar standalone derivatives, unless the derivative is not used to manage identified risk. (Refer to section Gains and losses arising on "derivative not designated as hedging instruments but used to manage exposure to identified risk" above).

b. Embedded derivative is not separated from the host liability

- **Entity with a main business activity of providing financing to customers:** For a hybrid contract that represents liabilities that arise from transactions involving only the raising of finance (Pure financing transaction in the ***financing category).***
  In such case-
  - If it relates to providing financing to customers, all such income and expenses shall be classified in the **operating category.**
  - If it does not relate to providing financing to customers, the entity has an accounting policy choice to classify the income and expenses in **the operating or financing category.**

- **Entity without a main business activity of providing financing to customers:** For a hybrid contract that represents liabilities which does not arise from a transaction that involves only the raising of finance **(other liabilities in the financing category):**
  - For a hybrid contract (no separation), within the scope of Ind AS 109 and measured at amortized cost, the income and expenses arising from initial recognition and subsequent measurement of the liability will be classified in the **financing category.**
  - For a hybrid insurance contract in the scope of Ind AS 117, insurance finance income and expenses will be classified in the **operating category.**
  - For all other hybrid contracts, interest income and expenses, will be classified in the **financing category**. If the income and expenses are not interest income and expenses, they will be classified as **operating.**

D. Management-defined performance measures (MPMs)

Management-defined performance measures are defined as **subtotal of income and expenses** (other than those specifically excluded by the Standard or required to be disclosed or presented by Ind ASs), that a company uses in **public communications outside financial statements** to communicate to investors, management's view of an aspect of **the financial performance of the company** as a whole.

For example, measures that adjust a total or subtotal specified in Ind ASs, such as adjusted profit or loss, are management-defined performance measures, provided a company uses them in public communications outside its financial statements, such as press releases or investor presentations.

Implementation matters

Exclusion- Illustrative list of items not considered as MPMs-

- An entity that publicly communicates its financial performance to users of financial statements using only totals and subtotals **required to be presented or disclosed by Ind Ass**
- Subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses).
- Assets, liabilities, equity or combinations of these elements.
- Financial ratios (for example, return on assets).
- Measures of liquidity or cash flows (for example, free cash flow).
- Non-financial performance measures.

- Subtotal of income and expenses that relates to a reportable segment disclosed in accordance with Ind AS 108 does not provide information about an aspect of the financial performance of the entity as a whole.
- Subtotals similar to gross profit which indicate the difference between a type of revenue and directly related expenses incurred in generating that revenue, such as net interest income, net fee and commission income, insurance service result, net rental income.

Presentation and Disclosure principles-

- Subtotal of income and expense that meets the definition of MPMs shall be disclosed as per the requirements of Ind AS 118 whether or not it is presented in the statement of profit or loss.
- The standard mandates that an entity must disclose all Management-defined Performance Measures (MPMs) within a single note. This disclosure should include:
  - a reconciliation between each MPMs and the most directly comparable subtotal specified in Ind AS 118, or any total or subtotal explicitly required by other Ind ASs. This reconciliation must also show the income tax effect and the impact on non-controlling interests for each reconciling item;
  - a description explaining how each measure reflects management's perspective, and the method used to calculate it;
  - a detailed explanation of any changes made to the MPMs or to the methods used in their calculation;
  - A statement that the measure represents management's perspective on a specific aspect of the company's overall financial performance and may not be comparable to similarly labelled or described measures presented by other entities.
- MPMs must correspond to the same reporting period as the financial statements in which they are presented. Specifically:

  a. A subtotal included in interim financial statements, but not in the annual financial statements, qualifies as an MPM only in the interim financial statements; and

  b. A subtotal included in the annual financial statements but not in the interim financial statements qualifies as an MPM only in the annual financial statements.

- If a reportable segment contains a single main business activity of the entity and a subtotal of income and expenses relating to that segment is presented in the profit or loss, that would indicate that the subtotal provides information about an aspect of the financial performance of the entity as a whole. In such cases, a subtotal of income and expenses related to that reportable segment would meet the definition of MPMs if it met the other parts of the definition of MPMs.
- It is clarified in the application guidance to Ind AS 118 that a financial ratio, on its own, does not qualify as MPMs because it is not a subtotal of income and expenses. However, suppose the numerator or denominator of a financial ratio is itself a subtotal of income and expenses that would meet the definition of an MPMs independently of the ratio. In that case, it is considered as MPMs. Consequently, the entity must apply the disclosure requirements applicable for MPMs to such a numerator or denominator.

E. Other key considerations

1. Enhanced requirements for aggregation & disaggregation of information

- Ind AS 118 specifies that primary financial statements (PFSs) consist of the statement of profit or loss, balance sheet, statement of changes in equity, and statement of cash flows. It outlines criteria to help entities decide whether information should be presented in the PFSs or disclosed in the notes and it establishes principles for determining the appropriate level of detail.

Financial Statements

Primary Financial Statements (PFSs)	Notes
PFSs provide structured summaries of an entity's recognized assets, liabilities, equity, income, expenses, and cash flows, which helps in • Providing information useful to users of financial statements. • Making comparisons between entities and between reporting periods for the same entity; and • Identifying items or areas about which additional information is disclosed in the notes.	• Notes provide material information necessary to understand items included in primary financial statements (disaggregation) **For example:** Disaggregated information about inventory classifications, such as work in progress and finished goods; • It supplements the PFSs with other information to meet the objectives of financial statements. In another word, that may not directly relate to a line item presented in the PFSs, but that is otherwise necessary to provide users with useful information. **For example,** an entity may disclose information about its exposure to various risks (e.g., financial risks such as credit, liquidity, and market risks)
More aggregated	**More disaggregated**

Principles for aggregation and disaggregation

Ind AS 118 mandates companies to aggregate or disaggregate information about individual transactions and other events for presentation in the PFSs and accompanying notes. These requirements are guided by principles for the aggregation and disaggregation of information.

The Standard requires companies to ensure that:

- Items are grouped (aggregated) when they share similar characteristics and separated (disaggregated) when they differ,
- Aggregation and disaggregation are performed in a way that allows the primary financial statements and accompanying notes to effectively serve their intended purposes;
- Material information is not obscured through inappropriate aggregation or disaggregation.

Companies must disaggregate information whenever doing so results in material disclosures. If such information is not presented in the PFSs, it must be provided in the notes.

2. Consequential amendments to other Ind ASs

Following summarizes key changes to other Ind ASs-

Ind AS 7 Statement of Cash Flows

As per the amendment-

- All entities will be required to use the **operating profit subtotal** as the starting point when reporting cash flows from operating activities using the indirect method.
- All entities whose main business activities include investing in assets or providing financing to customers to present each type of cash flow—dividends received, interest paid, and interest received—within a single category in the statement of cash flows, even if the related income and expenses are reported across multiple categories in the statement of profit or loss as per the requirements of Ind AS 118.

- In our view using the operating profit subtotal as a consistent starting point will enhance the comparability and consistency of the Statement of Cash Flows, making it easier for investors to analyze and compare companies' operating cash flows. Additionally, this change simplifies the presentation by eliminating certain reconciling items currently used in the indirect method.
- It is important to note that, in most cases, the classification of interest and dividends in the statement of cash flows will be consistent with their classification in the profit or loss. However, complete alignment is not achieved, as this was not the intended objective of the standard

Ind AS 33, Earnings per share

- As per existing provisions of ***Ind AS 33,*** companies are allowed to disclose earnings per share calculated from any component of the statement of profit and loss, in addition to basic and diluted earnings per share.
- The amendments to Ind AS 33, now permit companies to disclose such additional EPS only if the numerator used is either a total or subtotal specified in Ind AS 118 or MPMs.

Ind AS 34, Interim financial reporting

- If an entity prepares condensed interim financial statements in accordance with Ind AS 34, in the first year of applying Ind AS 118, it presents each heading it expects to use, and the subtotals required in Ind AS 118 in its condensed interim financial statements.
- Ind AS 34, is proposed to be amended to require companies to disclose information about MPMs in interim financial statements.

5. EFFECTIVE DATE AND TRANSITION

- Ind AS 118 supersedes Ind AS 1 and is effective for annual reporting periods beginning on or after April 1, 2027.

- An entity is required to apply Ind AS 118 retrospectively. However, it is not obligated to disclose the quantitative information outlined in paragraph 28(f) of Ind AS 8—specifically, the adjustments to each affected line item in the financial statements and the corresponding impact on basic and diluted earnings per share for the current and each comparative period presented.

- **Reconciliation disclosure requirements for**

  i. Annual financial statements:
  In its annual financial statements an entity shall disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the profit or loss between:

  a. The restated amounts presented applying this Standard; and

  b. The amounts previously presented applying Ind AS 1, Presentation of Financial Statements.

  ii. Interim financial statements
  In its interim financial statements prepared under Ind AS 34, in the first year of applying Ind AS 118, the entity shall, as part of the information required by paragraph 16A(a) of Ind AS 34, disclose reconciliations for each line item presented in the profit or loss for the comparative periods immediately preceding the current and cumulative current periods. The reconciliations are required between:

  a. The restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applies this Standard; and

  b. The amounts previously presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applied Ind AS 1.

  An entity is **permitted, but not required,** to disclose the reconciliations for the current period or earlier comparative periods

6. Uniqus' PERSPECTIVE

Through this upcoming standard, the standard setters have taken a significant step to streamline financial reporting across the reporting entities and provide greater insight to the stakeholders with transparency in reporting.

Ind AS 118 will improve how companies communicate in their financial statements, with a focus on information about their financial performance through the Statement of Profit or Loss. The standard will impact all companies. While Ind AS 118 will not impact how companies measure their financial performance, but it will affect how companies communicate, present, and disclose their financial performance.

The standard is expected to enhance comparability between entities, as entities will publish their financial statements on the same categories provided by Ind AS 118, including defining the MPMs and categories/subtotals in the statement of profit or loss.

To address the requirements of Ind AS 118, reporting entities may need to adjust their accounting systems to appropriately 'tag' and categorize income and expenses into the new Ind AS 118 categories. Further, the standard is expected to further enhance reporting by allowing companies to present expenses by their nature or the function, depending upon the most relevant basis.

This process may be complex for groups with diverse operations (various main business activities) and multiple reporting systems.

Entities may also need to adjust or put in place the process and controls for

- How they aggregate, disaggregate, and label information based on the revised requirement as per Ind AS 118.
- Identify MPMs and determine the reporting requirement as per Ind AS 118.

Ind AS 118 will lead to changes in the presentation of statements of profit and loss (major tweaks), statements of cash flow (minor tweaks), and notes to financial statements (major tweaks). The extent of change will be based on an entities sector of operation and existing reporting practices.

Meanwhile, until the standard becomes effective, the management and those charged with governance may educate the stakeholders, employees, investors, and other relevant users of the financial statement about the changes in the reporting requirements as per Ind AS 118 for their reporting entity.

With the introduction of new categorization for items of income and expenses, mandatory subtotals, and more stringent disclosure requirements, companies must prepare for substantial changes in their financial reporting structures. These changes will have a broad impact across entities in all industries, affecting processes, systems, IT infrastructure, personnel, and crucially strategic communication with investors. As the effective date draws nearer, organizations should evaluate their system capabilities, revise financial models, and update internal controls to ensure compliance with the evolving regulatory requirements.

For more information on the Exposure draft of Ind AS 118, see the press release on the ICAI's Web site.

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