

Comments – ED of Ind AS 118

Exposure Draft of the proposed new standard Ind AS 118, Presentation and Disclosure in Financial Statements

Question for respondents:

Do you agree with the proposal to require classification and presentation of expenses in the operating category in a way that provides the most useful structured summary of its expenses using characteristics of nature or function or mixed presentation ?

Why or why not?

If you disagree with the proposal, please explain what you suggest instead and why

A. Analysis of Ind AS 118

Ind AS 118 is expected to affect all companies, bringing significant changes to how Reporting Entities (RE) present their income statement and what information they need to disclose, and making certain 'non-GAAP' measures part of the audited financial statements for the first time. RE s will have to implement :

- ✓ 3 new categories of income and expenses,
- ✓ 2 defined income statement subtotals and
- ✓ 1 single note on management-defined performance measures.

Categories for classifying income and expenses Income and expenses included in the profit or loss section of the statement of profit and loss are required to be classified into 5 categories:

It appears that although Ind AS 118 will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance.

The proposed Ind AS 118 aims to improve financial reporting by requiring:

- presentation of new defined subtotals in profit or loss;
- disclosures about management-defined performance measures; and
- enhanced requirements for grouping (aggregation and disaggregation) of information.

B. Response to query

Agree with the proposal to require classification and presentation of expenses in the operating category in a way that provides the most useful structured summary of its expenses using characteristics of nature or function or mixed presentation

Reason – to ensure greater transparency , insight and fairness of financial statement for investors and stakeholders

Presentation and disclosure of expenses in the operating category Ind AS 118 requires a company to present expenses in the operating category in a way that provides the most useful structured summary of its expenses.

The new guidance in ED of Ind AS 118 requires companies to classify expenses in a way that provides the most useful information to investors, considering, for example:

- what line items provide the most useful information about the important components or drivers of the company's profitability; and
- what line items most closely represent the way the company is managed and how management reports internally.

The standard also requires companies that present expenses classified by function to disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-downs of inventories included in each line item in the operating category of profit or loss.

C. Greater disaggregation of information

To provide investors with better insight into financial performance, the new standard includes enhanced guidance on how companies group information in the financial statements. This includes guidance on whether material information is included in the primary financial statements or is further disaggregated in the notes.

To promote greater transparency, companies are discouraged from labelling items as 'other' and will now be required to disclose more information if they continue to do so.

D. Questions and Issues which may require guidance

- ✓ Considering a situation where a company reports Earnings Before Interest and Taxes (EBIT) as an MPM, does the required reconciliation need to be done for the group level only or also for the operating or reportable segments under Ind AS108 Operating Segments
- ✓ In the context of public communications outside the financial statements, does management interviews in newspapers, magazines and so on meet the definition of 'used in public communications' under Ind AS 118
- ✓ Whether a Reporting entity be able to continue presenting exceptional items in separate columns in the face of the statement of profit or loss subject to the new disclosure requirements

E. Reply to the specific question by the ASB (ICAI) to respondents (Page 7)

The view of the ASB that requires classification of expenses in the operating category using characteristics of nature or function or mixed.

Opinion is -

If mixed (both nature and function) characteristics of presentation are selected, management should provide a separate note outlining the key factors and rationale behind this selection. The note should clearly explain the considerations taken into account in classifying each line item and specify the factors that, in management's opinion, are temporary in nature.

F. Opinions on General Areas

- a. In Page No. 5, under "Principles of Aggregation and Disaggregation",

As per Draft	Suggested
.....of items does not obscure material informationof items do not obscure material information.

- b. In page 9, Para 15

As per Draft	Suggested
An entity need only present or disclose material information.	An entity only needs to present or disclose material information.