



TRANSITIONING TO IND AS 118

How different will your Income
Statement look from **FY2027?**

PART 3: CLASSIFICATION IN THE FINANCING
& OPERATING CATEGORY

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COMMUNICATING PERFORMANCE BETTER

There has been an increasing demand from readers of financial statements for a view of financial reporting that clearly distinguishes between an organisation's operating performance and its capital structure & financing effects. The Exposure Draft of [Ind AS 118, Presentation and Disclosure in Financial Statements](#) (Proposed Ind AS 118/ Exposure Draft) introduces a new, structured approach to presenting income and expenses, with the operating and financing categories being central to this change.

Part 3 of our publication series on the proposed Ind AS 118 discusses the key considerations relevant to classifying transactions under the financing and operating categories. Management may need to make new judgments, navigate complexities and oversee changes to systems and processes. Therefore, early engagement with stakeholders is critical for a smooth transition.

This publication would be particularly useful for the Board of Directors and C-Suite executives who understand the nuances of the proposed requirements. These insights must be read with the applicable requirements and the Exposure Draft.

You can read the earlier issues of this publication series below.



[Part 1](#) of the publication series gave a high-level overview of the proposed changes, including a worked example to understand key changes.



[Part 2](#) of the publication series covered key proposals relevant for classifying transactions under the investing category.

PROPOSALS AT A GLANCE

Ind AS 118 proposes to change existing requirements relating to the presentation and disclosure of information in financial statements. Ind AS 118 is proposed to supersede Ind AS 1, together with the consequential amendments to other standards, for reporting periods beginning on or after 1 April 2027. The most significant effects relate to the following topics:

KEY TOPICS	SUMMARY
Most requirements applicable to the preparation of primary financial statements other than the statement of profit and loss	Ind AS 118 does not significantly affect how the primary financial statements are prepared, other than the introduction of new aggregation and disaggregation requirements, with some exceptions, such as those noted above
Presentation of true and fair view and explicit and unreserved statement of compliance with Ind AS	Relocated to Ind AS 8 substantially unchanged
Going concern	Relocated to Ind AS 8 substantially unchanged
Offsetting	Substantially unchanged from Ind AS 1
Frequency of reporting	Substantially unchanged from Ind AS 1
Comparative information	Substantially unchanged from Ind AS 1
Consistency of presentation	Substantially unchanged from Ind AS 1
Structure of notes	Substantially unchanged from Ind AS 1
Disclosure of accounting policy information	Relocated to Ind AS 8 substantially unchanged
Disclosures about judgements and sources of significant estimation uncertainty	Relocated to Ind AS 8 substantially unchanged
Capital disclosures	Substantially unchanged from Ind AS 1
Disclosures about puttable financial instruments classified as equity	Relocated to Ind AS 107 substantially unchanged
Miscellaneous other disclosures (declared dividends, cumulative preference dividends not recognised, domicile and legal form, description of the nature of the entity's operations, etc.)	Substantially unchanged from Ind AS 1

This worked example illustrates possible changes in the classification of a few items of income and expenses for a manufacturer that does not have any specified main business activities.

EXTRACT OF STATEMENT OF PROFIT AND LOSS (SIMPLIFIED)	INR		EXTRACT OF STATEMENT OF PROFIT & LOSS UNDER PROPOSED IND AS 118 (SIMPLIFIED)	INR
Revenue from operations	398,700	OPERATING	Revenue from operations	398,700
Other income	700		Operating expenses	
Total income	399,400		Cost of materials consumed	(150,000)
Expenses			Changes in inventories of finished goods and work-in-progress	(3,000)
Cost of materials consumed	(150,000)		Employee benefits expense	(107,000)
Changes in inventories of finished goods and work-in-progress	(3,000)		Depreciation and amortization expenses	(37,500)
Employee benefits expense	(107,000)		Other operating expenses	(17,100)
Finance costs	(1,800)		Total operating expenses	(314,600)
Depreciation and amortization expenses	(37,500)		Operating profit	84,100
Other expenses	(17,100)		INVESTING	Share of net profit of investments accounted for using the equity method
Total expenses	(316,400)	Other income		700
Profit before share of net profits of investments accounted for using equity method and tax	83,000		Profit before financing and income taxes	85,800
Share of net profit of investments accounted for using the equity method	1,000	FINANCING	Finance costs	(1,800)
Profit before tax	84,000		Profit before tax	84,000
Tax expense:			Tax expense:	
▪ Current tax	(300)		▪ Current tax	(300)
▪ Deferred tax expense	(25)		▪ Deferred tax expense	(25)
Profit for the year	83,675		Profit for the year	83,675

- ▶ Other income, i.e., interest from fixed deposits, will be re-classified to the investing category (earlier included in 'Total income').
- ▶ Share of profit of investments accounted for using equity method will be classified under investing category.
- ▶ Finance costs, i.e., interest on borrowings, will be re-classified to the financing category (earlier included under 'Total expenses').

FINANCING CATEGORY

Under the Proposed Ind 118, the classification requirements for the financing category focus on liabilities, whereas the investing category focuses on assets. Classification of income and expenses in the financing category affects the determination of the mandatory subtotal 'profit or loss before financing and income taxes'. The financing category (and the related mandatory subtotal) is required by Proposed Ind AS 118 because many users of financial statements seek to analyse an entity's performance independently of how the entity is financed. By isolating income and expenses related to financing in a separate category, and presenting a subtotal before those items, the operations of entities may be compared independently of how they are financed (e.g. debt vs. equity, the cost of debt financing, etc.).

GENERAL CLASSIFICATION REQUIREMENTS

This section discusses the proposed requirements applicable to entities that do not provide financing to customers as a main business activity¹.

To classify income and expenses arising from liabilities, an entity is required to distinguish liabilities between (Ind AS 118.59):

- ▶ liabilities that arise from transactions that involve only the raising of finance; and
- ▶ liabilities other than those described above—that is, liabilities that arise from transactions that do not involve only the raising of finance.

Separate requirements apply to income and expenses that relate to these two different types of liabilities.

LIABILITIES THAT ARISE FROM TRANSACTIONS THAT INVOLVE ONLY THE RAISING OF FINANCE

Liabilities that arise from transactions that involve only the raising of finance are where an entity (Ind AS 118.B50):

- ▶ receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of the entity's own equity instruments; and
- ▶ at a later date, will return in exchange cash or its own equity instruments.

For such liabilities, Ind AS 118.60 proposes that entities classify in the financing category the amounts included in the statement of profit and loss for:

- ▶ income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities; and
- ▶ the incremental expenses directly attributable to the issue and extinguishment of the liabilities — for example, transaction costs.

Certain exceptions to the income and expenses listed in Ind AS 118.60 exist, such as:

LIABILITIES THAT ARISE FROM TRANSACTIONS THAT INVOLVE ONLY THE RAISING OF FINANCE (IND AS 118.B51)	SPECIFIED INCOME AND EXPENSES CLASSIFIED IN THE FINANCING CATEGORY (IND AS 118.B52)
A debt instrument that will be settled in cash, such as debentures, loans, notes, bonds and mortgages—an entity receives cash and will return cash in exchange	▶ Interest expenses (for example, on debt instrument issued);
A liability under a supplier finance arrangement when the payable for goods or services is derecognised—an entity is discharged of the financial liability for the goods or services and will return cash in exchange	▶ Fair value gains and losses (for example, on a liability designated at fair value through profit or loss);
A bond that will be settled through delivery of an entity's shares—an entity receives cash and will return its own equity instruments in exchange	▶ Dividends on shares issued classified as liabilities; and
An obligation for an entity to purchase its own equity instruments—an entity receives its own equity instruments and will return cash in exchange	▶ Income and expenses from the modification and/or derecognition of the liability ² .

¹**Entities with specified main business activities:** An entity is required to assess whether it has a specified main business activity that is a main business activity of investing in particular types of assets; or providing financing to customers, for example, insurers and banks. Income and expenses that would otherwise be classified in the investing or financing categories by most companies would form part of the operating result for such companies. Ind AS 118, therefore, requires these income and expenses to be classified in the operating category.

² If as part of a supplier finance arrangement an entity derecognises a payable to a supplier and recognises a liability under that arrangement, then any income and expenses arising from that derecognition are classified in the operating category [Ind AS 118.B61(b)].

LIABILITIES THAT ARISE FROM TRANSACTIONS THAT DO NOT INVOLVE ONLY THE RAISING OF FINANCE

For liabilities that arise from transactions that do not involve only the raising of finance, the income and expenses that are proposed to be classified in the financing category are more limited than 'pure financing' transactions.

For liabilities that arise from transactions that do not involve only the raising of finance (for example, the items listed below), an entity classifies in the financing category (Ind AS 118.61):

- ▶ interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in Ind AS; and
- ▶ income and expenses arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in Ind AS.

Any other income and expenses not included in Ind AS 118.61 must be classified in the operating category. Therefore, the practical distinction between liabilities that arise from transactions that do and do not involve only the raising of finance is that for the latter, a more restrictive number of income and expenses is proposed to be classified in the financing category.

The table below illustrates the types of liabilities that arise from transactions that do not involve only the raising of finance:

LIABILITIES THAT ARISE FROM TRANSACTIONS THAT DO NOT INVOLVE ONLY THE RAISING OF FINANCE (IND AS 118.B53)	RATIONALE FOR CLASSIFICATION	EXAMPLES OF INCOME AND EXPENSES THAT WILL BE CLASSIFIED IN THE FINANCING CATEGORY (IND AS 118.B54)
Payables for goods or services that will be settled in cash (Ind AS 109)	The entity receives goods or services, not finance in the form specified by Ind AS 118.B50(a)	Interest expenses on payables arising from the purchase of goods or services, applying Ind AS 109
Contract liabilities (Ind AS 115)	The entity receives cash, but will settle the liability by delivering goods or services rather than cash or its own equity instruments as required by Ind AS 118.B50(b)	Interest expenses on a contract liability with a significant financing component as specified by Ind AS 115
Lease liabilities (Ind AS 116)	The entity receives a right-of-use asset, not finance in the form specified by Ind AS 118.B50(a)	Interest expenses on a lease liability, applying Ind AS 116
Defined benefit pension liabilities (Ind AS 19)	The entity receives employee services, not finance in the form specified by Ind AS 118.B50(a)	Net interest expense (income) on a net defined benefit liability (asset), applying Ind AS 19
Decommissioning or asset restoration provisions (Ind AS 37)	The entity receives an asset (the increase in the carrying amount of assets), not finance in the form specified by Ind AS 118.B50(a)	The increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate on provisions, applying Ind AS 37.
A litigation provision (Ind AS 37)	The entity does not receive finance in the form specified by Ind AS 118. B50(a)	

OUR TAKE – INTERACTION WITH IND AS 23 *BORROWING COSTS*

Ind AS 118's proposals about interest income and expenses indirectly interact with Ind AS 23, which requires entities to capitalise borrowing costs into the carrying amount of assets if certain criteria are met.

Borrowing costs capitalised as a component of the carrying amount of a qualifying asset may result from liabilities that do and do not arise from transactions that involve only the raising of finance. That is because Ind AS 23 defines borrowing costs to include components from both categories (e.g. interest expense calculated using the effective interest rate method as described in Ind AS 109, which would be applicable to financial liabilities such as bank loans, as well as interest in respect of lease liabilities recognised in accordance with Ind AS 116). Once borrowing costs are capitalised in the carrying amount of a qualifying asset, the classification requirements of Proposed Ind AS 118 applicable to interest income and expenses no longer apply. That is because they are no longer interest income and expenses recognised in profit or loss, they are 're-characterised' based on the nature of the asset.

For example, Entity H constructs a building which it intends to occupy as its head office, therefore, the building is in the scope of Ind AS 16. Over the period of construction, Entity H recognised borrowing costs as part of the carrying amount of the building as required by Ind AS 23. Once construction is complete, the carrying amount comprises the following amounts:

COMPONENTS OF CARRYING AMOUNT	AMOUNT IN INR
Materials and labour	10,000
Capitalised borrowing costs relating to bank loan – specific borrowings (Ind AS 23.12)	800
Capitalised borrowing costs relating to lease liabilities – general borrowings (Ind AS 23.14)	400
Total	11,200

As Entity H depreciates the building over its useful life, Entity H does not apply the requirements in Ind AS 118.59-61 to classify the component of the depreciation expense that relates to capitalised borrowing costs (800 + 400 = 1,200) in the financing category. The entire amount of depreciation expense is reflected in the operating category (Ind AS 118.B49(c)) because once those amounts are capitalised into the borrowing cost of an asset, the eventual recognition of those amounts in profit or loss are no longer characterised as being interest income and expense recognised in profit or loss; they are depreciation of an item of property, plant and equipment.

Therefore, Entity H would reflect a portion of interest income and expenses in profit or loss (those expenses not capitalised in accordance with Ind AS 23), with those expenses being subject to the classification requirements of Ind AS 118 applicable to the financing category, etc.



OUR TAKE – INCOME AND EXPENSES FROM TRANSACTIONS THAT DO NOT INVOLVE ONLY THE RAISING OF FINANCE THAT WILL NOT BE CLASSIFIED IN THE FINANCING CATEGORY

Ind AS 118.B53 is only a list of examples and does not consider every liability that may be recognised as a result of applying Ind ASs. Income and expenses relating to liabilities arising from transactions that do not involve only the raising of finance must be analysed to determine if they meet the criteria in Ind AS 118.61 to be classified in the financing category.

Following is an example of liabilities arising from transactions that do not involve only the raising of finance and related income and expenses that do not meet the criteria in Ind AS 118.61 to be classified in the financing category.

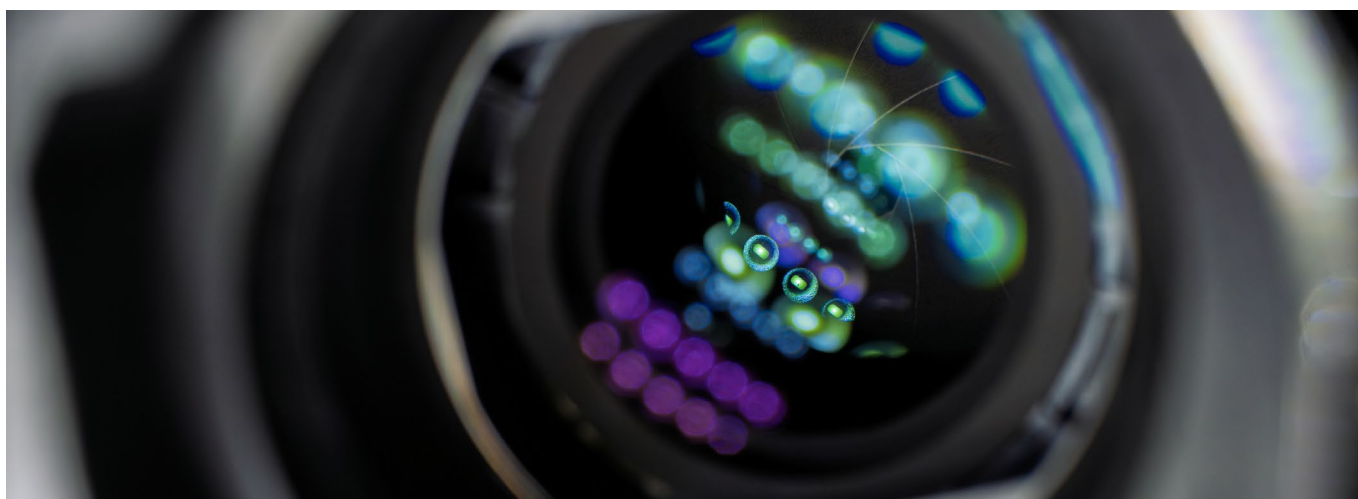
Ind AS 115.21(b) requires an entity to account for a contract modification as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the modification has on the transaction price and the entity's measure of progress towards complete satisfaction of the performance obligation is recognised as an adjustment to revenue.

The effect recognised in profit or loss must be classified in the operating category because such a gain or loss is not an interest income and expenses (Ind AS 118.61(a)) or income and expenses arising from changes in interest rates (Ind AS 118.61(b)). Additionally, because Ind AS 115.21(b) requires the effect to be reflected as an adjustment to revenue, the effect must be reflected in the operating category because revenue is also reflected in the operating category (Ind AS 118.B49(a)).

INCOME AND EXPENSES RECOGNISED ON THE DERECOGNITION OF LIABILITIES

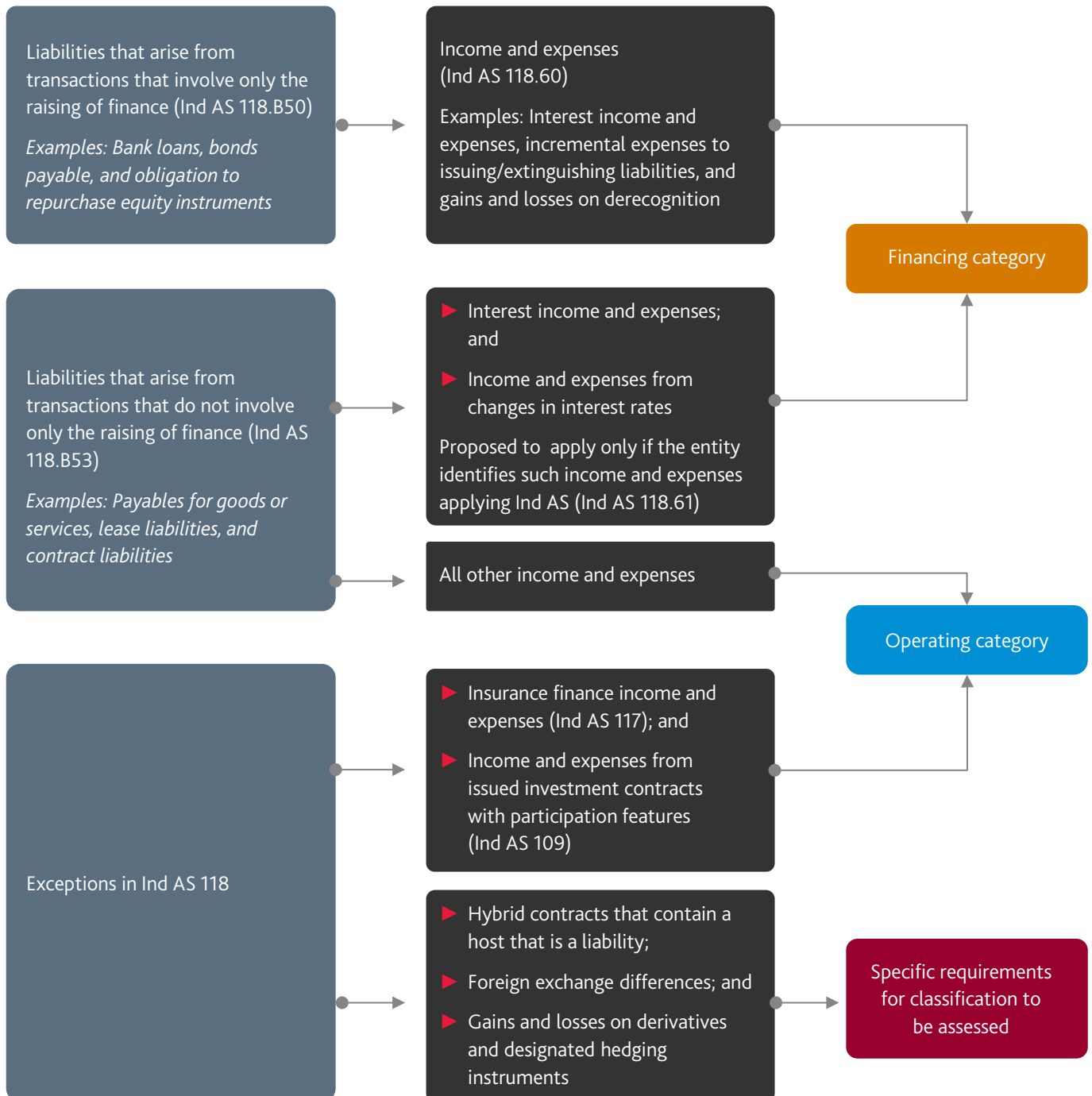
An entity must identify whether a derecognised liability arises from transactions that involve only the raising of finance, or not. The income and expenses recognised on derecognition will be classified accordingly. For example, assuming an entity does not provide financing to customers as a main business activity (Ind AS 118.B61):

INCOME OR EXPENSE RECOGNISED ON DERECOGNITION OF LIABILITY	PROPOSED CLASSIFICATION
A gain or loss is recognised on the early settlement of a bank loan	Financing category - the bank loan arises from a transaction that involves only the raising of finance (Ind AS 118.60) and the gain or loss on derecognition arises from the derecognition of the liability (Ind AS 118.60(a)).
A gain or loss is recognised when a payable to a supplier is derecognised as a result of a supplier financing arrangement with the recognition of a new liability	Operating category – the payable arises from a transaction that does not involve only the raising of finance (Ind AS 118.61) and the gain or loss is not an item specified in Ind AS 118.61(a)-(b), therefore, it must be classified in the operating category.



PRACTICE AID – CRITERIA TO CLASSIFY INCOME AND EXPENSES IN THE FINANCING CATEGORY FOR ENTITIES WITHOUT SPECIFIED MAIN BUSINESS ACTIVITIES

This practice aid summarises the requirements to determine whether income or expenses are classified in the financing category, assuming that an entity does not have a main business activity of providing financing to customers. The proposals for classifying income and expenses for entities with specified main business activities are significantly more complex in such cases.



OPERATING CATEGORY

The operating category is the residual category in Ind AS 118, meaning that unless income and expenses are classified in another category, they must be classified in the operating category. Applying the requirements of Ind AS 118 should result in an entity classifying in the operating category income and expenses from its main business activities (Ind AS 118.B42), except for any such income and expenses from investments accounted for using the equity method, which are always classified in the investing category.

For entities with specified main business activities, the general requirements applicable to classifying income and expenses in the investing and financing categories are modified. That is because if an entity, for example, invests in assets as a main business activity (e.g. investing in real estate such as investment property), then specified income and expenses are presented in operating rather than investing (e.g. the fair value gains or losses on investment property when the fair value model is applied) to better reflect the entity's main business activities.

As the operating category is defined as a residual (i.e., it must be used when other categories do not apply), Ind AS 118 does not contain specific requirements about the criteria that must be met for income and expenses to be classified in the operating category. The following table is a non-exhaustive summary of income and expenses that are generally expected to be classified in the operating category, assuming that an entity does not have specified main business activities:

INCOME AND EXPENSES	EXAMPLES OF INCOME AND EXPENSES CLASSIFIED IN THE OPERATING CATEGORY
Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48)	Revenue from the sale of goods and services, including: <ul style="list-style-type: none"> ▶ Revenue from contracts with customers (Ind AS 115) ▶ Insurance revenue (Ind AS 117) ▶ Depreciation, impairment and gains and losses on disposal of property, plant and equipment ▶ Expenses arising from inventories (e.g. expenses when inventories are derecognised, such as 'cost of sales' and similar items, net realisable value write-downs) ▶ Expenses related to trade receivables and contract assets (e.g. expected credit losses applying Ind AS 109)
Income and expenses related to liabilities that arise from transactions that do not involve only the raising of finance and that are not (Ind AS 118.61): <ul style="list-style-type: none"> ▶ Interest income and expenses; or ▶ Income and expenses arising from changes in interest rates. 	<ul style="list-style-type: none"> ▶ Expenses related to the consumption of goods and services for which a liability is recognised (e.g., many executory contracts such as the acquisition of cleaning services, catering, repairs and maintenance not recognised as an asset, etc.) ▶ Remeasurement of cash-settled share-based payment liabilities (Ind AS 102) ▶ Contract modifications gains and losses (Ind AS 115) ▶ Modification gains and losses on lease liabilities (Ind AS 116) ▶ Changes in the best estimate required to settle a provision (Ind AS 37)
Other items required to be classified in the operating category	<ul style="list-style-type: none"> ▶ Income and expenses from issued investment contracts with participation features recognised applying Ind AS 109 ▶ Insurance finance income and expenses included in the statement of profit and loss applying Ind AS 117 ▶ Income and expenses related to business combinations, such as bargain purchase gains, income and expenses relating to the remeasurement of contingent consideration (Ind AS 118.B49(f))

Income and expenses in the operating category include all income and expenses that are not included in other categories. Income and expenses cannot be excluded from the operating category on account of the income and expenses being volatile, unusual or non-recurring (Ind AS 118.B42).

EXAMPLE : CLASSIFICATION OF 'EXTRAORDINARY ITEMS'

Ind AS 1.87 specifically forbade entities from presenting line items labelled as 'extraordinary items' in the statement of profit and loss. Ind AS 118 does not contain any explicit requirements concerning extraordinary items; however, entities would apply the general requirements of Ind AS 118 applicable to classify income and expenses that an entity may consider 'extraordinary'.

Fact pattern:

Entity G has significant manufacturing facilities that are destroyed by floods, resulting in material property, plant and equipment and inventories being derecognised as a result of their destruction.

Analysis:

Entity G applies Ind AS 118 to determine how to classify these expenses relating to the derecognition of property, plant and equipment and inventories. These assets do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48), and therefore, income and expenses relating to their derecognition are classified in the operating category (Ind AS 118.B60).

INCOME TAXES CATEGORY

Income and expenses are classified in the income taxes category if they are (Ind AS 118.67):

- ▶ Within the scope of Ind AS 12 Income Taxes; or
- ▶ Foreign exchange differences related to income and expenses within the scope of Ind AS 12

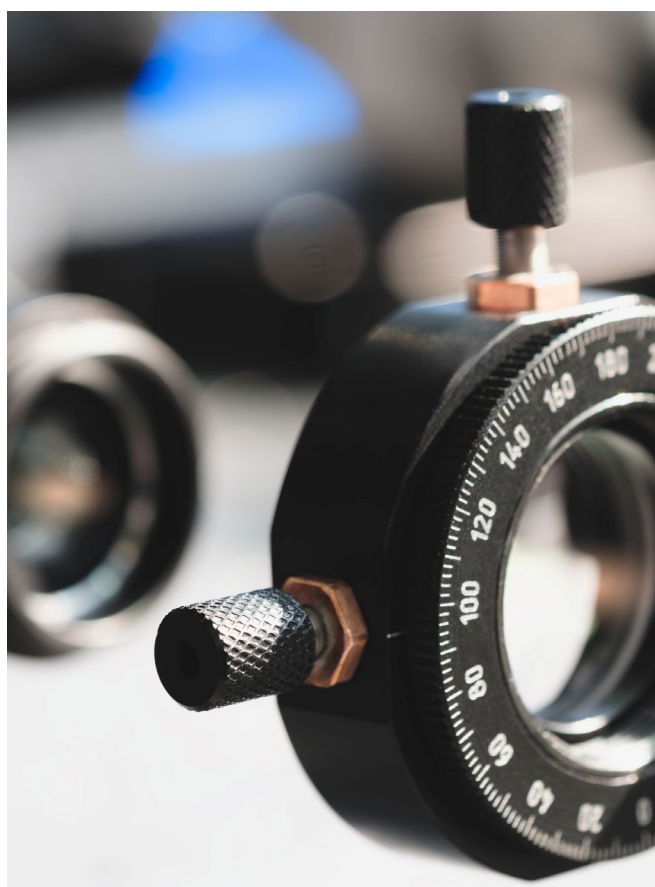
DISCONTINUED OPERATIONS CATEGORY

Income and expenses are classified in the discontinued operations category if they are income and expenses from discontinued operations as required by Ind AS 105 (Ind AS 118.68).

Ind AS 105.33(a) requires the following total to be presented as a single line item in the statement of profit and loss:

- ▶ the post-tax profit or loss of discontinued operations; and
- ▶ the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

This single line item specified by Ind AS 105.33(a) must be classified in the discontinued operations category in accordance with Ind AS 118.68.



GUIDANCE ON COMMON ITEMS OF INCOME AND EXPENSE

The following table provides practical guidance on the classification of common items of income and expense when the requirements of Ind AS 118 would be applied. However, this table should be taken as broad guidance only. The classification of particular income and expenses will depend on facts and circumstances.

INCOME OR EXPENSE	CLASSIFICATION	EXPLANATION
Inventories expensed, including write-downs to net realisable value and reversals of write-downs (Ind AS 2)	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Income taxes expenses, both current and deferred (Ind AS 12)	Income taxes	Income and expenses within the scope of Ind AS 12 are classified in the income taxes category.
Depreciation of property, plant and equipment (Ind AS 16)	Generally operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48). Property, plant and equipment typically do not generate a return individually and largely independently of the entity's other resources; however, this may not always be the case.
Gains and losses from the sale of property, plant and equipment (Ind AS 16)	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Finance expense on employee benefit liabilities (Ind AS 19)	Financing	Liability arises from transactions that do not involve only the raising of finance (Ind AS 18.59(b)) and are interest income and expenses identified for purposes of applying Ind ASs (Ind AS 118.61(a)).
Current service cost on post-employment benefits (Ind AS 19)	Operating	Liability arises from transactions that do not involve only the raising of finance (Ind AS 118.59(b)) but current service cost is not (a) interest income and expenses identified for purposes of applying Ind AS; or (b) income and expenses arising from changes in interest rates.
Income and expenses related to associates and joint ventures (Ind AS 28, Ind AS 110) – equity method is Applied	Investing	If the associate or joint venture is accounted for using the equity method, income and expenses will always be classified in the investing category.
Income and expenses related to associates and joint ventures (Ind AS 28, Ind AS 110) – equity method is not applied	Operating or investing	If the equity method is not applied, the classification will depend on whether the entity invests in associates and joint ventures as a main business activity.

INCOME OR EXPENSE	CLASSIFICATION	EXPLANATION
Impairment of assets and reversals of impairment where applicable (Ind AS 36)	Generally operating	Most impairment losses will be recognised in the operating category as the impairment will relate to assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Provisions recognised as an expense (e.g. lawsuits, restructuring provisions) (Ind AS 37)	Operating	Liability arises from transactions that do not involve only the raising of finance (Ind AS 118.59(b)) but such an expense is not (a) interest income and expenses identified for purposes of applying Ind AS; or (b) income and expenses arising from changes in interest rates.
Finance expense on provision liabilities (Ind AS 37)	Financing	Liability arises from transactions that do not involve only the raising of finance (Ind AS 118.59(b)) and are interest income and expenses identified for purposes of applying Ind AS (Ind AS 118.61(a)). Increases in the discounted amount of a provision due to the passage of time and effects of changes in discount rate, are classified in the financing category (Ind AS 118.B54).
Amortisation of intangible assets (Ind AS 38)	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Share-based payments related to employee compensation (Ind AS 102)	Operating	<ul style="list-style-type: none"> ▶ Classified in the operating category because the expense does not meet the criteria to be classified in any of the other four categories.
Share-based payments related to other services obtained (Ind AS 102)	Operating	<ul style="list-style-type: none"> ▶ Expense is not an income tax or related to a discontinued operation. ▶ Expense is not classified in the investing category because it does not relate to investments in associates, joint ventures and unconsolidated subsidiaries, cash equivalents or other assets that generate a return individually and largely independently of the entity's other resources (Ind AS 118.53). ▶ If the transaction is an equity-settled share-based payment, the expense is not classified in the financing category because it does not relate to a recognised liability (Ind AS 118.59). ▶ If the expense is a cash-settled share-based payment transaction, it may arise from a recognised liability; however, that liability would not arise from transactions that involve only the raising of financing (Ind AS 118.59(b)). The expense recognised on such a liability would not be interest income and expenses or income and expenses arising from changes in interest rates (Ind AS 118.61), therefore, it must be classified in the operating category.

INCOME OR EXPENSE	CLASSIFICATION	EXPLANATION
Interest income on financial assets measured at amortised cost or fair value through other comprehensive income (Ind AS 109)	Operating or investing	Classification will depend on whether the entity invests in financial assets as a main business activity.
Interest expense on financial liabilities measured at amortised cost (Ind AS 109)	Operating or financing	<p>Classification will depend on the assessment of multiple factors, including whether:</p> <p>(a) The liability arises from transactions that involve only the raising of finance;</p> <p>(b) The entity provides financing to customers as a main business activity;</p> <p>(c) The financial liability relates to providing financing to customers; and</p> <p>(d) If (a)-(c) are all 'yes', certain accounting policy choices made by the entity.</p>
Gains and losses on investments in debt and equity instruments measured at fair value through profit or loss (Ind AS 109)	Operating or investing	Classification will depend on whether the entity invests in financial assets as a main business activity.
Gains and losses on the derecognition of financial assets (Ind AS 109)	Operating or investing	Classification will depend on whether the entity invests in financial assets as a main business activity.
Gains and losses on the derecognition of financial liabilities (Ind AS 109)	Operating or financing	<p>Classification will depend on the assessment of multiple factors, including whether:</p> <p>(e) The liability arises from transactions that involve only the raising of finance;</p> <p>(f) The entity provides financing to customers as a main business activity;</p> <p>(g) The financial liability relates to providing financing to customers; and</p> <p>(h) If (a)-(c) are all 'yes', certain accounting policy choices made by the entity.</p>
Expected credit losses on trade receivables (Ind AS 109)	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Expected credit losses on related party loans receivable (Ind AS 109)	Operating or investing	<p>Assets that generate a return individually and largely independently of the entity's other resources (Ind AS 118.53(c)) and income and expenses that arise from the subsequent measurement of that asset (Ind AS 118.54(b)), therefore, classified in the investing category for entities without specified main business activities.</p> <p>If the entity invests in such assets as a main business activity, then expected credit losses would be classified in the operating category (Ind AS 118.58).</p>

INCOME OR EXPENSE	CLASSIFICATION	EXPLANATION
Revenue from contracts with customers (Ind AS 115)	Operating	Income and expenses from assets that do not generate a return individually and largely independently of the entity's other resources (Ind AS 118.B48).
Finance expense on lease liabilities (Ind AS 116)	Financing	Liability arises from transactions that do not involve only the raising of finance (Ind AS 118.59(b)) and are interest income and expenses identified for purposes of applying Ind ASs (Ind AS 118.61(a)).



WHAT ARE THE LIKELY COSTS ?

It is expected that all entities will incur additional efforts, including implementation costs, and possibly some ongoing costs, once these proposals are notified. Implementation efforts will vary depending on the company's current systems and reporting practices. Some companies will need to change their internal processes and adapt their accounting systems to comply with the requirements, including those relating to changes to the data collection process, financial reporting systems, and period-end closure process. Implementation efforts are likely to arise from:

► CLASSIFICATION OF INCOME AND EXPENSES

The efforts for implementation are likely to be higher for entities with large volumes of derivatives and foreign currency-denominated items that are managed centrally. Such entities might incur additional costs to classify foreign exchange differences and derivatives in the relevant categories of the statement of profit or loss. The requirements to present new subtotals and line items mean that entities that digitally report their financial statements will need to re-tag their financial statements for these subtotals and line items. Retagging is likely to involve some one-time costs.

► DISCLOSURE OF MPMS

The costs for implementing the disclosure proposals related to MPMS are expected to vary by entity. Entities that already communicate using measures that are MPMS will incur some costs of implementation. For example, entities are likely to incur costs in providing a reconciliation between those measures and the most directly comparable subtotal listed in proposed Ind AS 118, or total or subtotal required by Ind AS, and in providing the other disclosures required for MPMS.

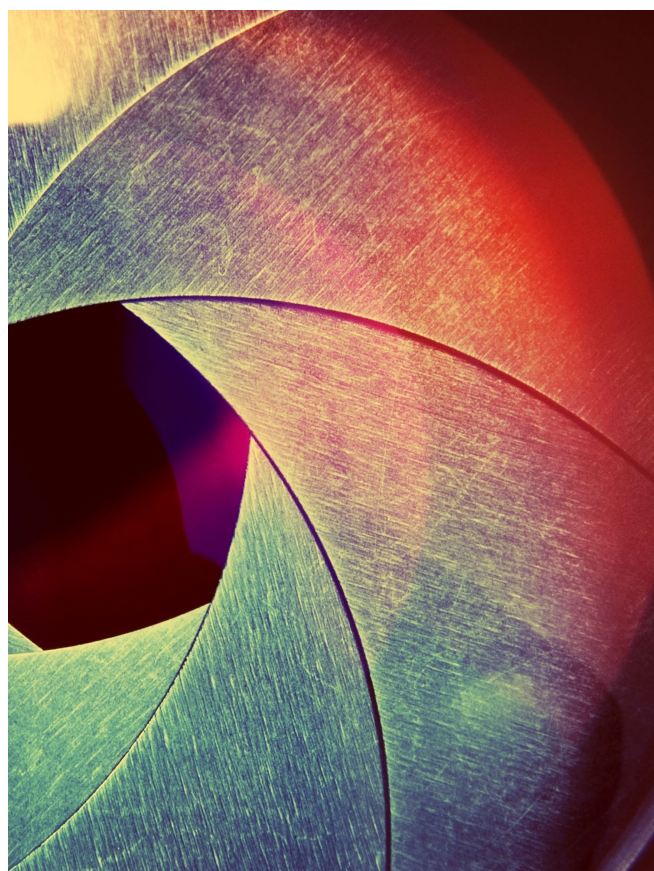
► EDUCATION AND COMMUNICATION

Staff will need to be trained, for example, in understanding the classification of income and expenses into categories in the statement of profit and loss. Entities will incur costs in communicating with external parties, such as investors and lenders, about the changes in their reported information.

► ONGOING COSTS

An entity may incur some ongoing costs when there are changes in its business, how it operates or how it communicates performance. For example, when there is a significant change to a company, such as a business combination or a restructuring, the company may be required to exercise judgement on whether the change affects the assessment of the main business activities, which would lead to changes in the classification of income and expenses in the statement of profit and loss.

The Ind AS 118 proposes certain cost mitigations to ensure that, in providing useful information to investors about their performance, entities will not incur undue costs. For example, simplified approaches to calculating the income tax effect for each reconciling item in MPM has been proposed.



ARE THERE ANY OTHER LIKELY EFFECTS?

Proposed Ind AS 118 may significantly impact contracts, agreements, compensation arrangements that rely on financial metrics and digital reporting. Entities may need to reassess how financial covenants, executive bonuses, and earnout clauses are defined and monitored. Inconsistent or undefined terms in agreements could lead to disputes if reported figures differ under the Exposure Draft. Examples include the following:

▶ **CONTRACTS AND AGREEMENTS**

When information reported in financial statements is used to monitor compliance with contracts and agreements, the proposals might affect existing contracts and agreements. For example, covenants in loan agreements might impose minimum requirements for measures such as the profit subtotal presented in a borrower's financial statements. Many companies may need to change what they include in the subtotals to align with the proposals in Ind AS 118. In such cases, the parties to the contract or agreement will need to consider how the proposed changes by Ind AS 118 could affect the contract or agreement.

In contrast, the changes proposed by Ind AS 118 will have no effect on loan covenants that specify the calculation of such requirements without reference to amounts in financial statements.

▶ **COMPENSATION**

Many companies have remuneration policies for management based on particular measures in the statement of profit and loss. Performance measures commonly linked to management remuneration included EBITDA and measures such as adjusted EBITDA. Entities with management remuneration policies based on particular measures in the statement of profit and loss will need to consider whether to change their policies to reflect changes to those measures. In addition, if measures linked to management remuneration meet the definition of MPMs, an entity will provide the MPM disclosures for such measures.

▶ **DIGITAL REPORTING**

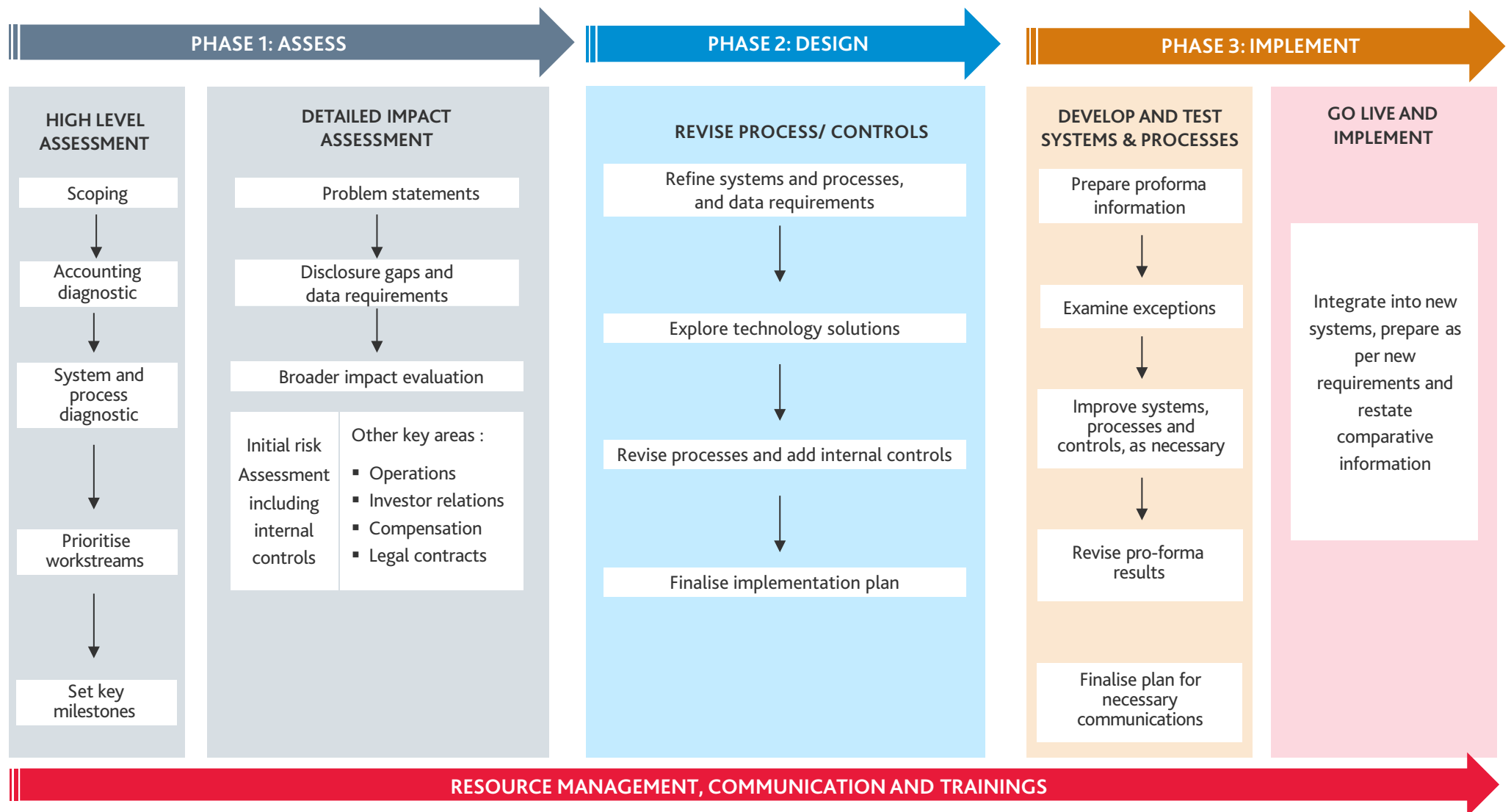
The proposed changes can require significant updates to the XBRL (eXtensible Business Reporting Language), taxonomy to reflect the new disclosure and presentation requirements. The proposed mandatory line items (i.e. Operating Profit and Profit before Financing and Income Taxes) may require new tags within the XBRL taxonomy, necessitating updates in reporting software and processes. The transition will require system updates, staff training, and possible consultation with technology and accounting experts to implement the new taxonomy and maintain compliance.



HOW SHOULD A COMPANY BEGIN ITS ASSESSMENT?

Ind AS 118 is proposed to become effective for annual reporting periods beginning on or after 1 April 2027. A company would apply Ind AS 118 retrospectively, which means restating comparative information when it first applies Ind AS 118. While this may seem distant, companies should begin their assessment as early as possible, ideally by 2025, to ensure a smooth and compliant transition. The early start is essential not only for compliance but also to manage the broader operational, contractual, and strategic impacts of the new standard.

Companies that prepare quarterly results under SEBI Listing Regulations in the first year of applying Ind AS 118 would need to present each subtotal required by Ind AS 118 in their quarterly results — including information for each of the comparative period(s). Therefore, such companies should also allow time and budget for preparing quarterly results/ interim financial reports in the first year of applying Ind AS 118.



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11000+
STAFF*



14
CITIES

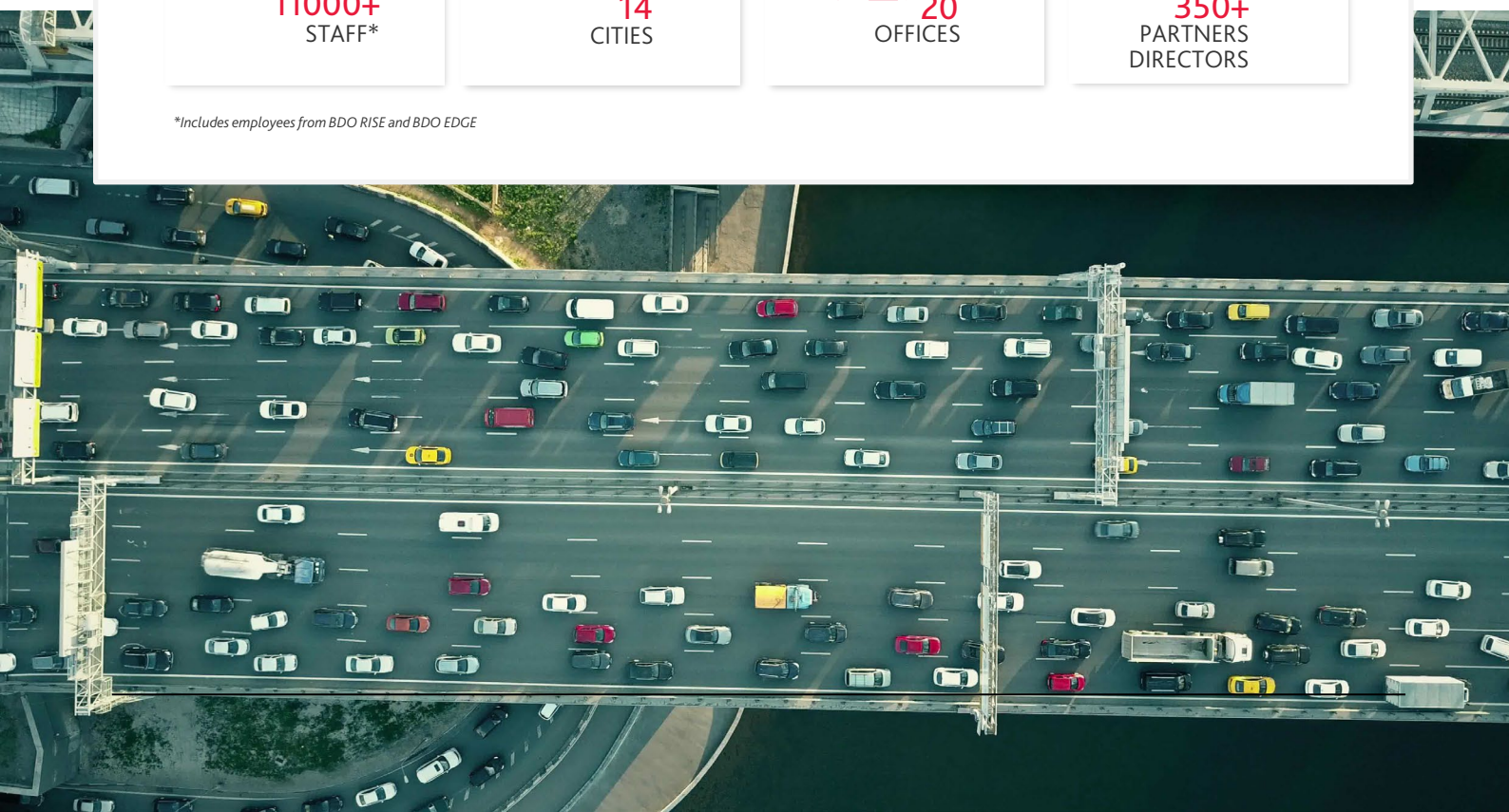


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