AS 5 → Net profit or loss for the period, Prior period items & Changes in Accounting Policies

- A. Net profit or loss for the period
- B. Prior period items
- C. Changes in Acc. Est
- D. Changes in Acc. Policies

i) Ordinary Activities

ii) Ordinary But Exceptional items

iii) Extraordinary items

A] Net profit or loss for the period

→ All items of incomes & expenses should be part of P/L.

Exception: If any AS suggests a different treatment of exp/income then follow that AS

(eg: Instal^{n} exp on Machine → Capitalised as per AS 10

Int Exp on Qualifying Asset → —"— as per AS 16

The Foll. components discussed below should be disclosed on the face of P/L

i) Profit or loss from Ordinary Activities

Any activity which is undertaken as a part of Bus^{n} & related activities which are incidental or arising from main activities

Eg: Sale of goods, revenue from services, Interest Income / Exp, Salaries etc.

ii) Ordinary But Exceptional items (a.k.a ordinary that require separate disclosure)

The foll. items are ordinary activities, but their size or nature is such that they require separate disclosure.

Examples:

i) Write down of Inventories to NRV & its reversal.

ii) Cost incurred on restructuring activities

iii) Disposal of long term Invst / PPE.

iv) Litigation settlement (GST demand notice, Income Tax Demand Notice etc.)

v) Arrears payable to workers for revision of wages with retrospective effect etc.

iii) Extra-ordinary items

These are incomes or exp. that arise from events or transactions that are clearly distinct from ordinary activities AND therefore are NOT expected to occur frequently or regularly.

Nature & Amt. of each extra ordinary item should be separately disclosed in P&L such that its impact on current P&L can be perceived.

Examples

1. loss by fire/floods/earthquakes etc.
2. Attachment (seizure) of property
3. Refund of govt. grant
4. Sale of property due to Financial (liquidity) issue.

Property / PPE
- Sale → life end → Scrap → Ord.
- life × Sale Excep
- life × Sale Extra. (liq. ISS)

B] Prior period item (PPI)

→ PPI are incomes or expenses which arise in current period as a result of Errors or Omissions in FS of one or more prior periods.

→ Errors may occur as a result of :
- Mathematical mistakes
- Mistakes in applying Acc. Policy
- Misinterpretation of facts OR
- Oversight (failure to Notice)

→ Omission means reliable infoⁿ was available at the time of prep of FS but infoⁿ was NOT considered.

→ Nature & Amt of PPI should be disclosed separately in P/L such that its impact on current period can be perceived.

PPI ka separate head P/L mein nahi hai. ∴ we will create a separate head.

P/L Extract

  Incomes
(−) Exp
Profit Before PPI
(−) PPI
Profit After PPI

c. Changes in Acc. Estimates

→ Acc. Est is an approximation where proper measurement cannot be made.

(eg: Prov for Bad debts, useful life of assets, Residual value, Depr^n method, Prov for warranty etc.)

→ An Acc Est may change when:

i) New Info^n is available

ii) Experience gained

iii) Subsequent developments

→ Change in Acc. Est should be accounted **Prospectively.**

→ Change in Acc Est is NOT a PPI & it is NOT an extraordinary item

* **Disclosure** for Ch in Acc Est

- Disclose Nature & Amt of change in Acc. Est which has material effect on current or later years
- If not possible to quantify the Amount, then this fact should be disclosed.

D. Change in Acc. Policy (Refer AS1 also)

→ Acc. Policy refers to specific accounting principles & methods of applying those principles in preparation & presentation of Fin. stat.

Examples
1) Inventory — FIFO OR Weighted Avg
2) Maintaining Books of A/c's - Cash Basis or Accrual Basis.
3) PPE (Subsequent Meas) - Cost OR Revaluation Model.
4) Cash Flow Statement - Direct or Indirect Method.

→ Acc. Policy can be changed only when:
i) Required by law
ii) —"— AS
iii) If it results in better presentation

GF/BF/wife/Husband change
- Papa/Mummy (law)
- Bhai/Behen (AS)
- I feel I deserve Better (Better presentatⁿ)

* Disclosure of changes in Acc. Policy

- Material in current period
  - Amount Ascertained → Amount to be disclosed
  - Amount NOT Ascertained → Fact to be disclosed
- NOT material in current period But impact is material in later years → Fact of such change in later period should be disclosed in current period

* Change in Acc. Policy is accounted Retrospectively

	P.Y.	C.Y.
	Fy 25-26	Fy 26-27
B/s	~~FIFO~~	WAM
	WAM	(Ch in A.P.)

Iska matlab in FS of Curr. Year we will change the comparative figure of Prev Year as per New Acc. Policy.

Ratta maar lena

*** The following are NOT changes in Acc. Policy**

ⓐ Adoption of new policy for events or transactions that differ in Substance from previously occuring events or transactions.

(eg: Introducing a formal gratuity scheme in place of ad-hoc (lumpsum) payment to employees on retirement.

ⓑ Adoption of new policy for events or transactions which did NOT occur previously or were immaterial.

(eg: Introducing a new pension scheme for employees)

The above 2 cases not change in Acc. Policy, it is First time adoption of policy

Format of Ans :

As per AS 5 " "

Define / Meaning Policy / Est / PPI / Extra-ordinary ....

Conclusion - 2-3 lines