

INTERIM FINANCIAL REPORTING

<p>Scope</p>	<p>The standard prescribes the minimum contents of an interim financial report and requires that an enterprise which elects to prepare and present an interim financial report, should comply with this standard. It also lays down the principles for recognition and measurement in a complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, lenders and others to understand an enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity.</p> <p><i>AS 25 does not mandate which enterprises should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard.</i></p> <p>A statute governing an enterprise, or a regulator may also require an enterprise to prepare and present certain information at an interim date which may be different in form and/or content as required by this Standard. In such a case, the recognition and measurement principles as laid down in this Standard are applied in respect of such information, unless otherwise specified in the statute or by the regulator.</p>
<p>Interim Period</p>	<p>Interim period is a financial reporting period shorter than a full financial year</p>
<p>Interim Financial Report</p>	<p>Interim financial report means a financial report <i>containing either a complete set of financial statements or a set of condensed financial statements for an interim period.</i></p> <p>During the first year of operations of an enterprise, its annual financial reporting period may be shorter than a financial year. In such a case, that shorter period is not considered as an interim period.</p>
<p>Contents of an Interim Financial Report</p>	<p>A complete set of financial statements normally includes Balance sheet, Statement of Profit & Loss, Cash flow statement and Notes including those relating to accounting policies and other statements and explanatory material that are an integral part of the financial statements.</p> <p>Interim financial report may contain a complete set of financial statements or condensed financial statements. If the entity opted for a complete set of financial statements, it will be like annual set of financial statements. The condensed financial statements would include limited information as required by this standard.</p> <p>The recognition and measurement principles set out in this Standard apply also to complete financial statements for an interim period, and such statements would include all disclosures required by this Standard as well as those required by other Accounting Standards.</p>

<p>Form and Content of Interim Financial Statements</p>	<ul style="list-style-type: none"> ❖ 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. If an enterprise prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements should include, at a minimum, each of the headings and sub-headings that were included in its most recent annual financial statements and the selected explanatory notes as required by this Statement. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading. ❖ If an enterprise presents basic & diluted earnings per share in its annual financial statements in accordance with AS 20 then it has to present basic & diluted earnings per share as per AS 20 on the face of Statement of Profit & Loss complete or condenses for an interim period also.
<p>Selected Explanatory Notes</p>	<p>An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:</p> <ul style="list-style-type: none"> (a) A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change (b) Explanatory comments about the seasonality of interim operations. (c) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidence as per AS 5. (d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period. (e) Issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares. (f) Dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares. (g) Segment revenue, segment capital employed (segment assets minus segment liabilities) and segment result for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting (disclosure of segment information is required in an enterprise's interim financial report only if the enterprise is required, in terms of AS 17, Segment Reporting, to disclose segment information in its annual financial statements). (h) The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations and (i) Material changes in contingent liabilities since the last annual balance sheet date. The above information should normally be reported on a financial year-to-date basis. However, the enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.

Periods for which INTERIM FINANCIAL STATEMENTS are required to be presented

Interim reports should include interim financial statements (whether condensed or complete) for the periods listed in the following table:

Statement	Current Period	Comparative Period
Balance Sheet	End of current interim period	End of immediately preceding financial year
Statement of profit and loss	Current interim period and cumulatively for the year-to-date	Comparable interim period and year-to-date of immediately preceding financial year
Cash Flow Statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

Materiality	<p>In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data.</p> <p>“Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information”.</p> <p>For reasons of understandability of the interim figures, materiality for making recognition and disclosure decision is assessed in relation to the interim period financial data.</p> <p>Thus, for example, unusual or extraordinary items, changes in accounting policies or estimates, and prior period items are recognised and disclosed based on materiality in relation to interim period data.</p>
Disclosure in Annual Financial Statements	<p>AS 5, requires disclosure, in financial statements, of the nature and (if practicable) the amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods.</p> <p>Similarly, if an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not prepared and presented for that final interim period, the nature and amount of that change in estimate should be disclosed in a note to the annual financial statements for that financial year.</p>
Accounting Policies	<p>Same Accounting Policies as annual financial statements. An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.</p> <p>Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in prior interim periods of the financial year. The amounts reported in prior interim periods are not retrospectively adjusted. However, the nature and amount of any significant changes in estimates be disclosed.</p>

Changes in Accounting Policies	Preparers of interim reports in compliance with AS 25 are required to consider any changes in accounting policies that will be applied for the next annual financial statements, and to implement the changes for interim reporting purposes. If there has been any change in accounting policy since the most recent annual financial statements, the interim report is required to include a description of the nature and effect of the change.
Revenue Received Seasonally or Occasionally	Revenues that are received seasonally or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise's financial year. <i>For example:</i> Dividend revenue, royalties, and government grants. Additionally, some enterprises consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers. Such revenues are recognised when they occur.
Cost Incurred Unevenly during the Financial Year	Costs that are incurred unevenly during an enterprise's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. A cost that does not meet the definition of an asset at the end of an interim period is not deferred in the interim balance sheet. Deferral of costs as assets in an interim balance sheet in the hope that the criteria will be met before the year-end is prohibited.
Use of Estimates	The measurement procedures to be followed in an interim financial report should be designed to ensure that resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of enterprise is appropriately disclosed.
Restatement of Previously Reported Interim Periods	One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. The effect of the principle requires that within the current financial year any change in accounting policy be applied retrospectively to the beginning of the financial year.
Transitional Provision	On the first occasion that an interim financial report is presented in accordance with this Statement, the following need not be presented in respect of all the interim periods of the current financial year: (a) Comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year; and (b) Comparative cash flow statement for the comparable year-to-date period of the immediately preceding financial year.
Applicability of AS 25 to Interim Financial Results	The presentation and disclosure requirements contained in AS 25 should be applied only if an enterprise prepares and presents an 'interim financial report' as defined in AS 25.

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)*

Whether quarterly financial results presented under Clause 41 of the Listing Agreement entered into between Stock Exchanges and the listed enterprises meet the definition of 'interim financial report' as per AS 25 and provisions of AS 25 should be applied on the same?

Solution

The presentation and disclosure requirements contained in AS 25 should be applied only if an enterprise prepares and presents an 'interim financial report' as defined in AS 25. Accordingly, presentation and disclosure requirements contained in AS 25 are not required to be applied in respect of interim financial results (which do not meet the definition of 'interim financial report' as per AS 25) presented by an enterprise.

The quarterly financial results presented under Clause 41 of the Listing Agreement do not meet the definition of 'interim financial report' as per AS 25. However, the recognition and measurement principles laid down in AS 25 should be applied for recognition and measurement of items contained in such interim financial results.

Question 2 *(ICAI Study Material)*

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

1 st quarter 30 th June	10%
2 nd quarter 30 th September	10%
3 rd quarter 31 st December	60%
4 th quarter 31 st March	20%

Information regarding the 1st quarter ended on 30th June, 2021 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.

Question 3 *(ICAI Study Material)*

Accountants of Poornima Ltd. showed a net profit of ₹ 7,20,000 for the third quarter of 2021 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 3rd quarter only. Ascertain the correct quarterly income.

Solution

In the above case, 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.

Recognizing 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).

Question 4 (ICAI Study Material)

On 30th June, 2021, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 31st July, 2021, the company paid ₹ 60,000 for property taxes assessed for the calendar year 2021. How the above transactions should be included in determination of net income of Asmitha Ltd. for the six months interim period ended on 30th September, 2021.

Solution

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 30th September, 2021, 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 2021, ₹ 30,000 would be reported as an expense for six months ended on 30th September, 2021 while out of the remaining ₹ 30,000, ₹ 15,000 for January, 2021 to March, 2021 should be shown as payment of the outstanding amount of previous year and another ₹ 15,000 related to quarter October, 2021 to December, 2021 would be reported as prepaid expenses.

Question 5 (ICAI Study Material)

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2021. On enquiry you observe the following. Give the treatment required under AS 25:

- Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.
- 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
- In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.
- ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.
- Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

Solution

As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year. Therefore, dividend income, extraordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only. Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per AS 10, Property, Plant and Equipment, if there is change in the depreciation method, such a change should be accounted for as a change in accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, and applied prospectively. Therefore, no adjustment would be required due to change in the method of depreciation.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the third quarter

	(₹ in lakhs)
Profit before tax (as reported)	4
Add: Dividend income ₹ (4-1) lakhs	3
Excess depreciation charged in the 3 rd quarter, due to change in method	-
Extra ordinary gain ₹ (2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (3-2) lakhs	1
	9
Less: Sales promotion expenses (80% of ₹ 15 lakhs)	(12)
Gain on sale of investment (occasional gain should not be deferred)	(5)
Adjusted Profit before tax for the third quarter	(8)

Question 6 (ICAI Study Material)

The accounting year of X Ltd. ends on 30th September, 2021 and it makes its reports quarterly. However, for the purpose of tax, year ends on 31st March every year. For the Accounting year from 1-10-2020 to 30-9-2021, the quarterly income is as under:

1 st quarter ending on 31 st December, 2020	₹ 200 crores
2 nd quarter ending on 31 st March, 2021	₹ 200 crores
3 rd quarter ending on 30 th June, 2021	₹ 200 crores
4 th quarter ending on 30 th September, 2021	₹ 200 crores
Total	₹ 800 crores

Average actual tax rate for the financial year ending on 31st March, 2021 is 20% and for financial year ending 31st March, 2022 is 30%.

Calculate tax expense for each quarter.

Question 7 (ICAI Study Material)

An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 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 & ₹ 3,00,000. Calculate the tax expense to be recognized in each quarter.

Question 8

Narayan Ltd. provides you the following information and asks you to calculate the tax expense for each quarter with reference to AS 25, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Annual Income ₹ 33,00,000 (inclusive of Estimated Capital Gains of ₹ 8,00,000)

Estimated Income of

Quarter I is ₹ 7,00,000,

Quarter II is ₹ 8,00,000,

Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and

Quarter IV is ₹ 6,00,000.

Tax Rates:	On Capital Gains	12%	
	On Other Income:	First ₹ 5,00,000	30%
		Balance Income	40%

Question 9 *(ICAI Study Material)*

Whether the impairment loss recognized on property, plant and equipment in first quarter of the financial year can be reversed in the second quarter in that financial year?

Solution

As per AS 25, the principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that an enterprise would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount. In light of the same, the impairment loss recognized in one quarter can be reversed in the another quarter of the financial year, if favourable indicator exists as per AS 28 and the recoverable amount increased in comparison to earlier period.

Question 10 *(ICAI Study Material)*

In view of the provisions of Accounting Standard 25 on Interim Financial Reporting, on what basis will you calculate, for an interim period, the provision in respect of defined benefit schemes like pension, gratuity etc. for the employees?

Solution

Accounting Standard 25 suggests that provision in respect of defined benefit schemes like pension and gratuity for an interim period should be calculated based on the year-to-date basis by using the actuarially determined rates at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements or other significant one-time events.

PRACTICE QUESTIONS

Question 1 *(ICAI Study Material)*

Intelligent Corporation (I-Corp.) is dealing in seasonal products. The quarterly sales pattern of the product is given below:

Quarter I	II	III	IV
Ending 30th June 15%	30th September 15%	31st December 50%	31st March 20%

For the First quarter ending 30th June, 2021, I-Corp. gives you the following information:

	₹ crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter, 'I-Corp.' wants to defer ₹ 21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, third quarter should be debited by higher expenditure, considering the seasonal nature of business and that the expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company's view.

Solution

Result of the first quarter ended 30th June, 2021

	(₹ in crores)
Turnover	50
Add: Other Income	Nil
Total	50
Less: Change in inventories	Nil
Salaries and other cost	30
Administrative and selling expenses	(8 + 2) 10
Profit	10

As per AS 25 on Interim Financial Reporting, the income and expense should be recognized when they are earned and incurred respectively. As per AS 25, the costs should be anticipated or deferred only when

- i. it is appropriate to anticipate that type of cost at the end of the financial year, and
- ii. costs are incurred unevenly during the financial year of an enterprise.

Therefore, the argument given by I-Corp relating to deferment of ₹21 crores is not tenable as expenditures are uniform throughout all quarters.

Question 2 *(ICAI Study Material)*

What are the periods for which Interim financial Statements are required to be presented? You are required to answer your question in light of preparation of financial statements for the period ended and as at 31st December, 2021. The Financial Year is FY 2021-22.

Solution

As per Accounting Standard 25, Interim reports should include interim financial statements (condensed or complete) for periods as given below

Statement	Current period	Comparative period
Balance sheet	End of current interim period	End of immediately preceding financial year

Statement of profit and loss	Current interim period and cumulatively for the year-to-date	Comparable interim period and year-to-date of immediately preceding financial year
Cash flow statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

In light of the above, following periods needs to be covered in interim financial statements for the period ended and as at 31st December, 2021:

Balance Sheet	As of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year (As at 31 December 2021 and 31 March 2021).
Statements of Profit and Loss	For the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. (for 3 months and 9 months i.e., year to date ended 31 December 2021 and same for 31 December 2020 being comparative period).
Cash Flow Statement	Cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. (year to date i.e., 1 April 2021 to 31 December 2021 and 1 April 2020 to 31 December 2020).