

## **Ind AS 118 - A Major Change in Financial Statement Presentation**

The Accounting Standards Board of Institute of Chartered Accountants of India has proposed Ind AS 118 - Presentation and Disclosure in Financial Statements, which will replace Ind AS 1 - Presentation of Financial Statements.

### **17 Proposed Applicability:**

Annual reporting periods beginning 1 April 2027 onwards.

While measurement of profit remains unchanged, how companies present and disclose financial performance will significantly change.

### **Defined Categories in the Statement of Profit & Loss**

IND AS 118 requires income and expenses to be grouped into five specific categories:

1. Operating
2. Investing
3. Financing
4. Income Tax
5. Discontinued Operations

### **New Mandatory Subtotals**

Companies must present certain standardised subtotals in the Profit & Loss statement.

Mandatory subtotals include:

- Operating Profit or Loss
  - Profit before Financing and Income Taxes
- Earlier, companies could define their own subtotals, which made comparison difficult.

### **Guidance on Aggregation and Disaggregation**

IND AS 118 provides detailed guidance on how to group financial information.

Companies must:

- Aggregate items with similar characteristics
- Disaggregate material items separately
- Avoid combining items that obscure useful information

### **Example**

Instead of showing: Administrative expenses – ₹200

Companies may disclose:

- Employee benefits – ₹120
- Office expenses – ₹50
- Professional fees – ₹30

### **Management-Defined Performance Measures (MPMs)**

Many companies use non-GAAP measures like:

- Adjusted EBITDA
- Core operating profit
- Normalised profit

IND AS 118 requires companies to:

- Disclose these measures in the financial statements
- Explain how they are calculated
- Provide reconciliation to IND AS numbers

Example

Revenue = ₹1000

Less: Operating expenses = ₹700; Restructuring cost = ₹50; Depreciation = ₹80; Interest = ₹40

Operating Profit = 1000 – 700 – 50 = ₹250

Adjusted Operating Profit = 250 + 50 = ₹300

Particulars	Amount
Operating Profit (IND AS)	250
Add: Restructuring cost	50
Adjusted Operating Profit (MPM)	300

- **Foreign Exchange Classification Guidance**

IND AS 118 clarifies where foreign exchange differences should be presented. Classification depends on the nature of the underlying transaction.

Example:

Transaction	Category
Forex gain on trade receivable	Operating
Forex gain on investment	Investing
Forex loss on loan	Financing

- **Improved Disclosure of Operating Expenses**

Entities must disclose nature of operating expenses in notes if they present expenses by function.

Example:

If P&L shows:

- Cost of sales
- Administrative expenses

Then notes must disclose:

- Employee benefits
- Depreciation
- Raw material cost

- **More Discipline on "Other Income"**

IND AS 118 discourages large unspecified "Other Income" items.

Companies must clearly classify income into appropriate categories.

Example:

Instead of: Other income – ₹100

It should be shown as:

- Dividend income – ₹40
- Gain on investment – ₹30
- Rental income – ₹30

- **Clearer Presentation of Financing Activities**

Items related to raising funds or paying for financing must be presented in the financing category.

Examples:

Item	Category
Interest expense on borrowings	Financing
Interest on lease liability	Financing
Dividend income (non-core investment)	Investing

- **Enhanced Notes to Financial Statements**

IND AS 118 requires better explanations in notes, including:

- Breakdown of major expenses
- Explanation of unusual income or expenses
- Details of management performance measures