15th Techtalk on Employee Benefits
August 13, 2026.

Employee Benefits: What changes due to Ind AS 118?

Mayur Ankolekar
Consulting Actuary

Institute of Actuaries of India

Ind AS 118 fundamentally changes how financial performance will be communicated.

Ind AS 118 is titled "Presentation and *Disclosure* in financial statements."	It replaces Ind AS 1: Presentation of financial statements.
The standard is effective from April 1, 2027 i.e., FY 2027-28 reporting.	Prior period comparatives will be necessary. *Prepare now*.
It's a *structural* change.	Not a *measurement* change.
Applies for Ind AS reporting.	*Not for AS* reporting.
"Three pillar" structure	**Pillar 1:** restructured P&L **Pillar 2:** Management-defined performance measures **Pillar 3:** Aggregation & disaggregation principles.

A five-category classification of income and expenses is envisaged under Ind AS 118.

Operating

- The default category encompassing the entity's main revenue-generating activities

Investing

- Returns generated from assets that produce cash flows independently of other resources

Financing

- Interest expenses, finance charges, and other costs related to how operations are financed.
- Note that banks, insurers and NBFCs' *operating result will include financing*.

Income Taxes

- Current and deferred tax expenses, presented separately for clarity and consistency.

Discontinued operations

- Financial results of operations disposed off or identified for sale.

Ind AS 118 will change the face of the P&L/ Income Statement.

Current format: Ind AS 1

Particulars	Amount
Revenue from operations	1,000
Other income	40
Total Income	**1,040**
Cost of materials	(420)
Employee benefits	(210)
Other expenses	(170)
Depreciation & amortisation	(80)
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Proposed format: Ind AS 118

Particulars	Amount
Revenue from operations	1,000
Other operating income	20
Operating expenses	(880)
Operating profit	**140**
Investing income	20
Profit before financing & tax	**160**
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Institute of Actuaries of India

"Operating Profit" and "Profit before Financing & Tax" will be new items.

Current format: Ind AS 1

Particulars	Amount
Revenue from operations	1,000
Other income	40
Total Income	**1,040**
Cost of materials	(420)
Employee benefits	(210)
Other expenses	(170)
Depreciation & amortisation	(80)
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Proposed format: Ind AS 118

Particulars	Amount
Revenue from operations	1,000
Other operating income	20
Operating expenses	(880)
Operating profit	**140**
Investing income	20
Profit before financing & tax	**160**
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Operating performance (*140, not seen before*) is clearly separated from financing and investing effects, with standardized sub-totals for meaningful comparison.

The reader need not separately calculate "operating metrics."

Poll Question 1

Institute of Actuaries of India

In the employee benefits' valuation reports, do you/ your organization disclose/ report figures as:

A. Full Indian Rupees figures, or

B. Rounded figures e.g., Rs '000.

Reporting in Rs ‘000 would comply with the Companies Act guidance for the smallest company.

Institute of Actuaries of India

Rounding off of financial reporting numbers is **mandatory** under Schedule III of the Indian Companies Act from 2022, see here: https://ca2013.com/schedule/7501/.

That is, ‘full numbers’ are not necessary [read: they can’t see the forest for the trees.].

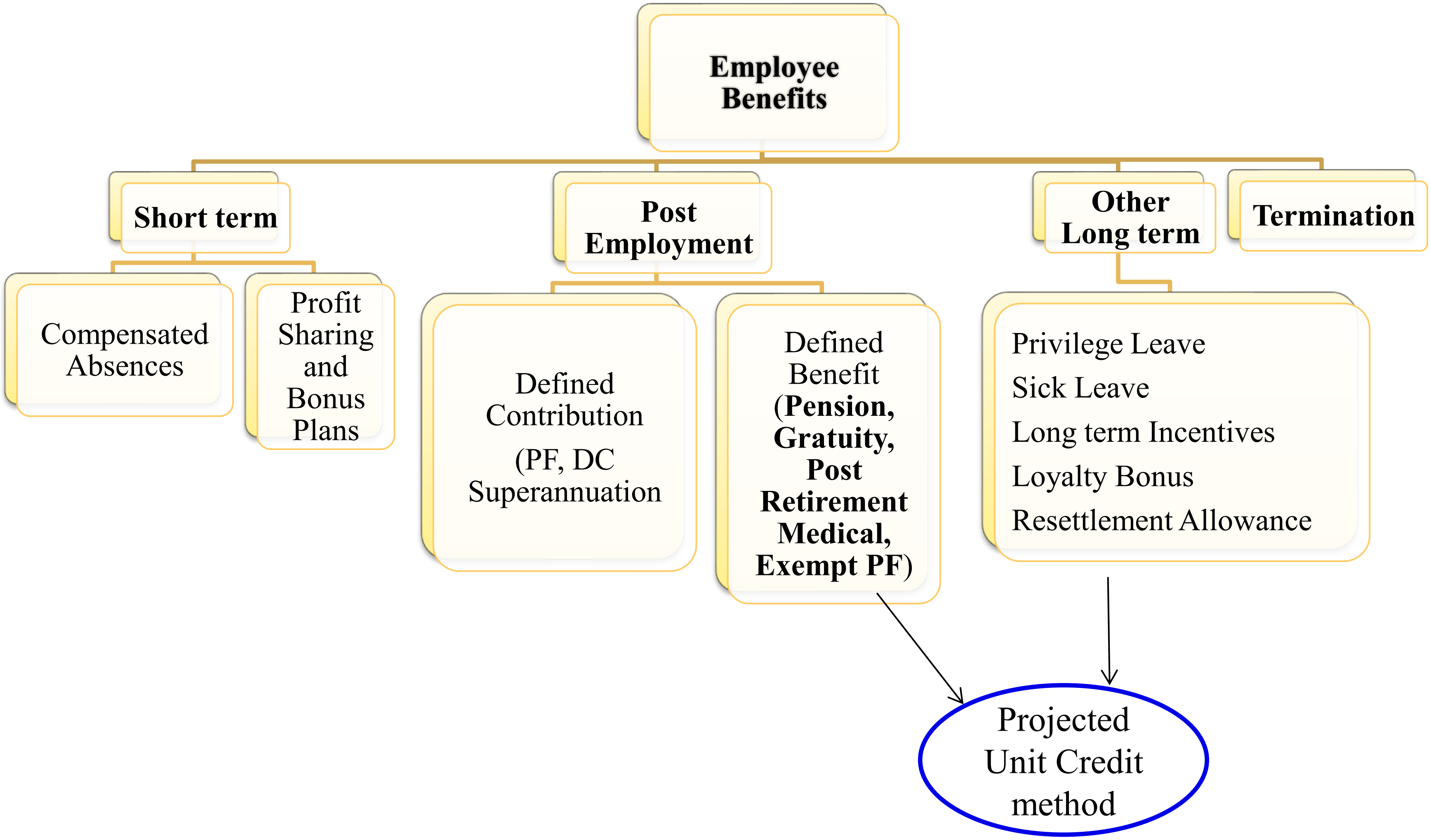
4. (i) Depending upon the Total income/ turnover of the company, the figures appearing in the Financial Statements **shall** be rounded off as given below:

(a) Turnover less than one hundred crore rupees: *To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.*

(b) Turnover one hundred crore rupees or more: *To the nearest lakhs, millions or crores, or decimals thereof.*

(ii) Once a unit of measurement is used, it should shall be used uniformly in the Financial Statements.

The classification of employee benefits under Ind AS 19 is an early reference.



Poll Question 2

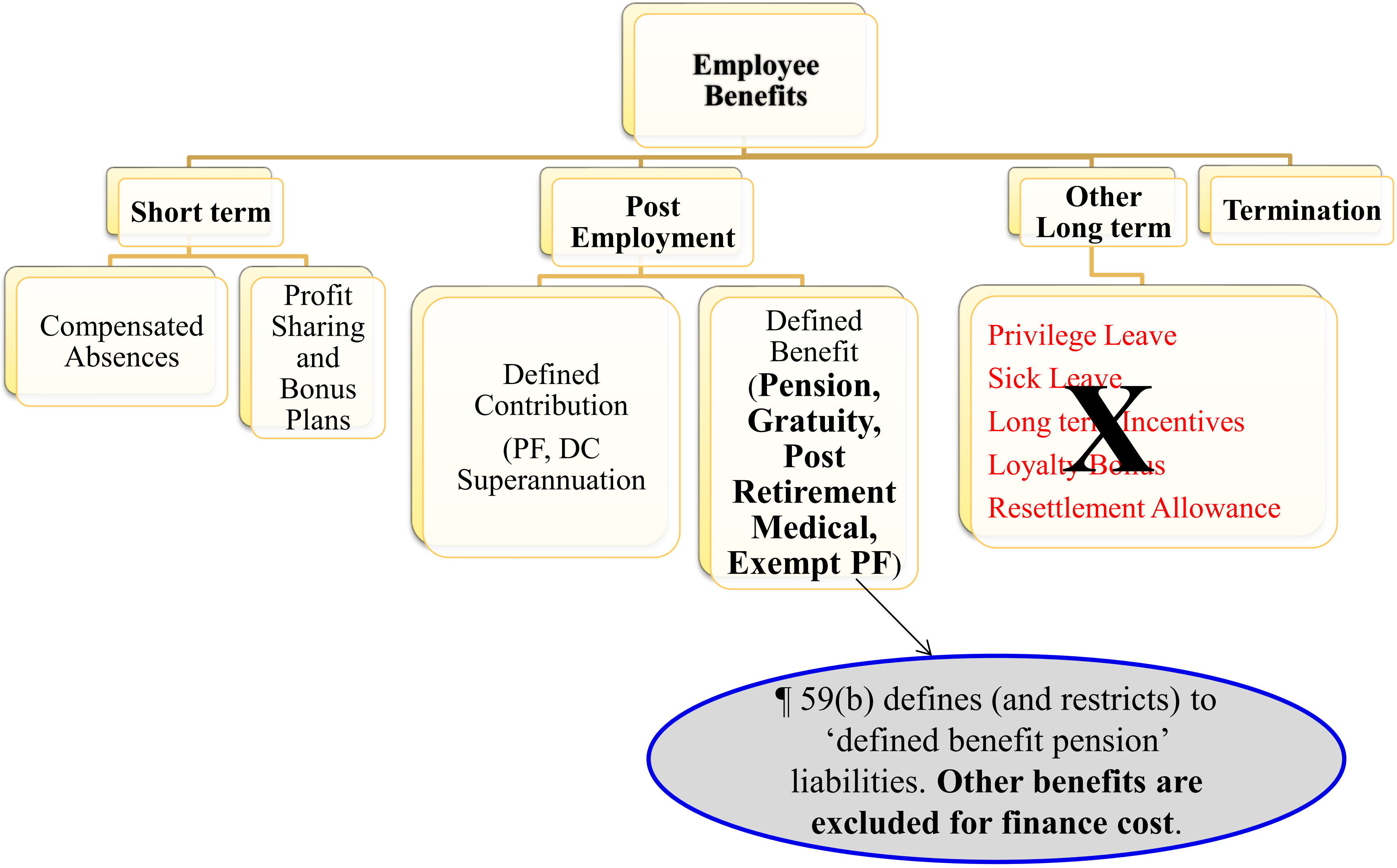
In the ‘Other long-term employee benefits’ (e.g., compensated absences, deferred cash, etc.), do you/ your organization disclose the reconciliation of DBO i.e., service cost, interest cost, actuarial gains/ losses) from start of reporting period to end of reporting period:

A. Yes, always.

B. No, except when client specifically requires so.

¶ 59(b), Ind AS 118 on ‘Finance cost’ defines (and **restricts to)** **‘defined benefit pension’** liabilities as those that *do not involve the raising of finance*.

Institute of Actuaries of India



The split between *'direct'* and *'indirect'* finance cost will emerge.

Institute of Actuaries of India

Current format: Ind AS 1

Particulars	Amount
Revenue from operations	1,000
Other income	40
Total Income	**1,040**
Cost of materials	(420)
Employee benefits	(210)
Other expenses	(170)
Depreciation & amortisation	(80)
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Efforts to 'find' finance cost will rise due to explicit Ind AS 118 guidance.

Proposed format: Ind AS 118

Particulars	Amount
Revenue from operations	1,000
Other operating income	20
Operating expenses	(880)
Operating profit	**140**
Investing income	20
Profit before financing & tax	**160**
Finance costs	(60)
Profit before tax	**100**
Tax expenses	(25)
Profit for the period	**75**

Split needed of direct and indirect financing!

The entity has to distinguish between liabilities that arise from transactions that

a) involve raising of finance, and

b) do not involve only the raising of finance.

¶ 61(a), Ind AS 118 further reads: *…interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in Ind AS.*

Liabilities that arise from transactions that ***do not involve the raising of finance*** lists "defined benefit pension liabilities."

¶ B53 reads:

¶ 59(b) requires an entity to identify liabilities that arise from transactions that *do not involve only the raising of finance*. Such liabilities include:

(a) payables for goods or services that will be settled in cash—an entity receives goods or services, not finance in the form described in paragraph B50(a);
(b) contract liabilities—an entity will return goods and services, not cash or its own equity instruments as described in paragraph B50(b);
(c) lease liabilities—an entity receives a right-of-use asset, not finance in the form described in paragraph B50(a);
(d) defined benefit pension liabilities—an entity receives employee services, not finance in the form described in paragraph B50(a);
(e) decommissioning or asset restoration provisions—an entity receives an asset that is not finance in the form described in paragraph B50(a); and
(f) a litigation provision—an entity does not receive finance as described in paragraph B50(a).

Ind AS 118 specifies the recognition of defined benefit plan finance costs (ref ¶ 59 (b) *and* ¶ B54).

¶ B55, Ind AS 118 requires classification in Operating category i.e., **operating expenses**.

¶ B87, Ind AS 118 reinforces that this item will be part of **Other Comprehensive Income.**

Service cost i.e., current, past, one-off effects → Net interest on net DBO → Re-measurements

Employer expenses in P&L, separated by 'operating expenses' and 'finance cost'; no change to OCI.

¶ B54, Ind AS 118 requires classification in Financing category i.e., **finance cost**.

¶ 59 (b) *deals with liabilities other than those for raising of finance.*

Ind AS 1 and Ind AS 118 | A peek in contrast.

	Service cost i.e., current, past, one-off effects	Net interest on net DBO	Re-measurements
Before Ind AS 118 i.e., Ind AS 1	Service cost and net interest cost was subsumed (?) as a P&L charge or 'employee benefit expenses.'		No change in **Other Comprehensive Income.**
After Ind AS 118	Service cost will be subsumed under 'operating expenses' i.e., will reduce operating profit.	*Under ¶ 59 (b), this will be a part of 'finance cost' i.e., outside operating profit.*	No change in **Other Comprehensive Income.**

The cost of interest rate guarantee on self-managed provident fund into either a) operating, or b) financing, or c) OCI would need deliberation.

Institute of Actuaries of India

Employer's contribution to PF is 'current service cost.'

Service cost i.e., current

Net interest on net DBO

Re-measurements

Employer expenses in P&L, separated by 'operating expenses' and 'finance expenses'. No change to OCI.

The interest rate guarantee arises from the likely shortfall over the remaining service period of achieving the EPFO declared return.

Whether this is a 'permanent difference' (finance cost, P&L) or 'timing difference' (OCI) would guide the classification.

Employee benefit costs are likely to be split between *'operating only' for OLTEB* and *'operating' and 'finance'* for post-employment DB.

Operating

- Service cost for post-employment DB
- All OLTEB e.g. compensated absences, deferred cash
- ESOP cost

Investing

Financing

- Net interest cost on post-employment DB.
- Interest rate guarantee (unsure!)

Income Taxes

Discontinued operations

Poll Question 3

When measuring the DBO of a post-employment defined benefit plan (e.g., gratuity), do you/ your organization include 'benefits due to ex-employees' in the DBO value?

A. Yes.

B. No.

Interest on ex-employee dues in the opening DBO may not be calculated.

Institute of Actuaries of India

¶ 8, Ind AS 19: Definitions relating to defined benefit cost

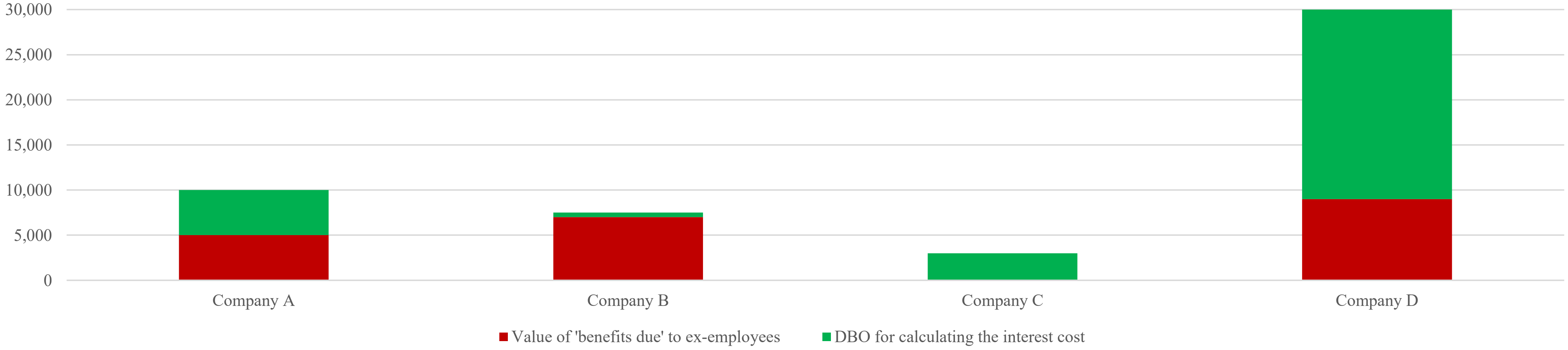
Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that ***arises from the passage of time*.**

Interest on ex-employee dues in the opening DBO – *that do not change with the passage of time* – should not be calculated.

An example of interest on ex-employees' dues.

Rs in '000	Company A	Company B	Company C	Company D
DBO at start of valuation period	10,000	7,500	3,000	30,000
Value of 'benefits due' to ex-employees	5,000	7,000	0	9,000
DBO for calculating the interest cost	5,000	500	3,000	21,000

Interest cost applies only to the 'green' part!



Poll Question 4

When employees/ members move between group companies, do you/ your organization rely on ‘liability transfer value’ as:

A. Provided by the client/ employer.

B. Actuarially evaluated at the previous valuation date.

C. Actuarially evaluated at the date of the employee’s transfer.

Institute of Actuaries of India

The measurement for DBO transfers is guided by definitions under Ind AS 19 w.r.t. Ind AS 113: Fair Value Measurement.

Institute of Actuaries of India

When transferring the employee benefit liability from one entity to another, the fair value of the liability should be transferred.

¶ 8, Ind AS 19 defines fair value as:
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113, Fair Value Measurement.)

“Ind AS 113: Fair Value Measurement” describes how the fair value for an asset or liability is to be determined as at the measurement date. Amongst other things, *it requires that the fair value be determined considering the market conditions as at the measurement date*.

For transfers of a significant employee benefit liability the fair value of the employee benefit liability should be determined as at the measurement date i.e., the transfer date.

Poll Question 5

When calculating the interest cost on DBO, do you/ your organization apply the interest rate on:

A. Opening DBO only.
B. Opening DBO adjusted for benefits paid.
C. Opening DBO adjusted for benefits paid and transfers.
D. Any other.

To calculate the interest cost on DBO, greater care on ***defining the exposure*** is needed in an Ind AS 118 context.

Interest cost on DBO is based on exposure i.e., transactions are expected to be value-dated *(Ind AS 19 definition: that arises from the passage of time).*

Items that affect exposure are [reductions shown in (bracket)]:

1. Opening DBO
2. Transfers In/ (Out)
3. Acquisition/ (Divestiture)
4. (Benefits paid)
5. (Component of opening DBO that does not roll up p-o-p).

Interest rate is the start of period discount rate (ref.: ¶ 123, Ind AS 19 for interest cost on DBO.).

To calculate the interest income on assets (including asset ceiling), greater care on defining the exposure is needed in an Ind AS 118 context.

Interest income on assets is also based on exposure.

Similar to how a bank credits interest on a running account.

Transactions are value-dated *(Ind AS 19 definition: that arises from the passage of time).*

If an asset ceiling already exists, then the interest on the 'asset ceiling' is also calculated

Interest rate is the start of period discount rate
- ¶ 123, Ind AS 19 for interest income on assets.
- ¶ 126, Ind AS 19 for interest on effect of asset ceiling.

The argument to attribute ‘finance cost’ to the employer’s capital structure decision is real.

Institute of Actuaries of India

(A) Capital structure decision is the shareholders’ problem.

(B) Operating result is the management’s compass.

(C) Other Comprehensive Income is mostly extraneous e.g., assumption changes and sometimes not e.g., incorrect basis.

An incorrect value of ‘net interest’ in a defined benefit plan will move the needle between (A), (B) and (C).

Summary

The Face of Reporting

- Ind AS 118 will change the *face* of the P&L/ Income Statement with 'Operating Profit' and 'Profit before Finance & Tax' as line items.
- A five-category classification of income and expenses is envisaged.
- Reporting in Rs '000 would comply with the Companies Act guidance for the smallest company.

Inside the Ind AS 118 Standard

- 'Finance cost' is defined (and **restricted to) 'defined benefit pension'** liabilities as those that *do not involve the raising of finance.*
- The split between *'direct'* and *'indirect'* finance cost will emerge.
- Liabilities that arise from transactions that ***do not involve the raising of finance*** lists "defined benefit pension liabilities **only** [EB context].
- Employee benefit costs are likely to be split between *'operating only' for OLTEB* and *'operating' and 'finance'* for post-employment DB plans.

The Practice Track

- To calculate the interest cost on DBO, greater care on ***defining the exposure*** is needed.
- A cognitive lens on transfers/ acquisitions, non-rolling DBO, and benefit paid.
- To calculate the interest income on assets (including asset ceiling), ***define the exposure***.

The Capital Structure Argument

- The argument to attribute 'finance cost' to the employer's capital structure decision is real.

Institute of Actuaries of India