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# Reframing Financial Performance Reporting in India

A performance communication reset: changing how financial performance is structured, explained, governed and compared.

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Paper based on the ICAI exposure draft; subject to regulator notification.



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01 | EXECUTIVE SUMMARY

# A performance communication reset

Ind AS 118—Presentation and Disclosure in Financial Statements—signals a significant shift in how companies explain financial performance. Its primary emphasis is presentation and disclosure rather than changing the underlying recognition and measurement of transactions. Yet its consequences reach well beyond the face of the statements: classification rules, management-defined performance measures (MPMs), expense analysis and comparative reporting depend on well-governed data and consistent definitions.

The proposed framework introduces more consistent operating and investing/financing categories, defined profit subtotals and a single-note disclosure regime for qualifying MPMs. It also strengthens aggregation and disaggregation principles and changes the indirect cash flow starting point.

The central issue for finance leaders is not whether the new statement can be formatted. It is whether every classification, adjustment and narrative can be reproduced across entities, comparative periods, interim reporting and external communication.

**What changes in practice**

- Operating profit becomes a defined reporting anchor, while business-specific category rules still require judgement.
- Adjusted Operating Profit and similar externally communicated subtotals may qualify as MPMs and need disciplined disclosures.
- Expense presentation, specified-nature disclosures and aggregation policies demand better underlying detail.
- Comparative figures and interim reports require attention early, not just at annual go-live.

02 | WHY IndAS 118 MATTERS NOW

# Three forces are converging

## 1 Regulatory convergence

Developed from IFRS 18, the ICAI exposure draft of Ind AS 118 proposes a clearer, internationally comparable framework. The proposed effective date is annual reporting periods beginning on or after 1 April 2027. Final notification by the Ministry of Corporate Affairs (MCA), including consequential Indian regulatory and Schedule III alignment, remains to be confirmed.

## 2 Investor expectations

Investors increasingly compare operating results across companies and test adjusted metrics against statutory performance. Defined subtotals improve the reference points, while MPM reconciliation explains how management's preferred measures are constructed.

## 3 Narrative discipline

Companies can continue to explain performance through adjusted measures. But when those measures meet the MPM definition, their purpose, calculation, reconciliation and consistency become matters for financial-statement disclosure and audit.

03 / WHAT FUNDAMENTALLY CHANGES

# The accounting may be subtle. The presentation is not.

The profit or loss statement is organised into operating, investing, financing, income taxes and discontinued operations categories. Operating profit or loss and profit or loss before financing and income taxes provide defined subtotals. Classification depends on the nature of the item and, for certain entities, specified main business activities such as investing in assets or providing financing to customers.

| Area | Practical implication |
|---|---|
| **Performance structure** | Five categories and prescribed subtotals create clearer comparison anchors. |
| **MPMs** | Qualifying subtotals used in public communications require a single note, calculations and reconciliations. |
| **Aggregation** | Group similar items; disaggregate materially different items; avoid using “other” as a substitute for meaningful descriptions. |
| **Cash flows** | For indirect operating cash flow, begin with operating profit or loss; remove existing policy options for classifying interest and dividends, subject to relevant business-activity requirements. |

**IMPORTANT DISTINCTION**

*These are changes expected under the proposed Indian standard. Reporting teams should check the final notified text and related Ind AS 7 / Schedule III amendments before adopting a final policy.*



04 / MANAGEMENT-DEFINED PERFORMANCE MEASURES

# From narrative advantage to governance discipline

An MPM is a subtotal of income and expenses that the entity uses in public communications outside its financial statements to communicate management's view of an aspect of the financial performance of the entity as a whole, and that is neither an expressly excluded subtotal nor a subtotal required by accounting standards. Investor presentations, press releases and management commentary are relevant public communications; an internal-only KPI does not qualify merely because management tracks it.

Adjusted Operating Profit is a useful example: if publicly communicated as management's view of entity-wide performance, it may be an MPM. Assume operating profit is ₹100 crore, and management adds back ₹12 crore of qualifying restructuring expenses to report Adjusted Operating Profit of ₹112 crore. The note should reconcile ₹112 crore to operating profit of ₹100 crore, explain the adjustment and show its income-tax and non-controlling-interest (NCI) effects for each reconciling item.

**What the MPM note needs**

- A single note covering all identified MPMs, with descriptions, purpose and calculation methodology.
- Reconciliation to the most directly comparable specified or prescribed subtotal; each reconciling item identified and explained.
- Income-tax effect and effect on NCI for each reconciling item, with the basis of tax-effect determination.
- Explanation of changes to an MPM, its calculation or reconciliation, with comparative information where required.

Not every popular metric is an MPM. Gross profit, operating profit, profit before tax and other specified subtotals are excluded; so are non-subtotal metrics such as revenue growth percentages, free cash flow and ratios. A metric labelled "EBITDA" cannot be classified automatically; its composition must be examined against the precise exemptions and definition.

05 / OLD VS NEW P&L

# A shift in the performance anchor

| Area | Before: common practice | Under the proposed framework |
|---|---|---|
| **Operating Profit** | Varied emphasis or calculation | A defined, more comparable subtotal |
| **Adjusted metrics** | Often principally outside the accounts | MPMs, when qualifying, disclosed and reconciled in one note |
| **Operating expenses** | Variable presentation and aggregation | Nature/function/mixed choice and further specified-nature information |
| **Cash flow indirect method** | Profit before tax commonly used as starting point | Operating profit becomes starting point |
| **Comparatives** | Existing presentation | Retrospective restatement with line-by-line comparative reconciliation |

The underlying economics need not change for key ratios or margins to move. A reclassification between operating and investing categories can alter operating profit without indicating a change in the business. The first reporting cycle therefore requires a clear explanation of both mechanics and meaning.

06 / DATA, REPORTING AND COMMUNICATION

# Compliance is only the visible layer



### 1 Data layer

Chart-of-accounts granularity, account and transaction tagging, entity-specific business models, MPM adjustments, tax and NCI attributes and prior-period mappings must support repeatable reporting. A wholesale ERP redesign may not be necessary, but reliable classification and traceability are.

### 2 Reporting layer

Reporting logic must generate the five categories, defined subtotals, mixed or selected expense presentation, specified-nature notes, MPM reconciliations and comparative-period bridges. It should also produce cash-flow classifications consistently and support condensed interim disclosure requirements.

### 3 Communication layer

Finance and investor relations need a controlled metric catalogue linking public measures to audited figures. This helps avoid a situation where presentations, board packs and statutory disclosures use similar words for different calculations.

### 4 Expense presentation and Schedule III

The proposed framework requires management to select presentation of operating expenses by nature, function or a combination based on usefulness. Where operating expenses are classified by function, specified categories of expenses by nature must be disclosed in one note. Indian companies will also need to reconcile those choices with the presentation prescribed by Schedule III when consequential changes are notified; the proposed Ind AS 118 framework should not be assumed to override existing statutory formats before amendment.

07 / READINESS DIAGNOSTIC

# Questions to ask now

## 1 Performance & metrics

- Which measures appear in earnings releases and investor presentations? Which truly satisfy the MPM test?
- Can each qualifying metric be reconciled with documented tax and NCI effects?

## 2 Systems and classification

- Are operating, investing and financing categories mapped consistently across entities and periods?
- Can systems generate expense disclosures and explain what appears in “other” line items?

## 3 Comparatives and interim

- Can prior-year numbers be rebuilt line by line under the new categories?
- Can quarterly or condensed interim reports reproduce required MPM information?

## 4 Governance

- Who approves classification judgements, adjustments, and explanations to investors?
- Is there evidence for changes in policies, classifications and MPM definitions?

08 / JUDGEMENT AND INDUSTRY PATTERNS

# Judgement areas become audit focus areas

**Where the audit questions will concentrate**

Clearer presentation rules do not remove judgement. They make the reasons for each judgement easier to examine. The questions below are particularly important when entities operate different business models, use adjusted profit measures or have complex finance and investment transactions.

- Classification: which income and expenses belong in operating, investing or financing, including special rules for entities with specified main business activities?
- Foreign exchange and fair-value effects: how should gains and losses follow the relevant underlying items, and what exceptions or practical limitations apply?
- Expense view: does nature, function or a mixed format produce the most useful structured summary? What additional notes are needed?
- Aggregation and labels: are dissimilar material items being obscured through broad captions such as “other expenses”?
- MPM governance: are measures entity-wide subtotals of income and expenses used in qualifying public communications, and are adjustments adequately supported?

Different sectors will experience these choices differently; lenders, investment-focused entities, manufacturers and service businesses have different expense and income profiles. These are illustrations of judgement areas, not assertions that the draft prescribes a single industry-specific presentation pattern.

09 / IMPLEMENTATION JOURNEY

# A phased, risk-based approach

| Phase | Key activities | Principal risks |
|---|---|---|
| **Impact assessment** | Inventory external measures, map categories and expense presentation, assess Schedule III and systems gaps | Missing MPMs or classification exceptions |
| **Comparative preparation** | Rebuild prior-year figures, document judgements, create line-by-line bridge and run parallel results | Incorrect restatement and inconsistent mappings |
| **First reporting** | Produce annual and interim disclosures, MPM note, cash flows and reviewed comparatives | Disclosure gaps or unexpected ratio movements |
| **Stabilization** | Control change requests, train users and strengthen evidence and narrative consistency | Recurring manual work or drift in metric definitions |

Treat the comparative period as a controlled rehearsal. The deliverable is not just a new P&L template but a tested process for producing, explaining and defending the whole report.

10 / TIMELINES AND REGULATORY CONSIDERATIONS

# Separate the proposed start date from the notification

The ICAI exposure draft proposes application for annual periods beginning on or after 1 April 2027. As of this paper's date, final MCA notification of Ind AS 118 and associated Indian presentation amendments has not been confirmed. The date is therefore a planning assumption, not an enacted commencement date. Entities should track notification, final transition provisions and changes to Schedule III before locking external commitments.

| Planning point | Working implication |
|---|---|
| **Before final notification** | Perform accounting-policy and data impact analysis against the exposure draft; track changes. |
| **Comparative period** | Prepare restatable prior-year data and a line-by-line reconciliation between the previously presented and revised comparative statement of profit or loss. |
| **First applicable annual period** | Apply retrospectively, with required comparatives and related disclosures, subject to final Indian rules. |
| **Quarterly / condensed interim reports** | Plan for MPM disclosures and relevant revised presentation/transition requirements, as applicable under interim reporting rules. |

## Transition and cash flow

Retrospective application means comparative financial information is restated. The transition disclosures include a reconciliation for each line item of the statement of profit or loss between the prior Ind AS 1 presentation and the restated presentation for the comparative period. Indirect-method cash flows start from operating profit, and policy choices for interest and dividend classification are replaced by prescribed rules, with exceptions linked to specified main business activities.

## Tax and other regulation

The new presentation does not by itself rewrite income-tax measurement rules. Nevertheless, changes to book-profit presentation may require a specific review of Minimum Alternate Tax (MAT) interfaces, regulatory returns, covenants, investor templates and statutory reporting formats. No automatic MAT conclusion should be drawn without examining the eventual Indian rules and the entity's facts.

11 / STRATEGIC OPPORTUNITY

# Beyond compliance: stronger financial communication

The opportunity is to connect what management uses to run the business with what finance can defend in audited reporting. A single lineage from source data through classification, consolidation, adjustments, disclosures and public communication strengthens consistency without eliminating management judgement.

| Capability | Value to reporting teams |
|---|---|
| **Metric alignment** | Common definitions for management, investor relations and statutory reporting |
| **Structured disclosures** | Repeatable MPM notes, expense disclosures and comparative bridges |
| **Traceability** | Evidence for categorisation, tax/NCI adjustment and audit queries |
| **Configurability** | Ability to accommodate final Indian regulatory details and later changes without uncontrolled rebuilding |

FinAlyzer's relevance lies in supporting connected reporting, consolidation, disclosure and audit-trail processes. Specific Ind AS 118 configurations should be assessed against the notified requirements and the company's reporting architecture—not assumed complete merely because an existing report can be reformatted.

12 / CONCLUSION

# Credibility will come from consistency

Ind AS 118 is best understood as a more disciplined approach to communicating performance. Prescribed subtotals provide a firmer anchor; MPM disclosures make adjusted measures more transparent; expense and aggregation principles sharpen the information presented; and transition requires comparatives that can be reconstructed with confidence.

The most difficult work is often upstream: classifications, audit evidence, MPM logic, expense detail, consolidated reporting and communication alignment. Those who test those dependencies before the first mandatory report will be better positioned to explain the numbers rather than defend avoidable inconsistencies.

In this environment, credibility will come not simply from what is reported, but from how consistently it can be explained.

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## About FinAlyzer

FinAlyzer brings financial close, consolidation, reconciliations, statutory and management reporting, and disclosures onto one integrated platform. Built for complex reporting environments, it helps finance teams improve accuracy, accelerate reporting and strengthen financial control, with end-to-end audit traceability. More details at finalyzer.ai.

## Basis and regulatory note

This paper draws on the ICAI Exposure Draft of Ind AS 118 and IFRS 18. It is commentary for planning purposes, not a substitute for the final notified standard and related amendments.