

Presentation and Disclosure in the Financial Statements

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IFRS 18 is a new IFRS Accounting Standard aimed at improving how companies communicate in their financial statements. IFRS 18 responds to investor demands for better information about companies' financial performance introducing three categories of income and expenses namely operating, investing and financing, two income statement subtotals and one single note on management performance measures. IFRS 18 will affect all the companies across industries. Although, IFRS 18 shall not impact how the companies measure financial performance, it impacts how the companies present and disclose their financial performance.

What's the issue?

IFRS 18 aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss. IFRS 18 responds to stakeholder feedback that:

- statements of profit or loss requires more structure and content,
- measures defined by management are useful to investors and companies shall explain how these measures are calculated and why they are used,
- investors would like to see information more appropriately grouped (aggregated or disaggregated) in the financial statements.

Why the change?

It aims to improve the comparability and transparency of companies' financial performance and to have a structured financial statement. Investors will benefit from greater consistency of presentation in the income and cash flow statements, and more disaggregated information.

Making certain 'non-GAAP' measures Management Performance Measures (MPM) part of the audited financial statements will bring more credibility to management's key performance indicators.

IFRS 18 marks a step towards more connected reporting. Financial statements that include relevant and consistent information will afford users better information on companies' financial performance.

What's the change?

IFRS 18 requires all companies to:

- classify all income and expense into specified categories and provide new specified totals and subtotals in the statement of profit or loss;
- Enhanced guidance on the aggregation, location and labeling of items across the primary financial statements and the notes;
- mandatory disclosures about management-defined performance measures.

IFRS 18 affects complete set of financial statements



Statement of Financial Position



Statement of Profit or Loss



Statement of Comprehensive Income



Statement of changes in equity



Statement of Cash Flows



Notes to Financial Statement

Legend

Major Changes

Some Changes

Minimal Changes

How could IFRS 18 impact your business?

New judgements and assessment

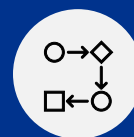
Implementation of IFRS 18 will require exercise of additional judgement on the part of financial statement preparers, Key IFRS 18 impact areas requiring extensive judgements on implementation of IFRS 18 are:



Determination of appropriate level of aggregation and disaggregation	Determination of entity's main business activity
Determination of classification of income and expenses among IFRS 18 defined subtotals	Determination of method for presenting other expenses

Changes to processes and systems

The management may have to assess their existing system capabilities and rejig the existing systems to align with the IFRS 18 reporting requirements and classifications. Some of the key areas impacting the processes and systems are:

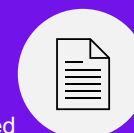


Prepare new or update existing disclosures within financial statements.	Analysis of aggregation or other expenses based on nature, function or mixed approach
Adapt their financial reporting systems to track and collate the more disaggregated information and classify income and expenses into the new categories.	Enable system capabilities for reconciliation of MPM's with subtotals within income statement.

Additionally, companies may need to review charts of accounts, update transaction recording systems, revise consolidation processes, add new data points for disclosures or design revised control procedures to ensure compliance.

Changes to financial performance linked contracts

- Remuneration arrangements, bonus schemes or covenant tests that directly link to, or use existing self-defined subtotals such as operating profit or loss as a starting point for the relevant assessment will need to be reviewed to determine if they are impacted by IFRS 18.
- Depending on the specific arrangements in place, it may be necessary to amend existing terms and conditions. Where this is the case, companies will need to determine the changes required, explain these to the relevant counterparties and, indeed, assess results and outcomes on the new terms.



Communication to investors and other stakeholders

- In the year of transition the management shall have to extensively engage with various stakeholders to help them understand the impact of IFRS 18 on MPM's disclosed in its investor communications.
- Apart from the investors and other stakeholders the companies shall have to educate the staff members on requirements of IFRS 18 and how these impact the companies reporting framework and stakeholder communications.



The implications of IFRS 18 will vary and may be more significant for some companies than others. Management and those charged with corporate reporting responsibilities should begin understanding the new changes in detail and undertake an initial impact assessment to assess the likely areas of impacts for the company.

Together, the new requirements will help Companies to better tell their story and connect their reporting in the financial statements.

Income Statement post applying IFRS 18

New categories

Illustrative income statement

Entities without specified main business activities¹

Operating ²	Revenue	X	New subtotals
	Operating expenses (analysed by nature, function or both as appropriate) (X)	(X)	
	Operating profit or loss	X	
Investing ²	Share of profit or loss of equity-accounted investees	X	
	Income from other investments	X	
	Interest income from cash and cash equivalents	X	
	Profit or loss before financing and income tax³	X	
Financing ^{2,3}	Interest expense on borrowings and lease liabilities	X	
	Interest expense on pension liabilities	X	
	Profit or loss before income tax	X	
Income tax	Income tax expense	(X)	
	Profit or loss from continuing operations	X	
Discontinued operation	Profit or loss from discontinued operation	X	
	Profit or loss	X	

Notes:

- Entities with specified main business activities of 'investing in assets' (e.g. insurers, investment property companies) or providing financing to customers (e.g. banks) classify additional income and expenses in the operating category, which would otherwise be classified in the investing or financing category.
- The operating, investing and financing categories are not aligned with those for the cash flow statement.
- Entities providing financing to customers as their only main business activity (e.g. banks) typically do not present this subtotal.

As observed from above illustration, IFRS 18 requires-

- Classify all income and expenses into five categories, three of which are new based on their main business activities.
- Present a newly defined 'operating profit' and other subtotals
- Present operating expenses either *by function*, *by nature* or **on a mixed basis**.

Under IFRS 18, companies are no longer permitted to disclose operating expenses only in the notes. They have to present an analysis of operating expenses on the face of the income statement by either nature or function or mixed of both as per below illustration:



By function

Revenue	xx
Cost of goods sold	(xx)
Gross profit	xx
R & D expenses	(xx)
Admin expenses	(xx)
Operating profit	xx

By nature

Revenue	xx
Purchase of raw materials	(xx)
Transport costs	(xx)
Depreciation	(xx)
Employee costs	(xx)
Operating profit	xx

Mixed

Revenue	xx
Cost of goods sold	(xx)
Gross profit	xx
Impairment expenses	(xx)
Admin expenses	(xx)
Operating profit	xx

Timeline

IFRS 18 is effective from 1 January 2027 and applies retrospectively. Early adoption is permitted. An entity shall apply this Standard retrospectively applying IAS 8.

IFRS 18 Impact on India

In India, the Accounting Standard Board has issued an exposure draft of Ind AS 118 which is formulated on the basis of IFRS 18 and will replace Ind AS 1, Presentation of Financial Statements. Currently, Ind AS 1 and Schedule III of Companies Act 2013 governs the presentation and disclosure of financial statements and mandates classification of expenses by nature while presenting the statement of profit and loss. Once Ind AS 118 is notified, potential amendments to Schedule III will significantly impact the current reporting practice. The proposed transition date of Ind AS 118 is for annual reporting periods beginning on or after 1 April 2027.

How KPMG in India can help

Design

- Improving data gathering processes and sharing data collection templates
- Analysing charts of accounts and MIS for IFRS 18 compliance
- Enhancing transactions recording systems
- Developing updated control procedures

Implementation

- Categorising financial line items as per IFRS 18
- Providing the draft Financial Statements
- Linking existing process and control with ERP system
- Aligning the MIS with the updated requirements of IFRS 18

Impact Assessment

- Analysing the existing presentation of Statement of Profit and Loss
- Highlighting the changes required by IFRS 18
- Suggesting alternative disclosure(s) as per IFRS 18
- Industry benchmarking
- Delivering diagnostic report

Workshop

- Providing in person training sessions to employees/ designated persons
- Explaining the requirements with relevant examples
- Discussing the latest developments
- Sharing insights by the expert professionals

Post Implementation Support

- Providing assistance and support relating to technical accounting queries
- Offering guidance on resolving accounting-related challenges

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