

TRANSITIONING TO IND AS 118

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

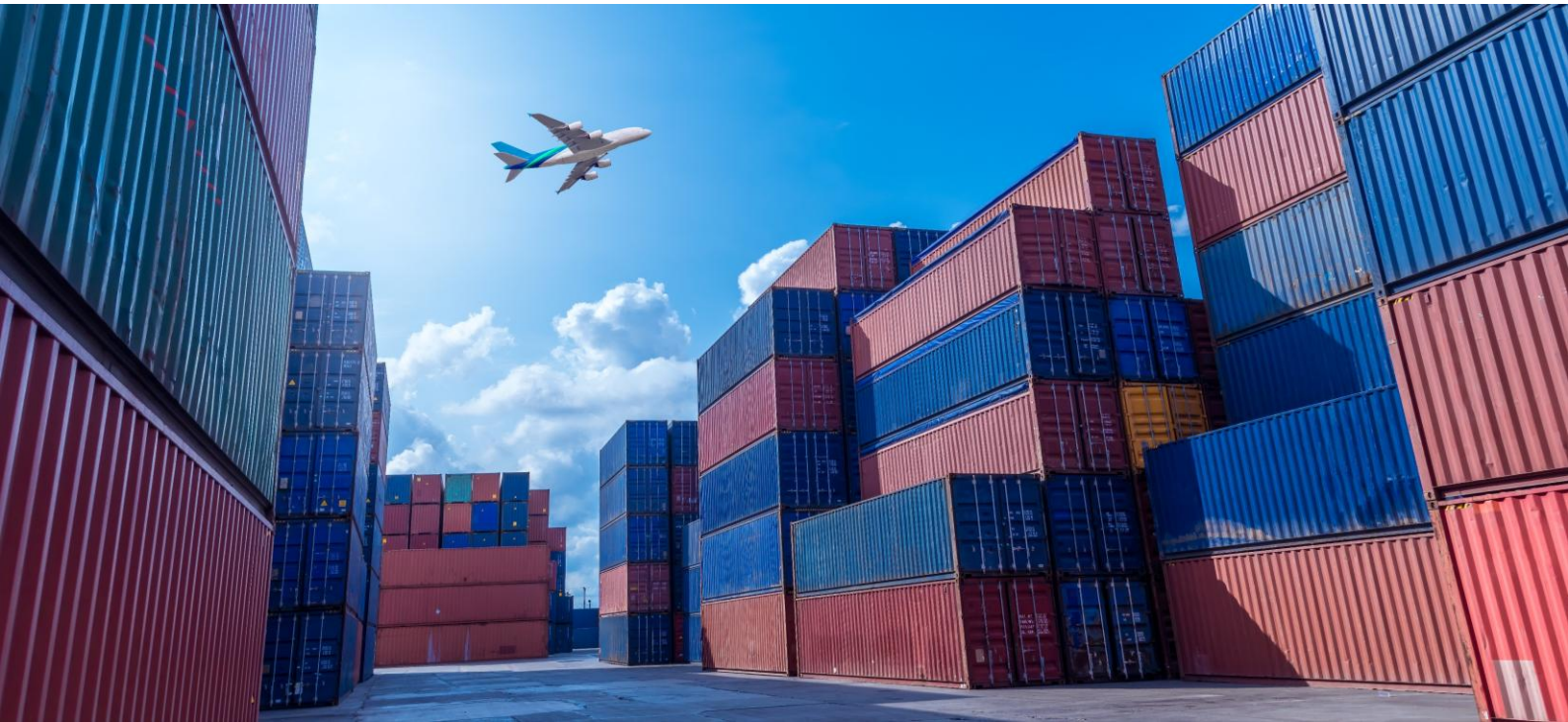
PART 5: AGGREGATION AND DISAGGREGATION; TOTALS AND SUBTOTALS

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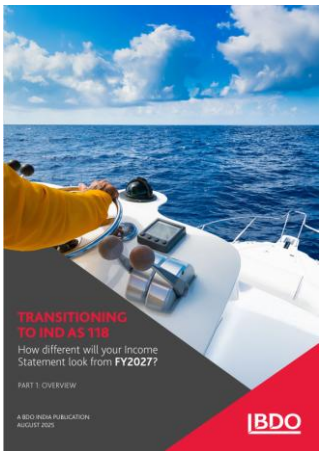


COMMUNICATING PERFORMANCE BETTER

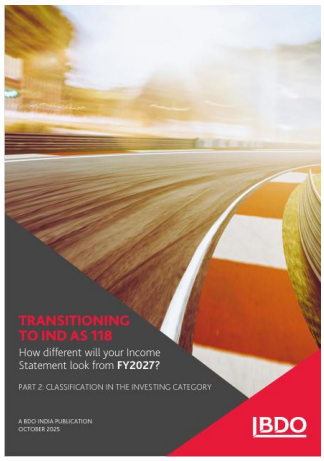
The Exposure Draft of Ind AS 118, *Presentation and Disclosure in Financial Statements* (proposed Ind AS 118/ Exposure Draft) introduces a new, structured approach to presenting income and expenses. One significant change is the introduction of principles for aggregating and disaggregating information for items of income and expense, as well as assets, liabilities, cash flows, equity and reserves. This is meant to address inconsistencies and improve transparency in financial reporting. Another significant change relates to the presentation of totals and subtotals in the statement of profit and loss.

Part 5 of our publication on the Ind AS 118 series aims to provide a practical and structured understanding of proposals relevant to where information would be presented or disclosed (i.e. the primary financial statements or the notes) and how information would be aggregated and disaggregated.

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.



Part 3 of the publication series covered key considerations relevant to classifying transactions under the financing and operating categories.



Part 4 of the publication series covered disclosure requirements and practical considerations pertaining to the Management-Defined Performance Measures.

Have you completed your Ind AS 118 self-assessment yet?

If not, take the BDO Ind AS 118 Self-Assessment to help identify potential gaps and pinpoint areas requiring early attention. On completion, you will receive a heat-map scorecard showing your relative complexity in each area, and an overall complexity rating. Start your self-assessment today by clicking here.

BDO INDIA

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
Revenue from operations	398,700
Other income	700
Total income	399,400
Expenses Cost of materials consumed	(150,000)
Changes in inventories of finished goods and work-in-progress	(3,000)
Employee benefits expense	(107,000)
Finance costs	(1,800)
Depreciation and amortization expenses	(37,500)
Other expenses	(17,100)
Total expenses	(316,400)
Profit before share of net profits of investments accounted for using equity method and tax	83,000
Share of net profit of investments accounted for using the equity method	1,000
Profit before tax	84,000
Tax expense: ▪ Current tax ▪ Deferred tax expense	 (300) (25)
Profit for the year	83,675

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

PRINCIPLES OF AGGREGATION AND DISAGGREGATION

Proposed Ind AS 118 sets out new principles for aggregation and disaggregation of information. These principles apply not only to items of income and expense but also to assets, liabilities, cash flows, equity and reserves (Ind AS 118.41). For example, how similar assets are aggregated for presentation purposes in the balance sheet, and whether an entity presents its operating expenses by function, nature or a mixed presentation model.

Similar items are aggregated for practical reasons, and also to meet the objective of Ind AS 118.16, which is for the primary financial statements to provide a 'structured summary' of a reporting entity's assets, liabilities, equity, income, expenses and cash flows. For purposes of presentation, an 'item' comprises an individual item (e.g. a single asset) or any aggregation or disaggregation of such items (Ind AS 118.41).

Ind AS 118 proposes more specific requirements applicable to the roles of the primary financial statements and notes, how an entity aggregates and disaggregates information more generally and the use of labelling. The extent to which entities must change their existing presentation in Ind AS 1 (other than the requirements applicable to classification of items of income and expenses and specified subtotals) will depend on an entity's precise facts and circumstances.

Ind AS 118, when implemented, may result in entities revisiting decisions about presentation and disclosure that had been made previously, which are not necessarily incompatible with the requirements of Ind AS 118, but that, after changes in presentation and disclosure practices, may improve the usefulness of information provided.

THE ROLES OF THE PRIMARY FINANCIAL STATEMENTS AND NOTES

The following are several examples of measures that are not MPMs as they are not subtotals of income and expenses:

PRIMARY FINANCIAL STATEMENTS (E.G. BALANCE SHEET, STATEMENT OF PROFIT & LOSS, CASH FLOWS, ETC.) – IND AS 118.16	NOTES TO THE FINANCIAL STATEMENTS – IND AS 118.17
To provide structured summaries of recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for: ► obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows; ► making comparisons between entities, and between reporting periods for the same entity; and ► identifying items or areas about which users of financial statements may wish to seek additional information in the notes.	To provide material information necessary to: ► enable users of financial statements to understand the line items presented in the primary financial statements; and ► supplement the primary financial statements with additional information to achieve the objective of financial statements.

Ind AS 1 did not define the roles of these two components of financial statements.

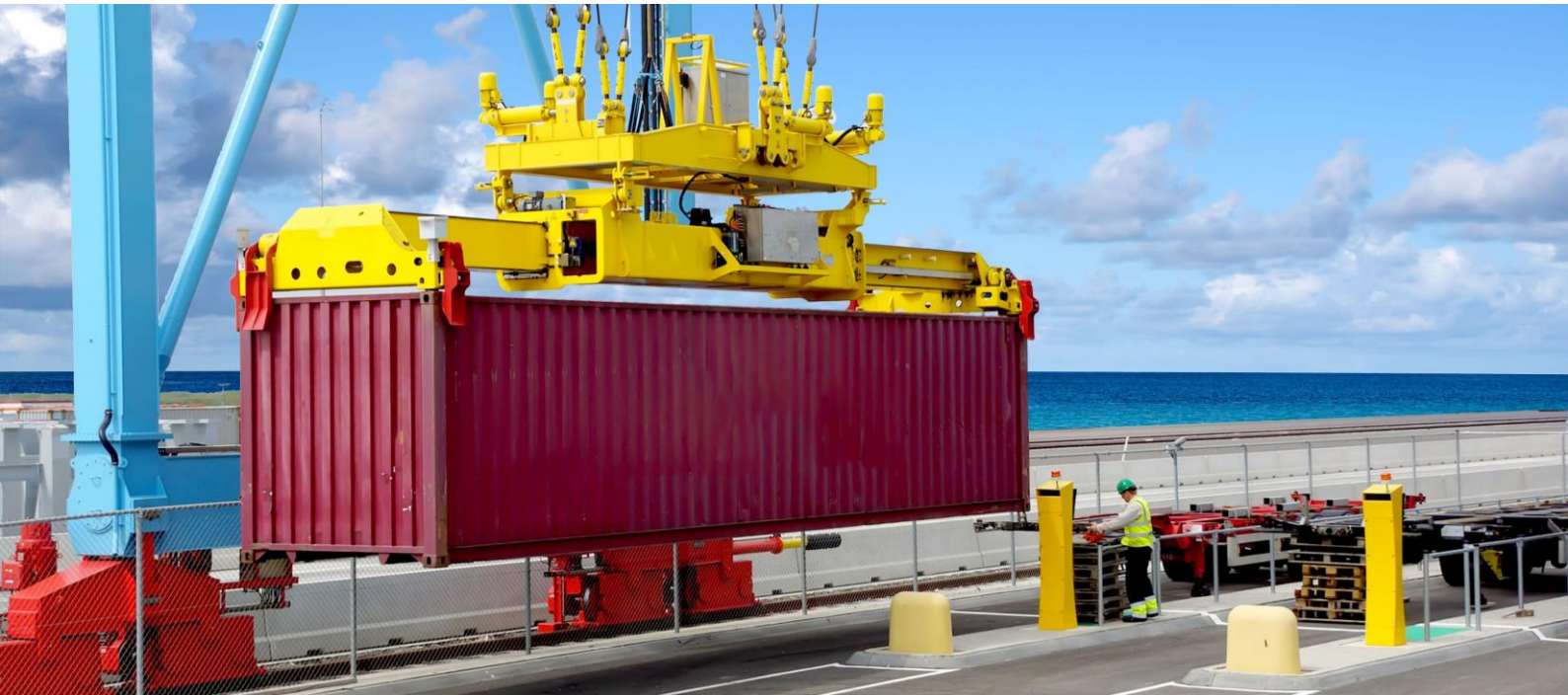
These roles have been defined to assist entities in determining whether to include information in the primary financial statements or in the notes (Ind AS 118.18). Based on the defined roles, information presented in the primary financial statements (i.e. a structured summary) is more aggregated than information provided in the notes, which typically disaggregates information provided in the primary financial statements (Ind AS 118.18(a)).

In some cases, a specific Ind AS may specify disaggregation requirements for notes to financial statements (e.g. a disaggregation of items of property, plant and equipment by asset class in Ind AS 16). However, those presentation and disclosure requirements remain subject to materiality (Ind AS 118.19). Entities are also required to consider whether to provide additional disclosures when compliance with specific requirements in Ind AS is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and performance (Ind AS 118.20).

PRINCIPLES OF AGGREGATION AND DISAGGREGATION

In determining how to aggregate and disaggregate information presented in the primary financial statements and disclosed in the notes to the financial statements, proposed Ind AS 118.41 requires an entity to:

REQUIREMENT	EXAMPLE
Classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;	Presentation of financial assets in the balance sheet by classification in Ind AS 109 (e.g. amortised cost, fair value through profit or loss, fair value through OCI).
Disaggregate items based on characteristics that are not shared in the primary financial statements and in the notes;	If an entity presents expenses by nature, disaggregation of operating expenses by the nature of those expenses (e.g. presenting employee benefits expenses separately from depreciation).
Aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries;	Apply the above aggregation and disaggregation principles to provide a useful structured summary of information in the primary financial statements.
Aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information; and	For assets that are aggregated in the balance sheet (e.g. financial assets), disclosing a disaggregation by asset class in the notes to the financial statements, considering the requirements of Ind AS 118 and Ind AS 107.
Ensure that aggregation and disaggregation in the financial statements do not obscure material information.	Considering materiality in assessing whether to aggregate otherwise similar items, such as an individually material expected credit loss recorded on a single financial asset vs. expected credit losses recorded on a portfolio of smaller financial assets.



To meet the requirements of proposed Ind AS 118.41, an entity must always disaggregate items whenever the resulting information is material (Ind AS 118.42). However, this disaggregation need not always be in the primary financial statements, as disaggregated information may be provided in the notes to the financial statements. However, this is not a 'free choice' by an entity. Entities must consider the roles of the financial statements in determining where to provide information about the material item.

Examples of income, expenses, assets, liabilities and items of equity that have sufficiently dissimilar characteristics to warrant separate presentation in the primary statements or disclosure in the notes:

ASSETS AND LIABILITIES – BALANCE SHEET (IND AS 118.B111)	INCOME AND EXPENSES – STATEMENT OF PROFIT & LOSS (IND AS 118.B79)
▶ Property, plant and equipment disaggregated into classes (Ind AS 16); ▶ Receivables disaggregated into amounts receivable from trade customers, related parties, prepayments and other amounts; ▶ Inventories disaggregated, applying Ind AS 2, into items such as merchandise, production supplies, materials, work in progress and finished goods; ▶ Trade payables disaggregated, applying Ind AS 7, to provide separately the amounts of those payable that are part of supplier finance arrangements; ▶ Provisions disaggregated according to their nature, such as provisions for employee benefits, decommissioning liabilities, or other items; and ▶ Equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium and reserves.	▶ Write-downs of inventories and reversals ▶ Impairment losses and reversals for property, plant and equipment ▶ Income and expenses from restructuring of an entity's activities and reversals ▶ Income and expenses from: ▪ Disposals of property, plant and equipment; ▪ Disposals of investments (e.g. equity accounted for associates); ▪ Litigation settlements; ▪ Reversals of provisions; and ▪ Non-recurring income and expenses.

LINE ITEMS REQUIRED BY IND AS

Certain Ind AS may require specific line items to be presented in primary financial statements (e.g. Ind AS 118.75(b)(i) – interest revenue calculated using the effective interest method). However, this separate presentation is not required if doing so is not necessary for the statement to provide a useful structured summary (Ind AS 118.23). For example, a company with immaterial amounts of interest revenue calculated using the effective interest rate method may conclude that presenting that line item separately in the statement of profit and loss is not necessary.

ADDITIONAL LINE ITEMS

An entity is required to present additional line items and subtotals if such presentation is necessary for a primary financial statement to provide a useful structured summary (Ind AS 118.24). However, any additional line items and subtotals must (Ind AS 118.24):

- comprise amounts recognised and measured in accordance with Ind AS;
- be compatible with the statement structure proposed by Ind AS 118 (e.g. all categorisation requirements and mandatory subtotals);
- be consistent from period to period; and
- be displayed no more prominently than the totals and subtotals proposed by Ind AS.

CHARACTERISTICS TO USE IN ASSESSING THE NEED TO AGGREGATE AND DISAGGREGATE INFORMATION

Whether an entity is determining how to aggregate or disaggregate information in the statement of profit and loss to provide a useful structured summary of the entity's income and expenses or how to aggregate and disaggregate information more generally (e.g. line items and note disclosure), an entity is required to use judgement (Ind AS 118.B 78).

This judgement is based on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). Such characteristics for items presented in the primary financial statements or disclosed in the notes include:

CHARACTERISTICS (IND AS 118.B78 AND 118.B110)	APPLICABLE STATEMENT	EXAMPLE OF ITEMS WITH DISSIMILAR CHARACTERISTICS
Nature	Statement of profit and loss	Salaries and wages vs. depreciation of property, plant and equipment.
	Balance Sheet	Property, plant and equipment vs. investment property.
Function (role) within the entity's business activities	Statement of profit and loss	Operating expenses classified into selling, finance, and research and development.
	Balance Sheet	Disclosure of assets and liabilities per reportable segment (Ind AS 108.21(b)).
Persistence (including the frequency of the item of income or expense or whether it is recurring or nonrecurring)	Statement of profit and loss	Impairment of property, plant and equipment arising from poor sales vs. impairment of property, plant and equipment due to change in regulation requiring change of use of the asset.
Measurement basis	Statement of profit and loss	Fair value adjustments vs. interest recognised applying the effective interest rate.
	Balance Sheet	Financial assets at fair value through profit or loss vs. amortised cost.
Measurement uncertainty or outcome uncertainty (or other risks associated with an item)	Statement of profit and loss	Fair value adjustments through profit or loss (steady-state companies vs. start-ups).
	Balance Sheet	Equity instruments at fair value through profit or loss of steady-state companies vs. start-ups.
Size	Statement of profit and loss	Salaries and wages, which are quantitatively material vs. advertising expenses, which are not quantitatively material.
	Balance Sheet	Inventory, which is quantitatively material vs. trade receivables, which are not quantitatively material.
Geographic location or regulatory environment	Statement of profit and loss	Revenue in jurisdictions where the majority of income is earned vs. emerging/growing jurisdictions where an entity has recently expanded.
	Balance Sheet	Regulatory assets vs. office equipment.
Whether the income or expense arises on initial recognition of a transaction or event from a subsequent change in estimate relating to a transaction or event	Statement of profit and loss	'Day 1' gains on financial assets recognised in accordance with Ind AS 109 vs. the release of deferred gains to profit or loss over time (Ind AS 109.B5.1.2A).
Duration and timing of recovery or settlement (including current or noncurrent classification)	Balance Sheet	Property, plant and equipment vs. Office building classified as held for sale.
Liquidity	Balance Sheet	Investments in listed shares traded in an active market vs. investments in shares in a private company that are rarely traded.
Restrictions on the use of an asset or on the transferability of a liability	Balance Sheet	Deposits held for customers vs. current account.

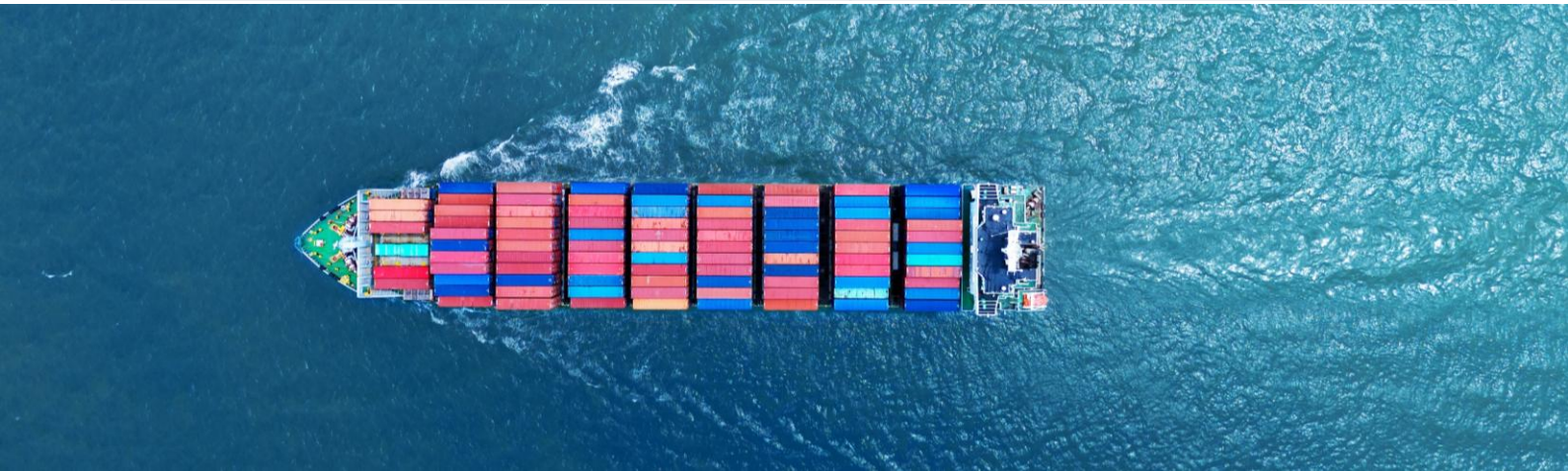
APPLICATION OF REQUIREMENTS TO THE STATEMENT OF PROFIT AND LOSS

After applying the requirements to classify items of income and expense into the five categories, an entity must determine how to present those items in the statement of profit and loss and provide corresponding disclosures in the notes.

LINE ITEMS IN STATEMENT OF PROFIT AND LOSS

Proposed Ind AS 118.75-76 requires certain line items to be presented in the statement of profit and loss (subject to materiality). The following table summarises these requirements, comparing them to the requirements of Ind AS 1:

KEY LINE ITEMS REQUIRED TO BE PRESENTED IN THE STATEMENT OF PROFIT AND LOSS (IND AS 118.75-76)	REQUIRED BY IND AS 1?
Revenue, presenting separately: ▶ Interest revenue calculated using the effective interest method (Ind AS 109); and ▶ Insurance revenue (Ind AS 117)	▶ Yes
Operating expenses, presenting separate line items based on the nature of expenses, their function within the entity, or a combination of both, whichever provides the most useful structured summary. (Ind AS118.78 and 82(a))	Yes; however, Ind AS 1 did not require this analysis of operating expenses in the statement of profit and loss; disclosure could be provided in the notes. Requirements of Schedule III to the Companies Act, 2013, if any, have been ignored for the sake of brevity. Proposed Ind AS 118 requires this analysis to be in the statement of profit and loss.
Share of profit or loss of associates and joint ventures accounted for using the equity method (Ind AS 28)	▶ Yes
Income tax expense or income (Ind AS 12)	▶ Yes
A single amount for the total of discontinued operations (Ind AS 105)	▶ Yes
Ind AS 109 amounts: ▶ Interest revenue calculated using the effective interest method ▶ Impairment losses (including reversals of impairment losses or impairment gains);	▶ Yes ▶ Yes
▶ Gains and losses arising from the derecognition of financial assets measured at amortised cost; ▪ Reclassification gains and losses; and ▪ Recycling of gains and losses from OCI to profit or loss.	▶ Yes ▶ Yes ▶ Yes



OUR TAKE – LINE ITEMS REQUIRED BY IND AS 1 BUT NOT REQUIRED BY IND AS 118

Ind AS 1.82(b) requires 'finance costs' to be presented as a single line item. This requirement was not brought forward into Ind AS 118, unlike most other line-item disclosure requirements in Ind AS 1.

This is a consequence of the fact that Ind AS 118 has a financing category for income and expenses. An entity applies the requirements of Ind AS 118 in determining how to aggregate and disaggregate information in the financing category into line items and whether disaggregation is required in the notes.

For example, an entity may determine that interest expenses on bank loans and lease liabilities classified in the financing category should be aggregated into a single 'interest expense' line item in the statement of profit and loss, with corresponding disclosure in the notes to disaggregate that line item, if the resulting information from disaggregation is considered material.

ANALYSIS OF THE MOST USEFUL STRUCTURED SUMMARY OF OPERATING EXPENSES – USE OF CHARACTERISTICS OF NATURE AND FUNCTION

In the operating category, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of the following characteristics (Ind AS 118.78):

- The nature of expenses; or
- The function of the expenses within the entity.

This analysis of operating expenses must be presented in the statement of profit and loss (Ind AS 118.78), whereas Ind AS 1 permitted the analysis to be provided in the notes to the financial statements (Ind AS 1.99-100). Entities may still determine that the line items presented for operating expenses in the statement of profit and loss require additional disaggregation in the notes.

An explanation of nature vs function is provided below:

PARTICULARS	NATURE	FUNCTION	'MIXED' PRESENTATION
Description	Allocation of expenses based on the nature of the economic resources consumed to accomplish the entity's activities without reference to the activities in relation to which the economic resources were consumed (Ind AS 118.80).	Allocation of expenses based on the activity to which the consumed resources relate (Ind AS 118.81).	An entity may present an analysis of operating expenses where some expenses are classified by nature and others by function (Ind AS 118.B81).
Example	Salaries and wages, depreciation, inventories expensed	Cost of goods sold, research and development, administrative expenses	Cost of goods sold is presented (function) with all other expenses presented by nature ('mixed' presentation). Entity must disclose a single note that provides certain expenses by nature and their respective allocations to functional categories.

FACTORS CONSIDERED IN ASSESSING WHICH PRESENTATION TO USE

An entity does not have a free accounting policy choice in determining the presentation basis of operating expenses. Ind AS 118.B80 requires an entity to consider:

FACTOR TO BE CONSIDERED	EXAMPLE
What line items provide the most useful information about the main components or drivers of the entity's profitability.	Use of cost of sales by a retail entity, as it provides relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin.
What line items most closely represent the way the business is managed and how management reports internally.	An entity with multiple major functions may classify expenses by those functions, whereas an entity with a single function (e.g. a lender) may classify expenses by nature.
What standard industry practice entails.	If certain industries have common practice in how operating expenses are classified, using the industry-accepted approach may make comparison easier between entities.
Whether the allocation of particular expenses to functions would be arbitrary to the extent that the line item presented would not provide a faithful representation of the function.	Allocating impairment of a large group of assets (e.g. property, plant and equipment, right-of-use assets, etc.) by function (e.g. research and development, administration, etc.) may be arbitrary as assets may be used in multiple functions.

OUR TAKE – NATURE AND FUNCTION FOR INCOME AND EXPENSES NOT CLASSIFIED IN THE OPERATING CATEGORY

The proposal to present operating expenses by nature, function or a mixed presentation applies only to items classified in the operating category, not the other four categories being: investing, financing, income taxes and discontinued operations.

Income and expenses classified into categories other than the operating category are presented by their nature.

CONSISTENCY OF PRESENTATION, DISCLOSURE AND CLASSIFICATION

Entities are required to maintain a consistent method of presentation from one period to the next, as the method selected is an accounting policy. Any change in the basis of presentation (e.g. from operating expenses being presented entirely by nature to a mixed presentation basis) must (Ind AS 118.30) arise from a:

a) significant change in the nature of the entity's operations or arise from a review of its financial statements, and it is concluded that another presentation would be more appropriate considering the criteria in Ind AS 8; or

b) requirement in an Ind AS which requires a change in presentation.

Any change in presentation basis (e.g. a change in judgement concerning aggregation of income and expenses) is accounted for as a change in accounting policy; therefore, comparative information must be restated.

LABELS AND DESCRIPTIONS USED

Entities are required to describe items presented in the primary financial statements (line items and subtotals) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (Ind AS 118.43). Labels will often apply to items that have been aggregated (e.g. a 'salaries and wages' line item will generally comprise thousands of individual transactions).

An entity is required to provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, this may be achieved simply (e.g. utility expenses); however, in other cases, more judgement may be required.

USE OF 'OTHER'

Entities may only present or disclose items as 'other' if another more informative label cannot be found (Ind AS 118.B25).

For example, if many immaterial items are aggregated with the label 'other expenses' being used in the statement of profit and loss, an entity may find a more informative label by aggregating items that share similar characteristics and describing them in a way that faithfully represents those characteristics.

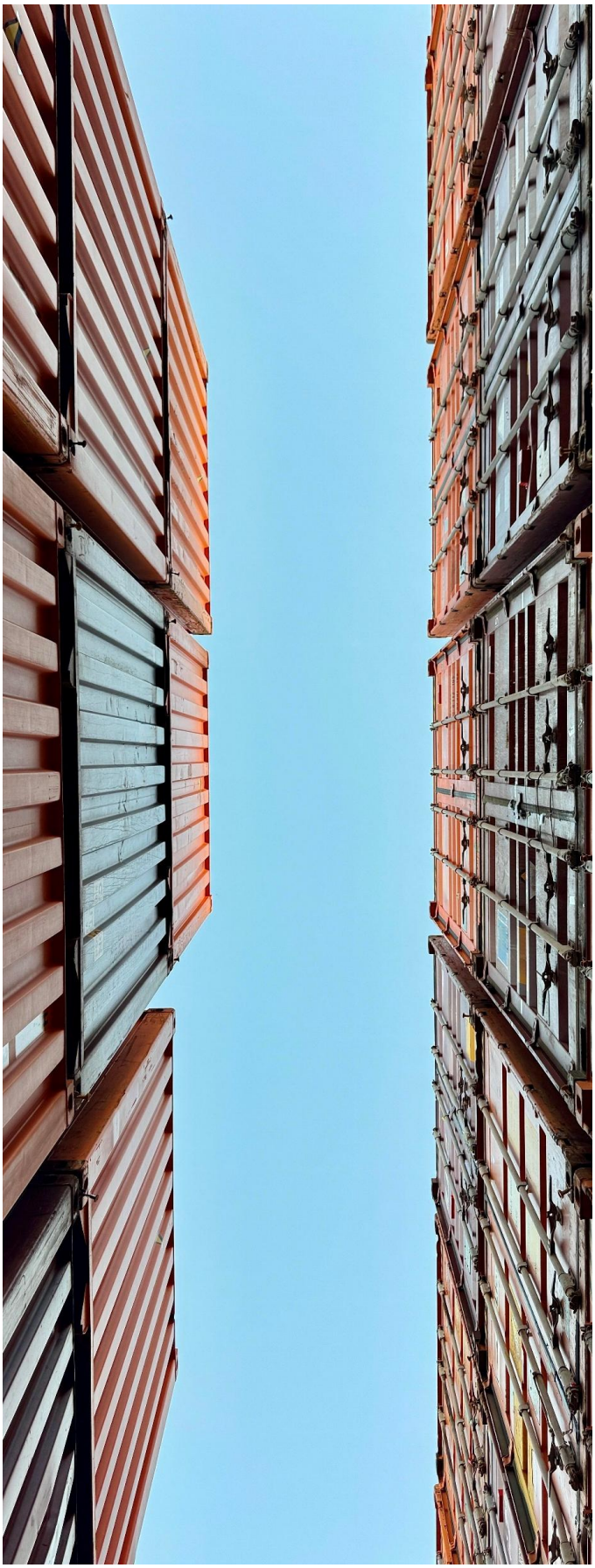
If an entity uses the 'other' label because a more informative label cannot be found, additional requirements apply (Ind AS 118.B26):

a) For any aggregation using the 'other' label: the entity shall use a label that describes the aggregated item as precisely as possible (e.g. 'other operating expenses' or 'other finance expenses' rather than 'other expenses').

b) For an aggregation of immaterial items, the entity shall consider whether the aggregated amount is sufficiently large that users might reasonably question whether it includes items for which information could be material (i.e. material items being obscured by immaterial items). In such cases, the entity is required to disclose further information; for example, an explanation that:

   - no items for which information would be material are included in the amount; or
   - the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.

These additional requirements around the use of the 'other' label have been introduced to address user concerns that overuse of the label has obscured useful information in financial statements.



TOTALS AND SUBTOTALS PRESENTED IN THE STATEMENT OF PROFIT AND LOSS

Once an entity has classified individual items of income and expense into the appropriate categories, and it has aggregated those items into appropriate levels of aggregation for presentation in the statement of profit and loss, mandatory and additional subtotals are presented.

For example, for an entity without specified main business activities, a typical statement of profit and loss may be as follows:

EXAMPLES OF LINE ITEMS : CLASSIFICATION BASIS NATURE	CLASSIFICATION
Rental income	Operating category
Repairs and maintenance	
Employee benefits	
Depreciation, amortisation and impairment	
Other operating expenses	
Operating profit	Mandatory specified subtotal
Fair value gains on investments in equity Instruments	Investing category
Profit before financing and income taxes	Mandatory specified subtotal[1]
Interest expense on borrowings and lease liabilities	Financing Category
Profit before income taxes	Additional subtotal
Income tax expense	Income taxes category
Profit from continuing operations	Additional subtotal
Loss from discontinued operations	Discontinued operations category
Profit	Mandatory total

For entities with specified main business activities, certain income and expenses classified in the investing and financing categories may be classified in the operating category if criteria are met.

As noted in this example, certain line items are mandatory, and others are additional (i.e. those that are not mandatory but meet the criteria in Ind AS 118 to be disclosed in addition to mandatory subtotals). The following sections discuss the requirements of Ind AS 118 applicable to mandatory and additional subtotals in the statement of profit and loss.

[1]Profit before financing and income taxes is a mandatory subtotal for most entities, though an exception exists for entities that provide financing to customers as a main business activity and make a particular accounting policy choice.

MANDATORY SUBTOTALS

Mandatory subtotals are based on how the entity has classified its income and expenses into the five categories. The categorisation of expenses into these categories (and the assessment of whether the entity has specified main business activities) is necessary as it affects how subtotals are calculated.

Proposed Ind AS 118 only requires two mandatory subtotals to be presented before profit or loss (Ind AS 118.69):

MANDATORY SUBTOTAL INTRODUCED BY IND AS 118	EXPLANATION
Operating profit or loss	The total of all income and expenses classified in the operating category.
Profit or loss before financing and income taxes*	The total of operating profit or loss and all income and expenses classified in the investing category.

*Certain entities are not permitted to present this subtotal.

Ind AS 118 also requires these totals and subtotals, consistent with the requirements of Ind AS 1:

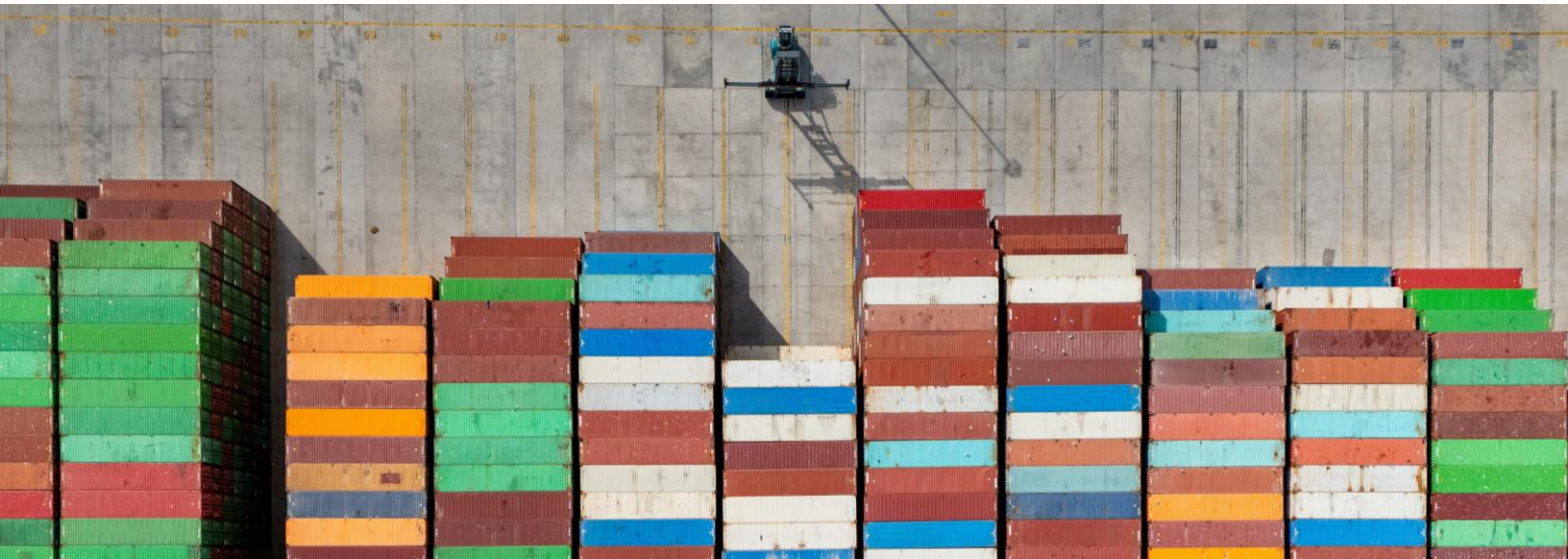
MANDATORY SUBTOTAL – CONSISTENT WITH IND AS 1	EXPLANATION
Profit or loss	The total of income less expenses included in the statement of profit and loss.
Total other comprehensive income	The total of amounts recorded in other comprehensive income.
Total comprehensive income	The total of profit or loss and other comprehensive income.

There is no requirement in Ind AS 118 for an entity to present:

- Profit or loss before income taxes (all income and expenses other than those classified in the income taxes category, and the discontinued operations category if applicable); or
- Profit or loss from continuing operations (all income and expenses other than those classified in the discontinued operations category).

However, it is expected that many entities will consider these additional subtotals to be useful, and will therefore present them as additional subtotals.

Ind AS 118 also does not require any mandatory subtotal related to the investing category (e.g. total investing income).



OPERATING PROFIT

As operating profit includes all income and expenses classified in the operating category, it is a default or residual subtotal, meaning that it includes all income and expenses of the entity unless they are classified into another category.

PROFIT OR LOSS BEFORE FINANCING AND INCOME TAXES

As profit or loss before financing and income taxes is defined as the total of operating profit or loss and all income and expenses classified in the investing category, this subtotal is essentially all income and expenses before income and expenses classified in the remaining three categories: (1) financing; (2) income taxes; and (3) discontinued operations.

It was decided to require this subtotal because many users of financial statements seek to analyse an entity's performance independently of how the entity is financed. For example, an entity may earn significant operating profits, but due to significant borrowing costs, it may be unprofitable overall. Separating the cost of financing from the operating profits provides useful information to users, including the ability to compare the operations of two or more entities independent of the cost of financing those entities.

In certain cases, entities do not present profit or loss before the financing and income taxes subtotal.

PROFIT OR LOSS BEFORE FINANCING AND INCOME TAXES – ENTITIES THAT PROVIDE FINANCING TO CUSTOMERS AS A MAIN BUSINESS ACTIVITY

For entities that provide financing to customers as a main business activity, entities have an accounting policy choice for how income and expenses related to liabilities that arise from transactions that involve only the raising of financing but are not related to providing financing to customers are presented. This choice also affects how gains and losses on certain derivatives and income and expenses relating to cash and cash equivalents are classified.

For entities that elect to classify such income and expenses in the operating category, proposed Ind AS 118.73 does not permit an entity to present the profit or loss before financing and income taxes subtotal. This is not an optional exemption – in such cases, Ind AS 118.73 forbids the profit or loss before financing and income taxes subtotal from being presented.

However, in this case, entities shall determine whether to present an additional subtotal after operating profit and before the financing category. However, if an entity presents an additional subtotal in this manner (e.g. the total of operating profit or loss and all income and expenses classified in the investing category), the entity shall not label the subtotal in a way that implies the subtotal excludes financing amounts (e.g. profit before financing) (Ind AS 118.74).

ADDITIONAL SUBTOTALS

Proposed Ind AS 118 requires entities to present additional line items (including subtotals) if such presentation is necessary for a primary financial statement to provide a useful structured summary. However, any additional line items (and subtotals) must (Ind AS 118.24):

- comprise amounts recognised and measured in accordance with Ind AS;
- be compatible with the statement structure;
- be consistent from period to period; and
- be displayed no more prominently than the totals and subtotals required by Ind AS.

Ind AS 118.24 is not optional; it is a requirement for an entity to consider whether additional subtotals should be presented for the statement of profit and loss (and all primary financial statements) to provide a useful structured summary.

Additional subtotals may be presented 'within' other subtotals, including those required by Ind AS 118. For example, operating profit or loss comprises the total of all income and expenses classified in the operating category; however, entities may also present subtotals such as 'gross profit', 'net interest income', or 'net interest margin', as long as those subtotals meet the requirements of Ind AS 118.24. Such subtotals may be common in certain industries.

ADDITIONAL SUBTOTALS AND MANAGEMENT-DEFINED PERFORMANCE MEASURES

Additional subtotals could also meet the definition of MPMs, resulting in additional disclosure requirements (see Series 4 of our publication). However, certain subtotals of income and expenses that meet the definition of an MPM (such as gross or operating profit) are not deemed to be an MPM per proposed Ind AS 118.118. By excluding these subtotals from the definition of an MPM, entities are not required to provide any MPM-related disclosures for these subtotals.

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 and 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.

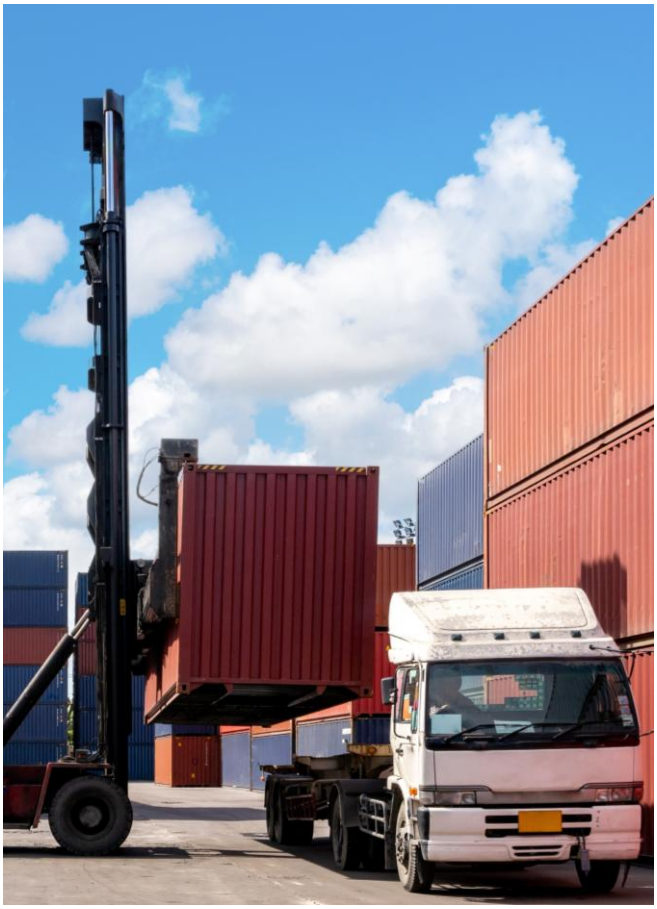
► EDUCATION AND COMMUNICATION

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 it's 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.

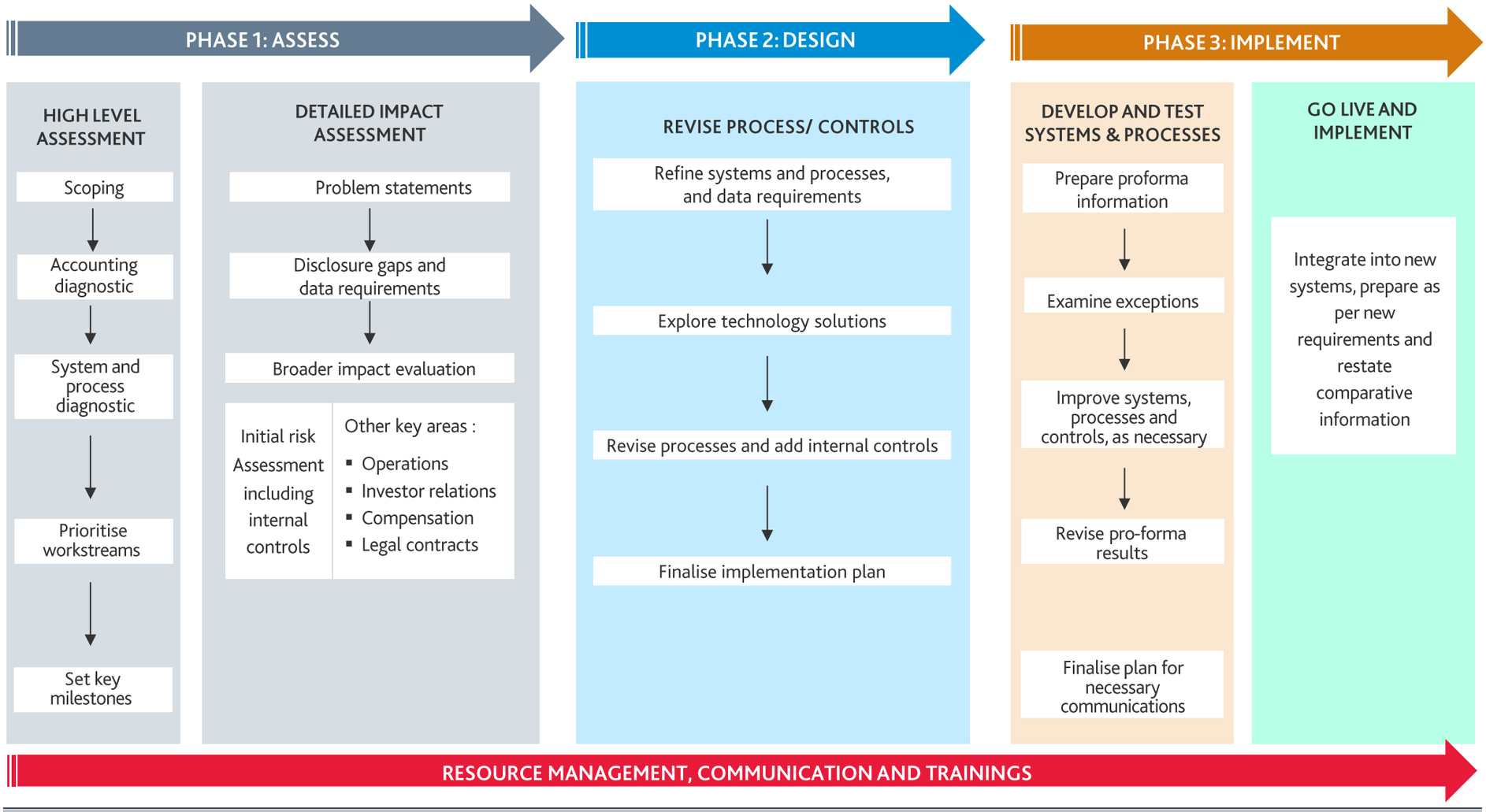
▶ DIGITAL REPORTING

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 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.



Take the short self-assessment today: GET YOUR SCORECARD

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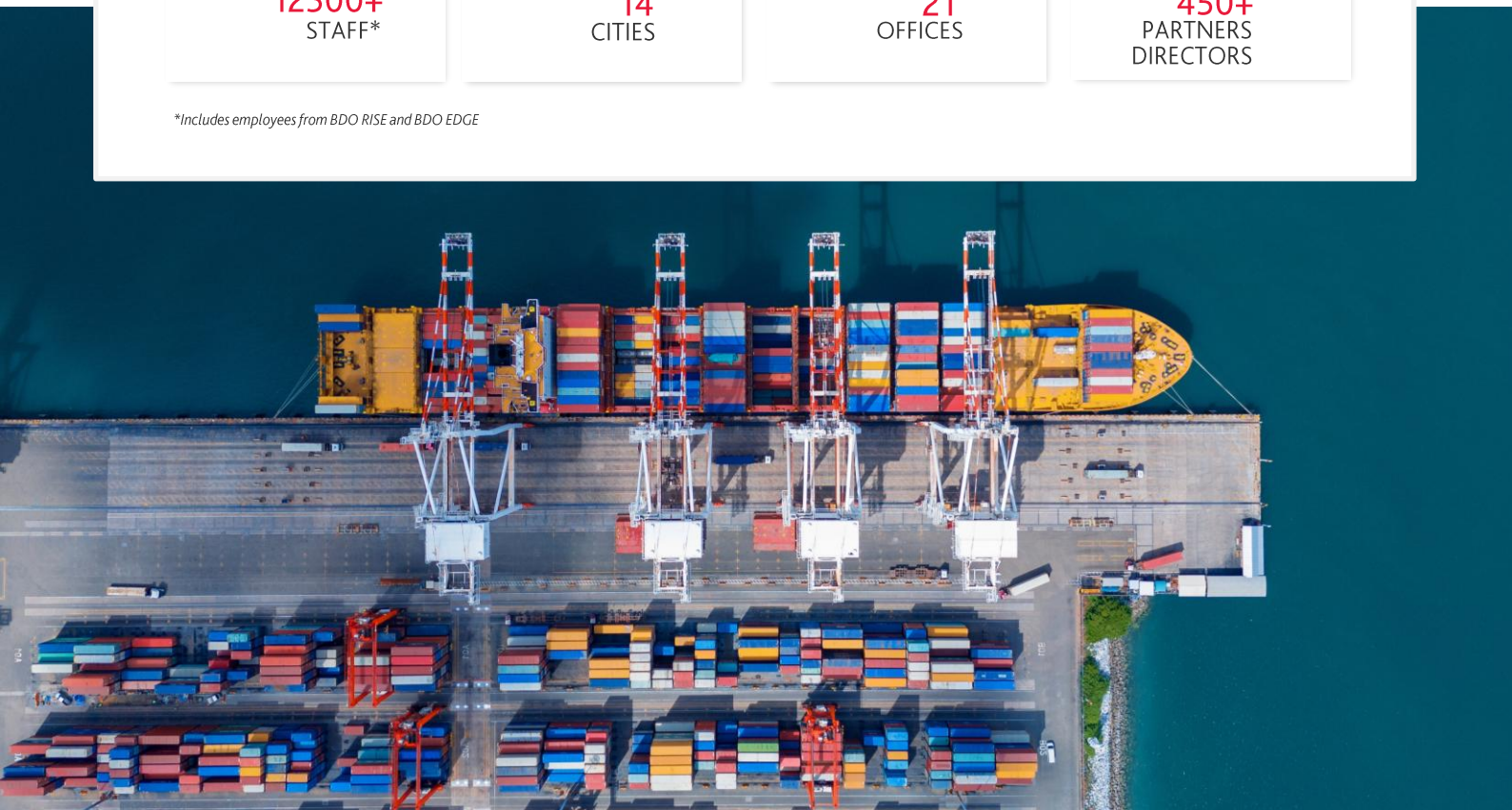
*as of 30 September 2025

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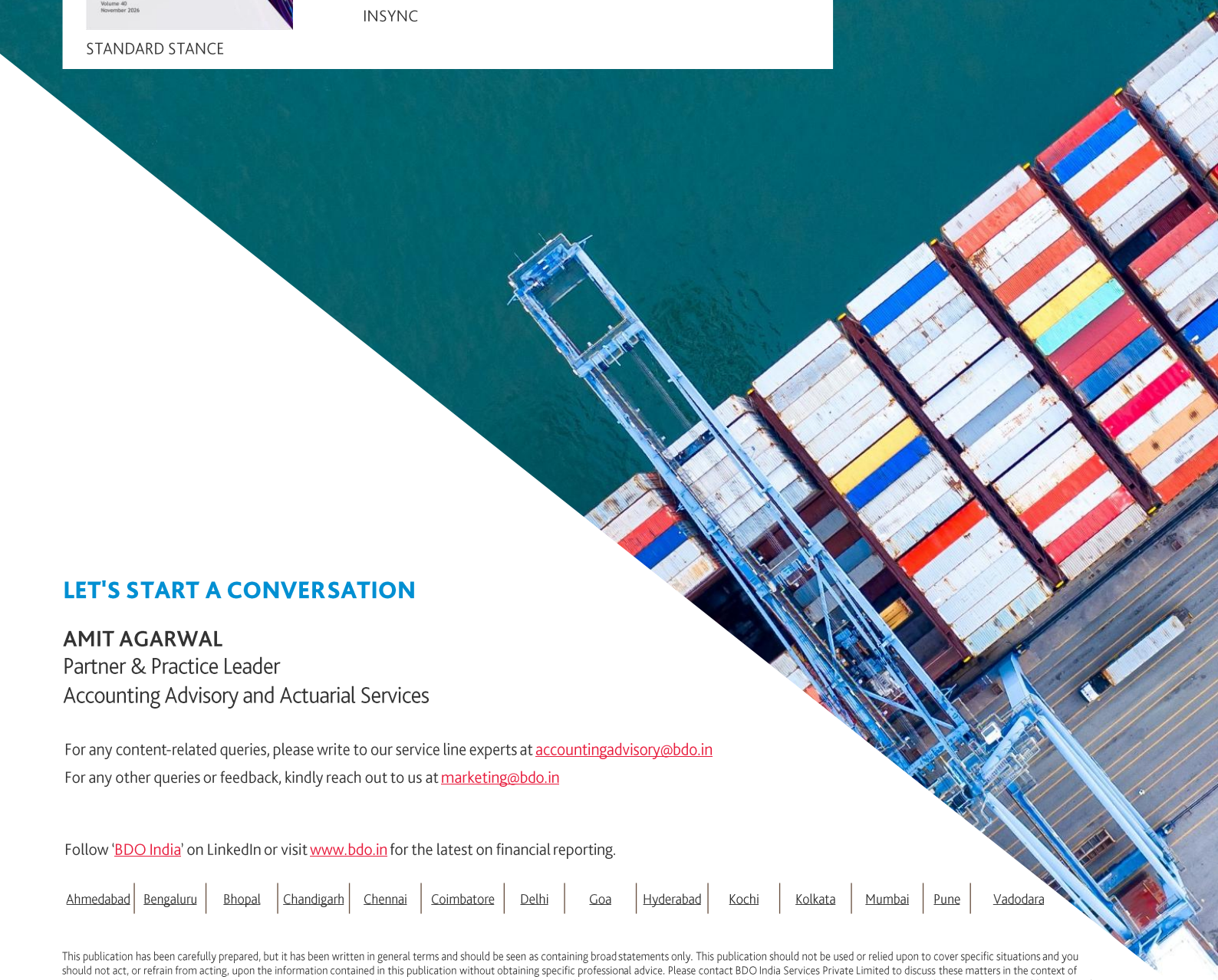
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STANDARD STANCE



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