CA INTERMEDIATE

MARATHON

Advanced Accounting

AS 25:
Interim Financial Reporting

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AS 25: Interim Financial Reporting

Interim Financial Report : Financial report containing either complete or condensed set of financial statements for an interim period.
→ Period shorter than full financial year (1M, 3M, 6M, etc.)

Scope : Prescribes minimum contents of an IFR & requires that an enterprise which elects to prepare & present an IFR should comply with this AS. It is a kind of update on last year financial statements which helps in timely, better & reliable information for users.

Note : AS 25 does not mandate which enterprises should be required to present IFR.
Regulation 33 / Clause 41 of SEBI Listing Agreement has no relationship with IFR. It deals with Interim Financial Results on Quarterly basis.
(However Recognition & Measurement principles laid down in AS 25 applicable for the above results)

Contents of IFR

(Balance sheet, P&L, Cash flow statement & Notes to Accounts)

Complete set of FS

Consider Interim Period as complete period & prepare Financial statements like Annual FS.

Condensed set of FS

Give only Heads & subheads as used in most recent Annual FS.
Include selected Notes to Accounts of significant events & transactions.

Period for which Interim Financial Statements to be Presented

Statement	Current Period	Comparative Period
Balance sheet	End of current Interim Period (30/9/26)	End of Immediately Preceding Financial Year (31/3/26)
Statement of Profit & Loss	1) Current Interim Period 2) For Year to Date current Year (1/7/26 to 30/9/26) & (1/4/26 to 30/9/26)	1) Comparable Interim Period 2) For Year to Date Previous Year (1/7/25 to 30/9/25) & (1/4/25 to 30/9/25)
Cash Flow Statement	For Year to Date current Year (1/4/26 to 30/9/26)	For Year to Date Previous Year (1/4/25 to 30/9/25)

Example : FY 26-27 Interim Period 1/7/26 to 30/9/26

Recognition & Measurement

1) Revenue (Income) : Recognise when they are earned i.e. when they occur.
Revenue which is seasonal/occassional should not be deferred to other interim period.
Example : Dividend Income, Extraordinary gain etc.

2) Expenses : Recognise when incurred/accrued.
Costs incurred unevenly not to be deferred to other interim period unless appropriate.
To be deferred if and only if it is appropriate to defer that type of cost at end of year
Example : Prepaid Insurance, Prepaid Property Taxes etc.

3) Change in Accounting Policy : If any change during Interim period, its financial effect related to Interim period only should be considered in the period.

Example : Change in valuation method of Inventory.

4) Change in Accounting Estimate : If any change during Interim period, its financial effect should be fully considered in Interim period.

Example : Change in Depreciation Method.

Income Tax Expense

Tax Expense for Interim Period = Profit/(Loss) for Interim Period × Weighted Avg. Annual Tax Rate

$$\text{Weighted Avg. Annual Tax Rate} = \frac{\text{Estimated Annual Tax}}{\text{Estimated Annual Income}} \times 100$$

1) When there are different income streams (such as Normal Income & Capital Gains), then for

Normal Income → Apply Weighted Avg. Annual Tax Rate

Capital Gains → Applicable Tax Rate on it

2) Different Tax Rates in Overlapping Financial years : If Accounting Year & Tax Year end is different then apply different tax rates for Interim period falling in different years.

3) If Estimated Annual Income is Zero then do not compute Average Tax rate. Use tax rate provided in Question to determine income tax expense.

Other Points

Impairment Loss of PPE recognised in one Interim period can be reversed in another Interim period if favourable indicator exists as per AS 28

Provision for Gratuity, Pension etc. (AS 15) for an Interim period should be calculated on Year to Date basis

INTERIM FINANCIAL REPORTING

AS 25

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 shouldbe 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 interimfinancial results.

Question 2: 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	40
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 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.

720000 - 20000

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).

1/1 15000 1/4 30000 6M 31/7 60000 30/9 3M 31/12 15000

Question 4: ICAI Study Material

On 30th June, 2021, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal ofa 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.

12M

Solution

According to 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.

1/4 to 30/9 : 30000 Old o/s Payment 1/1 to 31/3 : 15000
Extra : Advance 1/10 to 31/12 : 15000

Question 5: ICAI Study Material / Inter May 2025 (7 Marks) (Similar)

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:

✓ ✗ 4L 1L
a. Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.

✓ ✗ 15L 3L
b. 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.

c. 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.

✓ ✗ 2L 1L
d. ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

✓ ✗ 2L 3L
e. 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.

✓ ✗ 0 5L
f. Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Calculate the result of the third quarter as per AS 25 and also comment on the company's view on each observation.

Solution

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 3rd 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)**

As per 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.

a) Dividend income received during 3rd quarter should be recognised in the 3rd quarter only.
b) Sales promotion expenses cannot be deferred on the basis that fourth quarter has more sales. This expense should be recognized in 3rd quarter only.
c) 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.
d) Extra ordinary gain of ₹ 2 lakhs should be wholly recognized in 3rd quarter only.
e) Loss of ₹ 1 lakh belong to previous quarters and not 3rd quarter, so it should not be deducted from the profit of 3rd quarter.
f) Gain on sale of investment is in the nature of occasional gain, so it cannot be deferred and hence the amount of ₹ 5 lakhs considered as income of 1st quarter, will be reversed from the profit of the 3rd quarter.

Question 6: 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 7: ICAI Study Material

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 8: 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:

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

AS 25

Interim Financial Reporting (IFR)

Interim Financial Results	Interim Financial Reporting (IFR)
↓	↓
Listed companies (Stock exchange)	Other Entities
SEBI Regulations	If IFR to be made, apply AS 25
Quarterly	Q~~trly~~ ≤ 1 Year
Regulation 33 of SEBI Reg. / Clause 41 of Listing Agreement	

Recognition & Measurement :	AS 25 / Ind AS 34	AS 25
Presentation & Disclosure :	SEBI Regulations	AS 25

Income Tax Expense

Example 1 : Interim Period : 1/4/25 to 30/6/25 Profit in Quarter 1 = 50,000
Expected Profit in remaining 3 Quarters = 60000 each
Tax rate : upto 40000 : 20% & Above 40000 : 30%
Calculate Tax expense for each quarter.

Solution

$Q_1 = \cancel{(40000 \times 20\%) + (10000 \times 30\%)}$ Q_2 to $Q_4 = 60000 \times 30\% = \cancel{18000}$ each
$= 11000$

$$\text{Weighted Avg. Annual Tax Rate} = \frac{\text{Annual Tax}}{\text{Annual Income}} \times 100 = \frac{65000}{230000} \times 100$$
$$= 28.26\%$$

Estimated Annual Income = $50000 + (60000 \times 3) = 230000$
Estimated Annual Tax = $(40000 \times 20\%) + (190000 \times 30\%) = 65000$

	Q_1	Q_2	Q_3	Q_4
Income (Profit)	50000	60000	60000	60000
Tax Expense @ 28.26%	14130	16956	16956	16956

Example 2: Entity reported 60000 profit in first quarter & expects loss of 15000 each in the subsequent quarters.

Tax rate: 20% on first 20000 & 40% on additional earnings.

Calculate tax amount in each quarter.

Solution

Estimated Annual Income = 60000 − (15000 × 3) = 15000

Estimated Annual Tax = 15000 × 20% = 3000

$$\text{Avg. Tax Rate} = \frac{3000}{15000} \times 100 = 20\%$$

	Q_1	Q_2	Q_3	Q_4
Profit/(Loss)	60000	(15000)	(15000)	(15000)
Tax @ 20%	12000	(3000)	(3000)	(3000)
	↓ Tax expense	↓ Tax savings		

Solution 6

Estimated Annual Income = 10,00,000

Estimated Annual Tax = (500000 × 30%) + (500000 × 40%)

= 350000

Weighted Avg. Annual Tax Rate = $\frac{350000}{1000000} \times 100 = 35\%$

	Q_1	Q_2	Q_3	Q_4
Income	75000	250000	375000	300000
Tax Expense @ 35%	26250	87500	131250	105000

Solution 7

Estimated Annual Income (incl. capital gain) = 3300000

Estimated Annual Income (excl. capital gain) = 33L − 8L = 2500000

Estimated Annual Tax = (500000 X 30%) + (2000000 X 40%)
= 9,50,000

Avg. Annual Tax Rate (Normal Income) = $\frac{950000}{2500000} \times 100$ = 38%

Quarters	Tax working		Tax Amount
Q_1	7,00,000 X 38%		2,66,000
Q_2	8,00,000 X 38%		3,04,000
Q_3	Normal: 400000 X 38% =	152000	
	Capital Gain 800000 X 12%	96000	248000
Q_4	600000 X 38%		228000
			1046000

Example 3. Entity earns ₹900 Lakhs in each quarter ending 30/6/X1, 30/9/X1, 31/12/X1 & 31/3/X2.
Loss carried forward ₹ 600 Lakhs.
Tax Rate is 40%. Calculate Tax expense for each Quarter.

Solution :

Estimated annual income = 900 Lakhs × 4 = 3600 Lakhs

Estimated Annual Tax = $\underset{\text{(Loss carried forward)}}{(3600 - 600)}$ × 40% = 1200 Lakhs

Avg. Tax Rate = $\frac{1200 \text{ Lakhs}}{3600 \text{ Lakhs}} \times 100 = 33.33\%$

(Lakhs)	Q_1	Q_2	Q_3	Q_4
Income / Profit	900	900	900	900
Tax Expense @ 33.33%	300	300	300	300

Example 4: Profit earned in first quarter = 150000

Expected loss of 50000 in each of 3 remaining quarters.

Average annual tax rate is 30%.

Calculate tax amount for each quarter.

Solution

~~Estimated Annual Income = 150000 − (50000 × 3) = NIL~~

~~Annual Tax = Nil~~

~~Tax Rate = 0%~~

Since Annual Income is Nil, apply avg. annual tax rate given in Ques.

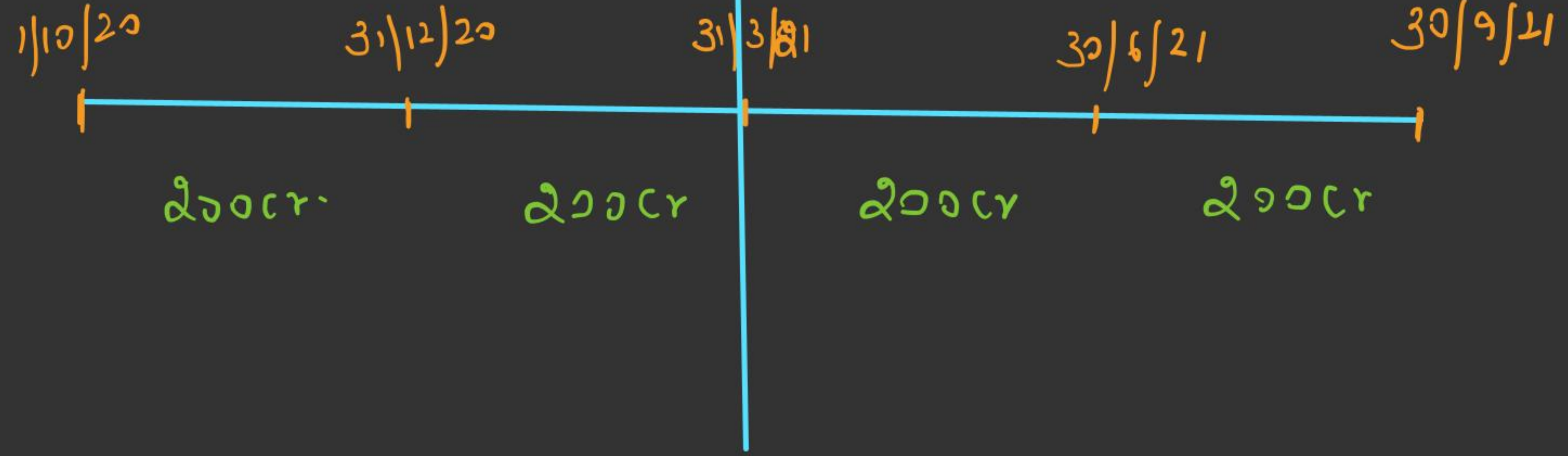
	Q_1	Q_2	Q_3	Q_4
Income / (Loss)	150000	(50000)	(50000)	(50000)
Tax @ 30%	45000	(15000)	(15000)	(15000)

Q_1 → Tax Expense

Q_2 – Q_4 → Tax savings

Sol. 8

Tax Rate : 20% | Tax Rate : 30%



Quarter Ended	Income	Tax Expense
1/10/20 to 31/12/20	200 cr	200 × 20% = 40 cr
1/1/21 to 31/3/21	200 cr	200 × 20% = 40 cr
1/4/21 to 30/6/21	200 cr	200 × 30% = 60 cr
1/7/21 to 30/9/21	200 cr.	200 × 30% = 60 cr