

WHAT SHOULD YOU PRIORITISE IN FINANCIAL REPORTING THIS YEAR-END?

KEY DEVELOPMENTS AND PRACTICAL IMPACTS
ON FINANCIAL STATEMENT PREPARATION



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FOREWORD

The world finds itself amidst increasing geopolitical and economic uncertainty, following the conflicts and their effects on global supply chains. As another financial year draws to a close, reporting teams are once again entering one of the most demanding and judgment-heavy phases of the annual cycle. Year-end is not simply a matter of closing the books; it is a critical point at which entities must assess the continuing impact of market volatility, geopolitical factors, climate change, regulatory developments, and heightened stakeholder scrutiny on their financial statements.

This publication is intended to serve as a practical reminder of the key financial reporting matters that commonly require close attention at the year-end. It highlights areas where judgment, consistency, and timely coordination across finance, tax, legal and operations can make a meaningful difference to the quality and reliability of reporting outcomes.

We hope this publication will assist the board of directors, C-suite executives and reporting teams in identifying emerging issues, focusing on areas of heightened risk, and the year-end process with clarity and confidence. By highlighting common challenges and providing practical solutions, it will help the reporting team navigate the year-end reporting cycle.

Since this publication offers a high-level summary, reviewing these insights alongside the relevant regulatory requirements is important.

We hope you find it helpful.

BDO India



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WHAT'S ON THE REPORTING RADAR?	WHO'S ON THE REPORTING RADAR?		
	Few entities	Some entities	Many entities
Effect of global macroeconomic uncertainties		✓	
Classification of liabilities	✓		
Supplier finance arrangements			
Disclosing climate and other uncertainties			
Electronic payments*			✓
Redefining Income Statement*			
*Proposed			
SEBI's related party reset		✓	
Communications with those charged with governance			✓
New labour codes			✓
New Income tax framework			✓
New data protection framework		✓	

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UNCERTAINTY IS THE NEW LINE ITEM



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The global economic landscape is undergoing a structural reordering, signalling the ebb of an era marked by seamless globalisation and trade liberalisation. A more fragmented and cautious world is emerging, one where protectionist instincts are taking precedence over outreach for imports, supply chains are being recalibrated in response to geopolitical shifts, and the terms of engagement are shifting more toward bilateralism.

The current environment is characterised by overlapping risks, global headwinds and a proliferating series of exogenous shocks creating a "There Is No Alternative" syndrome for the world. Importantly, these uncertainties have economic consequences. Businesses delay capital expenditure, consumers reduce discretionary spending, and investors demand higher risk premiums. This leads to a slowdown in economic activity even before tangible disruptions fully materialise.

The sources of these uncertainties are both economic and non-economic in nature. While industrial policies and competition for critical raw materials are driving supportive trade measures, persistent concerns over trade imbalances are simultaneously prompting corrective trade measures. Additionally, some nations are employing trade policy unilaterally to pursue their various domestic goals. These unilateral actions have, in turn, prompted retaliation. As rule-based trading systems weaken, strategic ambiguity is likely to characterise the trade policymaking process, further contributing to uncertainty.

The world faces yet another shock. The war in the Middle East is upending lives and livelihoods in the region. The shock is global, yet asymmetric. The war's cascading economic fallout is now radiating well beyond the Gulf, reshaping global markets, food systems, industrial supply chains, financial conditions, geopolitical alignments, trade routes, and investment decisions – potentially for years to come.

This is not only a regional crisis, but has a domino effect on the world economy, delivered at a moment of geoeconomic fragility. The longer it runs, the more lasting the damage becomes. The Strait of Hormuz, in particular, remains a critical global chokepoint where disruption threatens not just oil shipments but also high-tech supply chains.

The present situation indicates the transition from unfettered integration to 'geostrategic globalisation', a world where countries remain interconnected but exercise greater caution regarding whom they trade with, how they source inputs, and which partners they depend upon.



The recent Middle East conflict reminded us how corporate reporting today can be severely impacted by global tensions, supply chain disruptions, and heightened stock market volatility.

It is almost like trying to capture a sharp photograph on a foggy morning. Such uncertainties can result in numerous reporting implications: how much of the carrying amount of a Cash Generating Unit is recoverable, how the increased default risk would impact allowance for expected credit loss, or if rising input costs have rendered certain contracts onerous. One change in interest rates, one unexpected market shift, a 'black swan' global event, and such estimates need to be revisited.

Not everything that counts can be counted - hence, companies should step back and reassess the need for additional disclosures around assumptions, sensitivities, and areas of estimation uncertainty to ensure that the financial statements can be understood with the intended clarity.

RAJAN KAMAT

INDEPENDENT DIRECTOR

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GLOBAL RISKS: WHAT'S KEEPING EVERYONE ON EDGE?

Industrial supply chains disrupted

The choking of the Strait of Hormuz has triggered the largest disruption to global oil markets in history, with an expected drop of 8 million barrels per day in March 2026 – a volume equal to almost 8% of world demand. Beyond crude oil, key commodities such as liquefied natural gas and fertilizers face logistical bottlenecks leading to shipment delays.

Crude on the boil

Brent crude oil prices jumped about 15% in the opening days of the conflict, then surged to USD 120 a barrel as the conflict deepened and the market began pricing in the risk of sustained disruption. The conflict introduces both a physical supply shock and a geopolitical risk premium, making crude oil prices highly volatile and skewed sharply upward in the near term.

Redrawing trade maps

Multinationals operating in conflict zones are increasingly being singled out, prompting travel advisories and strategic resets. Geopolitical tensions are accelerating investments into alternative corridors and "friend-shoring" arrangements - setting the stage for a gradual shift in global trade hubs.

Inflationary pressures

Higher fuel, insurance and freight costs are raising production and transport costs. Rerouted cargoes are also pushing up travel and logistics costs between Europe, the Gulf and Asia. Even a small increase in inflation could add to existing price pressures on utilities, certain food items, and household durables.

Currency conundrum

Sanctions risk and trade realignments are slowly diluting the dominance of the United States dollar. As economies diversify reserves, lean into gold, and experiment with non-dollar trade, this quiet de-risking could, over time, rebalance global power and reshape markets.

Cyber frontlines

Three distinct trends are emerging: the convergence of cyber-physical threats with several strikes on essential civilian and industrial systems; the deployment of artificial intelligence to compromise the integrity of digital supply chains; and the use of deepfakes in an environment characterised by information blackouts.



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ACCOUNTING CONSIDERATIONS

The armed conflicts, global uncertainties and the escalating tensions have many companies asking how these developments might affect financial reporting. The potential implications for financial statements include not only the recognition and measurement of assets and liabilities but also presentation and disclosure. These areas could include, but are not limited to:

01 Impairment of non-financial assets

The global and economic uncertainties may increase the costs of production, reduce the demand for goods and services and have other indirect effects, which may increase the risk of impairment of non-financial assets, including property, plant and equipment, right-of-use assets, intangible assets and goodwill.

For example, significant exposure to supply chain stresses, such as increased input costs from imported goods or inability to pass on increases in costs to customers may result in impairment indicators being identified, triggering impairment tests.

02 Fair value measurement

General macroeconomic uncertainties may lead to an increased level of uncertainty with respect to inputs used for the determination of fair values. Entities need to consider the effect of current macroeconomic conditions on fair value measurements, particularly with respect to Level 3 inputs and on the disclosures provided.

Market participants would not necessarily assume that these uncertainties will endure for the entire economic life of assets. Estimates of fair value must consider the assumptions market participants would make, and the associated uncertainties in those estimates.

03 Discount rates

A number of Ind AS require discount rates to be determined. In the current economic environment with uncertainty, the potential for high inflation and a general economic downturn, the determination of discount rates is critical and discount rates determined in the past may no longer be appropriate.

Assumptions about the discount rate and cash flow estimates should be internally consistent. Cash flows are discounted using the discount rate applicable for the currency in which the cash flows are denominated. The discount rate is determined considering the underlying economic factors of the currency in which the cash flows are determined.

04 Judgements, estimates and estimation uncertainties

Given the rapidly evolving circumstances, significant judgements and estimates need to be assessed, updated and monitored continuously to ensure that they reflect current circumstances.

For example, due to reductions in demand for goods and services and increased costs, entities may need to revise their assumptions used to determine the recoverable amounts of non-financial assets.

Entities in sectors that are particularly affected by increased energy prices may need to consider multiple scenarios with varying assumptions in their cash flow projections to estimate the recoverable amount in impairment analysis of non-financial assets.

05 Expected Credit Loss (ECL) models

Entities may face significant challenges in developing ECL models for the current macroeconomic environment due to the lack of experience in modelling for such circumstances. Therefore, it is critical to provide sufficiently transparent disclosures of the effect of the changing economic environment on the ECL calculation. This would enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

For example, the effects of uncertainties may affect particular industries and jurisdictions more than others. Therefore, entities should consider providing enhanced disclosures of sector-specific drivers in ECL measurement and risk concentrations related to specific sectors and/or jurisdictions.

06 Going concern assessment

Due to deteriorating economic conditions, many entities have experienced (or may expect to experience) a significant downturn in revenue, rising costs or both. Certain industries may experience significant reductions in revenue due to reduced demand for their goods and services because of uncertainties. Rising debts may be difficult for some highly leveraged entities.

Entities may not be able to pass on the rising operating costs to customers in all cases. Factors such as these require greater attention to an entity's assessment of going concern.

Detailed scenario analysis should be performed when the entity is significantly affected by factors such as those discussed above (e.g. considering multiple uncertain future events).



07 Onerous contracts

The increasing incidence of geopolitical disruptions and force majeure events has heightened the risk of contracts becoming onerous. Contracts may become onerous due to increase in costs without a corresponding increase in revenue.

For example, if rising input costs mean that the costs of constructing a building for a customer have increased such that the contract is no longer profitable, that contract may be onerous. Onerous contracts are required to be recognised as a provision with the loss being recognised 'up front'.

This requires significant judgement, particularly in estimating future costs, assessing the enforceability of contractual terms, and determining whether renegotiation or termination options are commercially viable in a rapidly evolving risk environment.

08 Events after the reporting period

Entities need to determine whether the event after the reporting period is adjusting (events that provide evidence of conditions that existed at the end of the reporting period) or non-adjusting (events that are indicative of conditions that arose after the reporting period). This assessment may require significant judgement.

Amounts recognised in financial statements are adjusted to reflect material adjusting events. For material non-adjusting events, the entity should disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Times of uncertainty and rapid change increase the risk that a material event will occur after the reporting period but before the financial statements are authorised for issue, making this assessment a critical one.

DISCLOSURE CONSIDERATIONS

High-quality disclosures are key in the current environment to enable users to evaluate the nature and extent of risks the entity is exposed to. Regulators have consistently emphasised the importance of high-quality disclosures. Management should consider company-specific information as well as the broader situation and implications. Further, management should assess the need for transparent disclosure around the impacts on current and future financial performance and the related risks and uncertainties of high-quality disclosures:

Disclosures should be clear, concise and understandable and not include immaterial information.

Clear disclosures should be provided of significant management judgements and key assumptions underlying major sources of estimation uncertainty, including information about the sensitivity of reported amounts to changes in assumptions.

Disclosures should be entity-specific and should meet the disclosure objectives of the relevant Ind AS and not just the specific disclosure requirements of the standards. Entities should provide additional disclosures necessary to enable users to understand the impact of particular transactions, events and other conditions on the entity's financial position and financial performance.

Boilerplate disclosures should be avoided.

OUR TAKE – WHERE THERE IS LINKAGE, THERE IS RISK

Entities should not underestimate the financial statement implications of geopolitical risks. Its effects are pervasive, complex, and often indirect. Entities must adopt a proactive and disciplined approach to assessing these risks and reflecting them appropriately in their financial statements.

For Indian businesses in particular, exposure to global energy markets and international supply chains increases vulnerability to external shocks. Accordingly, management should prioritise robust risk assessment processes and maintain a high standard of transparency in financial reporting and ensure transparent disclosures to stakeholders.

ACCOUNTING ROUNDUPS



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In the current financial reporting cycle, several targeted amendments and evolving regulatory expectations under Indian Accounting Standards (Ind AS) are reshaping both disclosure practices and areas of judgment for preparers. Collectively, these developments underscore a clear shift toward greater transparency, entity-specific disclosures, and enhanced articulation of management judgment and estimation uncertainty, reinforcing the principles-based foundation of the Ind AS framework.

AMENDMENTS APPLICABLE FROM 1 APRIL 2025

Classification of liabilities: current vs non-current

Under Ind AS 1, *Presentation of Financial Statements*, an entity classifies a liability as current when they do not have an **unconditional right to defer settlement** for at least 12 months after the reporting date.

Further, Ind AS 1 includes a carveout regarding the classification of liabilities when there is a breach of a material loan covenant. Where there is a **breach of a material provision** of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.



The current financial reporting cycle witnessed clarity on liability classification, particularly around covenant-linked arrangements, along with enhanced disclosures on supplier finance arrangements.

Looking ahead, Ind AS 118, *Presentation and Disclosure in Financial Statements* is expected to be applicable from FY 2027 - 2028. Though FY 2027-2028 looks far, but companies have to prepare for same now, assess implications on compensation policies, valuation of private shareholder arrangements, and restate comparative for FY2026-2027, etc. The Income statement presentation is transformational, highly meaningful, and most importantly, will be globally comparable with two new defined subtotals—operating profit and profit before financing and income taxes and categories for classifying income and expenses—operating, investing, financing, income taxes and discontinued operations. Operating profit will be profit after depreciation as depreciation is a key cost. Also, operating profit can be correlated to some extent with cash flow from operating activities.

Ind AS 118 would also permit management to present Management Performance Measures that management consider relevant, but with reconciliation with the closest Ind AS measure supported with explanatory disclosures, providing users with better insight into how these measures are derived and used. Managements choosing to publish EBITDA will have to present a reconciliation with Operating Profit, which will be measured the same way for all and will be comparable.

M P VIJAY KUMAR

DIRECTOR AND MEMBER OF IFRS INTERPRETATION COMMITTEE

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The following amendments to Ind AS 1 have brought clarity to several issues related to the classification of current or non-current liabilities, and the discontinuation of aforesaid carveout:

- Removed the requirement for a **right to be unconditional** and instead
- Requires that a **right to defer** settlement must **exist at the reporting date** and should have substance.

- Only covenants which must be **complied on or before the reporting date** affect the classification of a liability.
- Covenants with which the company must comply after the reporting date (i.e., future covenants) would affect a liability's classification at that date.

Classification of a liability is:

- **Unaffected** by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period.
- Exercise its right to defer settlement of the liability for at least 12 months after the reporting period.

- Settlement of a liability by way of an entity's own equity instruments is **considered settlement** for the purpose of classification of liabilities.
- However, if the terms of the liability include a conversion option which is classified as an equity component of a financial instrument, settlement of the liability by exercise of such option would be disregarded for classification of liabilities.

Additional disclosures have been prescribed for non-current loans when the right to defer settlement of liabilities is subject to the entity complying with future covenants within 12 months, for example:

- Information about the covenants (including the nature of the covenants and when the entity is required to comply with them),
- Carrying amount of related liabilities and facts and circumstances indicating potential difficulty in complying with covenants within the next 12 months such as actions taken to avoid breach.

At present, a liability is not classified as current where:

- Breach of a material provision of a long-term loan arrangement has taken place on or before the end of the reporting period, and
- The lender has agreed, after the reporting period and before the approval of the financial statements, for issue not to demand payment as a consequence of the breach.

(This provision would be removed from 1 April 2026)





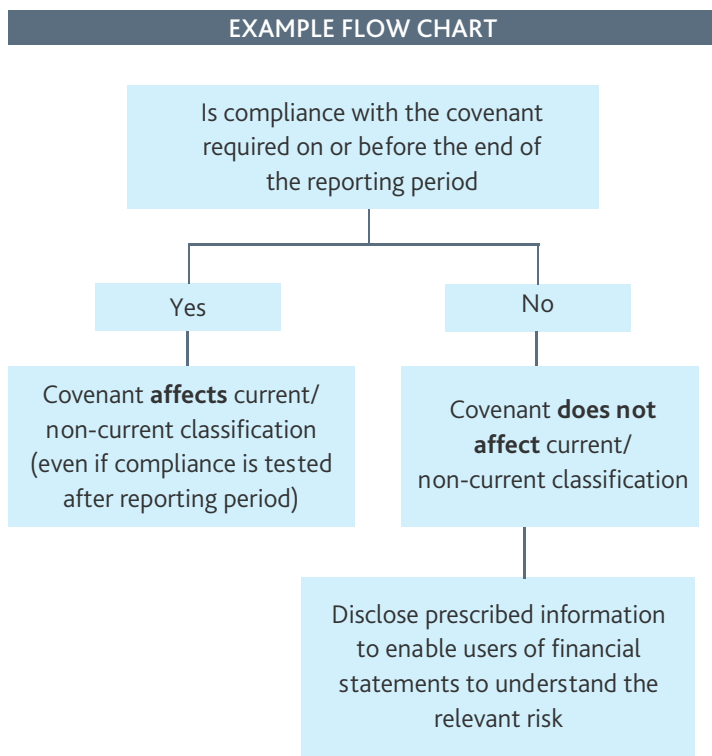
Compliance with a loan covenant

An entity will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with covenants specified in a loan arrangement. Only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. When non-current liabilities are subject to future covenants, entities will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

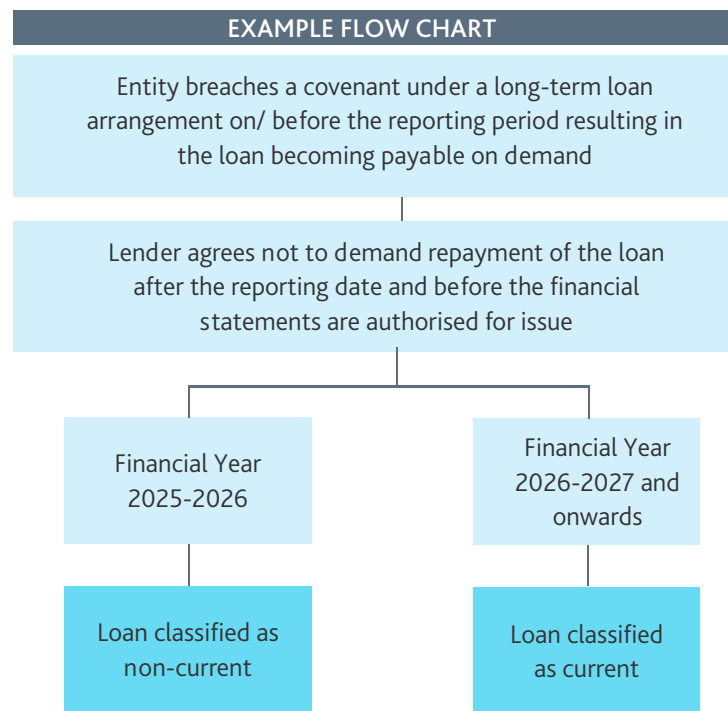
Breach of a covenant: what has changed?

The aforesaid carve-out regarding the classification of liabilities when there is a breach of a material covenant that transforms the liability from non-current to current continues to be relevant for the year ended 31 March 2026. However, consequent to the removal of the carve-out from 1 April 2026, if an entity breaches any covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it will classify the liability as current.

EXAMPLE FLOW CHART



EXAMPLE FLOW CHART



Waiver vs grace period - are they different?

In some cases, the lender provides a waiver for a breach of a covenant or provides a period of grace. The terms 'waiver' and 'period of grace' remain undefined in Ind AS 1. Generally, a waiver would be different from a period of grace.

OUR TAKE – WAIVER VS GRACE PERIOD

- In our view, a waiver would refer to the lender surrendering the rights related to the breach of covenant. For example, the lender surrenders their right to demand immediate repayment, which arises from a breach. In substance, a waiver is permanent and not for a particular period. A waiver effectively modifies the terms of the loan arrangement, removing the covenant that is waived from the contractual terms of the liability.
- A period of grace would refer to a time period provided by the lender during which the lender agrees not to demand immediate repayment of the loan due to the breach. At the end of the time period, the lender regains the right to demand immediate repayment resulting from the breach. Thus, in our view, a waiver would be a complete surrender of the rights, whereas a period of grace is a suspension of the rights for a specified period of time.
- The requirement in Ind AS 1 of a minimum period of twelve months after the reporting period for classification of the liability as non-current would apply to a period of grace, but not to a waiver, as the waiver is a complete surrender of the rights of the lender related to the breach.
- Sometimes, the assessment of the modification of the contractual terms may involve legal interpretation to ascertain the precise nature of the rights surrendered or retained by the lender.

Worked examples

In the following examples, we analyse various fact patterns using the considerations discussed above. The examples include multiple variations of several base fact patterns.

Fact pattern 1: Compliance with the covenant required prior to the reporting period 31 March 2027

ABC Limited obtains a bank loan on 1 April 2026

Key terms include the following:

- Fully repayable after five years.
- Maintain working capital ratio above 1.1 as at every 31 October.
- Non-maintenance of the working capital ratio would give the bank a right to demand immediate repayment of the loan

SCENARIO 1

- Breach of loan covenant **occurs**.
- Waiver received from the bank by the year-end.

SCENARIO 2

- Breach of loan covenant **anticipated**.
- Bank waives anticipated breach.
- Bank inserts a **new covenant** to be met after the year-end.

SCENARIO 3

- Breach of loan covenant **occurs**.
- Waiver received from the bank by the year-end.
- By the year-end, the entity provides **additional collateral** demanded by the bank.

SCENARIO 4

- Breach of loan covenant **occurs**.
- Waiver received from the bank by the year-end
- Bank inserts a **new covenant** to be met after the year-end.

Response

The loan should be classified as non-current as at the end of the reporting period, i.e., 31 March 2027.





OUR TAKE – WAIVER OF BREACH

- In all the above scenarios, ABC Limited is in the same economic position as at 31 March 2027, and thus the loan should be classified as non-current. In our view, whether the waiver is received prior to the breach or after the breach will not affect the analysis, provided the waiver is received on or before the end of the reporting period. Since compliance with the covenant is required only after the end of the reporting period, the new covenant explained in Scenarios 2 and 4 is not relevant and does not affect classification as at the end of the reporting period.
- If in Scenario 3, the collateral were not provided by the end of the reporting period, the waiver of the breach would be incomplete by the end of the reporting period as the condition attached to it would not have been met. In such a scenario, the loan would be classified as current.

Fact pattern 2: Cross default liabilities

ABC Limited obtains two term loans from a bank – term loan I and term loan II.

Key terms include the following:

- Term loan II requires entity to meet a working capital covenant at the end of the annual reporting period.
- Failure to meet the covenant would result in the bank having the right to demand immediate repayment of both term loan I and term loan II.

Response

The assessment for cross-default liabilities would be similar to that of other loan arrangements. The conclusion as to the classification of the loan would apply to all the loans covered by the cross-default terms, unless there are other terms applicable to any one or more particular loans in the group of loan arrangements.

Fact pattern 3: Two-stage covenant test

ABC Limited has a loan which provides for a covenant test to be performed semi-annually on 30 September and 31 March.

Key terms include the following:

- Interest coverage ratio of at least 8.
- If the covenant is not met, cash should be deposited in a designated bank account within one month i.e. amount, which, if added to the net income, would result in the interest coverage ratio to be at least 8.
- If the cash is not deposited in the bank account within a month, the bank obtains the right to demand immediate repayment of the loan.

As at end of reporting period, interest coverage ratio is 6

Response

- The liability is classified as non-current as at the reporting date.
- In our view, the covenant will be breached only when ABC Limited fails to comply with the test in its entirety i.e. it fails to deposit the required funds in the designated bank account. As the second stage of the covenant test is required to be complied with after the reporting period, the covenant will not affect whether the right to defer settlement for at least twelve months exists at the end of the reporting period.

OUR TAKE – SUFFICIENCY OF FUNDS

- In the above example, ABC Limited has sufficient funds to deposit in the designated bank account by the due date.
- It should be noted that even if the entity did not have sufficient funds as at reporting date or it did not expect to have sufficient funds by the date of cash deposit, it would not change the conclusion as management's expectations about compliance with a covenant in subsequent reporting periods do not affect the classification of the loan at the end of the current reporting period. Additional disclosure may be included in such cases.

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Fact pattern 4: Compliance with covenant required periodically

Listed Limited obtains a bank loan on 1 April 2026

Key terms include the following:

- Fully repayable after five years.
- Maintain working capital ratio at least 1.5 as at the end of every quarter.
- Non-maintenance of the ratio would give the bank a right to demand immediate repayment of the loan up to the date of the next covenant test that is carried out at the end of the subsequent quarter. For example, if the covenant is not met on 30 June 2026, the bank has a right to demand repayment of the loan up to 30 September 2026, when the covenant is tested again.

- Listed Limited's current ratio is 1.4 as at 30 June 2026, resulting in a breach of the covenant.
- There is no waiver of the breach of covenant nor a period of grace.
- Current ratio is 1.6 as at 30 September 2026.

Response

Loan classification as at 30 June 2026

The loan is classified as **current**. The bank has not provided a period of grace for the covenant violation by the end of the reporting period.

Loan classification as at 30 September 2026

The loan is classified as **non-current**. Listed Limited has met the covenant test as at 30 September 20X6.

OUR TAKE – CLASSIFICATION IN INTERIM FINANCIAL STATEMENTS

- If the covenant is breached in one interim reporting period and met in a subsequent interim reporting period, the classification of the loan can fluctuate between current and non-current from one interim reporting period to another. The classification of the loan at the end of a particular reporting period will be affected only by those covenants that are required to be complied with on or before the end of that interim reporting period.
- Management's expectations about compliance with a covenant (or covenants) in subsequent interim reporting periods will not affect the classification of the loan at the end of the current reporting period.

Fact pattern 5: Ongoing negotiations for loan extension

DEF Limited does not meet the covenant as at the reporting period.

DEF Limited and the lender are negotiating whether to extend the loan for a period of two years.

Response

Negotiations have not been concluded by the end of the reporting period.

The loan is classified as **current**. The fact that the entity and the lender are negotiating an extension of the loan at the end of the reporting period does not affect the analysis.

Negotiations have concluded after the reporting period.

The loan is classified as **current** even if the lender agrees to extend the loan after the end of the reporting period, but before the financial statements are authorised for issue, as the entity did not have a right to defer settlement of the loan for at least 12 months at the end of the reporting period.

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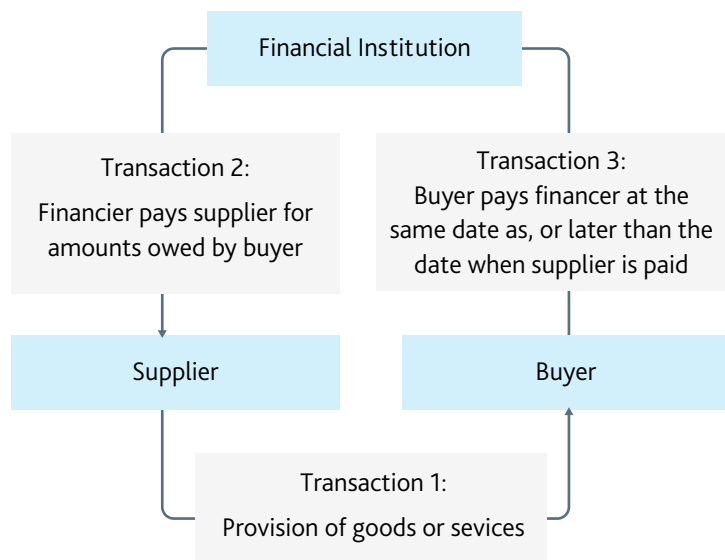
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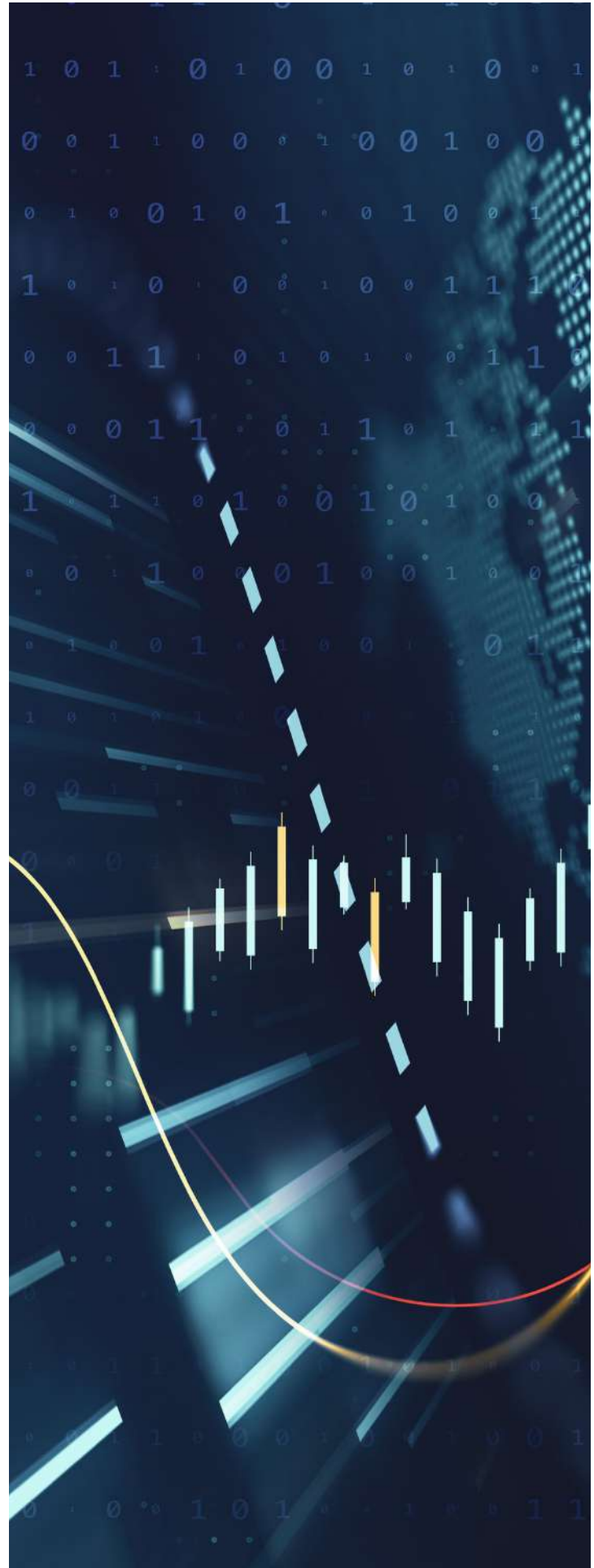
Supplier financing arrangements

Supplier financing arrangements, often referred to as supply chain financing, payables financing or reverse factoring, involve a third-party financial institution facilitating payments between a buyer and its suppliers. The legal form of the supplier finance arrangements may vary, but they usually involve three parties, i.e., a customer, a factor and a supplier.

In these finance arrangements, one or more factors (finance providers) agree to pay amounts to a supplier in respect of invoices that the entity (i.e. customer) owes to the supplier, the entity agrees to make a payment to the factor on the same date that the supplier is paid or at a later date. Compared to the original invoice due date, these arrangements provide the entity with extended payment terms, or the supplier with the benefit of early payment. It is a working capital tool that allows businesses to optimise cash flow, improve working capital, and strengthen supplier relationships.



The amendments introduce disclosures to enhance the visibility of supply finance arrangements in financial statements, enabling stakeholders to better assess the financial health and liquidity risks of entities engaging in supplier financing practices.



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The amendments also clarify the arrangements that are out of scope, i.e., arrangements that are solely credit enhancements for the entity (e.g., financial guarantees including letters of credit used as guarantees) and instruments used by the entity to settle the amounts owed directly with a supplier (e.g., credit cards). Key disclosures include the following:

Ind AS 7, Statement of Cash Flows

- Terms and conditions of the arrangements (e.g., extended payment terms). Separate disclosure for dissimilar terms and conditions.
- Non-cash changes on the carrying amounts of financial liabilities relating to supplier finance arrangements as at the beginning and end of the reporting period.
- For the beginning and end of the reporting period, disclose carrying amounts, and associated balance sheet line items, of the financial liabilities:
 - That are part of a supplier finance arrangement;
 - For which suppliers have already received payment from finance providers;
 - The range of payment due dates as prescribed.

Ind AS 107, Financial Instruments: Disclosures

- An entity considers and discloses whether it has:
 - Access to supplier finance arrangements including assessing whether it has accessed, or has access to,
 - Supplier finance arrangements that provide the buyer with extended payment terms or the entity's suppliers with early payment terms.
- Supplier finance arrangements have also been added as another factor relevant to liquidity risk and may cause concentration of liquidity risk.
- Comparative information is not required for the first applicable annual financial statements.
- Entities are not required to disclose certain information as at the beginning of the first annual reporting period, e.g., the range of payment due dates for financial liabilities subject to supplier financing arrangement.

OUR TAKE – PRESENTATION OF CASH FLOWS

If the entity considers that the related liability is a trade or other payable as a part of the working capital used in its principal revenue-producing activities, the entity should present the cash outflows to settle the liability as arising from operating activities in its Statement of cash flows.

In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its Statement of cash flows.

OUR TAKE – LIQUIDITY DISCLOSURES

The liquidity risk disclosures should also consider the financial condition of the financial institution that provides the supplier financing and the extent of the buyer's reliance on continued availability of the supplier finance arrangement. An understanding of the consequences for the buyer, and of the likelihood of the supplier financing arrangement becoming unavailable, might be relevant to users of the financial statements.

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This edition of The **Standard Stance** explores how the disclosures may help assess the effects of these supplier arrangements on liabilities and cash flows and on its exposure to liquidity risk.





SETTLEMENT BY ELECTRONIC PAYMENTS

There has been diversity in practice over the timing of the recognition and derecognition of financial assets and financial liabilities, particularly when they are settled using electronic payment systems. [Amendments to Ind AS 109, Financial Instruments and Ind AS 107, Financial Instruments: Disclosures](#) have been proposed to clarify when a financial asset or a financial liability is recognised and derecognised and to provide an exception for certain financial liabilities settled using an electronic payment system.

The following table summarises the proposals:

Description	Financial Assets	Financial Liabilities	
		Other than those being settled in cash using an electronic payment system	Liabilities being settled in cash using an electronic payment system
Recognition (except for regular way purchase or sale)	On the date on which the entity becomes party to the contractual provisions of the instrument		
Derecognition	On the date on which the contractual rights to the cash flows expire or the asset is transferred	Settlement date (*)	Option to deem to be discharged before the settlement date if the specific criteria are met (**)

(*) the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires or the liability otherwise qualifies for derecognition

(**) to be applied to all settlements made through the same electronic payment system

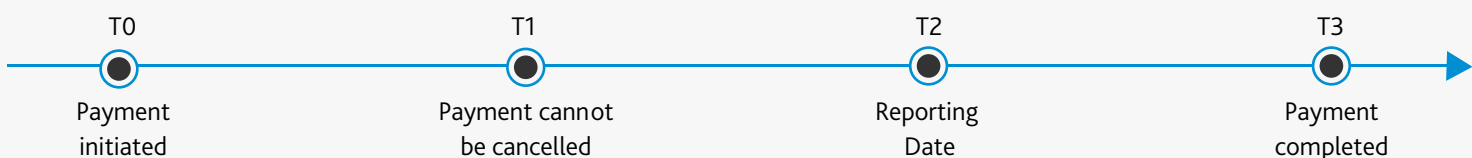
Derecognition of financial liabilities to be settled in cash using an electronic payment system:

For a financial liability (or part of a financial liability) settled in cash using an electronic payment system, the proposed amendments permit an entity to deem the financial liability (or part of it) to be discharged before the settlement date. If an entity elects to apply this proposed option, it is required to apply it to all settlements made through the same electronic payment system. This option would be available if, and only if, the entity has initiated a payment instruction that resulted in the:

- entity having no practical ability to withdraw, stop or cancel the payment instruction;
- entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- settlement risk associated with the electronic payment system being insignificant. The proposals clarify that settlement risk associated with an electronic payment system is insignificant if the:
 - completion of the payment instruction follows a standard administrative process; and
 - time between (i) and (ii) below is short:
 - i. the entity ceasing to have the practical ability to withdraw, stop or cancel the payment instruction and to access the cash to be used for settlement as a result of the payment instruction; and
 - ii. the cash being delivered to the counterparty

If completion of the payment instruction were subject to the entity's ability to deliver cash on the settlement date, the settlement risk would not be insignificant.

Example illustration - exception criteria not met



As per the proposed amendments, the entity will derecognise its trade payable on the settlement date (i.e. on T3).

It was noted that, for other payment methods, such as cheques, completion of the payment remains subject to settlement risk that is more than insignificant until the cash is delivered (that is, transferred from the payer's account). As a result, it was decided not to expand the scope of the requirements beyond electronic payment systems for derecognition of financial liabilities.

Application by analogy on derecognition of financial asset

Some stakeholders suggested that the proposed exception should be extended to derecognition of financial assets. However, it was decided against it. It was noted that derecognition of a financial asset is based on the expiry of the right to receive cash (or another financial asset) and not the rights or obligations of the counterparty.

When a creditor receives notification that a debtor has submitted a payment instruction, the creditor does not obtain the practical ability to access the cash. That occurs only when the cash is delivered to the creditor's account. Therefore, it was concluded that a debtor meeting the proposed criterion does not justify the derecognition of a financial asset by the creditor before the settlement date.

OUR TAKE: PRACTICAL IMPLICATIONS

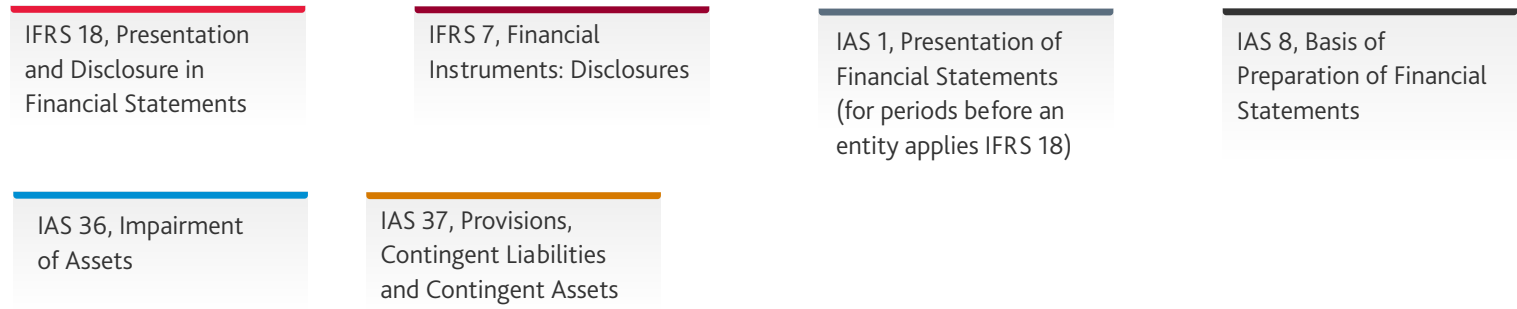
- For cheques, the proposed amendments indirectly clarify that the payer has not settled the financial liability until the cheque clears, meaning the longstanding accounting practice of deducting outstanding cheques from cash and derecognising the associated financial liability, such as trade payables, will have to be revisited.
- For electronic payment systems, certain systems will not meet the criteria in the proposed amendment, for instance, when the payment instruction is transmitted, if the payer is able to cancel the instruction within the first 3 hours. Therefore, such payments will not result in the derecognition of the associate financial liability and cash.
- In case of cheques received in settlement of a financial asset (e.g. trade receivables, loans receivables, etc.), the contractual rights to the cash flows of the financial asset expire when the cheque is cleared and the funds are received in the recipient's bank account. Therefore, the financial asset would be derecognised on that date and not on the date of receipt of the cheque.





DEALING WITH CLIMATE AND OTHER UNCERTAINTIES

The International Accounting Standards Board (IASB) introduced illustrative examples to the following IFRS Accounting Standards to deal with uncertainties arising from climate-related and other matters:



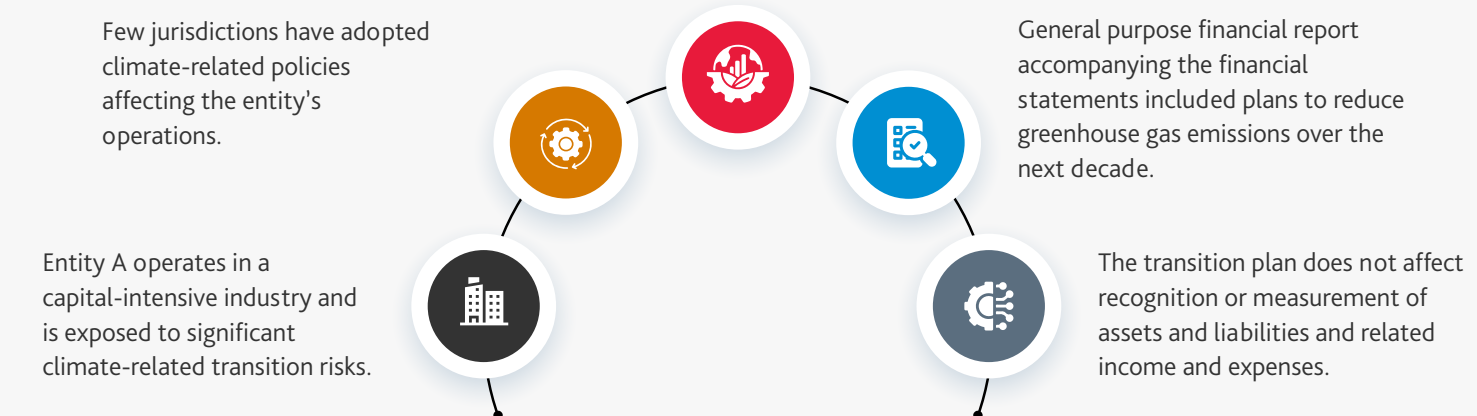
These examples use climate as an example of one type of uncertainty that may result in additional disclosures being made in financial statements, but these may be useful in making judgements about other uncertainties. The examples do not have an effective date or transition requirements as they accompany the authoritative text of IFRS Accounting Standards, but do not add to or change those requirements.

Materiality judgements

The IASB developed Example 1 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements (e.g. in sustainability reporting). Example 1 sets out two different scenarios that lead to different conclusions.

Example 1: Scenario 1 – Additional disclosures necessary

Entity A's climate-related transition plan would significantly affect its future operations.

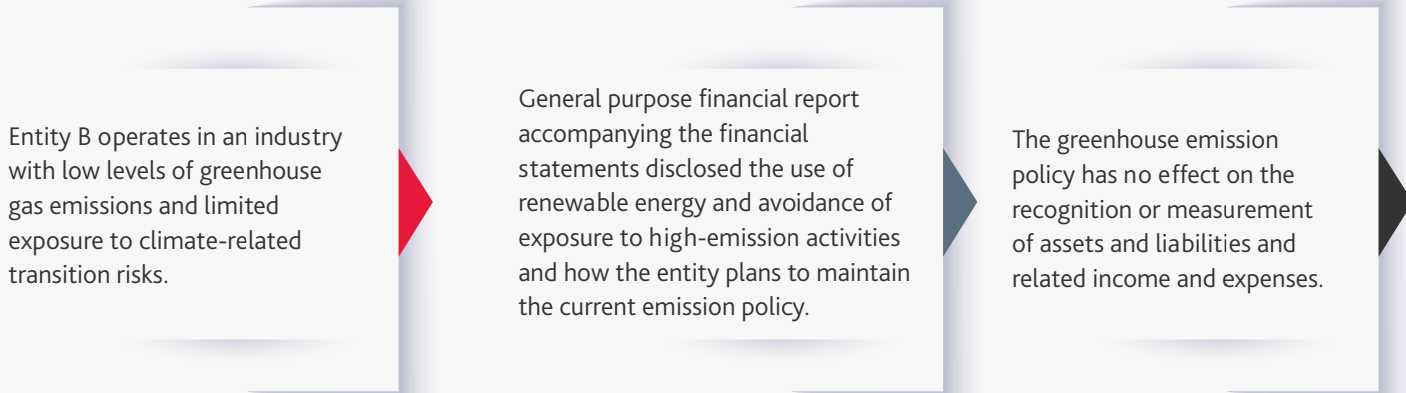


- In making a judgement about whether such additional disclosures would provide material information, Entity A considers both quantitative and qualitative factors, including entity-specific qualitative factors and external qualitative factors.
- Entity A discloses the reason why the transition plan had no effect on its financial position and financial performance for the current reporting period (e.g. no effect on the useful lives of the affected manufacturing facilities, existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan).

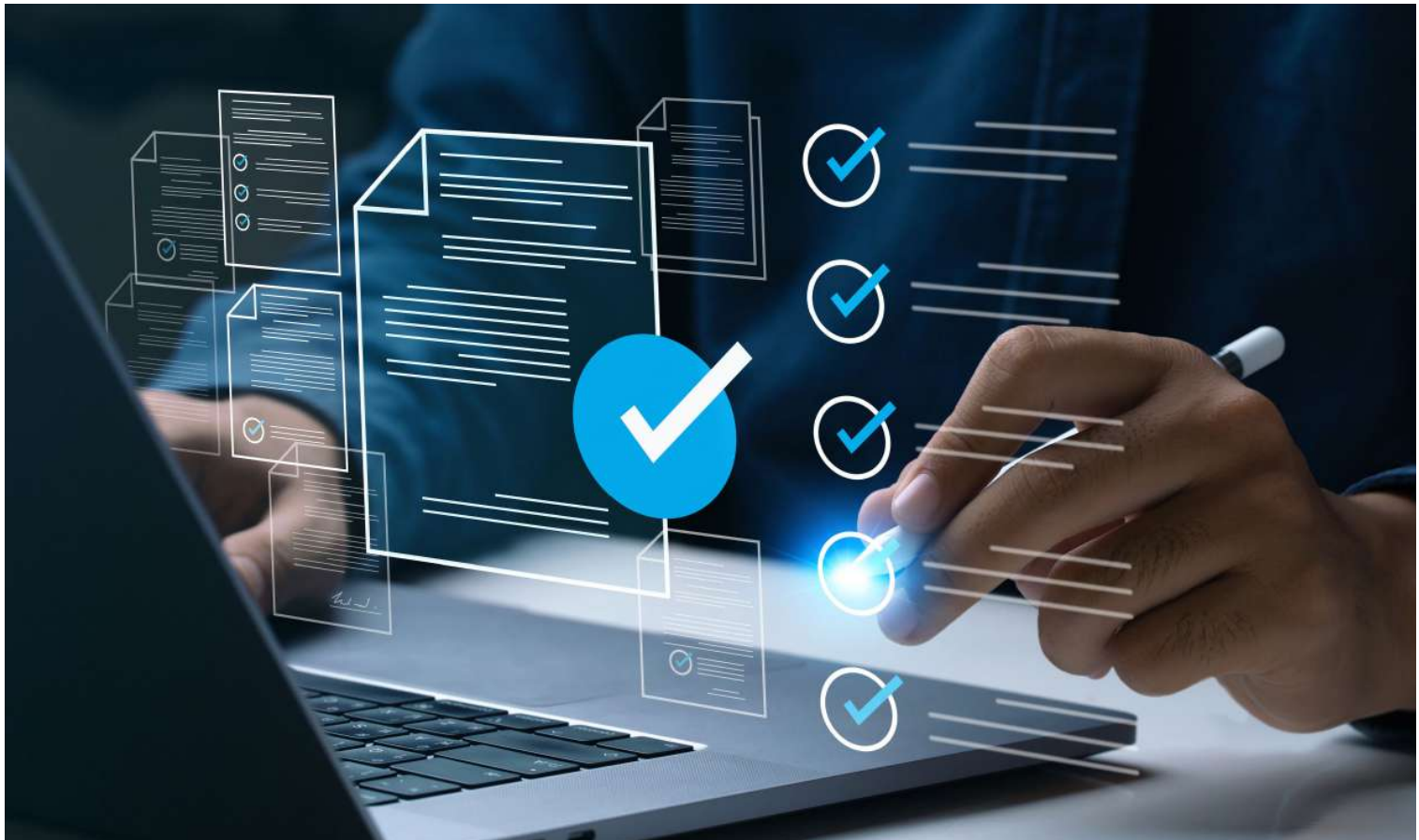


The IASB developed Scenario 2 to help address concerns that the consideration of qualitative factors could lead to excessive disclosures. The IASB illustrated that in certain cases, omitting information could not reasonably be expected to influence decisions of the primary users of the entity's financial statements. In such a case, the entity need not provide additional disclosure because doing so would not provide material information.

Example 1: Scenario 2 – Additional disclosures not necessary



- In making a judgement about whether additional disclosures would provide material information, Entity B considers both quantitative and qualitative factors, including the effect of greenhouse gas emissions policy and the industry where the entity operates.
- Entity B concludes that additional disclosure to explain the lack of effect of its greenhouse gas emission policy on the financial position and financial performance for the current reporting period would not provide material information in the context of its financial statements taken as a whole.





Assumptions and other sources of estimation uncertainty

The IASB developed the following examples to illustrate how applying the requirements in IFRS Accounting Standards may result in an entity disclosing information about assumptions it makes about the future to determine the recoverable amounts of assets. Disclosing information about assumptions used in preparing financial statements may be necessary to enable users of financial statements to understand how climate-related uncertainties affect the recognition and measurement of assets and liabilities.

Example 2: Disclosure of assumptions - specific requirements

The entity's operations result in a high amount of greenhouse gas emissions.



Jurisdictional regulations require the entity to acquire greenhouse gas emission allowances, resulting in costs to the entity.



The entity determined that the recoverable amount of a cash generating unit (CGU) - which includes a significant amount of goodwill - exceeds its carrying amount (i.e. no impairment must be recognised).



It was assessed that the recoverable amount is sensitive to assumptions about future emission allowance costs (i.e. these costs are a key assumption in determining the recoverable amount).



The entity discloses the relevant information in relation to its key assumptions and approach used to determine the values assigned to them, including key assumptions used in the measurement of value in use, the approach to determining the values assigned to these key assumptions and sensitivity information, i.e., whether an impairment loss would result from a reasonably possible change in the assumptions about the future price of emission allowances.



Uncertainty is the new line item

Accounting roundups

SEBI's related party reset

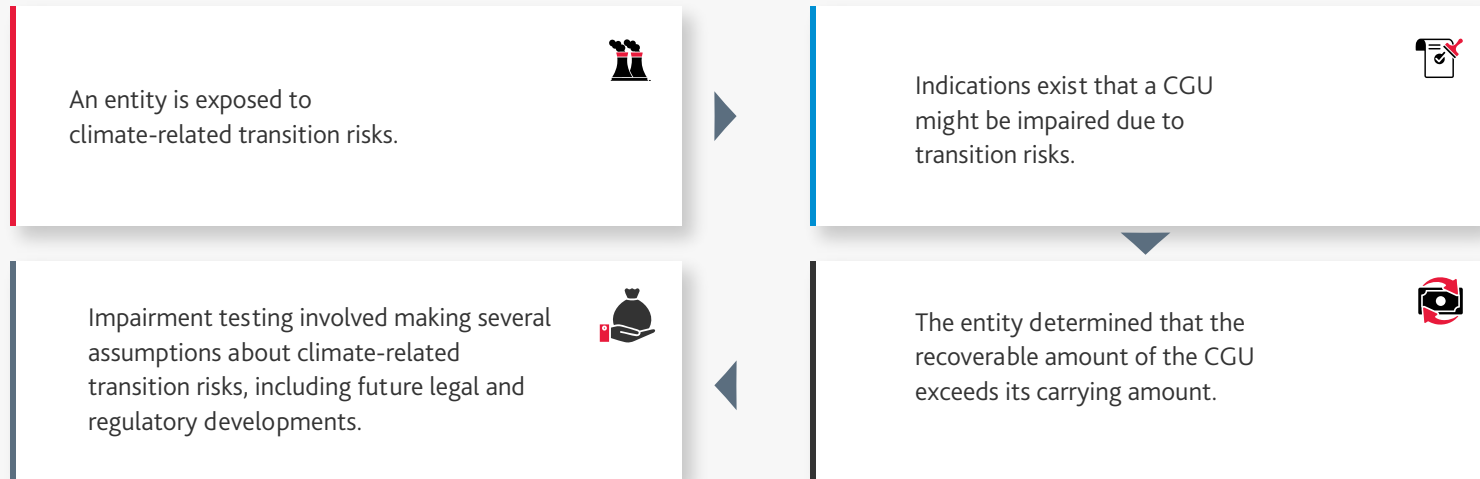
NFRA sharpens expectations on audit communications

Regulatory reboot



The following example illustrates how an entity may be required to disclose information about assumptions it makes about the future, even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure. This example illustrates what are sometimes referred to as 'close call' impairment disclosures. Such disclosures may be necessary even when no impairment is recognised and CGUs do not contain goodwill or other intangibles with indefinite lives, which trigger specific disclosure requirements.

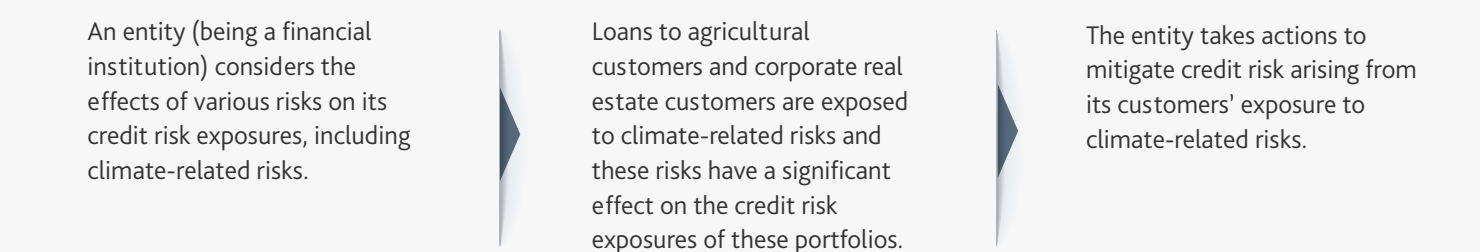
Example 3: Disclosure of assumptions – general requirements



The entity discloses qualitative and quantitative information about these assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity.

The following example illustrates the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, as well as factors to use in assessing the materiality of information.

Example 4: Disclosures about credit risk

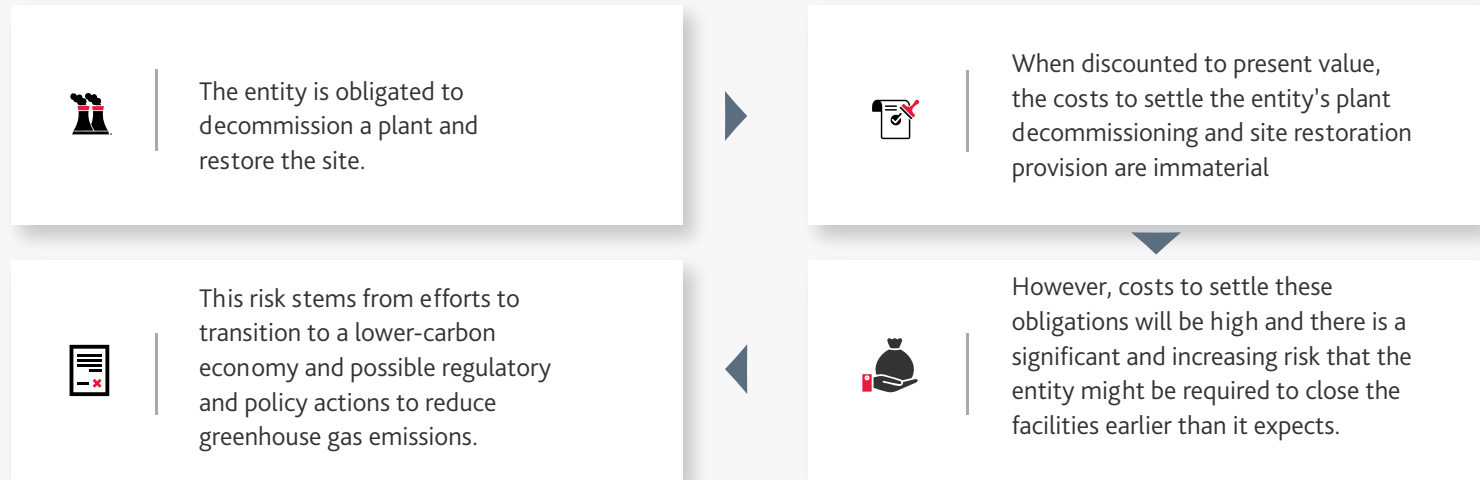


The entity discloses the relevant information about the effects of climate-related risks on its exposure to credit risk on two identified portfolios such as an explanation of the credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses and information about collateral held as security and other credit enhancements and information about concentrations of climate-related risks if not apparent from other disclosures the entity makes.



The following example illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial.

Example 5: Disclosures about decommissioning and restoration provisions



The entity assesses and concludes that although the plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision, information about these obligations is material. The entity discloses a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them and an indication of the uncertainties about the amount or timing of the outflows.

Disaggregation

The following example illustrates the principles of aggregation and disaggregation in IFRS 18 Presentation and Disclosure in Financial Statements.

Example 6: —Disclosure of disaggregated information in the notes

The property, plant and equipment (PP&E) of an entity emits high amounts of greenhouse gas.

Investment has been made in alternative PP&E of the same class with lower emissions.

Use of the high-emission PP&E continues.

These two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in significantly different ways.

The entity concludes that the two types of PP&E have sufficiently dissimilar risk characteristics and that disaggregating information about these types of PP&E would result in material information. Accordingly, the entity disaggregates information provided in the notes about the PP&E between the two types of PP&E.

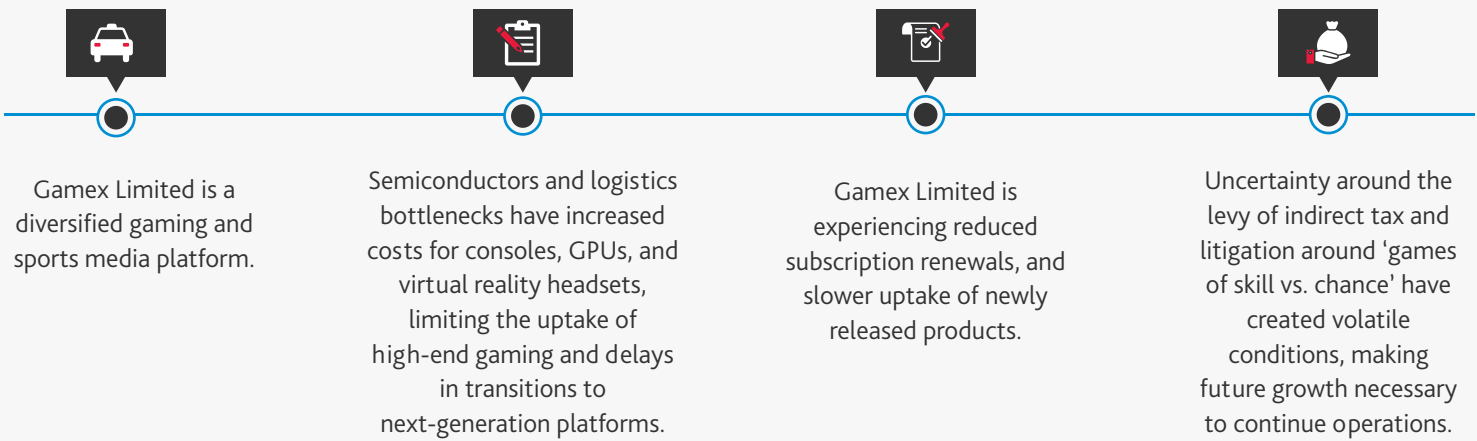


Beyond climate

Financial reporting challenges resulting from economic disruptions and other uncertainties need to be considered as they may have a number of effects, both expected and unexpected (e.g. supply chain disruptions as a result of geopolitical uncertainty, increased costs, price fluctuations and shifts in market demand). When the effects of these uncertainties are material, disclosure of the nature of those risks may be necessary to provide material information to users and meet the requirements of IFRS Accounting Standards.

Building on the IASB's illustrative examples, the following example relates to uncertainties other than climate change.

Example 7: Material uncertainty in relation to going concern



Gamex Limited notes its current and future operations are dependent on discretionary consumer spending, inflation and cost pressures, regulatory and taxation uncertainties and overall investment climate. Accordingly, Gamex Limited discloses information about the material uncertainties (both quantitative and qualitative in nature), such as assumptions made about uncertain future events, information on estimation techniques used in assessing the ability of the entity to continue as a going concern, such as stress testing and/or scenario analysis and mitigating factors and the entity's strategy to address material uncertainties.

OUR TAKE – RELEVANCE IN INDIA

In the Indian context, while the aforesaid illustrations are yet to be incorporated into the corresponding Ind AS, they provide useful insights into how climate-related and other uncertainties may be reflected in financial statements prepared in accordance with Ind AS and should be applied when material uncertainties (including climate-related risks) exist.





REDEFINING INCOME STATEMENT FROM FY 2027

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 in the financial statement.

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 1 April, 2027.** Although Proposed Ind AS 118 will not affect the measurement of financial performance, it will affect how companies present and disclose financial performance.

PROPOSALS AT A GLANCE

The preparation and presentation of financial statements of a company is governed by 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 on 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 emphasizes 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 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:

Proposed changes (Key)	Summary
Classification of income and expenses in the statement of profit and loss	<p>All income and expenses 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>



Proposed changes (Key)	Summary
Principles of aggregation and disaggregation	A set of principles has been proposed for how assets, liabilities, equity instruments, reserves, income, expenses or cash flows would be aggregated and disaggregated. Applying these requirements would result in aggregation and disaggregation of items being presented in the primary financial statements (i.e. statement of profit and loss, balance sheet, statement of changes in equity and statement of cash flows) and disclosed in the notes.
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 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 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, <i>Statement of Cash Flows</i>	The starting point will be typically 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, <i>Earnings per Share</i>	<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. ▪ Proposed Ind AS 118 amends Ind AS 33 and permits additional earnings per share amounts only when the numerator is: <ul style="list-style-type: none"> • A total or subtotal specified by proposed Ind AS 118; or • A MPM. ▪ 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.



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 statement of profit and loss basis nature wise classification may be as follows:

Example line Items – classification basis nature	Summary
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	Mandatory 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 operation	Discontinued operations category
Profit	Mandatory total

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.

This worked example illustrates changes in the classification of 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	(150,000)
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 & 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	1,000
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 investing category.
- Finance costs i.e. interest on borrowings will be re-classified to the financing category (Earlier included under 'Total expenses').

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 – 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.



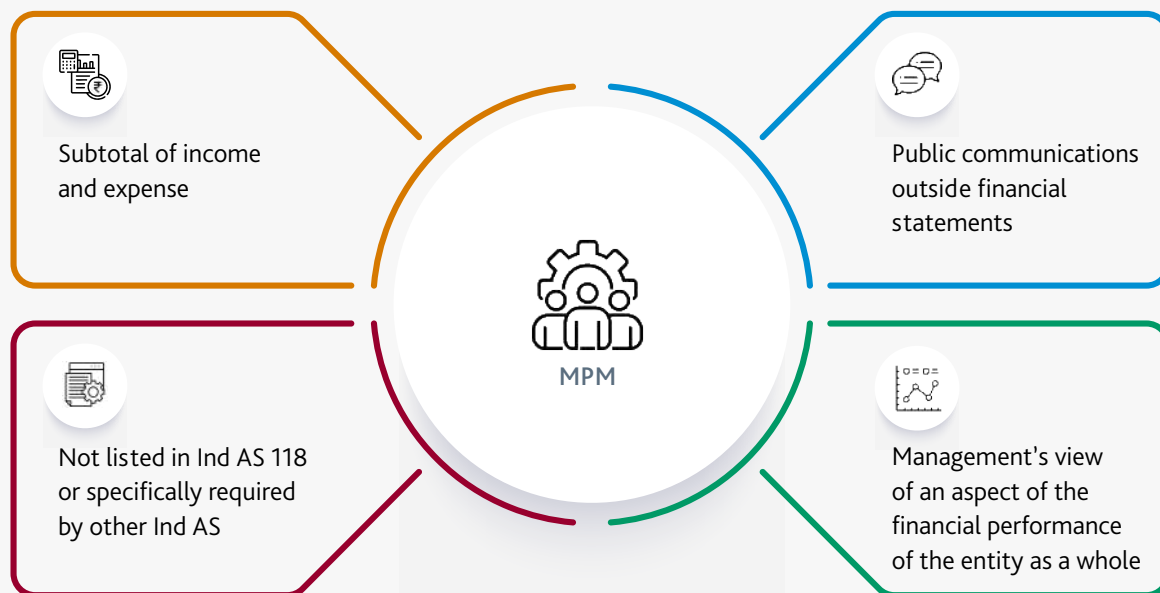
MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMS)

Schedule III to the 2013 Act states that line items, sub-line items and sub-totals should be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to the understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements, apart from, when required for compliance with amendments to the 2013 Act or Ind AS.

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) is often an important measure of financial performance of the company relevant to the various users of financial statements. Further, many entities may include non-GAAP or Alternate Performance Measures in their narratives and other analyses, such as in the management and discussion analyses in their annual report. Users of financial statements believe that inclusion of these measures is useful as it provides insights into how the business is managed, how management views the entity's performance and the persistence of the entity's performance.

Ind AS 118 introduces the concept of MPMs. MPMs are subtotals of income and expenses that an entity uses in public communications outside financial statements to communicate management's view of an aspect of the financial performance of the entity as a whole. For each MPM, Ind AS 118 proposes that an entity disclose information including a description of the aspect of financial information communicated by the MPM, the method of calculation of the MPM and a reconciliation between the MPM and the most directly comparable subtotal specified by Ind AS 118 or other Ind AS.

Four components of the definition of an MPM



It should be noted that an entity might have no MPMs, one MPM or more than one MPM. For example, an entity that publicly communicates its financial performance to users of financial statements using only totals and subtotals required to be presented or disclosed by Ind AS does not have any MPMs within the disclosure requirements of Ind AS 118.

OUR TAKE: MPM AN ACCOUNTING POLICY CHOICE?

- Identification and calculation of an MPM is not an accounting policy choice. Unlike an accounting policy, an MPM is not determined in the context of preparing and presenting financial statements in accordance with Ind AS. It is defined to communicate an aspect of the entity's financial performance outside the financial statements.
- However, when there is a change in an MPM or an addition or cessation of an MPM, the entity is required to disclose restated comparative information, unless it is impracticable to do so.

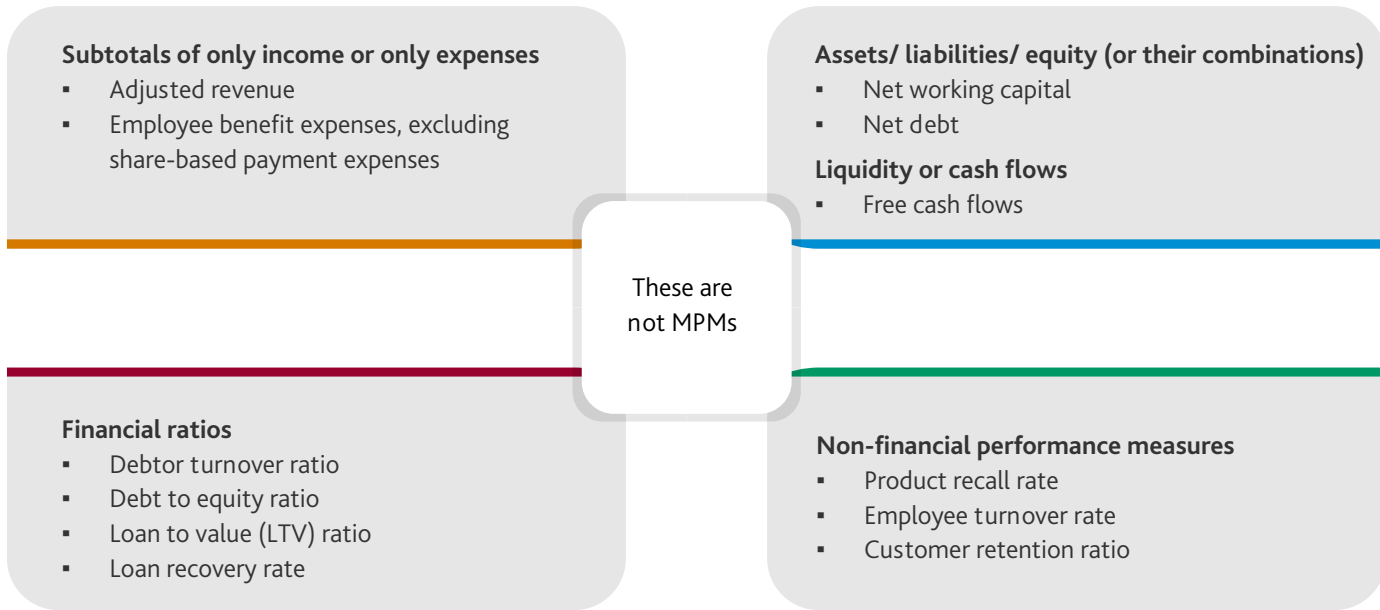
OUR TAKE: AVAILABILITY OF MANAGEMENT DISCRETION

- Ind AS 118 does not specify which accounting policies an entity is required to apply when calculating MPMs. This indicates that an entity is not prohibited from using accounting policies different from the ones applied in its financial statements or required/ permitted by Ind AS. **However, the absence of any prescription does not mean that management has absolute discretion in determining the method of calculation of an MPM.**
- The MPM should faithfully represent the aspect of an entity's financial performance it purports to represent. However, an MPM is by definition always management-defined, therefore, 'faithful representation' is considered in the context of whether the MPM provides information about management's view.



Subtotal of income and expenses

The definition of MPMs is limited only to subtotals of income and expenses. However, it is not required for a subtotal of income and expenses to be presented in the statement of profit or loss to meet the definition of an MPM. **A subtotal that meets the definition of an MPM is an MPM irrespective of whether it is presented in the statement of profit or loss.** Other measures that are not subtotals of income and expenses are not MPMs within the scope of Ind AS 118 include the following.



OUR TAKE: NUMERATOR OR DENOMINATOR IN A FINANCIAL RATIO

- A question arises as to whether a subtotal that is a numerator or denominator in a financial ratio by itself meets the definition of MPM. For instance, adjusted operating profit per share is disclosed in public communications outside financial statements. Adjusted operating profit, which is the numerator in the ratio is a subtotal of income and expenses. However, the entity does not use adjusted operating profit by itself in public communications.
- In our view, the numerator or denominator, in such cases, would meet the definition of MPM if it meets all the criteria in the definition of MPM, except the requirement related to use in public communications outside financial statements.
- It is not required that the numerator or denominator by itself be used in public communications outside financial statements. It is sufficient that the financial ratio in which the subtotal is used as a numerator or denominator is used in public communications outside financial statements.



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Disclosure of MPMs

Ind AS 118 requires the disclosure of information related to MPMs to be made in a single note, i.e., an entity is not permitted to disclose the information to MPMs by cross-referencing other notes in the financial statements. Ind AS 118 does not prohibit an entity from disclosing other information in the note that includes the MPM disclosures. But, in this case, the entity is required to label the information in a way that clearly distinguishes the disclosures related to MPMs. Ind AS 118 requires the disclosure of the following information for each MPM:

What is MPM?

- A description of the aspect of financial performance that, in management's view, is communicated by the MPM
- Explanation of why, in management's view, the MPM provides useful information about the entity's financial performance.

Method of calculation

- How is the MPM calculated?

Comparison with measures defined by Ind AS

- A reconciliation between the MPM and:
 - the most directly comparable subtotal listed in Ind AS 118; or
 - total or subtotal specifically required by Ind AS

Income tax and non-controlling interests (NCI) effects

- For each reconciling item:
 - the income tax effect
 - the effect on NCI Income tax and NCI effects

How is the income tax effect determined?

- A description of how Ind AS 118 is applied to determine the income tax effect (An entity is permitted to determine the income tax effect using the statutory rate applicable to the transaction or based on a reasonable) Pro rata allocation of the current and deferred tax or by using another method that achieves a more appropriate allocation.

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 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 Schedule need not be amended as it provides adequate mechanism to accommodate the requirements of the proposed Ind AS 118. Preparer of the financial statements should track this development.





CURIOS FOR MORE? EXPLORE THESE PUBLICATIONS



The introductory publication gives an overview of the proposed changes to understand key changes.



In this part of the series, we have discussed the key considerations relevant to classifying transactions under the investing category.



In this part of the series, we have covered the criteria and key principles for classifying income and expenses in the financing and operating categories.



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ACCOUNTING SOLUTIONS

The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India offers practical solutions to navigate the complexities experienced in preparation of financial statements. Recent opinions on selected Ind AS topics are as follows:

Accounting for Goods and Service Tax (GST) component paid on lease payments

A company recognised right-of-use asset and corresponding lease liability in relation to an office premise taken on lease.

The company paid GST on lease payments and was included in measurement of right-of-use asset and lease liability.

EAC Opinion: GST, irrespective of its recoverability, cannot be included in the measurement of lease liability or right-of-use asset as GST is not a payment to lessor for the right-of-use asset but a statutory obligation towards the government.

Classification and presentation of accrued wages and salaries to employees

A listed company incurred wages and salaries to employees under 'Trade Payables' under current liabilities.

Comptroller and Auditor General of India felt that these balances should be classified under 'Provisions (Current)'.

EAC Opinion: Accrued wages and salaries should neither be classified and presented under 'Trade Payables' or under 'Provisions'. The company should present accrued wages and salaries of employees under the head 'other current liabilities' or any other appropriate separate head created for this purpose (when such presentation is relevant to an understanding of the company's financial position) under 'Current Liabilities' in the balance sheet of the company.

Accounting treatment and classification of sales bills discounting

A company supplies power to state distribution companies ('DISCOMs'). DISCOMs provide sales bill discounting facility.

In case of default by DISCOM, the Bank has full recourse to the company and the company has guaranteed to indemnify the bank. Trade receivables are derecognised on discounting of bills and disclosed as a contingent liability.

EAC Opinion: The company should continue to recognise and present the trade receivables in entirety and also recognise a financial liability for the consideration received from the bank on discounting of the receivables, under an appropriate head as per the requirements of Schedule III to the Companies Act, 2013.

SEBI's RELATED PARTY RESET



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Approval of Related Party Transactions (RPTs) is fundamentally about protecting minority shareholders and ensuring that transactions influenced by promoters or insiders are conducted at arm's length and in the ordinary course of business. Under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations), all RPTs must pass through a multi-layered approval process. This layered approval architecture seeks to curb asset tunneling, enhance transparency, and align corporate decision-making with principles of fairness and good governance.



SEBI has turned the spotlight on RPTs, introducing more standardised and tiered disclosures, along with the move from fixed thresholds to scale-based thresholds for shareholder approval. Thus, the regulator has effectively elevated expectations around how audit committees and shareholders evaluate and approve RPTs.

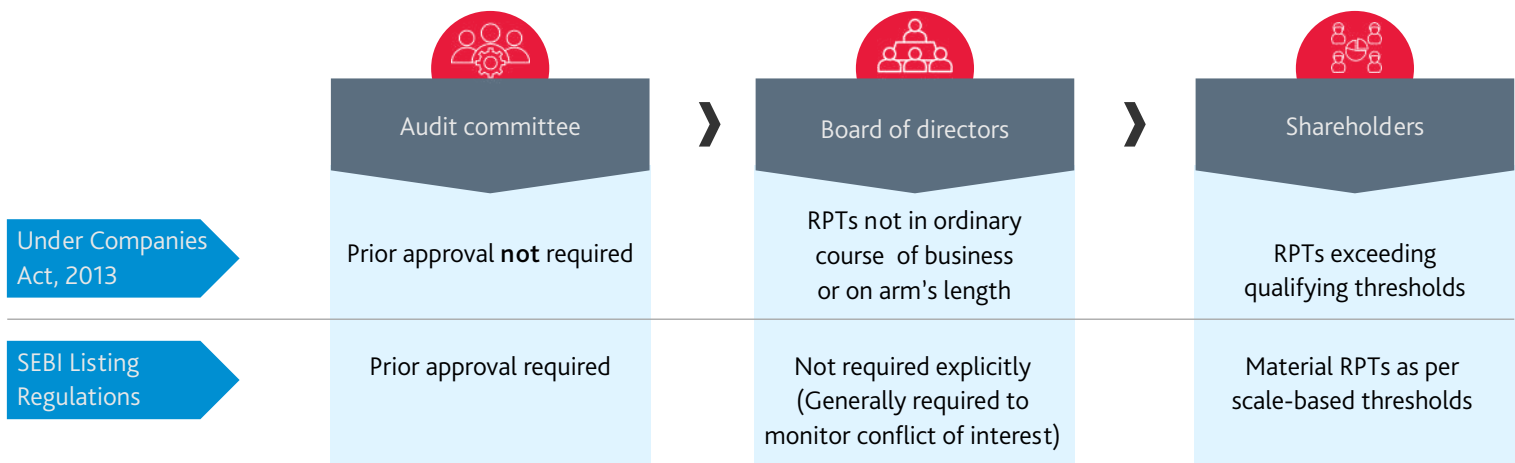
Across many boardrooms, there is a growing view that access to more structured and comprehensive information on proposed RPTs will enable directors to govern these transactions better.

With right context and clearer disclosures, directors are better positioned to ask more probing questions and determine whether such transactions genuinely serve the interests of the company and its minority shareholders.

P R RAMESH
INDEPENDENT DIRECTOR

APPROVAL OF RPTS

Approval of RPTs is essential to ensure transparency, prevent conflicts of interest, and protect stakeholder interests. Following is an overview of the key differences in the approval mechanism:



RPT INDUSTRY STANDARDS

SEBI's RPT Industry Standards² builds on the approval mechanism prescribed under SEBI Listing Regulations. To alleviate implementation challenges, the National Stock Exchange has also issued FAQs³ to provide certain clarifications. The RPT Industry Standards or the FAQs **do not alter** existing requirements prescribed under the Listing Regulations or any other applicable laws and regulations or disclosures under accounting standards. The Standard is applicable in respect of RPTs entered into by the listed entity on or after **1 September 2025**.

² SEBI's Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" was issued on 26 June 2025.

³ NSE's FAQs on Applicability of the Industry Standards on "Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction" was issued on 4 September 2025.

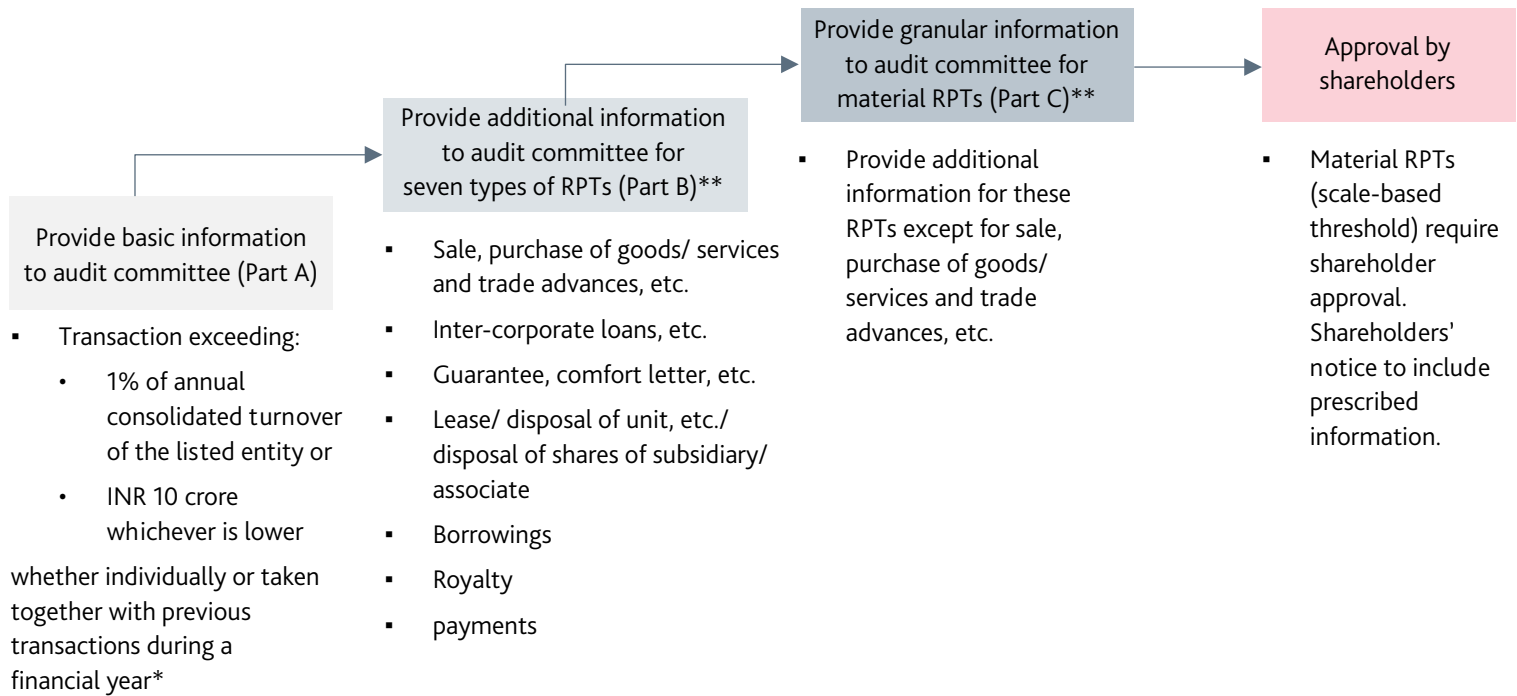


An overview of the RPT Industry Standards

Attempted to avoid information overload.

Baseline information prescribed for any RPT.

Granularity of information increases based on the type of RPT and its materiality.



* SEBI Circular dated 13 October 2025

** Certain relaxations for banks, NBFCs, HFCs and insurance companies.

Guidelines for the management

The management of the listed entity to provide key information to the audit committee:

- Provide information in the format specified in the RPT Industry Standards.
- Where a field is not applicable, it shall be indicated as 'NA', and the reason for non-applicability shall be disclosed to the audit committee, unless it is self-evident.

- Provide certificate from the:
- Chief Executive Officer (CEO)/ managing director/ whole-time director/ manager **and**
 - Chief Financial Officer (CFO)
- of the listed entity confirming that the terms of RPTs proposed to be entered into are in the interest of the listed entity.

- Provide a copy of the valuation or other report of external party, if any.

- In case of multiple types of proposed transactions, details to be provided separately for each type of the proposed transaction. For example, the following need to be treated as separate transactions:
- Sale of goods and the purchase of goods.
 - Sale of goods and the sale of services.
 - Grant loans and the giving of guarantee.

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Summary of clarifications provided in the FAQs:

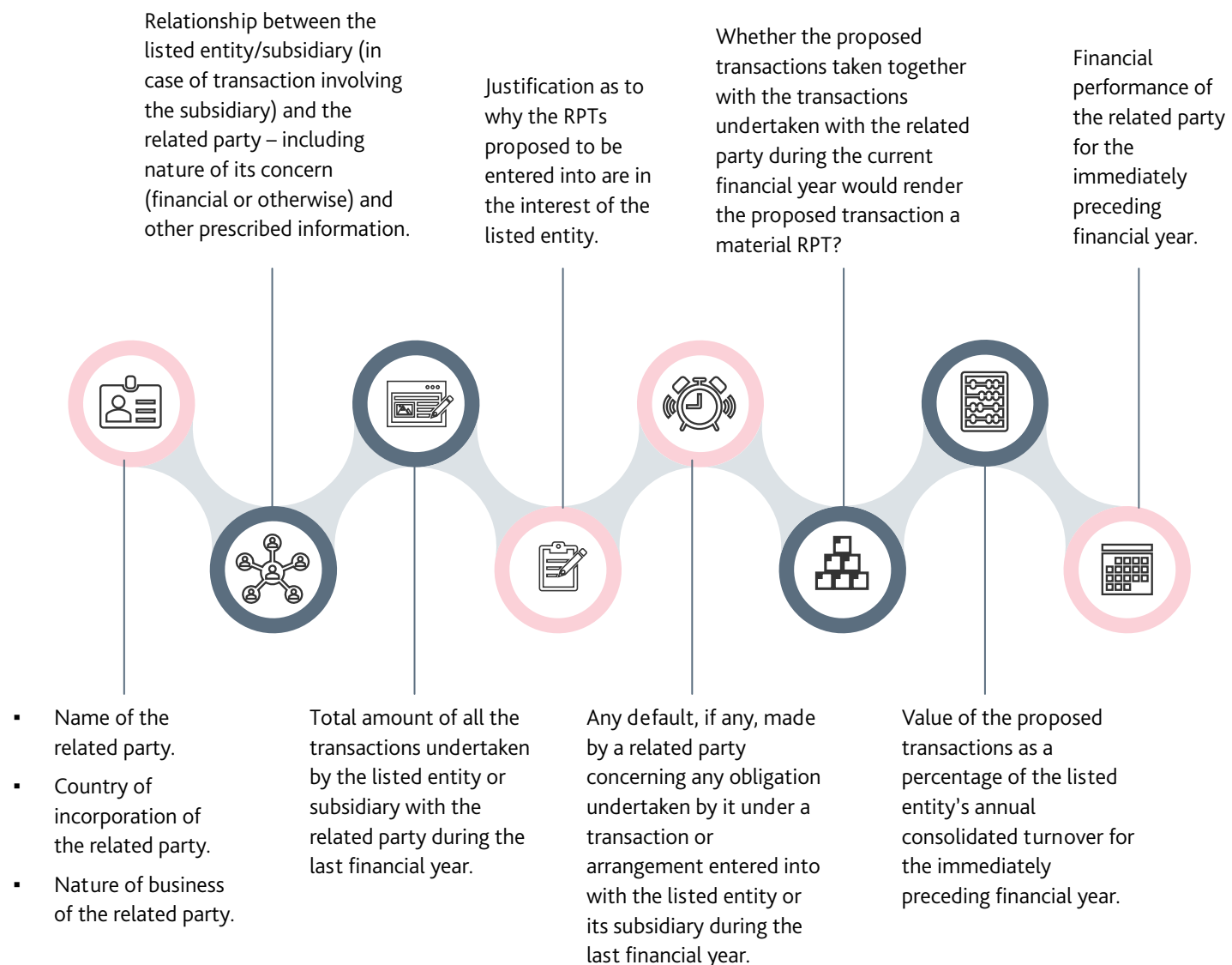
- **One certificate** to cover all proposed RPTs.
- **CFO holding dual position** - if the CFO is also a whole-time director of the listed entity the certificate should be signed by **another individual**.
- **Comments and the rationale** for not approving the RPT to be recorded in the minutes of the audit committee.

Approval of RPTs by the audit committee

The RPT Industry Standards prescribes a minimum baseline information for any proposed RPT. Additional information is provided for specific types of RPTs. Management of listed entities to provide:

Basic information (Part A)

This Part of the RPT Standards captures the minimum information of the proposed RPT and is applicable to all RPTs. The following are some examples:





Information for a specific type of RPT (Part B and Part C)

Basic information under Part A should be supplemented with information provided under Part B of the RPT Industry Standard, if the entity proposes to enter **seven specific types of RPTs**. Additional information should be provided if an entity proposes to enter **six specific types** of RPTs if the proposed RPT is material as per SEBI Listing Regulations. The following is an overview:

Sale, purchase, etc., and trade advances

1

- Process applied for choosing a party.
- Basis of determination of price.
- Relevant information for trade advances.

Loans and advances (other than trade advances)

2

- Financial indebtedness incurred?
- End use by ultimate beneficiary.
- Information if, default in borrowings over the last three financial years*.

Investments made

3

- Source of funds.
- Financial indebtedness incurred?
- Latest credit rating of related party*.

Guarantee, comfort letter, etc.

4

- Rationale for giving guarantee, etc.
- Legally binding obligation on listed entity?
- Solvency/ going concern status of the related party during the last three financial years*.

Borrowings

5

- Material covenants.
- Interest rate (in terms of numerical value or base rate and applicable spread).
- Debt to Equity ratio (before and after the transaction) *.

Sale, lease, etc. of unit, subsidiary, etc.

6

- Bidding process for choosing a party.
- Reason for sale.
- Non-financial reasons, if any*.

Payment of royalty

7

- Purpose of royalty.
- Rate of royalty uniformly charged?
- Peer comparison*.

*For material RPTs



Summary of clarifications provided in the FAQs:

- In the **absence of borrowings** with a comparable maturity profile, relevant information of other borrowings should be provided.
- Management to inform the audit committee if **peer companies don't disclose royalty**.



Approval of RPTs by shareholders

All material RPTs and subsequent material modifications as defined by the audit committee require prior approval of the shareholders. SEBI felt that there is a need to revisit existing thresholds for the identification of material RPT as the threshold was onerous for many listed entities. Accordingly, SEBI has substituted the existing threshold in the Listing Regulations with the following scale-based thresholds:

EXISTING THRESHOLD	REVISED SCALE-BASED THRESHOLD	
Lower of: <ul style="list-style-type: none"> ▪ INR 1,000 crore or ▪ 10% of the annual consolidated turnover as per the last audited financial statements. 	Annual consolidated turnover	Threshold
	Up to INR 20,000 crore	10% of the annual consolidated turnover
	INR 20,001 crore to up to INR 40,000 crore	INR 2,000 crore + 5% of the annual consolidated turnover
	More than INR 40,000 crore	Lower of: <ul style="list-style-type: none"> ▪ INR 3,000 crore + 2.5% of the annual consolidated turnover above INR 40,000 crore or ▪ INR 5,000 crore.

The notice to the shareholders seeking approval for any material RPT shall, in addition to the requirements under the 2013 Act, include the following information as prescribed under the RPT Industry Standard:

- Information as placed before the audit committee as per RPT Industry Standards.
- Justification as to why the proposed transaction is in the **interest of the listed entity**.
- Disclose that the audit committee has **reviewed the certificate** provided by the CEO/ managing director/ whole time director/ manager and CFO of the listed entity as required under the RPT Industry Standards.
- Provide web-link and **QR Code**, through which shareholders can access the valuation report or other reports of external party, if any, considered by audit committee while approving the RPT.
- The audit committee and board of directors, while providing information to the shareholders:
 - Can approve redaction of commercial secrets and such other information that would affect the competitive position of the listed entity, and
 - **Affirm** that, in its assessment, the **redacted** disclosures still provide all the necessary information to the public shareholders for informed decision making.

OUR TAKE: TRANSPARENCY FIRST

Boards, and particularly Audit Committees, would now be expected to rigorously evaluate the commercial rationale, pricing methodology, benchmarking support, and necessity of each RPT rather than relying on management representations alone. Management must ensure that detailed and standardised information is placed before them in advance, enabling informed judgement on arm's length assessment and ordinary course criteria.

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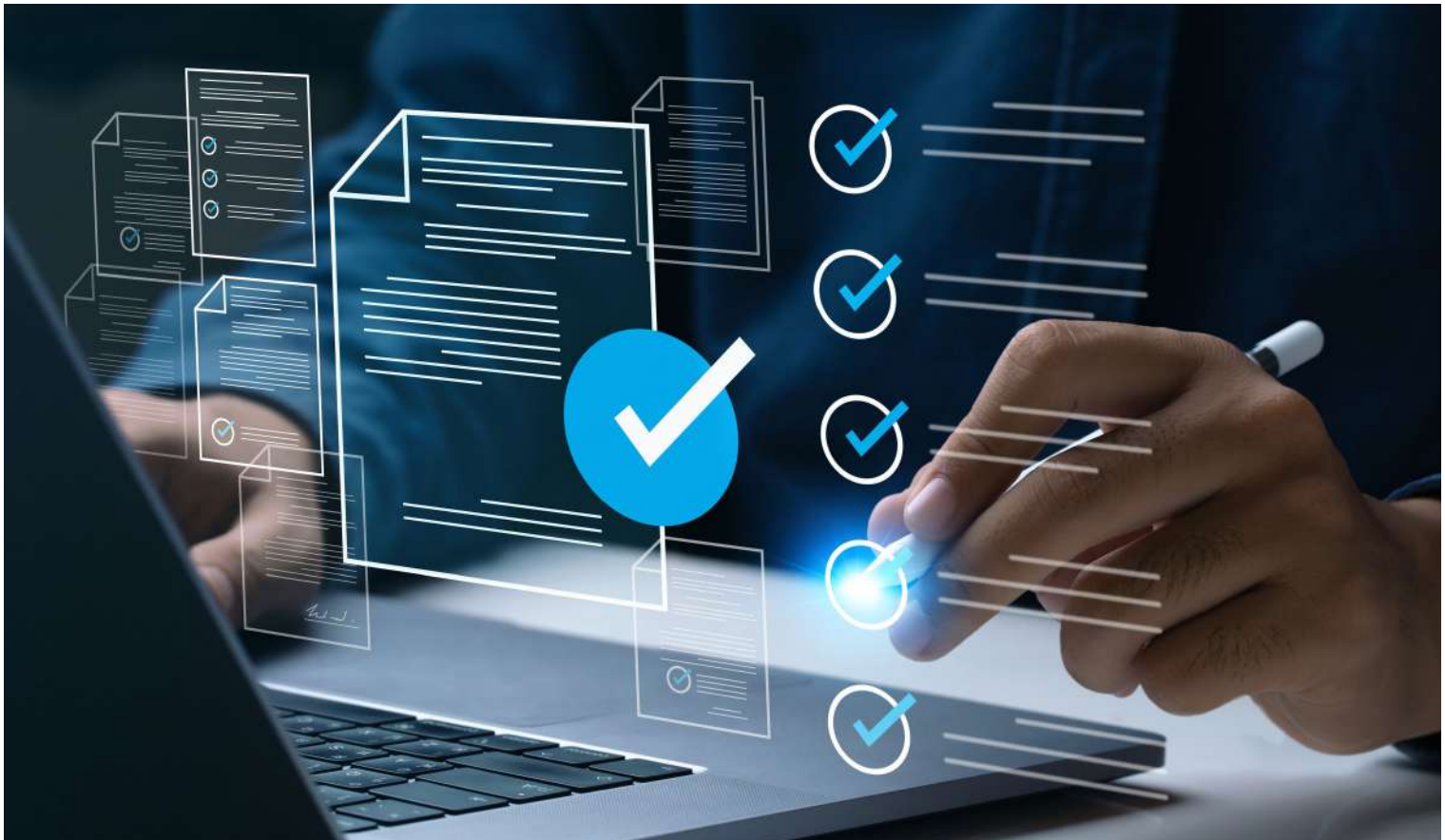
Curious for more? Explore these publications



This edition of [The Standard Stance](#) provides a comprehensive understanding of the RPT Industry Standards, recent amendments, and clarifications to help companies ensure compliance.



This edition of [The Standard Stance](#) highlights key overlaps among the regulatory frameworks in governing RPTs.



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NFRA SHARPENS EXPECTATIONS ON AUDIT COMMUNICATIONS



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The recent updates from the National Financial Reporting Authority (NFRA) reflect a focus on substance-driven engagement in auditor communications with Those Charged with Governance (TCWG). The enhanced expectations emphasise timely, structured and bidirectional dialogue, requiring auditors as well as TCWG to go beyond standard agenda reporting and instead provide deeper insights into significant risks, management judgement, internal control deficiencies, independence considerations, and the qualitative aspects of accounting practices. These updates also signal that communication is not a one-time event but a continuous process throughout the audit cycle, aligned with evolving risk assessments and significant findings.



The circular issued by the NFRA underscores the importance of establishing a structured, two-way communication framework between auditors and TCWG, with clearly defined touchpoints throughout the audit lifecycle.

It also clarifies that TCWG should be identified based on the entity's actual governance structure and oversight responsibilities. In many companies, this would typically comprise the audit committee together with certain members of the Board.

For independent directors, having clarity on who constitutes TCWG and how interactions with auditors are structured is critical to effectively discharge their governance responsibilities, particularly in ensuring the integrity of financial reporting and the overall quality of the audit.

D. SUNDARAM

INDEPENDENT DIRECTOR

NFRA'S CIRCULAR ON TWO-WAY COMMUNICATION

The NFRA has issued a [Circular](#) to strengthen the communication framework between auditors and TCWG. At its core, the Circular reinforces a fundamental principle: communication between the auditor and governance is not a procedural ritual. It is a statutory, professional, and governance obligation. The following is an overview of the NFRA Circular.

Two-way communication: a joint and collective responsibility

Communication is not one-sided. The board/ audit committee is duty-bound under the Companies Act, 2013 (2013 Act) to engage in a meaningful dialogue with the auditors. The fact that the financial statements are audited does not relieve the board/ audit committee of its responsibilities.

The Standard on Auditing 260, Communications with Those Charged with Governance (TCWG) - SA 260, explicitly stresses that communication is not unidirectional. The auditor should evaluate whether two-way communication is adequate and effective. If it is not, this may impact the audit approach and risk assessment.

The NFRA Circular emphasises on the joint or collective mandatory obligation of the company's governing body, i.e., the board of directors, its audit committee, its management and its auditors to establish a robust, effective two-way communication. This framework is critical for the discharge of respective responsibilities by the board and the auditors.

Who is TCWG (and who is not)?

TCWG as defined under SA 260 is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. The auditor should determine who constitutes TCWG at the beginning of the audit.

The NFRA Circular essentially views the board as the TCWG being the apex governance body. Where an audit committee exists, the NFRA Circular clarifies that **audit committee "plus some of the board members" could qualify as TCWG.**



OUR TAKE: CREATION OF A NEW STRUCTURE

- The NFRA Circular does not intend creating a separate committee that would qualify as TCWG. Enhancing what is in place would promote stronger governance outcomes without incremental structural risk.
- The intent of the NFRA Circular seems to ensure that TCWG propagates discussion with wider group of individuals representing relevant stakeholders. There might be various ways to achieve this objective.

TCWG has a duty to engage in a two-way communication

Two-way communication serves multiple, interrelated objectives that extend beyond information exchange. Although these roles of auditors and TCWG are distinct, they are intrinsically interlinked. The auditor's understanding of governance influences risk assessment and audit strategy, while TCWG depend on the auditor's insights to discharge their fiduciary and oversight responsibilities.

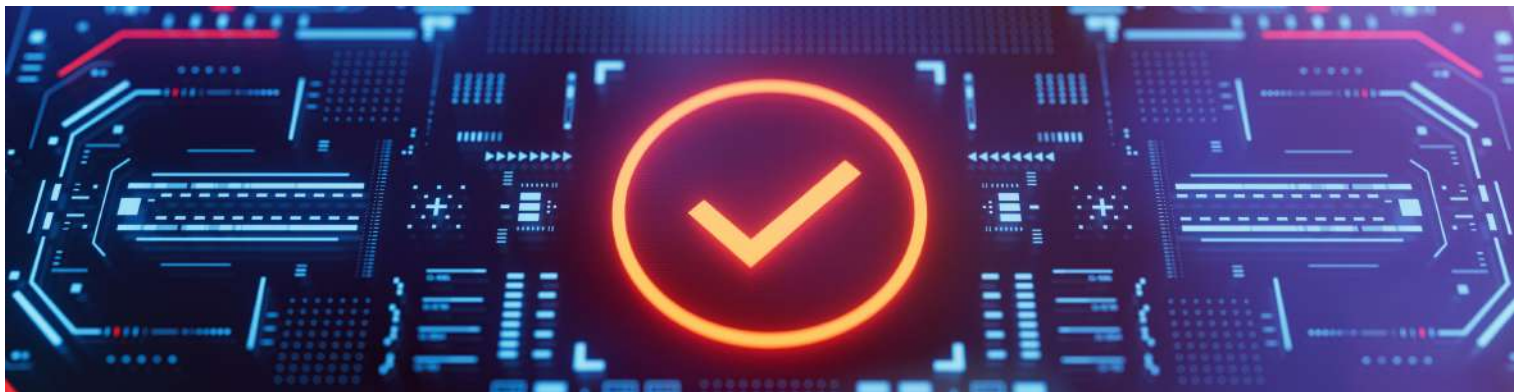
The communications from TCWG provide auditors with timely observations arising from the audit that are significant and relevant for them to fulfil their responsibility of oversight of the financial reporting. These communication requirements are designed, inter alia, to strengthen governance over the financial reporting process by ensuring that TCWG has a timely and clear visibility into the audit process.

Timely information on how the audit is planned, what are the areas of key risks, and whether the auditors are truly independent, enables TCWG to ensure uncompromising objectivity of the Auditors. TCWG possess a unique, holistic view of the organisation's strategy, risk appetite, culture, and external pressures. When this perspective is shared openly, auditors are better positioned to identify risks of material misstatement, including fraud risks arising from incentives, pressures, or governance weaknesses.

Ingredients of an effective communication framework

The NFRA Circular recommends the board to prepare and document an overall communication framework between TCWG and auditors. This framework may include the following:

- **Nodal persons** to ensure an effective two-way communication throughout the audit. Name and details of members of the board and audit Engagement Team who shall be nodal persons. Nodal persons may include independent/ non-independent directors.
- **Expectations of the auditors**, i.e., from the board to communicate:
 - Strategic decisions significantly affecting the nature, timing and extent of audit procedures,
 - Suspicion or the detection of fraud
 - Concerns with the integrity or competence, of senior management,
 - Significant communications with Regulators, their views, awareness,
 - Actions regarding Internal Controls including Internal Audit Function,
 - TCWG's awareness and actions in relation to developments in the financial reporting, corporate governance practices and other regulatory matters.
- **Summary of key standards on auditing** that require communication with TCWG.
- **Process of updating/ escalating to TCWG**, about the discussion and communication between nodal officers of TCWG and auditors.
- **Process of documenting and communicating** the views/ instructions/ actions of TCWG on the significant matters.
- **Prescribing frequency of meetings** and the expected agenda matters.
- **Significant communications to be in writing and formally acknowledged** by auditor and TCWG, either in the form of minutes of the meeting or letters.



OUR TAKE: LEVERAGE GLOBAL EXPERIENCE

The board of directors may leverage global experiences/ best practices while framing the communication framework. A private session with auditors, where management is not present, is commonly undertaken in many jurisdictions, such as the United Kingdom and Singapore to achieve two-way communication.

Frequency of communication

The NFRA Circular provides that auditors and TCWG should meet in person or virtually **at least** twice a year - once before the commencement of the audit and a second time, well in advance of the time, before the approval of financial statements by TCWG. The timing of these semi-annual meetings may be scheduled in such a way that it facilitates effective deliberations about the audit-related matters at the quarterly board meetings. In essence, the adequacy of frequency is measured not by number of meetings, but by whether communication occurs early enough to influence oversight and decision-making.

There might be certain situations where the auditors would request a meeting with TCWG in writing. Such situations could range from auditors experiencing significant difficulty during the audit to obtain sufficient appropriate audit evidence, where the auditors have reason to believe a potential fraud, where auditors have observed significant weaknesses in the internal controls or differences of views/ opinions with those of the management in respect of significant accounting estimates, etc. The NFRA Circular clarifies that in such situations, TCWG should either accede to the request or, in writing, communicate the reasons for declining it.

What are the common agenda items?

While the auditing standards and applicable provisions of the 2013 Act have a comprehensive and detailed list of matters to be discussed, the NFRA Circular envisages the following matters to be invariably form part of interactions between auditors and TCWG:

- **Auditor's compliance with independence and Code of Ethics** regarding all the relationships and other matters, between the audit firm, network firms and the auditee company and other specified entities that may have an impact on independence; and safeguards applied to eliminate or reduce threats to independence.
- **Audit strategy and planning, including:**
 - Materiality and its effect on nature and extent of audit work,
 - Risks of material misstatement,
 - Internal control environment in particular to prevent frauds and non-compliance with critical laws and regulations,

- Areas of significant accounting policy judgment and management estimations,
- Areas requiring involvement of experts, (management/ auditors),
- Accounting or other areas of concerns requiring special attention by the auditors.

- **Audit status and significant findings:**

- Significant difficulties like unavailability of expected information, etc.
- Significant transactions or events where the management encountered difficulties in identifying the appropriate accounting policies or standards, and the auditor's view thereof.
- Significant and material weaknesses in internal financial controls and non-qualification of the auditor's specific report on adequacy and operating effectiveness of internal financial controls.
- Discussions with management on accounting estimates involving significant judgments or assumptions and forecasts, such as valuation and impairment and expected credit loss allowance.

Appropriate form of communication and its documentation

The appropriate form of communication between auditors and TCWG should be determined by the nature, significance, and urgency of the matter, while complying with auditing standards by auditors. Urgent or sensitive matters may initially be discussed orally to ensure timeliness, but they should subsequently be formally documented to create a trail.

Communication should ordinarily be in writing. In case of oral communication, the NFRA Circular envisages that the communications should be documented in writing and should include the date, time and details of the persons involved in the communication. The written communication shall form part of the agenda and minutes of the board or audit committee meeting held subsequently.

Further, written communication should be unambiguous and specific in respect of issues or matters for the consideration of both auditors and TCWG. Communication should also contain the views/ suggestions of TCWG on the subject matter raised by the auditors and vice versa.

The NFRA Circular specifically provides that presentations in bullet form alone, or communication by emails with a caveat of 'no comments from the other party is construed as acceptance' are unacceptable. Further, communications to the TCWG limited to a presentation shortly before approval of the financial statements, without adequate supporting documentation of discussions of significant matters or of actions arising from audit committee deliberations fail to meet the desired objectives.





Upward feedback by the audit committee to the board of directors

Upward feedback by the audit committee to the board is a critical governance mechanism that ensures the board receives independent, structured insight on financial reporting integrity, internal controls, risk oversight, and auditor performance. The audit committee operates as a delegated oversight body; however, ultimate responsibility remains with the board. Therefore, its observations, concerns, and recommendations must be formally escalated rather than assumed.

OUR TAKE: GLOBAL PRACTICES

- The form of upward reporting should be structured and documented - typically through detailed minutes, and periodic presentations. Significant matters should be escalated promptly rather than deferred to routine meetings.
- Global practices are also noteworthy. For example, in Singapore, it is recommended that audit committee minutes are circulated to the full board, ensuring transparency of deliberations while maintaining confidentiality where necessary.



REGULATORY REBOOT



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Regulatory amendments such as the new Labour Codes, the Digital Personal Data Protection Act, 2023 and the overhaul under the Income Tax Act, 2025 have significant implications from a financial reporting perspective, extending well beyond legal compliance. From a governance standpoint, boards and audit committees must ensure that finance functions proactively assess these changes, document assumptions and transparently communicate their financial statement impact to stakeholders.



A troika of recent legislations - the Labour Codes, the Income Tax Act, and the Digital Personal Data Protection Act - marks an important step toward building a more resilient, competitive, and self-reliant economy.

A common thread across these reforms is a digital-first approach. The labour codes encourage the digitisation of records by permitting registers and statutory documents to be maintained electronically, thereby reducing administrative burden. Similarly, faceless tax assessments and online compliance mechanisms are reshaping India's income tax administration in line with global practices. The data protection framework seeks to strike a balance between safeguarding individual privacy and enabling responsible data use to support innovation, efficient service delivery, and economic growth.

As these reforms continue to be operationalised, companies will need to evaluate their implications for financial reporting, including potential impacts from both a recognition and disclosure perspective in the financial statements.

UTKARSH PALNITKAR
INDEPENDENT DIRECTOR

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NEW LABOUR CODES FOR A NEW INDIA

The Government of India announced the implementation of **four new Labour Codes** to simplify and consolidate existing labour laws, enhance worker welfare and promote ease of doing business. To aid the implementation of the new Labour Codes the **Ministry of Labour and Employment** has issued FAQs.

Overview of Labour Codes			Governance changes (key)		
Notified on 21 November 2025	Consolidated/simplified 29 existing laws	Draft rules released for consultation	Follow existing rules to the extent they are aligned with the Codes	Align policies/contracts, etc.	Frame/ revise internal controls



Enhanced benefits

- Statutory benefits computed as per the new wage definition, i.e. allowances >50% of total remuneration are part of wages
- National Floor Wage

New benefits

- Pay parity: Fixed Time Employee vs permanent employees; gratuity due annually
- Paid annual leave of 18 days
- Health checkup in certain cases

Expanded coverage

- Wage code covers all employees (e.g. senior management)
- Social security schemes for unorganised, gig and platform workers

Other key norms

- Gratuity norms (non-FTE) unchanged (except for wages)
- One-year transition period for PF
- Principal employer is the primary obligor (previously classified as secondary).



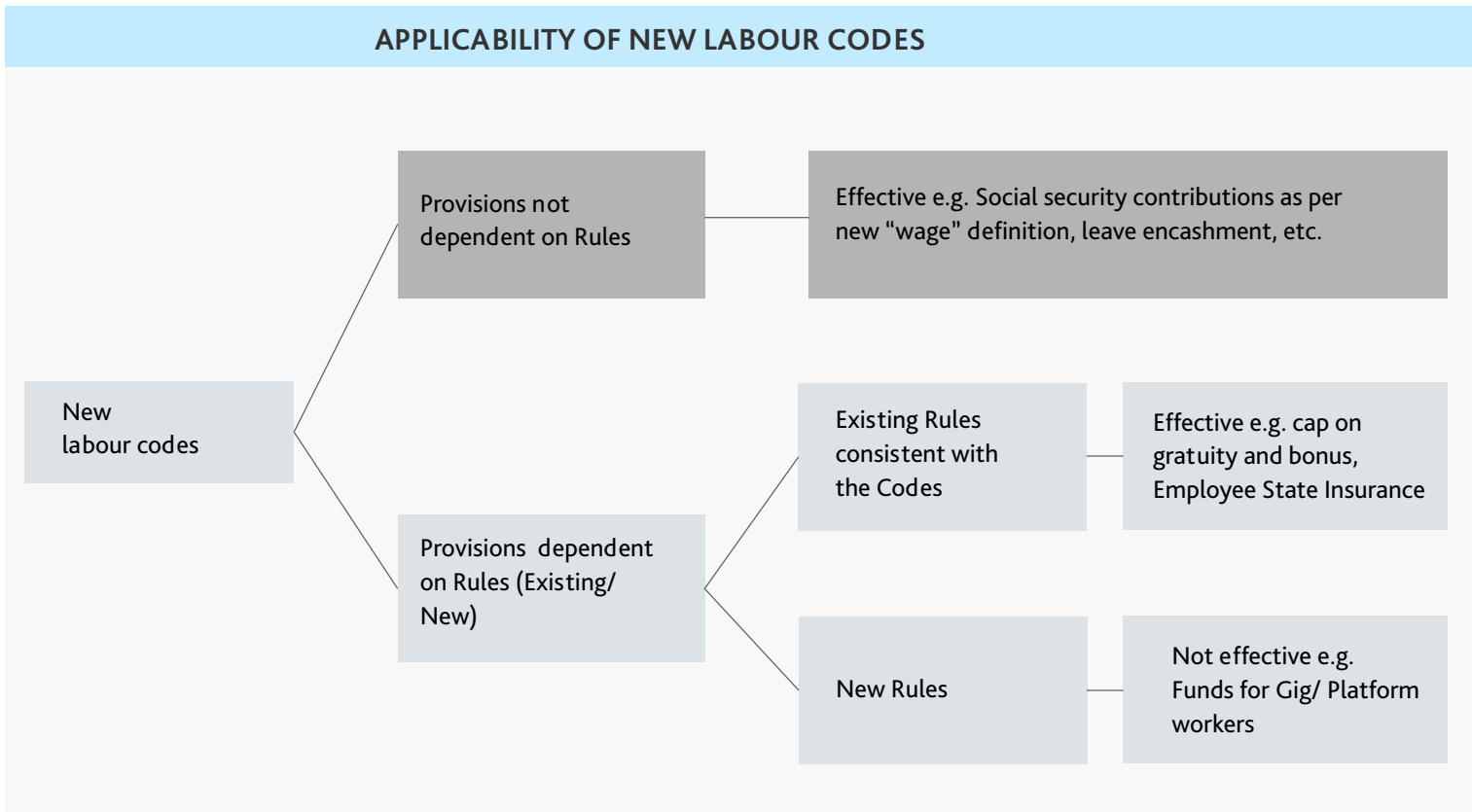
Transition to new labour codes

The Ministry of Labour and Employment clarified that till new Rules under the relevant Codes are notified, the relevant provisions of the existing labour Acts and their respective rules, regulations, notifications, standards, schemes, etc. will continue to remain in force. The [FAQs](#) issued by the Ministry of Labour and Employment also clarify this aspect.

Pursuant to the above clarification, the new Labour Codes are in operation from the date of enactment (i.e. 21 November 2025).

Employee benefits due after the enactment of the new Labour Codes should be computed as per new Labour Codes read with the old Rules, etc. to the extent such Rules, etc. are in line with the new Labour Codes.

The 29 labour legislations consolidated into the four Labour Codes have been formally repealed. Exceptions include certain **Provident Fund related legislations that remain in force, to the extent they are not inconsistent with the provisions of Social Security Code for a period of one year** from the date of commencement of Social Security Code.



High level summary of labour codes

Possibly the biggest change across all the labour codes is the introduction of a new definition of 'wages.' It consists of salary, allowances and other components expressed or capable of being expressed in monetary terms, and includes basic pay, dearness allowance, and retaining allowance. **All benefits due under the four Labour Codes should be computed as per the new definition of wages.**

There is a specific list of components that do not amount to 'wages', such as statutory bonus, provident fund and pension contributions, conveyance allowance, house rent allowance, overtime, besides others. Remuneration-in-kind, up to 15% of the total wages shall also be treated as wages.

To tackle the issue of inappropriate wage structures where wages are split into several components to, *inter alia*, limit social security contributions and other payouts, the new Labour Codes clarify that in the event payments made to employees under the excluded components exceed 50% of the total remuneration, the excess amount shall be deemed to be 'wages.' The [FAQs](#) issued by the Ministry of Labour and Employment also provide necessary clarification on the inclusion/ exclusion of components from the definition of wages.



LABOUR CODES	OTHER KEY CONSIDERATIONS
Wages Code	<ul style="list-style-type: none"> ▪ The Central Government would notify a National Floor Wage to ensure no worker receives a wage below the minimum standard. Once such Floor Wage is set, minimum wages fixed by the appropriate Government cannot be lower than the Floor Wage. ▪ Prohibits discrimination in matters of pay on the grounds of gender, creating a more inclusive law. ▪ Bonus is payable to every employee who has worked for at least 30 days in an accounting year. The threshold for applicability of statutory bonus, which was previously applicable only to employees earning up to INR 21,000 per month under the erstwhile legislation, is yet to be notified by the appropriate Governments. Until such notification is completed, employers would be required to continue with statutory bonus coverage for employees earning wages up to INR 21,000 per month. ▪ Provisions and protections under the Wage Code will now apply to all employees, including senior management employees.
Social Security Code	<ul style="list-style-type: none"> ▪ This Code sets out clear and defined thresholds for applicability of various sections. For instance, the First Schedule to the Code specifies the applicability criteria in respect of benefits and schemes such as Employees' Provident Fund, Employees' State Insurance, Gratuity, and Maternity Benefits. ▪ The substantive provisions on payment of gratuity as contained under the previous law are carried forward under this Code (with the exception that gratuity would now be computed on the newly defined 'wages'). Unless exempted, employers should obtain compulsory gratuity insurance from a date to be notified by the Government. ▪ This Code (read with the Industrial Relations Code) expressly recognises fixed term employment in all industries. A fixed term employee will be entitled to <i>inter alia</i> parity in wages, statutory/ other benefits similar to permanent workers. Unlike in the case of the earlier legislation, a fixed term employee is eligible for Gratuity benefits on rendering service for 1 year (instead of 5 years for permanent employees). ▪ The Code also extends social security protections to gig (outside of traditional employer-employee relationship) and platform (online platform) workers. The Code empowers the Central Government to set up a Gig and Platform Workers' Social Security Fund. The rate of contributions by aggregators to such Fund (which will be notified), will be between 1% to 2% of their annual turnover, capped at 5% of amounts paid by the aggregator to gig and platform workers.
Industrial Relationship Code	<ul style="list-style-type: none"> ▪ This Code also provides for setting up a 'Worker Re-Skilling Fund' by the appropriate government, to provide monetary support to retrenched workmen, for training and re-skilling purposes. ▪ Employers are required to credit an additional amount equivalent to 15 days' last-drawn wages (or such other number of days as may be prescribed) of the retrenched worker, to the Fund within a specified time period. ▪ Appropriate Government under the Code is empowered to prescribe the quantum of retrenchment compensation which shall be equivalent to fifteen days' average pay, or average pay of such days as may be notified by the appropriate Government, for every completed year of continuous service or any part thereof in excess of six months.

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LABOUR CODES	OTHER KEY CONSIDERATIONS
Occupational Safety, Health and Working Conditions Code	<ul style="list-style-type: none"> • The Code provides for regulation of aspects such as working hours, overtime, annual leave, and shift work. • The Code also prescribes annual leave entitlement of 18 days, carry forward of up to 30 days of unused annual leave, with the option to encash annual leave in excess of 30 days at the end of a calendar year.

Beware of anti-abuse provision

One of the common practices observed in compensation structuring has been the fragmentation of wages into multiple allowances and reimbursements, such as special allowance, or other flexible components - with the effect of lowering the base for calculating social security contributions and consequently diminish the long-term social security benefits available to workers.

The Social Security Code seeks to address this concern by embedding an anti-abuse provision that prohibits employers from framing arrangements that are designed primarily to reduce social security obligations directly or indirectly. This provision reinforces the policy objective that social security entitlements should reflect the substantive economic remuneration earned by employees rather than the form in which compensation is labelled.

From a governance and compliance perspective, the **anti-abuse provision** places greater responsibility on employers to ensure that compensation structures are commercially justifiable and not primarily designed to circumvent statutory obligations.



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Key financial reporting implications:

The new labour codes primarily affect the measurement, timing and presentation of employee-related liabilities and expenses. The expanded and more uniform definition of “wages” has direct implications for actuarially determined liabilities like gratuity and leave liability calculations. Overall, the Codes heighten the need for updated actuarial assumptions, careful estimation processes and enhanced disclosures around employee benefit liabilities and sensitivities. [The FAQs issued by ICAI](#) provide the following key clarifications:

Accounting for increase in gratuity liability

- The increase in gratuity liability due to application of the new labour codes is a past service cost, as this results in changes to the benefits payable under the plan and should be treated as below:
 - Ind AS compliant entities should immediately recognise past service cost as an expense in the Statement of Profit and Loss.
 - Entities preparing financial statements using Accounting Standards should immediately recognise vested past service cost (i.e., past service for employees who have already completed applicable service period) as an expense.

For employees who are yet to complete applicable service period, past service cost is amortised over the vesting period and recognised as an expense in the Statement of Profit and Loss.

Effect of revision of salary structure

- Increase in salary vis-à-vis previous estimate is change in actuarial assumption
- Change in salary structure can also result from attribution of increase in salary entirely to basic salary, instead of attributing the increase to all components. This component is a plan amendment.

(Where entities choose to restructure salary to align with new labour codes and there is no real increase in the salary, then the entire increase in gratuity and leave obligation shall be attributed to past service cost)

Increases in leave liability

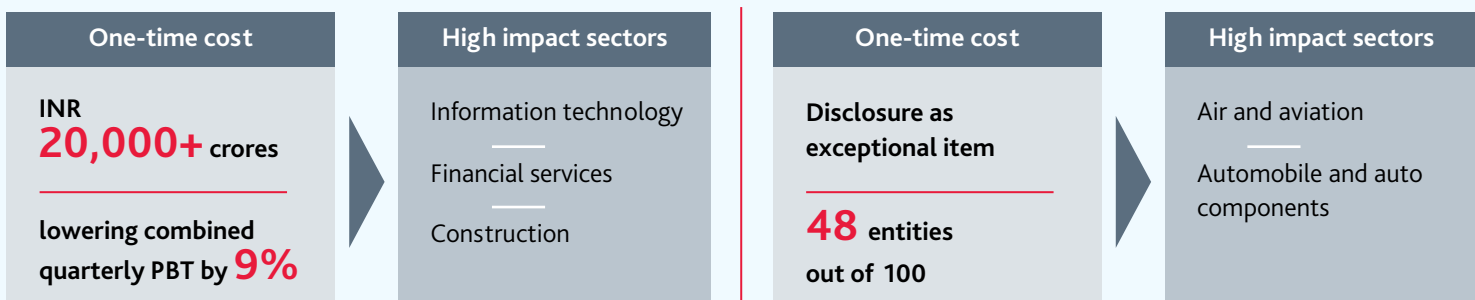
- Any change in leave obligation arising from the new labour codes is recognised as an expense in the Statement of Profit and Loss immediately.

Disclosure as exceptional item

- One may argue that change in gratuity and leave obligation is arising from enactment of new legislation which is an event of non-recurring nature.
- Considering this and depending on materiality of impact, an entity may evaluate whether it is acceptable to present additional expense resulting from increase in gratuity/ leave obligation due to the new Labour Codes as an exceptional item in the Statement of Profit and Loss.

OUR TAKE: LEARNINGS FROM RESULTS OF BSE 100 ENTITIES

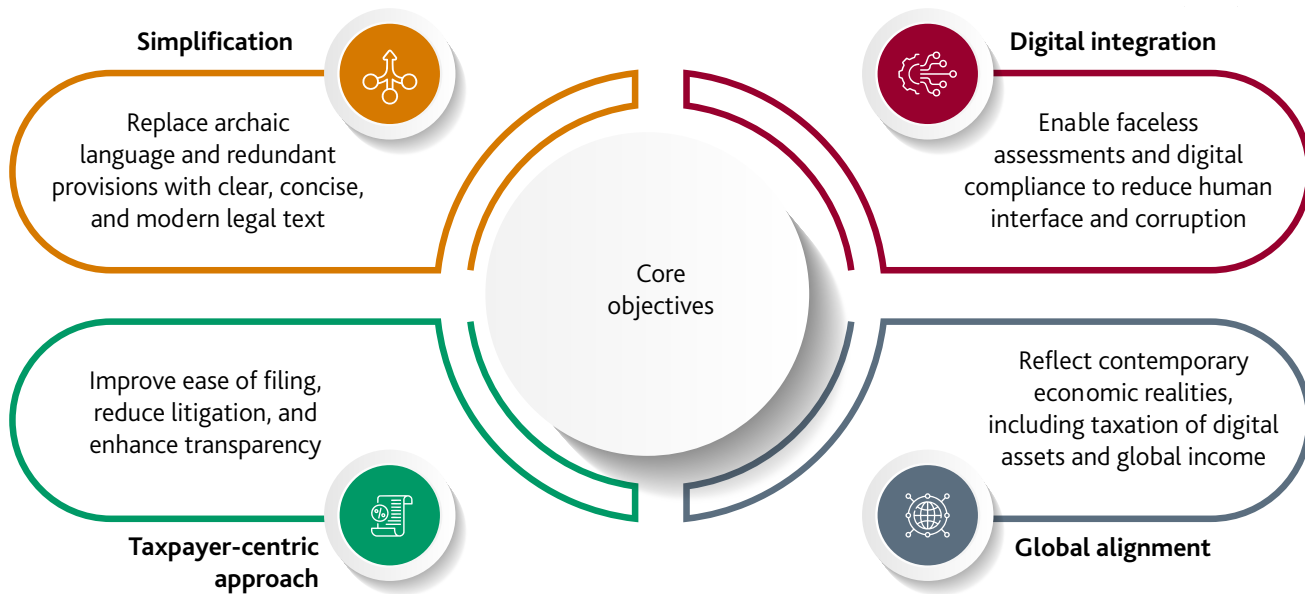
For the BSE-100 entities, the implementation of the new labour codes has translated into a recognition of one-time expense in the quarter ended December 2025. A quick snapshot is as follows:



Many analysts have flagged potential recurring structural cost increases going forward as employee benefits are permanently recalibrated, which could exert downward pressure on earnings and operating margins for labour-intensive entities.

RESHAPING THE INCOME TAX FRAMEWORK

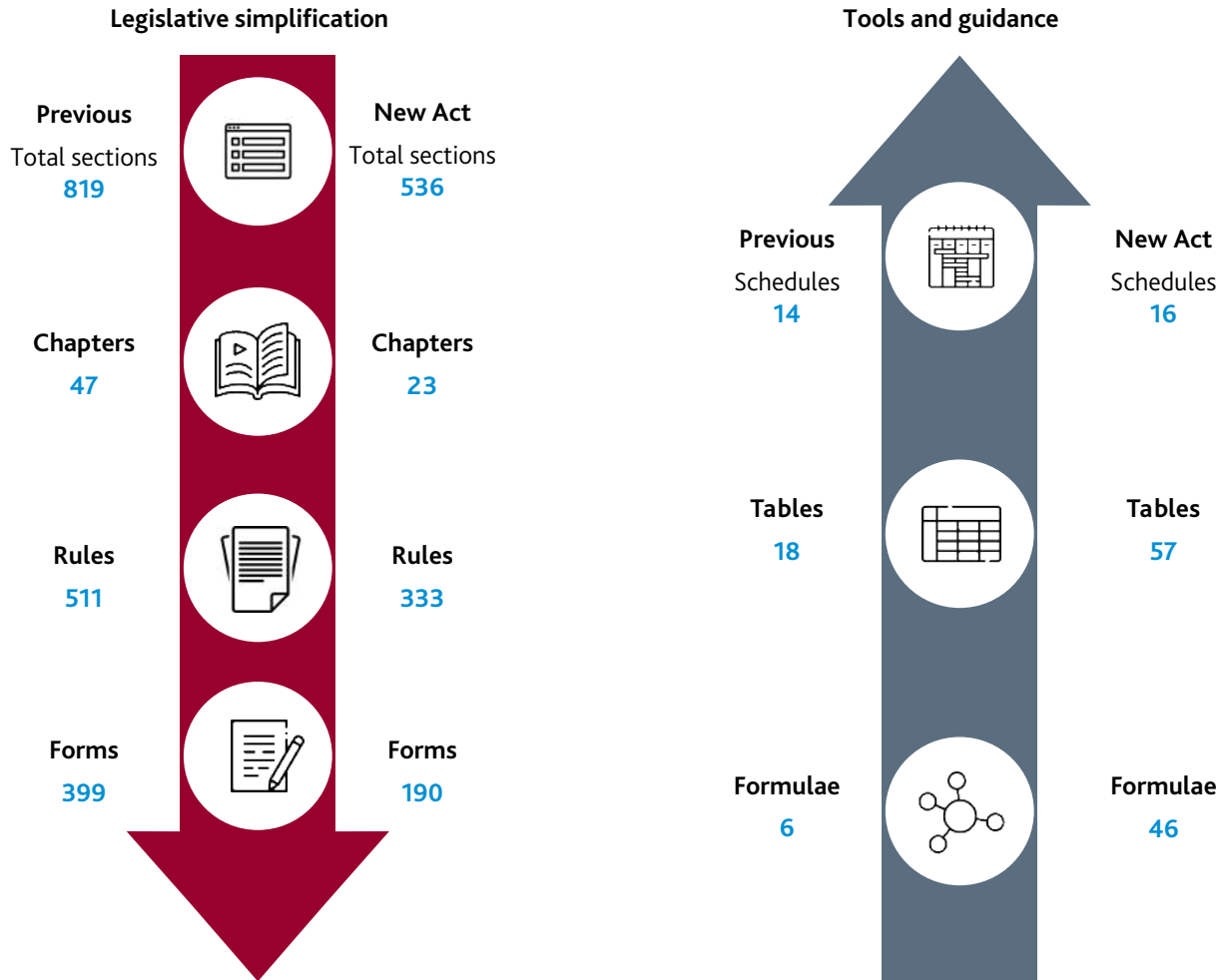
The passage of the [Income Tax Act, 2025](#) is a landmark development towards building a streamlined, simplified tax framework. The Act has received the assent of the President of India and is effective from **1 April 2026**. It broadly retains basic tax provisions of the pre-existing Income Tax Act, 1961, reflecting India's commitment to align with global best practices, improving ease of compliance, and fostering a trust-based tax environment.





Streamlined structure

The new Income Tax Act has been significantly simplified, with fewer sections and chapters, making it easier to understand and implement. It incorporates structured schedules along with the use of tables and formulae to enhance clarity in interpretation and application. These reforms reflect the Government's commitment to improving the ease of doing business by establishing a tax framework that is both user-friendly and transparent.



Introduction of 'Tax Year'

The Act simplifies tax terminology by replacing the previously used and often confusing terms 'Assessment Year' and 'Previous Year' with a single, unified concept called the 'Tax Year'. It is defined as the twelve-month period of the financial year commencing on 1 April. This change is aimed at improving clarity and making it easier for taxpayers to understand which financial period their income and tax filings relate to, thereby reducing ambiguity in compliance and interpretation.

Income earned during the Financial Year 2025-26 will be governed by the Income-tax Act, 1961 and assessed in Assessment Year 2026-27. Income earned from 1 April 2026 onwards will be governed by the Income Tax Act, 2025 and assessed for Tax Year 2026-27 and onwards.

Power to frame schemes

The Act authorises the Central Government to design new schemes aimed at improving efficiency, transparency, and accountability in tax administration (Section 532). This can be done by eliminating the interface with the taxpayer or any other person to the extent technologically feasible, and optimising utilisation of the resources through economies of scale and functional specialisation.



Simplified compliance

Multiple provisions have been clubbed together for better clarity. For example, the provisions related to Tax Deducted at Source (TDS), which were earlier scattered across multiple sections, have now been streamlined and grouped under a single section - Section 393. This consolidation is intended to simplify the legal framework, making it easier for taxpayers, professionals, and authorities to locate and interpret TDS related rules without navigating through numerous scattered clauses.

Certain procedural and operational elements which form part of the sections contained in the previous Income Tax Act, 1961 have been shifted to Rules under the new Income Tax Act, 2025 framework. These include the procedure for faceless assessments, tax recovery mechanism, criteria for defective returns and similar operational matters. This increases flexibility to the legislature to modify procedural aspects without requiring amendments to the primary statute.

Digital first enforcement and dispute resolution

Under the new Income Tax Act, 'Virtual Digital Space' has been defined as an environment, area, or realm that is constructed and experienced through computer technology. It includes platforms such as email servers, cloud servers, social media accounts, online investment and trading accounts, and websites for storing details of asset ownership. The scope of 'Virtual Digital Assets' has been expanded to include any asset that holds value in digital form and is generated using cryptographic ledger systems such as cryptocurrencies or similar technologies.

The Act also introduces a more robust and taxpayer-friendly framework for resolving disputes.

New Rules and Forms

The Central Board of Direct Taxes has released the [Income-tax Rules, 2026 \(the Rules\)](#) along with the Forms. The drafting of new Income-tax Rules and forms follows the same philosophy as that of the new Income-tax Act. The language of the Rules has been simplified to the extent possible.

The Forms have also been structurally simplified for ease of the taxpayers. Standardisation of common information has been done across the forms with a view to reducing the compliance burden of the taxpayers.

Forms have been designed in a smart way so as to provide for automated reconciliation and also to prefill capabilities so as to make filing more intuitive and less error-prone. These smart Forms would considerably ease compliance and enhance the user experience. The language of the forms has also been simplified so as to avoid any operational, administrative or legal ambiguity. Notes to forms have been simplified.

CHANGES TO EXISTING RULES/ FORMS	HIGH LEVEL OVERVIEW
<p>Rule 56 - meaning of expressions used in determination of fair market value (FMV)</p>	<ul style="list-style-type: none"> ▪ The previous Rules defined several terms for FMV computation and were divergent. ▪ Rule 56 removes the divergence in a number of ways. For example, Rule 56 aligns this by adopting a simpler balance sheet definition for Indian/ foreign companies and introduces a section specific table of valuation dates for section 92 (specified receipts/ transfers), section 79 (full value of consideration for transfer of unquoted share).
<p>Form 26 (Rule 47) - tax audit report</p>	<ul style="list-style-type: none"> ▪ Erstwhile tax audit Forms 3CA, 3CB and 3CD are now consolidated into Form 26 with 55 clauses instead of the earlier 44 clauses. ▪ Key changes include the following: <ul style="list-style-type: none"> • Details of the accounting software used for maintenance of books of account in computer system, any cloud or any other software used for storage of books of account along with location (internet protocol address and country) of such storage maintained on a server located in India with daily backups. (Requirement of having back up of digital books of accounts in a server physically located in India seems aligned with provisions of Companies Act, 2013.) • Financial effect (decrease/increase) of auditor's qualifications on the tax year's net profit to be reported by tax auditor. • Removal of past requirements such as General Anti Avoidance Rules and country-by-country reporting. • New requirements added, such as Minimum Alternate Tax / Alternate Minimum Tax credit utilisation and transactions in unquoted shares.



CHANGES TO EXISTING RULES/ FORMS	OTHER KEY CONSIDERATIONS
<p>Form 48 - accountants report (transfer pricing)</p>	<ul style="list-style-type: none"> ▪ The new Form enhances reporting requirements and introduces several new data intensive disclosure requirements. ▪ Separate clauses for each transaction category have been removed. Instead, a unique transaction ID should be generated for every category of transaction, with the arm's length price reported at the transaction level, along with disclosure of aggregated transactions, where applicable. ▪ Key disclosures include economic analysis, Advance Pricing Agreements related, key details of inter-company agreement(s) and computation method.

Uncertainty is the new line item

Following [implementation tools](#) have been issued by the Government:

Utility to check provisions of Income-tax Act, 1961 vis-a-vis Income-tax Act, 2025

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INDIA'S DATA PROTECTION FRAMEWORK

Years after a landmark Supreme Court ruling, which reiterated that information privacy is a fundamental right enshrined in the Constitution, India enacted its Digital Personal Data Protection Act, 2023 (DPDP Act) on **11 August 2023**. The law creates a framework for the protection of digital personal data in India. The Government of India has also notified the Digital Personal Data Protection Rules, 2025 on 14 November 2025 (DPDP Rules). Together, the DPDP Act and the Rules form a clear and citizen-centred framework for the responsible use of digital personal data which supports ease of understanding, encourages compliance and strengthens trust in the country's growing digital ecosystem.

The law rests on seven core principles. These include consent and transparency, purpose limitation, data minimisation, accuracy, storage limitation, security safeguards and accountability. These principles guide every stage of data processing. They also ensure that personal data is used only for lawful and specific purposes.



The following are the key terminologies:

Data Fiduciary: An entity that decides why and how personal data is processed, either alone or with others.

Data Principal: The individual to whom the personal data relates, e.g., in the case of a child, this includes a parent or lawful guardian.

Data Processor: Any entity that processes personal data on behalf of a Data Fiduciary

Consent Manager: An entity that provides a single, transparent and interoperable platform through which a Data Principal may give, manage, review or withdraw consent.



Global alignment

While the DPDP Act adopts several principles from global data protection frameworks, such as the EU and UK General Data Protection Regulation and US data protection laws like the California Consumer Privacy Act as amended by the California Privacy Rights Act such as free, purpose-specific, informed consent, based on transparent notice it has several unique aspects, such as a consent-centric regime.

While all three regimes aim to safeguard personal data and enhance accountability of entities processing such data, their regulatory approaches, scope, enforcement architecture, and compliance expectations differ significantly. For example, the UK norms represent a comprehensive rights-centric privacy regime and U.S. laws reflect a consumer protection model with decentralised regulation, the DPDP Act adopts a streamlined, consent-oriented framework designed to balance privacy protection with ease of digital business operations.

Key takeaways for businesses

The Act places clear responsibilities on Data Fiduciaries to keep personal data safe and to stay accountable for its use. It also gives Data Principals the right to know how their data is handled and the right to seek correction or removal when needed.

The DPDP Act and Rules requires Data Fiduciaries to provide a privacy notice in clear and plain language whenever personal data is collected based on consent, explaining what personal data is being collected, the purpose of processing, the methods available to exercise Data Principal rights, and the process for submitting complaints to the Data Protection Board, with the notice made available in English or any of the 22 languages listed in the Eighth Schedule of the Constitution. The Rules build on these obligations by mandating that the privacy notice be presented and be understandable independently.

The Act requires Data Fiduciaries to obtain verifiable parental or lawful guardian consent before processing the personal data of a child or a person with disability, prohibits any processing that may cause harm to the Data Principal, and bans behavioural monitoring or targeted advertising directed at children.

A central feature of the Act is the creation of the Data Protection Board of India. The Board functions as an independent body that oversees compliance, inquiries into breaches and ensures that corrective measures are taken. It plays a key role in enforcing the rights granted under the Act and maintaining trust in the system.

The DPDP Act imposes substantial financial penalties for non-compliance by Data Fiduciaries. The highest penalty up to INR 250 crore applies to failure of a Data Fiduciary to maintain reasonable security safeguards. Not notifying the Board or affected individuals of a personal data breach as well as violations of obligations relating to children can each attract penalties of up to INR 200 crore. Any other violation of the Act or Rules by a Data Fiduciary may attract penalties up to INR 50 crore.

Across industries, the DPDP Act and Rules influences operational, compliance, and governance practices, requiring enterprises to reassess their data handling frameworks. The DPDP Act and Rules impacts sectors differently depending on the quantum of data handled.



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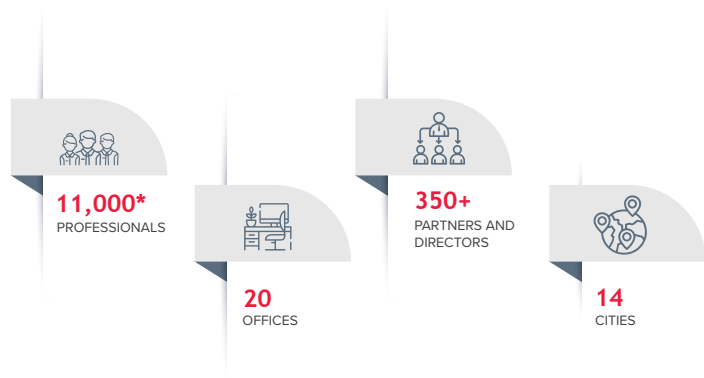
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