

## Ind AS 34 - Interim Financial Reporting

This standard applies if an entity is required or elect to publish an interim financial report as per Ind AS.

The objective of this Ind AS is —

- (i) To prescribe minimum content of an Interim Financial Report
- (ii) Principles of recognition and measurement in complete or condensed financial statements for an interim period.

Interim Period is a financial reporting period shorter than a full financial year.

Interim Financial Report means a report containing either :-

(i) Complete Set of Financial statements  
(As per Ind AS 1)

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- a) Balance sheet
- b) Statement of Profit or loss
- c) Statement of Changes in Equity
- d) Statement of Cash Flows.
- e) Notes to Accounts.

(ii) Condensed Financial statements  
(As per Ind AS 34)

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- a) Condensed Balance sheet
- b) Condensed statement of Profit or loss.
- c) Condensed statement of Changes in Equity
- d) Condensed statement of Cash Flows.
- e) Notes, material A/c policy information, other Explanatory Information.

## Form and Content of Interim Financial Report

(i) If Entity Publishes **Complete** set of Financial statements

Form and content should be in line with **Ind AS 1**.

(ii) If Entity Publishes **Condensed** Financial statements

- Includes **only Headings** and **Subtotals** included in most recent annual Financial statements.
- **Additional line items** if their omission would make interim FIs misleading.
- Present Basic and Diluted EPS for that period.

An Entity shall include an **explanation of events and transaction** that are **significant** to an understanding of changes in Financial position and Financial Performance since the end of last **Annual Reporting Period**.

Following is a list of Events and transaction for which disclosures required if they are significant. (Not Exhaustive)

- (i) Write down of inventories to NRV and reversal of write down.
- (ii) Recognition of loss from impairment of Financial Asset, PPE, Intangible Asset or other assets and reversal of such Impairment loss.
- (iii) Reversal of any provision for cost of restructuring.
- (iv) Acquisition and disposals of PPE.
- (v) Commitments for purchase of PPE.
- (vi) Corrections of prior period errors.
- (vii) Related Party transactions.
- (viii) Changes in contingent liabilities or contingent assets.
- (ix) Changes in classification of Financial Assets due to change in Business model.

- (X) Any loan default or breach of loan agreement that has not been remedied on or before end of annual reporting period.
- (X) Litigation Settlements.
- (XI) Changes in Business or Economic Circumstances that affect fair value of entity's FA or FL (whether measured at ACM, FVTPL, FVTOCI)

Periods from which Interim Financial statements required to be presented

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Suppose Interim Financial statements presented from <sup>July to Sept:</sup> 2nd Quarter ending 30th Sept. 2002.

- (i) Balance sheet (AS on 30th Sept. 2002), and Comparative Balance sheet (AS on 31st March 2002)

BS sheet

Particulars

AS on 30th Sept 2002	AS on 31st March 2002
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- (ii) Statement of Profit or loss (For the period from 1st July to 30th Sept. and from 1st April to 30th Sept and respective comparatives.

Statement of Profit or loss

Particulars

1st July to 30th Sept 2002	1st April to 30th Sept 2002	1st July to 30th Sept 2001	1st April to 30th Sept 2001
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- (iii) Statement of changes in Equity (For the period from 1st April 2002 to 30th Sept 2002 and comparatives from 1st April 2001 to 30th Sept 2001)

Statement of changes in Equity

Particulars

1st April to 30th Sept 2002	1st April to 30th Sept 2001
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(iv) Statement of Cash Flows (From the period from 1st April 2002 to 30th Sept 2002 and comparatives from 1st April 2001 to 30th Sept 2001)

### Statements of Cash Flows.

#### Particulars

1st April to 30th Sept 2002	1st April to 30th Sept 2001
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For an Entity whose business is highly seasonal in nature, Financial Information from the twelve months upto the end of interim period and comparative information from the prior twelve month period may be useful.

#### Recognition and measurement

(i) Same Accounting policies as Annual

An Entity shall apply **same Accounting policies** in its interim FIs **as are applied in annual FIs**, except from Accounting policy changes made after the date of most recent annual FIs that are to be reflected in next annual FIs.

(ii) Revenues received cyclically, occasionally or seasonally

**Revenues** that are received **cyclically, occasionally or seasonally** within a financial year **shall not be anticipated or deferred** as of interim date if **anticipation or deferral would not be appropriate**.

Eg: Dividend Revenue, Royalties, and Government Grants.

Certain entities **earn more revenue in certain interim periods** of a financial year than other interim periods. Such **revenues are recognised when they occur**. Eg: Seasonal revenues of retailers.

(iii) Costs incurred unevenly during the year

Such cost shall be anticipated or deferred from interim reporting

Purpose, if and only if, it is also appropriate to anticipate or defer that type of cost at the end of financial year.

#### (iv) Use of Estimates

The preparation of interim financial reports requires a greater use of estimation methods than annual financial statements.

#### Employer Payroll Taxes and Insurance Contributions

If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the financial year. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of the financial year, and the employer makes no further payments through the end of the year.

#### Measuring Interim Income Tax Expense

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

This is consistent with the basic concept set out in the Standard that the same accounting recognition and measurement principles shall be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate. That estimated average annual rate would reflect a blend of the progressive tax rate structure expected to be applicable to the full year's earnings including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the financial year. Ind AS 12, Income Taxes provides guidance on substantively enacted changes in tax rates. The estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with paragraph 28 of this Standard. The Standard requires disclosure of a significant change in estimate.

To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories

of income (such as capital gains or income earned in particular industries), to the extent practicable a separate rate is applied to each individual category of interim period pre-tax income. While that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

eg. Company A expects to earn ₹ 15000 in each quarter.

tax rate = 20% for first ₹ 20000

= 25% for income between ₹ 20000 to ₹ 50000

= 30% for income beyond ₹ 50000

∴ Calc of Weighted Average tax rate (Annual)

$$\begin{aligned} \text{Tax Expenses} &= 20\% \times 20000 + 25\% \times 30000 + 30\% \times 10000 \\ &= 4000 + 7500 + 3000 \\ &= \underline{14500} \end{aligned}$$

$$\therefore \text{W.A.T.R} = \frac{14500}{60000} \times 100 = \underline{24.17\%}$$

$$\begin{aligned} \therefore \text{Tax Expense for each Quarter} &= 15000 \times 24.17\% \\ &= \underline{3625} \end{aligned}$$

#### Question 5(RTP Nov'20)

An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 2019. The entity's profit before tax is steady at ₹10,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 2019 and 30% for the year ended 31st March, 2020. How the related tax charge would be calculated for the year 2019 and its quarters.

Accounting year → January to December (Jan - march & April to Dec)

Tax year → April to March.

W.A.T.R for 1st Quarter (Jan - Mar) = 25% (Tax year ended 31st March 2019)

" " 2nd, 3rd & 4th Q = 30% ( " " " 31st March 2020)

Table showing computation of tax charge:

	Quarter ending 31st March, 2019	Quarter ending 30th June, 2019	Quarter ending 30th Sept, 2019	Quarter ending 31st Dec, 2019	Year ending 31st Dec, 2019
	₹	₹	₹	₹	₹
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

## Major Planned Periodic Maintenance or Overhaul

Ind AS 37

The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is **not anticipated** for interim reporting purposes **unless an event has caused the entity to have a legal or constructive obligation**. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

## Provisions

A **provision is recognised** when an entity has **no realistic alternative but to make a transfer of economic benefits** as a result of an event that has **created a legal or constructive obligation**. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognised in profit or loss, if the entity's best estimate of the amount of the obligation changes. **This Standard requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its financial year**. The existence or non-existence of an obligation to transfer benefits is not a function of the length of the reporting period. It is a question of fact.

## Year-End Bonuses

The nature of **year-end bonuses** varies widely. Some are **earned simply by continued employment** during a time period. **Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result**. They may be purely discretionary, contractual, or based on years of historical precedent.

A bonus is **anticipated** for interim reporting purposes if, and only if, (a) the bonus is a **legal obligation** or past practice would make the bonus a **constructive obligation** for which the entity has **no realistic alternative but to make the payments**, and (b) a **reliable estimate of the obligation can be made**. Ind AS 19, Employee Benefits provides guidance.

## Question 6

PQR Ltd. is preparing its interim financial statements for **quarter 3 of the year**. How the following transactions and events should be dealt with while preparing its interim financials:

- (i) It makes employer contributions to **government-sponsored insurance funds that are assessed on an annual basis**. During Quarter 1 and Quarter 2 **larger amount of payments for this contribution were made**, while during the Quarter 3 **minor payments were made** (since **contribution is made upto a certain maximum level of earnings per employee and hence for higher income employees, the maximum income reaches before year end**).
- (ii) The entity **intends to incur major repair and renovation expense for the office building**. For this purpose, **it has started seeking quotations from vendors**. It also has tentatively identified a vendor and expected costs that will be incurred for this work.
- (iii) The company has a practice of declaring bonus of 10% of its annual operating profits every year. It has a history of doing so.

## Solution

Paragraph 28 of Ind AS 34, Interim Financial Reporting states that an entity shall apply the same accounting recognition and measurement principles in its interim financial statements as are applied in its annual financial statements

Further, paragraphs 32 and 33 of Ind AS 34, Interim Financial Reporting state that for assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised otherwise not. The Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Considering the above guidance, while preparing its interim financials, the transactions and events of the given case should be dealt with as follows:

(i) If employer contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised using an estimated average annual effective contribution rate in its interim financial statements, even though a large portion of the payments have been made early in the financial year. Accordingly, it should work out an average effective contribution rate and account for the same accordingly, in its interim financials.

(ii) The cost of a planned overhaul expenditure that is expected to occur in later part of the year

is not anticipated for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

(iii) A bonus is anticipated for interim reporting purposes, if and only if,

- a) the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments, and
- b) a reliable estimate of the obligation can be made. Ind AS 19, Employee Benefits provides guidance in this regard.

A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements.

Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements. In the instant case, bonus liability of 10% of operating profit for the year to date may be accrued.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

9/1/14

1st Quarter (Payment = 2500)

Inventory (400mt x 5) 2000

P/L (100mt x 5) 500

Debit

TO Bank 2500

2nd Quarter (Payment = 2500)

Inventory (600mt x 5) 3000

TO Bank 2500

TO P/L 500

Credit

3rd Quarter (Payment = 2500)

Inventory (500mt x 5) 2500

TO Bank 2500

4th Quarter (Payment 2500)

Inventory (400mt x 5) 2000

P/L 500

TO Bank 2500

Illustration 4

Fixed production overheads for the financial year is ₹ 10,000. Normal expected production for the year, after considering planned maintenance and normal breakdown, also considering the future demand of the product is 2,000 MT. It is considered that there are no quarterly / seasonal variations. Therefore, the normal expected production for each quarter is 500 MT and the fixed production overheads for the quarter are ₹ 2,500.

Actual production achieved	Quantity (In MT)
First quarter	400
Second quarter	600
Third quarter	500
Fourth quarter	400
Total	1,900

Presuming that there are no quarterly / seasonal variation, calculate the allocation of fixed production overheads for all the four quarters as per Ind AS 34 read with Ind AS 2. Will the quarterly results affect the annual results?

Fixed Prod<sup>n</sup> overhead p.a. = 10000

∴ Fixed Prod<sup>n</sup> overhead each Quarter = 2500

Normal Capacity p.a. = 2000 MT, Normal Capacity per Q = 500mt

Actual Prod<sup>n</sup>

1st Q → 400mts → Inventory (400 x 5) 2000

P/L 500

TO Bank 2500

2nd Q → 600 units → Inventory (5000 - 2000) 3000  
TO Bank 2500  
TO P/L 500

3rd Q → 500 units → Inventory (1500 × 5 - 5000) 2500  
TO Bank 2500

4th Q → 400 units → Inventory (1900 × 5 - 7500) 2000  
P/L 500  
TO Bank 2500