



TRANSITIONING TO IND AS 118

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

PART 1: OVERVIEW

A BDO INDIA PUBLICATION
AUGUST 2025

BDO

TABLE OF CONTENTS

01	COMMUNICATING PERFORMANCE BETTER	3
02	WHY DEVELOP A NEW STRUCTURE?	4
03	PROPOSALS AT A GLANCE	5
04	ENTITIES WITH SPECIFIED BUSINESS ACTIVITIES	10
05	WORKED EXAMPLE	11
06	WHAT ARE THE LIKELY COSTS ?	13
07	ARE THERE ANY OTHER LIKELY EFFECTS?	14
08	HOW SHOULD A COMPANY BEGIN ITS ASSESSMENT?	15



COMMUNICATING PERFORMANCE BETTER

Profit is one of the most fundamental and widely used indicators for assessing a company's financial performance. There are various levels of profit—gross profit, earnings before interest, taxes, depreciation and amortisation (EBITDA), and net profit—each providing different insights.

A CLARION CALL FOR TRANSPARENCY

Globally, investors found that the varying content and structure of income statement posed challenges in comparing and analysing financial information. Entities also defined their own subtotals and performance measures, and grouped items in their own ways. Investors said that this diversity makes it challenging to analyse and compare companies' performance. The international standard setter issued IFRS 18, Presentation and Disclosure in Financial Statements, to respond to these demands by requiring a more structured income statement and greater disaggregation of information and by permitting the inclusion of management performance measures as part of the financial statements. Although IFRS 18 will not affect the measurement of financial performance, it will affect how companies present and disclose financial performance. **Together, these new requirements would help entities to tell their story better.**

It is expected that investors will incur some costs for adjusting models and analyses to reflect the new structure of the statement of profit or loss. However, the benefits from applying these requirements would outweigh the likely costs of applying them.

INDIAN SCENARIO

To align Indian financial reporting norms with the international framework, an Exposure Draft of [Ind AS 118, Presentation and Disclosure in Financial Statements](#) (Proposed Ind AS 118/ Exposure Draft) has been issued. Ind AS 118 is proposed to take effect for annual periods beginning on or after April 1, 2027. Preparing for the implementation of the new requirements will take time. Management need to make new judgements, navigate complexities and oversee changes to systems and processes. Early engagement with stakeholders is critical. We are pleased to announce the launch of a series of publications on the proposed Ind AS 118. Each publication will explore specific areas, including the structure of the income statement and new defined subtotals. These publications would particularly be useful for the Board of Directors and C-Suite executives who understand the nuances of the proposed requirements. It is essential that these insights are read with the applicable requirements and the Exposure Draft.

The introductory publication gives a high-level overview of the proposed changes, including a worked example to understand key changes.








Stay tuned for insights and examples as we navigate this significant development.

BDO INDIA



WHY DEVELOP A NEW STRUCTURE?

The Primary Financial Statements Project aims to improve the structure and content of financial statements, enhancing comparability and transparency. A key outcome is the new standard on IFRS 18, Presentation and Disclosure in Financial Statements, which will supersede the existing norms.

STAKEHOLDERS' FEEDBACK (KEY)	RESPONSE IN IFRS 18	LIKELY BENEFITS			
		Providing investors with additional useful information about financial performance	Improving investors' ability to compare performance		Improving transparency to help investors understand how companies measure their performance
			between companies	between reporting periods for the same company	
Statements of profit or loss vary in content and structure between companies.	Requires new defined subtotals in the Statement of Profit or Loss.				
Measures defined by management in analysing performance lack transparency of how these measures are calculated.	Companies to disclose information about management-defined performance measures.				
Some companies don't provide enough detailed information, and important information is often obscured.	Provides principles for grouping information. It also defines the roles of the primary financial statements and the notes.				

PROPOSALS AT A GLANCE

The preparation and presentation of financial statements of a company is governed by the relevant division of Schedule III of the Companies Act, 2013 (2013 Act). Schedule III provides a uniform structure for presenting financial statements, including the Statement of Profit and Loss. Ind AS 1, Presentation of Financial Statements complements Schedule III by laying down the overall framework and principles for the presentation of financial statements. Ind AS 1 emphasises the importance of materiality, comparative information and classification, enhancing the clarity and usefulness of the financial information presented.

KEY CHANGES PROPOSED BY IND AS 118

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 April 1, 2027. The most significant effects relate to the following topics:

PROPOSED CHANGES (KEY)	SUMMARY
Classification of income and expenses in the statement of profit and loss	<p>All income and expenses are to be classified into one of five categories:</p> <ul style="list-style-type: none"> ▶ The operating category (Income and expenses from an entity's main business activities and any income and expenses that are not classified in other categories). ▶ The investing category (Income and expenses from investments made individually and largely independently of the entity's main business activities). ▶ The financing category (Income and expenses relating to obtaining finance to fund the entity's main business activities and/or investing activities). ▶ The income taxes category (Tax expense or tax income and any related foreign exchange differences). ▶ The discontinued operations category (Income and expenses from discontinued operations). <p>Income and expenses would generally be classified based on the shared characteristics (i.e. the type of asset or liability to which the income or expense relates); however, certain exceptions exist for entities with specified main business activities, resulting in certain income and expenses classified in the operating category that would otherwise be classified in the investing and/or financing categories.</p>
Principles of aggregation and disaggregation	<p>A set of principles has been proposed for aggregating and disaggregating assets, liabilities, equity instruments, reserves, income, expenses, or cash flows. Applying these requirements would result in the aggregation and disaggregation of items presented in the primary financial statements (i.e., the statement of profit and loss, balance sheet, statement of changes in equity and statement of cash flows) and disclosed in the notes.</p>

PROPOSED CHANGES (KEY)	SUMMARY
Analysis of operating expenses	An entity can present operating expenses in a way that provides the most useful structured summary of its expenses, either by nature, or by function or on a mixed basis on the face of the statement of profit and loss. The extant Ind AS 1 permits only nature-wise classification.
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 aggregated those items into the appropriate levels of aggregation for presentation in the statement of profit and loss, mandatory and additional subtotals are presented as a result of the previous steps. For example, all entities would be required to present 'operating profit' in the statement of profit and loss, which would be the total of all income and expenses classified in the operating category.
Disclosure of management-defined performance measures	<p>Proposed Ind AS 118 requires entities to disclose information about management-defined performance measures (MPMs), which are a subtotal of income and expense that:</p> <ul style="list-style-type: none"> ▶ an entity uses in public communications outside financial statements; ▶ an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and ▶ is not listed in the proposed Ind AS 118 or specifically required to be presented or disclosed by Ind AS. <p>Example of an MPM could be an 'adjusted profit' measure, which excludes share-based payments expenses and impairment of goodwill.</p>
Consequential amendments proposed to Ind AS 7, Statement of Cash Flows	The starting point will typically be operating profit or loss. Previously, the starting point in the statement of cash flows was profit or loss before tax.
Consequential amendments proposed to Ind AS 33, Earnings per Share	<ul style="list-style-type: none"> ▶ The extant Ind AS 33 permits entities to disclose additional earnings per share amounts using a reported component of the statement of profit and loss as the numerator. <p>Proposed Ind AS 118 amends Ind AS 33 and permits additional earnings per share amounts only when the numerator is:</p> <ul style="list-style-type: none"> • A total or subtotal specified by proposed Ind AS 118; or • A MPM. <ul style="list-style-type: none"> ▶ Additional disclosures are proposed in Ind AS 33 when an entity presents an additional amount per share other than basic and diluted earnings per share (e.g., adjusted operating profit per share). Disclosure proposals are more significant if the disclosed additional per share amount uses a MPM as the numerator in the calculation.

TOPICS SUBSTANTIALLY UNCHANGED FROM IND AS 1

Many requirements in Ind AS 1 brought forward into the proposed Ind AS 118 (or other Ind AS) are substantially unchanged. A significant number of requirements from Ind AS 1 are proposed to be relocated to Ind AS 8, Basis of Preparation of Financial Statements (previous title: Accounting Policies, Changes in Accounting Estimates and Errors). Certain other requirements would be relocated from Ind AS 1 to other Ind AS, such as Ind AS 107, Financial Instruments: Disclosures.

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

CLASSIFICATION OF INCOME AND EXPENSES

The proposed Ind AS 118 requires entities to classify all items of income and expense into one of five categories:

- ▶ The operating category
- ▶ The investing category
- ▶ The financing category
- ▶ The income taxes category
- ▶ The discontinued operations category

The structure of the statement of profit and loss would then be based upon how items of income and expense are classified.

For example, for an entity without specified main business activities where certain exceptions to the classification requirements apply, a typical extract of statement of profit and loss basis nature-wise classification may be as follows:

EXAMPLE LINE ITEMS – CLASSIFICATION BASIS NATURE	CLASSIFICATION
Revenue	Operating category
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation, amortisation and impairment	
Other operating expenses	
Operating profit	
Share of profit of associates and joint ventures	Investing category
Profit before financing and income taxes	<u>Mandatory</u> specified subtotal ¹
Interest expense on borrowings and lease liabilities	Financing Category
Interest expense on pension liabilities	
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

¹Profit 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.

OUR TAKE – LABELLING OF CATEGORIES

Proposed Ind AS 118 does not require an entity to label items of income and expense based on the five categories in Ind AS 118. For example, the fair value gains on investments in equity instruments are proposed to be classified in the investing category; however, the term 'investing category' need not appear in the statement of profit and loss. The classification of items of income and expense into the five categories noted above is used to produce the mandatory specified subtotals in proposed Ind AS 118, as these subtotals are based on the classification of income and expenses. For example:

'Operating profit or loss' is required to be presented by the proposed Ind AS 118, and it is defined as comprising all income and expenses classified in the operating category.

'Profit or loss before financing and income taxes' is required to be presented by proposed Ind AS 118 and is defined as the total of operating profit or loss (defined above) and all income and expenses classified in the investing category. Therefore, that subtotal comprises all income and expenses included in the operating and investing categories.

OUR TAKE – CATEGORY NAMES AND INCONSISTENCY WITH THE STATEMENT OF CASH FLOWS

The proposed operating, financing and investing categories are similarly titled to operating, financing and investing

activities in Ind AS 7, however, the proposed Ind AS 118 did not aim to achieve alignment between how income and expenses are classified in the statement of profit and loss and how the associated cash flows are classified in the statement of cash flows.

For example, an entity that operates a factory may sell items of property, plant and equipment, with the cash flows arising from the sale being classified as an investing activity in Ind AS 7 because the cash flows relate to 'the acquisition and disposal of long-term assets and other investments not included in cash equivalents'. However, the associated income or expense (the gain or loss on disposal of the item of property, plant and equipment) would typically be classified in the operating category in the statement of profit and loss because it would not meet the criteria to be classified in the investing category.

OUR TAKE – OPERATING CATEGORY AS THE 'RESIDUAL'

It is important to emphasise that the operating category is a 'residual category', meaning that items of income and expense are always classified into the operating category unless they meet criteria to be classified into another category. Therefore, it would be necessary for entities to determine whether each item of income and expense may be (or is required to be) classified into one of the other four categories.



ENTITIES WITH SPECIFIED BUSINESS ACTIVITIES

Proposed Ind AS 118 contains exceptions to the general classification requirements for entities that have specified main business activities. That is to say, for certain entities, the primary activities that are undertaken to run their business will affect how items of income and expense are classified. For entities with specified main business activities, certain items of income and expense that would otherwise be classified in the investing and/or financing categories would be classified in the operating category. For example, if an entity has a main business activity of investing in financial assets, then the fair value gains and losses on financial assets (e.g. debt or equity instruments) measured at fair value through profit or loss are classified in the operating category.

The specified main business activities requirements of proposed Ind AS 118 may be depicted graphically as follows, with certain income and expenses being classified out of the investing and financing categories into the operating category:

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	
Fair value gains on investments in equity Instruments	Investing category
Profit before financing and income taxes	<u>Mandatory</u> specified subtotal ²
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.



It is important to identify if the entity has 'specified main business activities' (e.g., investing in assets, providing financing to customers, etc). This assessment will significantly influence income statement presentation.

²Profit 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.

WORKED EXAMPLE

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



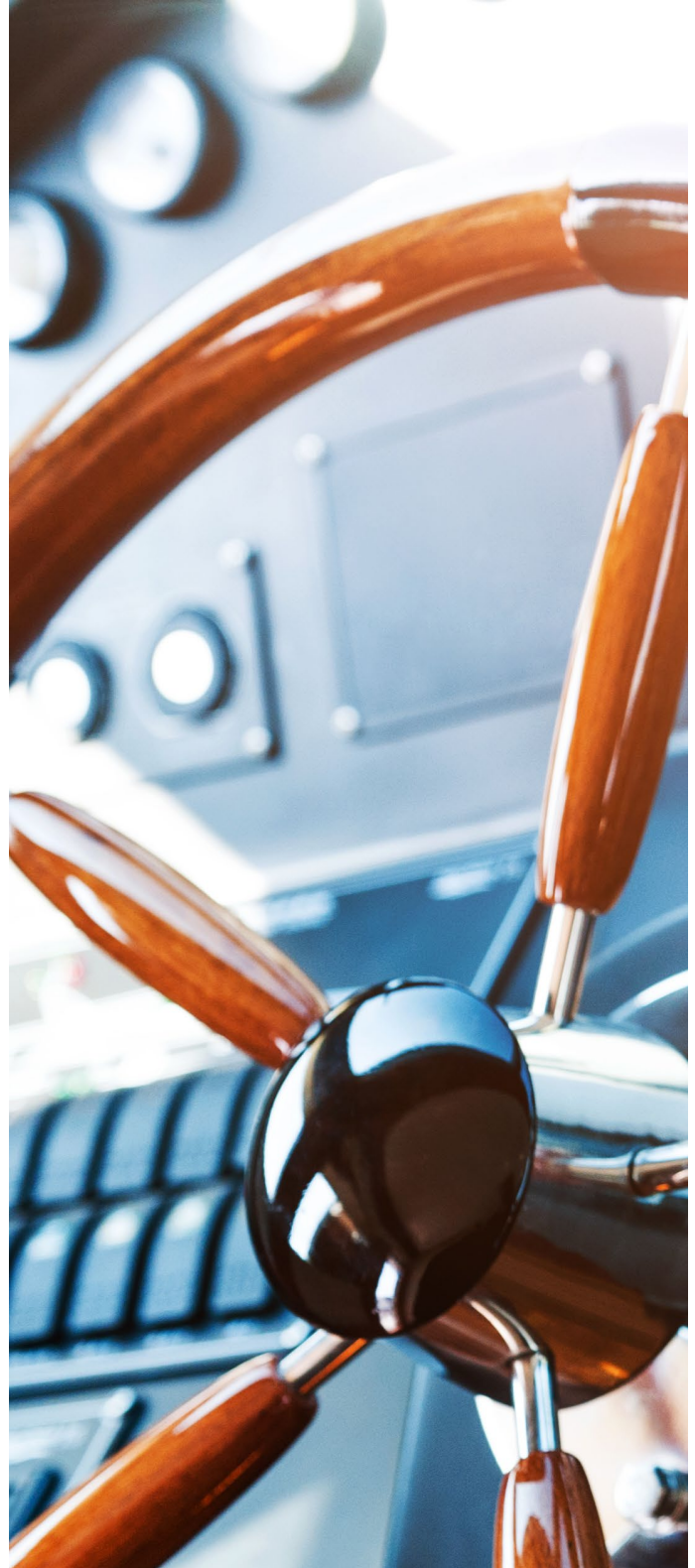
- ▶ Other income, i.e., interest from fixed deposits, will be re-classified to the investing category (earlier included in 'Total income').
- ▶ Share of profit of investments accounted for using the equity method will be classified under the investing category.
- ▶ Finance costs, i.e., interest on borrowings,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

OUR TAKE –SCHEDULE III TO THE 2013 ACT

Schedule III to the 2013 Act sets out the minimum requirements for disclosure on the face of the statement of profit and loss. Line items, sub-line items and sub-totals should be presented as an addition or substitution on the face of the statement of profit and loss when required under Ind AS. For example, line items required under the extant Ind AS 1 are included, as an addition to or a substitution of the Schedule III line items. Accordingly, requirements of both Ind AS Schedule III as well as Ind AS 1 are to be complied with.

Other laws and regulations also refer to Schedule III for the layout of the statement of profit and loss – for example, financial results under SEBI Listing Regulations are required to be presented as per Schedule III to the 2013 Act.

One of the emerging discussions is whether there is a need to amend Schedule III in light of the proposed Ind AS 118, or whether the Schedule need not be amended as it provides an adequate mechanism to accommodate the requirements of the proposed Ind AS 118. Preparers of the financial statements should track this development.



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

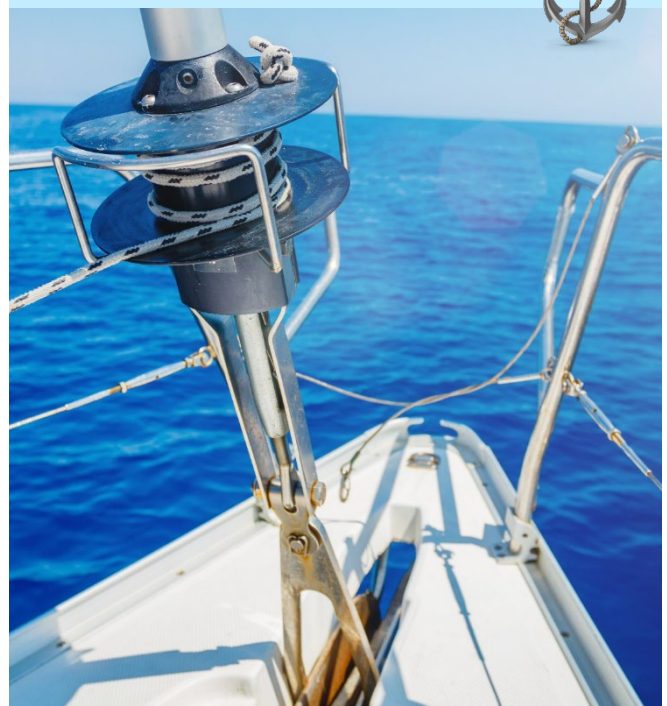
Staff will need to be trained, for example, in understanding the classification of income and expenses into categories in the statement of profit and loss. Entities will incur costs in communicating with external

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.

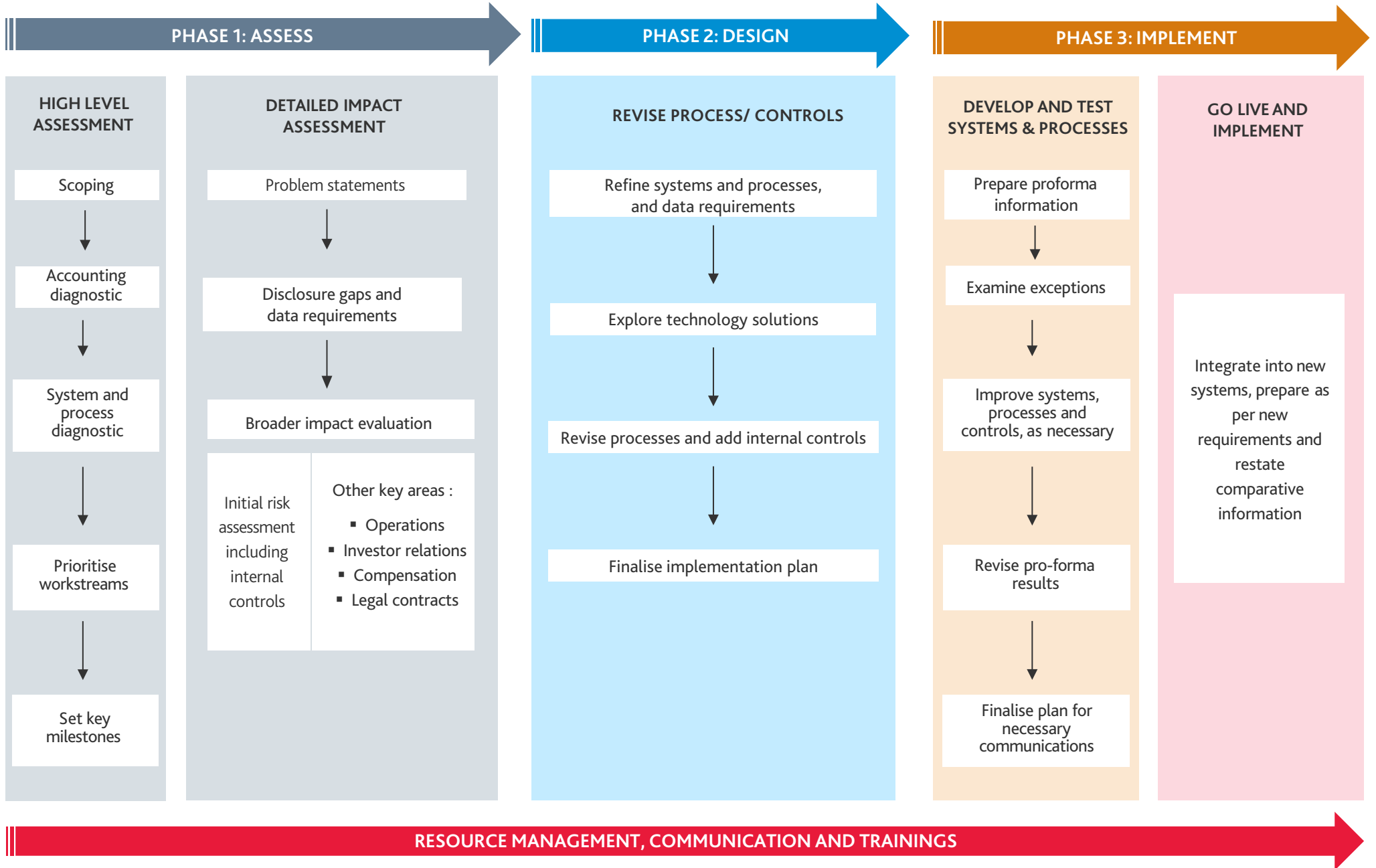


HOW SHOULD A COMPANY BEGIN ITS ASSESSMENT?

Ind AS 118 is proposed to become effective for annual reporting periods beginning on or after April 1, 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.





HOW BDO INDIA CAN HELP?

At BDO India, we understand the technical and industry-specific challenges involved in implementation. Our experts provide bespoke support to help entities align their financial statements on presentation, classification and disclosure. We can assist the management with:

IMPACT ASSESSMENT AND ROADMAP DEVELOPMENT

Helping management conduct high-level and detailed diagnosis to identify how proposed Ind AS 118 will impact their current financial statement presentation and developing a tailored roadmap for conversion and preparation of financial information as per the proposed framework.

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMS)

Assisting Management in identifying MPMs to be disclosed in financial statements, ensuring compliance with proposed disclosures including MPM reconciliations and alignment with investor communication strategies.

CHART OF ACCOUNTS AND SYSTEM RECONFIGURATION

Supporting management in updating their chart of accounts, identifying potential changes to systems and processes needed for an effective transition and MIS structures to align with the categories and subtotals proposed under Ind AS 118.

TRANSITION ASSISTANCE

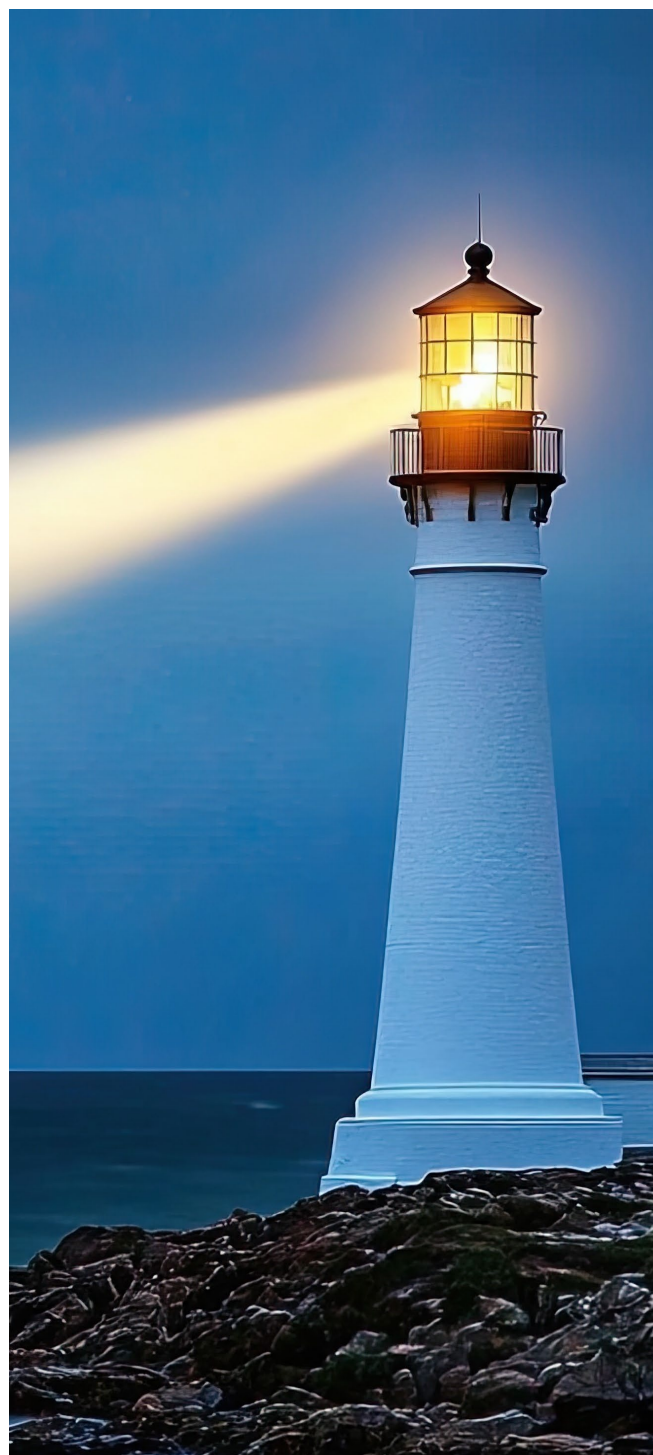
Providing support on restatement of prior-period financials and preparing proforma disclosures to facilitate clear communication with stakeholders during the transition period.

TRAINING AND CHANGE MANAGEMENT

Conducting tailored workshops for finance teams and senior management for understanding of classification principles, aggregation/disaggregation, and practical implications.

AUDIT READINESS AND DOCUMENTATION

Helping management prepare robust documentation to support judgments to be made under proposed Ind AS 118 and enable a smooth statutory audit.



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US\$15 BN
GLOBAL
REVENUE

+7%
REVENUE
INCREASE

1,800
OFFICES
WORLDWIDE

166
COUNTRIES &
TERRITORIES

119,611
PEOPLE
WORLDWIDE

BDO INDIA

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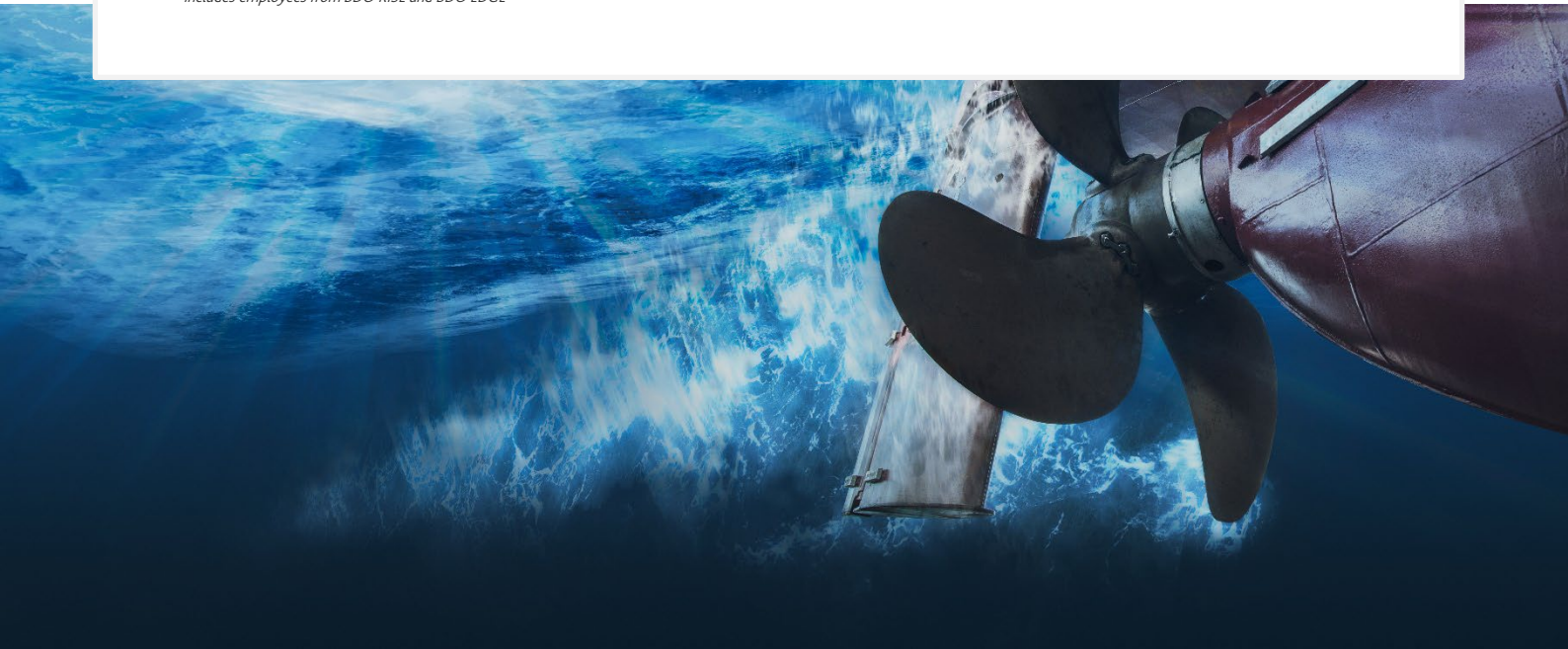

11000+
STAFF*


14
CITIES


20
OFFICES


350+
PARTNERS
DIRECTORS

**Includes employees from BDO RISE and BDO EDGE*



WATCH OUT FOR OUR NEXT PUBLICATION

How different will your income statement look from FY2027? - Classification in the investing category

- ▶ Classification of income and expenses in the investing category
- ▶ Exceptions to the principles
- ▶ Practice aids

LET'S START A CONVERSATION

AMIT AGARWAL

Partner & Leader

Accounting Advisory Services

For any content-related queries, please write to our service line experts at accountingadvisory@bdo.in

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