





① Each Quarter is to be treated as Complete Accounting period



② Deferement is not allowed.

#4 Tax expense:- It should be valued on the basis of Annual Average tax rate (AATR)

### Illustration 1

Sincere Corporation is dealing in seasonal product. Sales pattern of the product quarter-wise is as follows:

1 <sup>st</sup> quarter 30 <sup>th</sup> June	10%	✓
2 <sup>nd</sup> quarter 30 <sup>th</sup> September	10%	✓
3 <sup>rd</sup> quarter 31 <sup>st</sup> December	60%	✓
4 <sup>th</sup> quarter 31 <sup>st</sup> March	20%	✓

Information regarding the 1<sup>st</sup> quarter ended on 30<sup>th</sup> June, 20X1 is as follows:

Sales	80 crores
Salary and other expenses	60 crores
Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer ₹ 10 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, the third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

Sol<sup>n</sup> :-

Statement of profit or loss for Q.1  
ending on 30<sup>th</sup> June.

Particulars.

₹ In Cr.



Revenue from operations

other income

80

Total (A)

80

Employee benefit exps

60

others exps. (4+8)

12

Total (B)

72

PAT (A-B)

8

Deferment of ₹10 Crs expenditure is not allowed as per AS-25. from Quarter 1 to Quarter-3.

∴ Contention of Co. is wrong.

## Illustration 2

The accounting year of X Ltd. ends on 30<sup>th</sup> September, 20X1 and it makes its reports quarterly. However for the purpose of tax, year ends on 31<sup>st</sup> March every year. For the Accounting year from 1-10-20X0 to 30-9-20X1, the quarterly income is as under:

1 <sup>st</sup> quarter ending on 31 <sup>st</sup> December, 20X0	₹ 200 crores
2 <sup>nd</sup> quarter ending on 31 <sup>st</sup> March, 20X1	₹ 200 crores
3 <sup>rd</sup> quarter ending on 30 <sup>th</sup> June, 20X1	₹ 200 crores
4 <sup>th</sup> quarter ending on 30 <sup>th</sup> September, 20X1	₹ 200 crores
Total	₹ 800 crores

$\times 20\% = 40$

$\times 20\% = 40$

$\times 30\% = 60$

$\times 30\% = 60$

Average actual tax rate for the financial year ending on 31<sup>st</sup> March, 20X1 is 20% and for financial year ending 31<sup>st</sup> March, 20X2 is 30%. Calculate tax expense for each quarter.

### Illustration 3

Accountants of Poornima Ltd. showed a net profit of ₹ 7,20,000 for the third quarter of 20X1 after incorporating the following:

- (i) Bad debts of ₹ 40,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- (ii) Extra ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in this quarter.
- (iii) Additional depreciation of ₹ 45,000 resulting from the change in the method of charge of depreciation assuming that ₹ 45,000 is the charge for the 3<sup>rd</sup> quarter only.

Ascertain the correct quarterly income.

71,500  
- 2,000

### Solution

In the above case, the quarterly income has not been correctly stated. As per AS 25 "Interim Financial Reporting", the quarterly income should be adjusted and restated as follows:

Bad debts of ₹ 40,000 have been incurred during current quarter. Out of this, the company has deferred 50% (i.e.) ₹ 20,000 to the next quarter. Therefore, ₹ 20,000 should be deducted from ₹ 7,20,000. The treatment of extra-ordinary loss of ₹ 35,000 being recognized in the same quarter is correct.

Recognising additional depreciation of ₹ 45,000 in the same quarter is in tune with AS 25. Hence no adjustments are required for these two items.

Poornima Ltd should report quarterly income as ₹ 7,00,000 (₹ 7,20,000 - ₹ 20,000).

9. On 30<sup>th</sup> June, 20X1, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 31<sup>st</sup> July, 20X1, the company paid ₹ 60,000 for property taxes assessed for the calendar year 20X1. How the above transactions should be included in determination of net income of Asmitha Ltd. for the six months interim period ended on 30<sup>th</sup> September, 20X1.

9. According to Para 10 of AS 25 "Interim Financial Reporting", if an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. As at 30<sup>th</sup> September, 20X1, Asmitha Ltd would report the entire amount of ₹ 2,00,000 as loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to interim periods on accrual basis.



Since ₹ 60,000 Property tax payment relates to entire calendar year 20X1, ₹ 30,000 would be reported as an expense for six months ended on 30th September, 20X1 while out of the remaining ₹ 30,000, ₹ 15,000 for January, 20X1 to March, 20X1 should be shown as payment of the outstanding amount of previous year and another ₹ 15,000 related to quarter October, 20X1 to December, 20X1 would be reported as prepaid expenses.

10. An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1<sup>st</sup> ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter.

Soln

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

	₹
Estimated Annual Income (A)	10,00,000
Tax expense:	
30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 5,00,000	2,00,000
(B)	3,50,000

$$\text{Weighted average annual income tax rate} = \frac{B}{A} = \frac{3,50,000}{10,00,000} = 35\%$$

Tax expense to be recognized in each of the quarterly reports		₹
Quarter I - ₹ 75,000 x 35%		26,250
Quarter II - ₹ 2,50,000 x 35%		87,500
Quarter III - ₹ 3,75,000 x 35%		1,31,250
Quarter IV - ₹ 3,00,000 x 35%		1,05,000
₹ 10,00,000		3,50,000

Solve Ill-4 & Q. 11 in H.W.