

# AS 5: Net Profit or Loss for the period, Prior Period Items & Changes in Accounting Policies

## Net Profit or Loss for the Period

### Profit/Loss from Ordinary activity

Principle revenue producing & generating activities

Items which are of such size, nature or incidence that their disclosure is relevant  
(Exceptional Items)

- ★ Writing down of Inventories to NRV
- ★ Legislative changes having retrospective effect
- ★ Litigation settlements

### Extraordinary Item

Clearly distinct from ordinary activities & not expected to recur frequently or regularly.

- ★ Loss by earthquake, flood
- ★ Attachment of property of enterprise
- ★ Govt. grant becoming refundable

Nature & Amount to be separately disclosed to perceive impact on current Profit/Loss

## Prior Period Items

Item of income or expenses which arise in current period due to error or omissions in previous periods.

- ★ Revenue expenditure treated as capital expenditure
- ★ Wrong totalling of stock
- ★ Capitalisation of Borrowing cost on working capital

Nature & Amount to be separately disclosed to perceive impact on current Profit/Loss

## Change in Accounting Estimate

Meaning of Accounting Estimate: Uncertainties inherent in business activities, many items can only be estimated.

When Change Occur: New information, more experience, subsequent development, etc.

- \* Change in estimate of provision for doubtful debts
- \* Change in useful life, residual value of fixed assets

Note:

Not a prior period or extraordinary item.  
Effect of change classified using same classification as used for estimate.

Disclosure Requirement: If Material effect in current/subsequent period → Disclose Nature & Amount  
Disclose Fact if impracticable to quantify amount

## Change in Accounting Policy

General Rule:

Accounting policy once adopted should be followed consistently.

When Change Recommended:

- Required by Statute / Law
- For compliance with AS
- More appropriate presentation of financial statements

- \* Change in cost formula in measuring inventories
- \* Change from cost model to Revaluation model to value PPE

Disclosure Requirement:

Material Effect 

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graph LR; ME[Material Effect] --> C[Current]; ME --> L[Later]; C --> A1[Amount ✓]; A1 --> DA[Disclose Amount]; L --> A2[Amount x]; A2 --> DF[Disclose Fact]
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Not change in Accounting Policy:

- \* Adoption of policy that differ in substance from previously occurring event  
(Introduction of formal retirement gratuity scheme in place of adhoc exgratia)
- \* Adoption of new policy which didn't occur previously.  
(Introduction of pension scheme for first time)