



CA. Hemant Kumar
Member of the Institute

Proposed Ind AS 118: A Reform in Financial Reporting

This article examines proposed Ind AS 118, which is expected to replace Ind AS 1 from 1 April 2027 (ICAI, 2025). The standard introduces a structured approach to the statement of profit and loss by classifying income and expenses into five categories with mandatory subtotals. It introduces and prescribes disclosure and reconciliation requirements for management-defined performance measures (MPM), strengthens aggregation and disaggregation principles, and brings consequential amendments to Ind AS 7, Ind AS 33 and

Ind AS 34. Implementation requires retrospective application, including restatement of comparatives subject to transitional relief. The article outlines these provisions and highlights the procedural and presentation changes that companies need to undertake before the effective date.

Introduction

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 Presentation and Disclosure in Financial Statements, which will replace IAS 1 from 1 January 2027 (IASB, 2024). The new standard aims to address inconsistency in financial reporting and enhance comparability across entities (IASB, 2024). Historically, companies across jurisdictions had significant flexibility in presenting financial statements, often using customised formats and reporting figures such as adjusted EBITDA or operating profit without standard definitions or reconciliations (Sabauri & Kvatahidze, 2025). A study conducted by the IASB on a sample of 100 companies revealed that more than 60 of them reported an operating profit figure, employing at least nine different calculation approaches (IASB, 2024). This diversity meant that even fundamental metrics like operating profit were presented differently, limiting users' ability to interpret and compare results.

Consistent with India's IFRS convergence approach, the Exposure Draft of Ind AS 118 is substantially

aligned with IFRS 18. Ind AS 118 introduces a new approach to financial statement presentation. The statement of profit and loss is reorganised into five categories with mandatory subtotals such as operating profit presented in a consistent manner, as discussed later in the article. The standard also requires companies to present operating expenses explicitly on the face of the statement, and management-defined performance measures (MPM) must be disclosed with supporting explanations and reconciliations. Additional provisions introduce principles for aggregation and disaggregation, discourage vague labelling such as "other" and update requirements for the cash flow statement, earnings per share, and interim reporting. According to Andreas Barckow, Chair of the International Accounting Standards Board (IASB), "IFRS 18 represents the most significant change to companies' presentation of financial performance since IFRS Accounting Standards were introduced more than 20 years ago. It will give investors better information about companies' financial performance and consistent anchor points for their analysis" (IASB, 2024). Although these



reforms are designed to improve clarity and consistency, their adoption will require companies to adjust systems, processes, and internal judgements in preparation for implementation (Chan & EY, 2024; EY, 2025; Ndarake et al., 2024).

Major Changes Under Ind AS 118

Ind AS 118 introduces several interrelated changes affecting both the presentation and disclosure of financial information. Figure 1 summarises the key presentation and disclosure-related changes introduced by Ind AS 118, which are discussed in detail in the subsequent sub-sections.

Figure 1: Impact of Ind AS 118 on Presentation and Disclosure

Presentation	• Five mandatory categories in the statement of profit or loss • Operating profit and profit before financing and tax made compulsory
Disclosure	• Mandatory disclosure of management-defined performance measures (MPMs) • Explanation, calculation method and reconciliation required for each MPM

Statement of Profit and Loss

The standard requires companies to classify all income and expenses into five categories of operating, investing, financing, income taxes and discontinued operations. Two new subtotals are mandated on the face of the statement of profit and loss which are operating profit or loss and profit or loss before financing and income taxes (IASB, 2024).

The operating category functions as a residual category after applying the classification principles for investing and financing activities. It includes income and expenses from an entity's main business activities and all items not included in other categories. For most entities, revenue, materials consumed, employee benefits, depreciation and amortisation, selling, general and administrative expenses, and other similar items are part of operating activities. Where a company's main business activity is financing or investing, for example, banks, NBFCs or investment companies, items such as interest income and interest expense that would normally be classified as financing or investing are presented in the operating category. This treatment depends on the nature of the entity's main business activities and requires judgement (KPMG, 2024).

The investing category includes income and expenses from assets that generate returns largely independent of an entity's other operations. Classification depends on the entity's main business activity and follows specific guidance for financial institutions. This category

typically includes interest income, dividend income, rental income from investment property, and results from equity-accounted associates and joint ventures, unless the entity's main business activity is investing or financing (EY, 2025).

The financing category includes income and expenses related to raising finance, for example interest on borrowings and lease liabilities and similar effects of provisions. After presenting financing income and expenses, the statement presents the subtotal "profit or loss before income tax", followed by tax expense and

results from discontinued operations (Czajor, 2024; IASB, 2024).

Ind AS 118 introduces a choice for how operating expenses may be analysed on the face of the statement of profit and loss by nature (e.g. material consumed, employee costs, depreciation) or by function (e.g. cost of sales, selling, marketing, administrative). When expenses are presented by function, additional disclosures in the notes are required to identify major components, including depreciation, amortisation, employee benefits, impairment and write-downs of inventories. The current Ind AS 1 permit only a by nature presentation but the exposure draft of Ind AS 118 allows both methods (ICAI, 2025; IASB, 2024). Table 1 presents an illustrative format of statement of profit and loss for entities whose main business activities do not involve financing or investing. This format does not apply to banks, non-banking financial companies, insurers or other entities whose core activities involve investing, insurance services or providing finance, as those entities follow the specific classification guidance.

Table 1.

Illustrative Format of the Statement of Profit and Loss		Category
Revenue	X	Operating
Other operating revenues	X	
Total revenue	X	
Operating expenses (based on nature, function, or mix of both)		
Cost of material consumed	(X)	
Purchases of products for resale	(X)	
Changes in inventories of finished goods, work-in-progress and product for sale	(X)	
Employee benefit expenses	(X)	
Depreciation and amortisation expense	(X)	
Other expenses		
Total operating expenses	(X)	Investing
Operating profit or loss	X	
Share of profit or loss from equity accounted entities	X	
Income from other investments	X	
Interest income from cash and cash equivalents	X	
Profit or loss before financing and income taxes	X	

Illustrative Format of the Statement of Profit and Loss		Category
Interest expense on borrowings and lease liabilities	(X)	Financing
Interest expense on pension liabilities and provisions	(X)	
Profit or loss before income taxes	X	Income Taxes
Income tax expense	(X)	
Profit or loss after tax from continuing operations	X	Discontinued Operations
Profit or loss from discontinued operations	X	
Profit or Loss for the period	X	

Source: Author’s analysis based on literature review

Management-Defined Performance Measures (MPMs)

Ind AS 118 introduces a comprehensive framework for the disclosure of MPMs in response to the growing use of performance indicators that extend beyond those mandated by accounting standards. An MPM is defined as a subtotal of income and expenses, not otherwise prescribed by Ind AS, that management uses in public communications, such as investor presentations or press releases, to convey its perspective on a particular aspect of the entity’s financial performance. Subtotals explicitly required by the standards, such as gross profit, operating profit, or profit before tax, are excluded from this definition (ICAI, 2025;

IASB, 2024; KPMG, 2024). Figure 2 explains what qualifies as a management-defined performance measure under Ind AS 118.

To ensure consistency and comparability, all MPMs must be disclosed together in a single note. For each measure, entities are required to describe the measure, explain the aspect of performance it highlights and the reason for its use, and provide a reconciliation to the most directly comparable Ind AS total or subtotal (EY, 2025; ICAI, 2025; IASB, 2024). For example, an entity may present “adjusted operating profit” in its investor communications by excluding items such as restructuring costs or impairment losses that management

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considers not reflective of ongoing operations. Ind AS 118 requires the entity to reconcile this adjusted measure to the operating profit reported in the statement of profit and loss, with clear explanations of each adjustment and the reasons for excluding those items. Such MPMs fall within the scope of the statutory audit.

Ind AS 118 distinguishes between financial and non-financial performance measures. Non-financial metrics like customer satisfaction scores, store area or subscriber numbers are outside the scope of MPMs because they are not derived from income and expense information. Within financial performance measures, three categories are relevant (Figure 3). The first consists of subtotals required by the standards (for example, profit or loss and operating profit), which are excluded from the definition of MPMs. The second comprises management-defined subtotals that adjust or supplement standard figures, such as adjusted profit or loss, adjusted operating profit, adjusted EBIT and adjusted EBITDA. These measures qualify as MPMs. The third category covers financial indicators that are not income and expense subtotals, such as free cash flow, return on equity, net debt and same store sales, which do not meet the definition of an MPM (IASB, 2024; IFRS Foundation, 2020; Sabauri & Kvatashidze, 2025).

Figure 2: Identification of Management-Defined Performance Measures under Ind AS 118

What qualifies as an MPM	• Subtotal of income and expenses • Not explicitly required by Ind AS • Used by management in public communications to explain Performance
What is not an MPM	• Ratios and financial indicators • Measures not based on income and expenses • Non-financial performance metrics

Figure 3: Types of performance measures and MPMs**Not all performance measures are MPMs**

Performance measures			
Non-financial performance measures For example: - Number of subscribers - Customer satisfaction score - Store surface	Financial performance measures		
	(Sub)totals of income and expenses		Other measures that are not subtotals of income/expenses For example: - Free cash flow - Return on equity - Net debt - Same-store sales
	IFRS-specified For example: - Profit or loss - Operating profit - Operating profit before depreciation and amortisation	MPMs For example: - Adjusted profit or loss - Adjusted operating profit - Adjusted EBITDA	

Source: IFRS Foundation (2020)

The requirements for management-defined performance measures under Ind AS 118 were introduced because such measures were defined and presented differently in practice. In the absence of clear guidance, entities used varied approaches to adjust performance measures in their external communications. The examples below illustrate common reporting practices observed in practice.

An IPO prospectus showed rapid revenue growth even though the company was making substantial losses. It introduced a management-defined “contribution margin” that excluded recurring operating costs. Although presented as a measure of efficiency, this adjustment reduced clarity about key obligations and ongoing losses, making it harder to assess the company’s true financial position.

In another case, a listed company had to restate its early quarterly results due to concerns over aggressive revenue recognition and the use of a customised adjusted income measure. The restatement was followed by a sharp fall in share value, highlighting investor sensitivity to the credibility of reported figures.

More recently, analysts have criticised investor presentations that place heavy emphasis on adjusted EBITDA while giving less importance to

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operating profit. Such emphasis can divert attention from weaknesses in profitability and cash generation, even though the reported results remain unchanged.

Enhanced Aggregation and Disaggregation Principles

Ind AS 118 introduces the criteria for aggregation and disaggregation of financial information, building on but going beyond the guidance previously provided in Ind AS 1. Whereas earlier requirements relied largely on materiality and preparer judgement, the new standard explicitly distinguishes the roles of the primary financial statements and

the accompanying notes. The primary statements: the statement of profit and loss, balance sheet, statement of changes in equity, and cash flow statement are expected to provide a concise, structured summary of recognised elements, while the notes are intended to offer additional disaggregation and explanatory context to enable users to develop a fuller understanding of the reported information.

The revised framework requires that items with similar characteristics be aggregated, and items with dissimilar characteristics, when material, must be disaggregated either on the face of the statements or in the notes. The standard discourages vague labels such as “other.” Where the use of such a label is unavoidable, a more specific description (for example, “other operating expenses” or “other finance expenses”) must be applied to convey the nature of the items. Preparers must ensure that these descriptions are not misleading and that they are used consistently across periods.

In practice, these requirements require a review of existing presentation practices. For example, material one-off gains, including those arising from the disposal of a subsidiary, should not be grouped under “other income” without adequate explanation. Similarly, significant impairment losses must be shown as a separate line item rather than included within “other expenses” (EY, 2025; ICAI, 2025; IASB, 2024; KPMG, 2024).



Other Key Changes

Ind AS 118 introduces consequential amendments to related standards, particularly Ind AS 7, Ind AS 33, and Ind AS 34. For Ind AS 7, a key change is the requirement for all entities using the indirect method to begin the statement of cash flows with operating profit. Previously, entities used different profit measures, leading to inconsistent reporting. The amendments also remove options for classifying interest and dividend cash flows. Dividends paid must always be presented as financing cash flows. Entities without a specified main business activity will classify interest paid as financing and interest and dividends received as investing. For entities whose main business is lending or investing, a single category approach will apply. Each type of cash flow, namely interest paid, interest received and dividends received, will be reported in one category, aligned with the classification of related income and expenses in the profit and loss statement. Even when those items appear in more than one category in profit or loss, the total for each type must be shown in a single category in the statement of cash flows. Many of these requirements already exist in Ind AS 7, which had earlier removed alternative classifications. The amendments therefore largely bring IAS 7 into line with Indian



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practice, while adding clarity through the defined starting point and the emphasis on the single category approach. (ICAI, 2025; IASB, 2024).

For earnings per share, amendments to Ind AS 33 allow entities, in addition to reporting basic and diluted EPS, to disclose supplementary EPS figures in the notes. These additional EPS measures may be based on subtotals such as operating profit or on MPMs that are already disclosed in the financial statements. Such figures must be presented only in the notes and without greater prominence than basic and diluted EPS shown on the face of the statement of profit and loss (ICAI, 2025; IASB, 2024).

Changes to interim reporting under Ind AS 34 ensure that interim financial statements incorporate the new subtotals and MPMs disclosures in the same way as in annual financial statements. These amendments require preparers to restate comparative cash flow information and revise reporting formats from financial years beginning on or after 1 April 2027, in line with the effective date of Ind AS 118 (ICAI, 2025).

Preparing for Ind AS 118 Implementation

The implementation of Ind AS 118 will require extensive planning as it significantly reshapes the structure of financial reporting. For the newly defined categories in the statement of profit and loss, entities will need to modify their systems to ensure that transactions are captured, classified, and reported consistently across the group. Processes must be established to produce accurate reconciliations of MPMs that can withstand audit scrutiny. Adequate training of finance teams, boards, and auditors will be essential to ensure a clear understanding of the revised requirements. Companies will also need to identify which of their publicly communicated metrics fall within the scope of MPMs, define how these measures will be calculated, and document the related internal policies (EY, 2025; KPMG, 2024; Neves, 2024).

Because the standard requires retrospective application of presentation changes, entities may be required to reclassify comparative figures into the revised statement structure, subject to materiality and practicability considerations. This process may involve data reviews and manual adjustments, making early preparation critical. Reclassification of certain income and expense items from operating to investing or financing categories will modify familiar subtotals, even though total net profit remains unchanged. These structural effects will need to be clearly communicated to investors and analysts. In addition, reporting must align with Indian regulatory frameworks, including Schedule III of the Companies Act, SEBI requirements, and sector specific guidelines, all of which are expected to be updated before the standard's effective date.

The new requirements also introduce areas of judgement, such as determining an entity's principal business activities and deciding

which public communications create MPMS. These judgements may affect key performance indicators and may require a review of loan covenants and other contractual terms. Successful implementation will therefore demand coordinated efforts across finance, IT, governance, and investor relations functions.

Conclusion

The shift to Ind AS 118 represents a major reform in the way Indian companies present their financial statements. It introduces a more structured and disciplined approach that is intended to make reported information clearer and easier to compare. Moving to this new framework will involve significant effort from preparers and auditors, but its long-term impact will be seen in how effectively companies and users of financial statements adapt to the revised presentation and use it to gain deeper insights into business performance.

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Author may be reached at
eboard@icaai.in