



# Voices on Reporting

25 February 2026

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# Speaker for the webinar



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# Decoding IFRS 18: Key Implications for Financial Reporting

# Overview of IFRS 18

- ▶ Will not impact recognition and measurement (net profit unchanged).

Globally, IFRS 18 is effective from the accounting periods beginning on or after 1 January 2027.

- ▶ NFRA has recommended Ind AS 118 to the Central Government for notification, with an effective date for the accounting periods beginning on or after 1 April 2027. Early adoption from 1 January 2027 is recommended for companies following a calendar year reporting period. Necessary amendments to Schedule III and regulatory guidance to follow.

- ▶ Ind AS 118 (exposure draft) mirrors IFRS 18 without any carve-outs.

## Why IFRS 18: Investors told the IASB



**Income statements vary in structure and content which makes it difficult to compare companies.**



**Non-GAAP measures are useful, but not all companies explain these measures in a clear and transparent way.**



**Companies should provide more granular information and group information in a way that provides better inputs for our analysis.**

**01**

**More structured income statement**



**02**

**Management-defined performance measures (MPMs)**



**03**

**Enhanced requirements on aggregation and disaggregation of information**



# A more structured income statement

## Illustrative income statement (IFRS 18)

Companies without specified main business activities.

|   |  |          |
|---|--|----------|
|  <b>Operating category</b> | Revenue  | X        |
|   | Operating expenses (analysed by nature, function or both as appropriate) | (X)      |
|   | <b>Operating profit</b>  | <b>X</b> |
|  <b>Investing category</b> | Share of profit or loss of equity-accounted investees                    | X        |
|   | Income from other investments  | X        |
|   | Interest income from cash and cash equivalents                           | X        |
|   | <b>Profit or loss before financing and income tax</b>                    | <b>X</b> |
|  <b>Financing category</b> | Interest expense on borrowings and lease liabilities                     | (X)      |
|   | Interest expense on pension liabilities                                  | (X)      |
|   | <b>Profit before tax</b>   | <b>X</b> |
|   | Income tax   | (X)      |
|   | <b>Profit for the year</b>   | <b>X</b> |

**IFRS 18 introduces some key changes for the income statement, including:**

- **Two new subtotals** on the face of the income statement.
- Income and expenses classified into **three new categories**, depending on a company's **main business activities**.
- **Results of equity-accounted investees** no longer presented as part of operating profit (now always in the investing category).

A company will continue to present separate income taxes and discontinued operations categories on the income statement.



# Specified main business activities

Are there any entities within the group that ...



... invest in assets as a main business activity?

Insurer

Investment property company

Investment entities ('IFRS 10')



... provide financing to customers as a main business activity?

Bank or other lending institution

Lessor with customers under finance leases

Entity that provides financing to enable customers buy their products

## Specific assessment required

- Subtotal to explain operating performance externally
- Subtotal to assess or monitor operating performance internally
- Information provided in operating segment note

Fact-based  
evidence



Additional income and expenses are classified in the Operating Category instead of in the Investing or Financing Category

# Assessment of specified main business activities



Is a matter of fact and depends on how the business is reviewed – internal as well as external



Is this assessment similar to “ordinary activities” under IFRS 15 or “principal revenue generating activities” under IAS 7?



Is the investing activity in income statement same as the investing activities in the statement of cash flows?



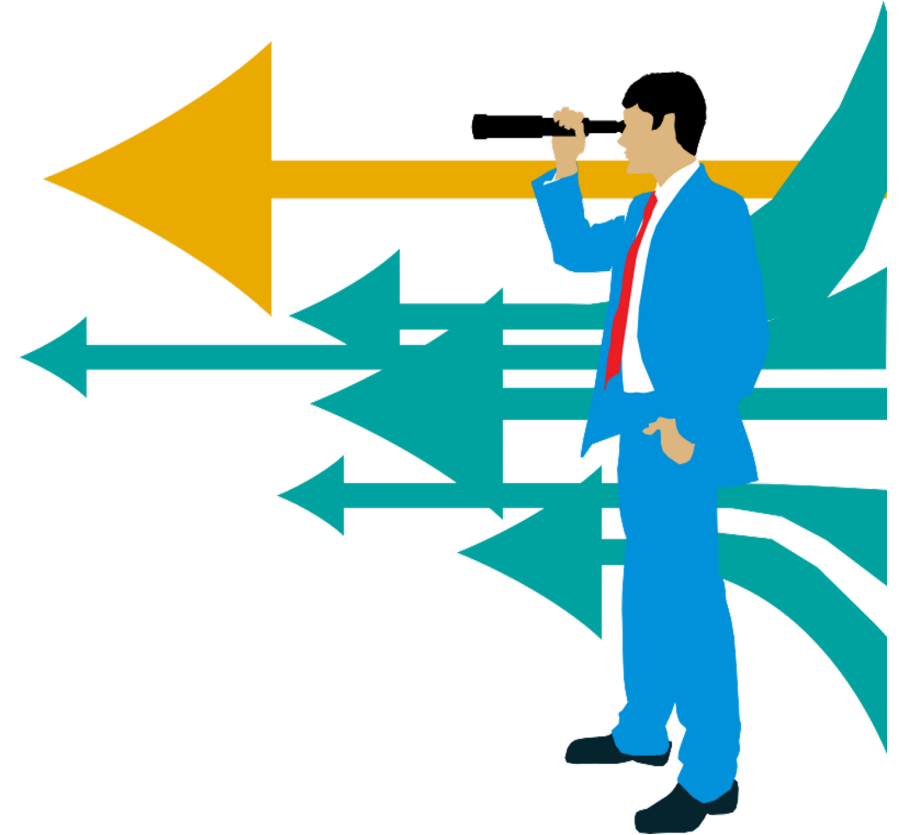
Does any change in the specified main business activities also require retrospective application?



Considerations in consolidated financial statements – individual vs group assessments



Interplay with segment reporting – combined reportable segments – used as an indicator and is an area of judgement



# What this change means for companies...



All items presented on income statements today will need to be recategorized following the Ind AS 118 structure.

| Schedule III   |          | IFRS 18/ Ind AS 118   |          |
|--|----------|---|----------|
| Companies without specified main business activities   |          | Companies without specified main business activities                  |          |
| Revenue from operations  | X        | Revenue   | X        |
| Other income   | X        | <b>Operating expenses:</b>  |          |
| <b>Total income</b>  | <b>X</b> | Cost of goods sold  | (X)      |
| <b>Expenses:</b>   |          | Employee benefit expense  | (X)      |
| Cost of goods sold *   | (X)      | Depreciation and amortisation expenses                                | (X)      |
| Employee benefit expense   | (X)      | Other operating expenses  | (X)      |
| Finance costs  | (X)      | <b>Operating profit or loss</b>                                       | <b>X</b> |
| Depreciation and amortization expenses   | (X)      | Share of net profits of investments accounted for using equity method | X        |
| Other expenses   | (X)      | Interest income on financial assets                                   | X        |
| <b>Total expenses</b>  | <b>X</b> | Other investment income   | X        |
| <b>Profit before share of net profits of investments accounted using equity method and tax</b> | <b>X</b> | <b>Profit before financing and income taxes</b>                       | <b>X</b> |
| Share of net profits of investments accounted for using equity method                          | X        | Interest expense on borrowings and lease liabilities                  |          |
| <b>Profit or loss before tax</b>   | <b>X</b> | Interest expense on pension liabilities                               |          |
| Income tax expense   | (X)      | Other finance cost  | (X)      |
| <b>Profit or loss</b>  | <b>X</b> | <b>Profit or loss before tax</b>                                      | <b>X</b> |
|  |          | Income tax expense  | X        |
|  |          | <b>Profit or loss</b>   | <b>X</b> |

## Examples of possible changes in the classification of income and expenses

- Net interest expense on defined benefit pension liabilities will be classified in financing category.
- Income from disposal of investment properties will be classified in investing category.
- Share of income and expenses from associates and joint ventures accounted for using equity method will be classified in investing category.
- Interest income on cash and cash equivalents will be classified in investing category.
- Finance costs will be classified in financing category.

## Specific classification considerations for:

| Foreign exchange differences. | Fair value gains and losses on derivatives. | Income and expenses from hybrid contracts. |
|-------------------------------|---|--|
|                               |   |  |

\* Cost of goods sold constitute of three parts:

- Cost of materials consumed,
- Purchases of Stock-in-Trade and
- Changes in inventories of finished goods, Stock-in-Trade and working-progress

# Enhanced requirements on aggregation and disaggregation

Applies to the entire financial statements

Specific consideration on ...

01

## Presentation of operating expenses

- Either by function, by nature or on a mixed basis.
- Select based on the method that reflects the most useful structured summary.

02

## Disclosure of nature expenses

### For by function line items:

- the total amount of specified nature of expenses included in the line item.
- further disclosure to break down total amount between operating and non-operating categories.

03

## Enhanced aggregation and disaggregation

- Based on shared vs. non-shared characteristics.
- A single dissimilar characteristic can result in disaggregating items, if material.

04

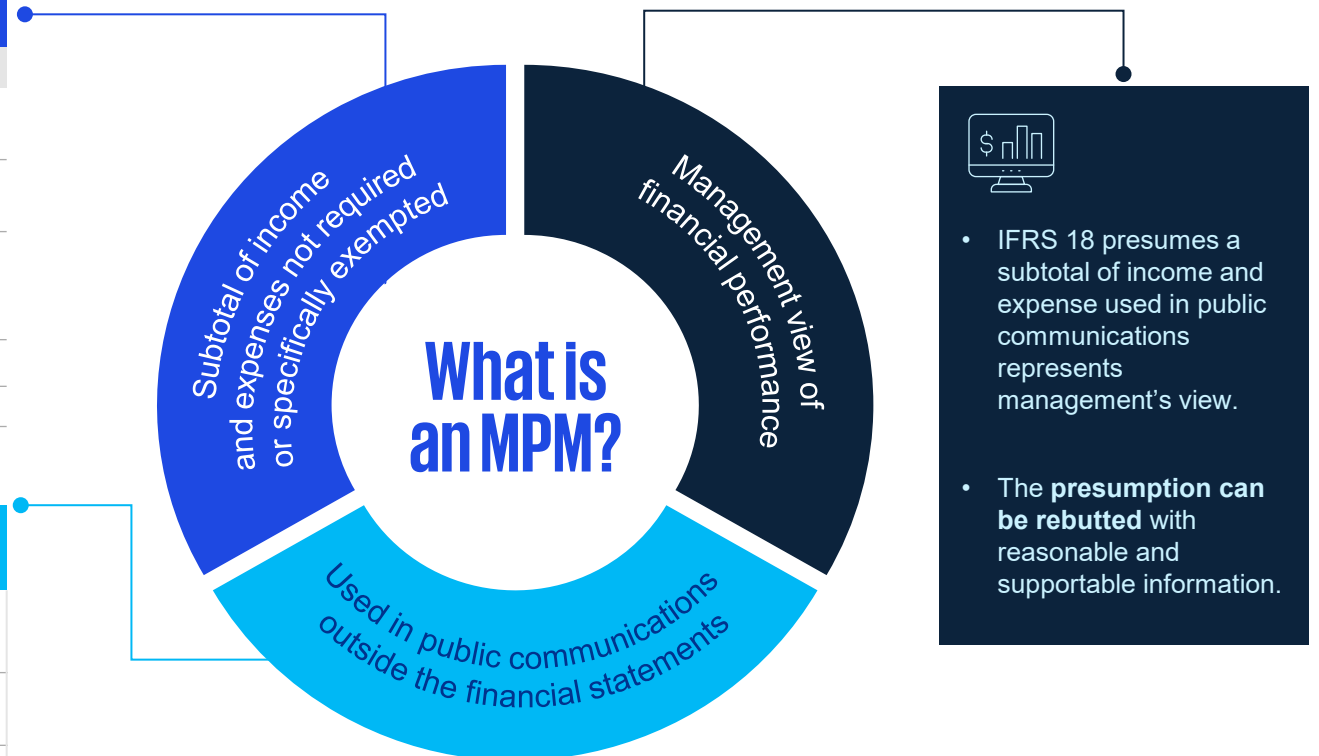
## Use of 'other'

- Discouraged – need to use more informative labels.
- Additional disclosures apply for items labelled as 'other'.

# Disclosed and audited MPMs

| Non-GAAP measures           |   |                           |
|-----------------------------|---|---------------------------|
| Other measures              | Measures that are subtotals of income and expenses  |                           |
|                             | IFRS specified  | MPMs                      |
| Number of subscribers       | Gross profit  | Adjusted profit           |
| Customer satisfaction score | Operating profit  | Adjusted operating profit |
| Free cash flow              | Operating profit before depreciation, amortisation and impairments in the scope of IAS 36 | Adjusted EBITDA           |
| Return on equity            |   |                           |
| Net debt                    |   |                           |

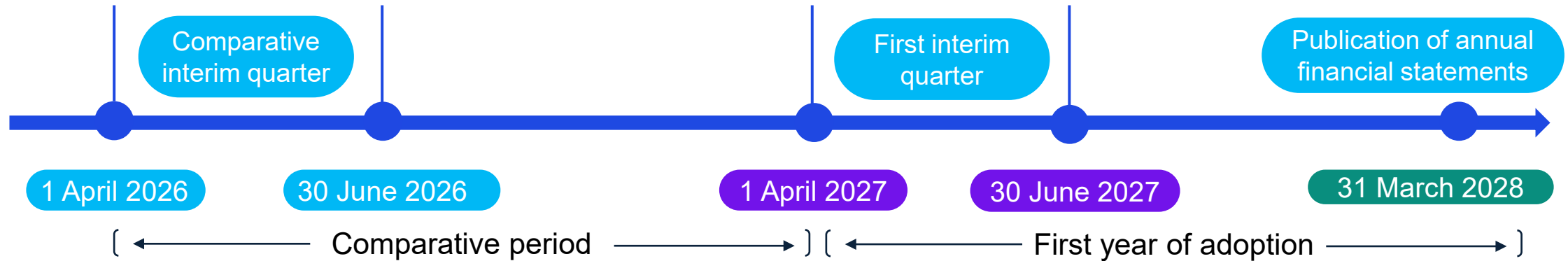
| Public communications include | Public communications exclude               |
|-------------------------------|---|
| Front-half of annual reports  | Oral communications (including transcripts) |
| Press releases                | Social media posts                          |
| Investor presentations        |   |



# Evaluation of MPMs

|  |   |                                     |   |   |   |
|--|---|-------------------------------------|---|---|---|
| Earnings before interest, depreciation, tax and amortisation | ? | Profit after tax (PAT)              | ✗ | Operating margin  | ? |
| Return on equity   | ✗ | Recurring PAT                       | ? | Revenue growth  | ✗ |
| Earning before interest and tax margin                       | 👍 | PBDIT including profit of associate | 👍 | Gross margin / Turnover   | ? |
| Free cash flows  | ✗ | Active global clients               | ✗ | Adjusted earnings before interest, depreciation, tax and amortisation | 👍 |

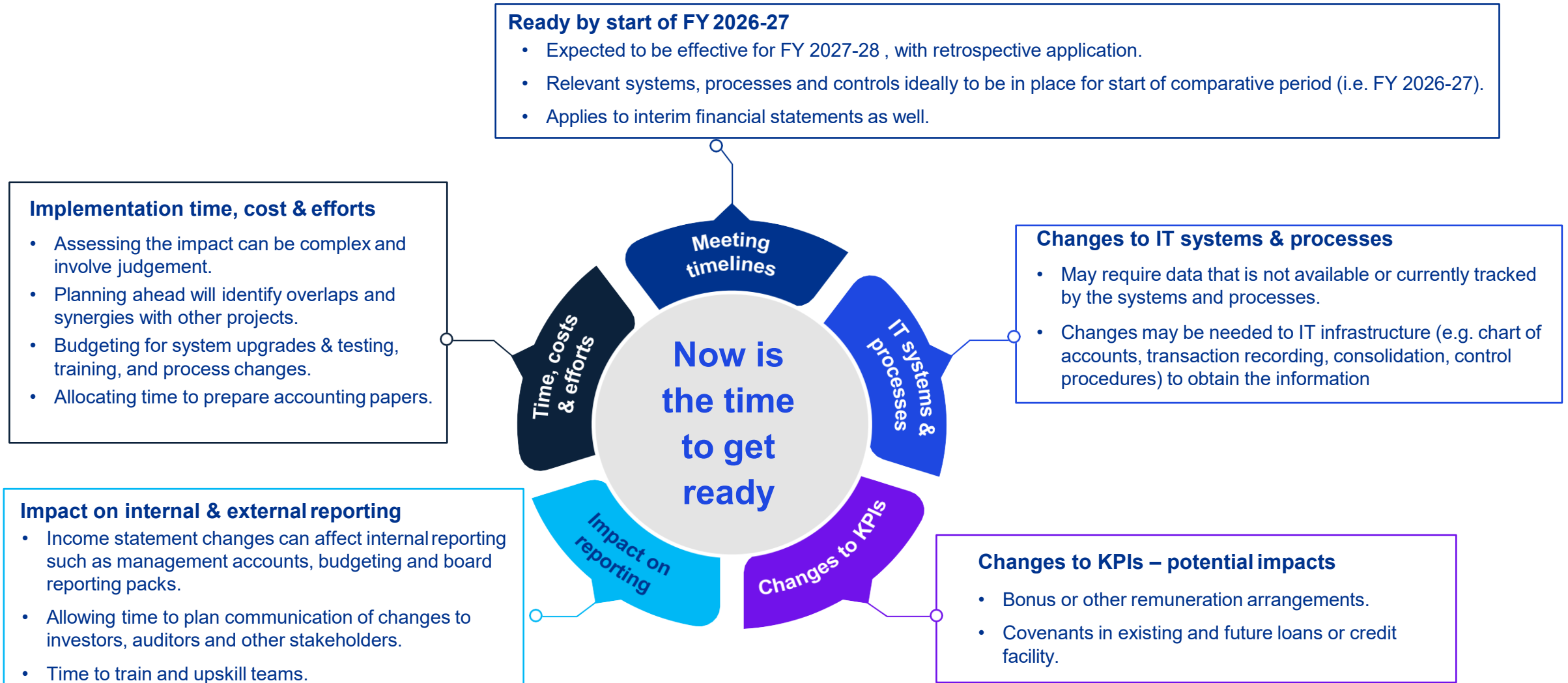
# Expected timelines in India



## Ready by start of FY 2026-27

- Expected to be effective for FY 2027-28 , with retrospective application.
- Relevant systems, processes and controls ideally to be in place for start of comparative period (i.e. FY 2026-27).
- Applies to interim financial statements as well.

# Why think about IFRS 18 now?





# Implementation challenges....

## Look out for our next session on the Voices on Reporting

# IFRIC updates – Sep 2025 and Nov 2025

## 01 Foreign Exchange Gains or Losses on Derivatives

When an external derivative is entered into to manage the net foreign currency exposure of the group, the resulting FX gain or loss is classified in the same profit-or-loss category as the net asset or liability whose risk is being managed.

## 02 Presentation of Taxes That Are Not Income Taxes

Taxes and charges not meeting the IAS 12 definition of income taxes cannot be presented in the income tax line item or income tax category under IFRS 18. Entities may present these amounts as separate line items or subtotals.

## 03 Specified Main Business Activity in a Parent's Separate FS

If a parent's only substantive activity is investing in and managing subsidiaries measured at cost, even if it is not an investment entity under IFRS 10. IFRIC concluded that this activity constitutes a specified main business activity. Accordingly, income and expenses from unconsolidated subsidiaries must be presented in the Operating category in the separate financial statements.

## 04 Disclosure of Expenses by Nature

If an entity presents any line item of operating expense by function, it must also disclose the nature-wise breakdown of expenses.

## 05 FX Differences on Intragroup Monetary Liabilities/Asset

IFRIC evaluated how to classify FX differences arising from intragroup monetary items when the related income/expense is eliminated on consolidation. Three views were considered, and IFRIC noted that two views are acceptable under IFRS 18:

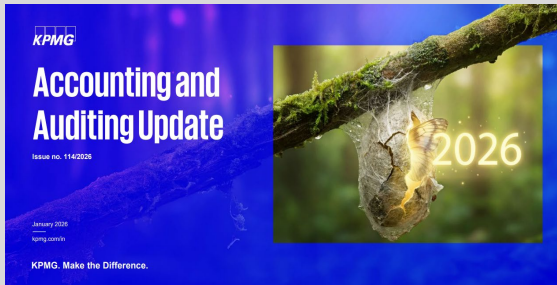
- View 1: Classify FX differences in the Operating category (default category under IFRS 18).
- View 2: Classify FX differences in the same category where the related income/expense would have been classified before elimination (e.g., financing or investing).

If identifying the original category involves undue cost or effort, entities may by default classify the FX difference as Operating.

**Q&A**

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