

Exposure draft: Ind AS 118- Presentation and Disclosure in Financial Statements

Introduction

On 6 January 2025, the Institute of Chartered Accountants of India ('ICAI') issued an exposure draft on Ind AS 118, 'Presentation and Disclosure in Financial Statements'– which will replace Ind AS 1 - Presentation of Financial Statements. The Standard aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit and loss.

A snapshot of the current and proposed requirements

- **Current position (Ind AS 1):** An entity is required to present an analysis of expenses recognised in profit or loss using nature-wise classification of expenses, whereas the current International Accounting Standard ('IAS' 1) requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity.
- **Proposed (Ind AS 118):** In the operating category of profit or loss, an entity shall classify and present expenses in line items in a way **that provides the most useful structured summary of its expenses**, using characteristics of the nature of expenses or characteristics of the function of the expenses within the entity or both these characteristics ('mixed presentation').

The Standard also provides factors that an entity shall consider in determining how to use the characteristics of nature and function to provide the most useful structured summary.

Some of the requirements of Ind AS 1 are transferred to Ind AS 118, Ind AS 8 and Ind AS 107, while some are entirely replaced by the new requirements of Ind AS 118.

Effective date: In India, the proposed effective date of Ind AS 118 is for annual reporting periods beginning on or after 1 April 2027.

Presentation/disclosure in the profit/loss section

It is proposed to require entities to present two additional subtotals in the profit or loss section. The two defined sub-totals are:

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

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The said subtotals provide a consistent structure for profit or loss, thereby improving comparability. It will not affect how companies measure their financial performance and the overall profit figure.

Categories for classifying income and expenses

Income and expenses included in the profit or loss section of the statement of profit and loss are required to be classified into the following five categories:

- **The operating category:** It is a 'default' category and includes all income and expenses arising from a company's operations providing a complete picture of a company's operations for the period. It consists of all income and expenses that are not classified in the investing, financing, income taxes or discontinued operations categories.
- **The investing category:** The investing category enables investors to analyse returns from stand-alone investments separately from a company's operations.
 - The investing category includes income and expenses from assets that generate returns separately from a company's business activities, e.g., a company might collect rentals from an investment property or dividends from shares in other companies.
 - It also includes incomes and expenses from cash/cash equivalents and investments in associates and joint ventures.
- **The financing category:** The financing category and the subtotal for profit before financing and income taxes enable investors to analyse companies' performance before the effects of financing. The financing category includes:
 - income and expenses on liabilities such as bank loans and bonds (liabilities arising from pure financing transactions); and
 - interest expenses on any other liability, e.g., lease and pension liabilities.

The financing category also includes interest expenses on all liabilities.

- **The income taxes category:** It consists of income tax expense (or tax income) that is included in profit or loss in accordance with Ind AS 12, *Income Taxes*.
- **The discontinued operations category:** It consists of income and expenses from

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discontinued operations recognised in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

Presentation for the earlier accounting periods: Companies would be required to present the previous year's figures (i.e. accounting periods beginning 1 April 2026 onwards) in the same format and, accordingly, will need to have them ready and audited.

Disclosures about 'Management-defined performance measures'

The Standard proposes to introduce a definition of 'management-defined performance measures' ('MPM's) and require an entity to disclose information about all management-defined performance measures in a single note to improve the transparency of those measures.

An MPM is a subtotal of income and expenses other than those specifically excluded by the Standard or required to be disclosed or presented by Ind ASs. MPM is used by a company 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.

Weblink <https://www.icai.org/post/asb-ed-indas118-pdfs>

Therefore

Ind AS 118, *Presentation and Disclosure in Financial Statements*, has been formulated based on IFRS 18, which was notified in April 2024. Ind AS 118 proposes two new subtotals (ways of disclosing profits/losses), five categories for classifying incomes and expenses and disclosures about MPM. The companies will have to present the previous year's figures in the new format for comparative purposes. The Standard will not affect how companies measure financial performance; it will affect how companies present and disclose financial performance. ICAI invites comments to the exposure draft by 6 April 2025.