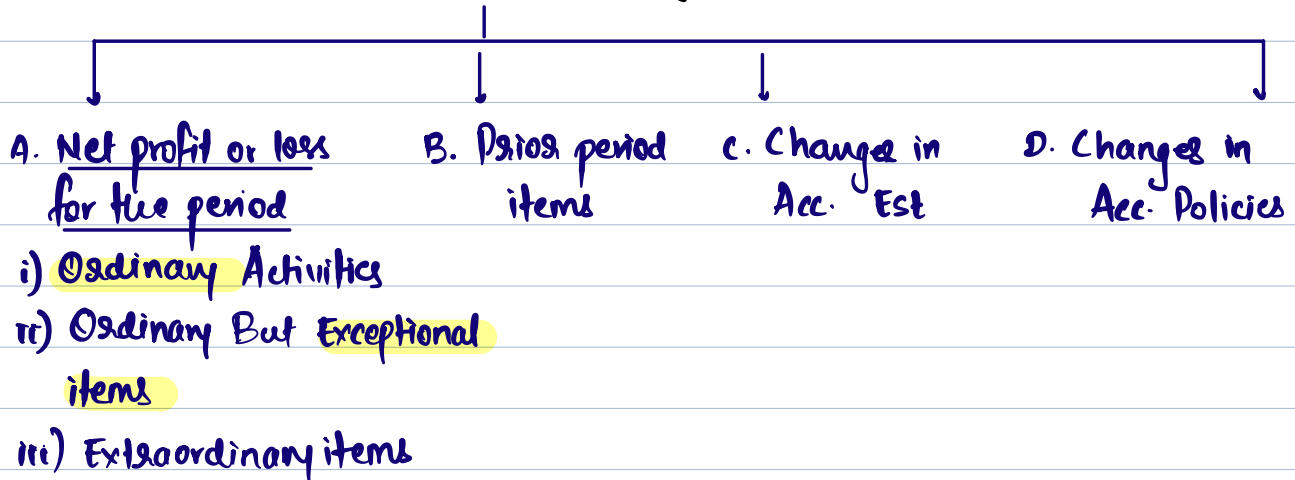


AS 5 → Net profit or loss for the period, Prior period items & Changes in Accounting Policies



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: Instalⁿ 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 Busⁿ & 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 NAV & its reversal.
- ii) Cost incurred on restructuring activities
- iii) Disposal of long term Invest / 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.

ord.
Surp →
Sale (life end)
Property C/PPE → life x Sale Excep
life x Sale Extra. (liq. iss)

of 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 Extra

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, Deprn method, Prov for warranty etc.)

→ An Acc Est may change when:

- i) New Inforⁿ 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)

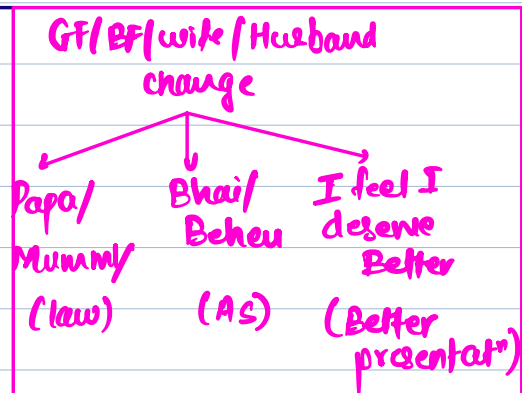
→ Acc. Policy refers to specific accounting principles & methods of applying those principles in preparation & presentation of Fin. Stat.

Examples

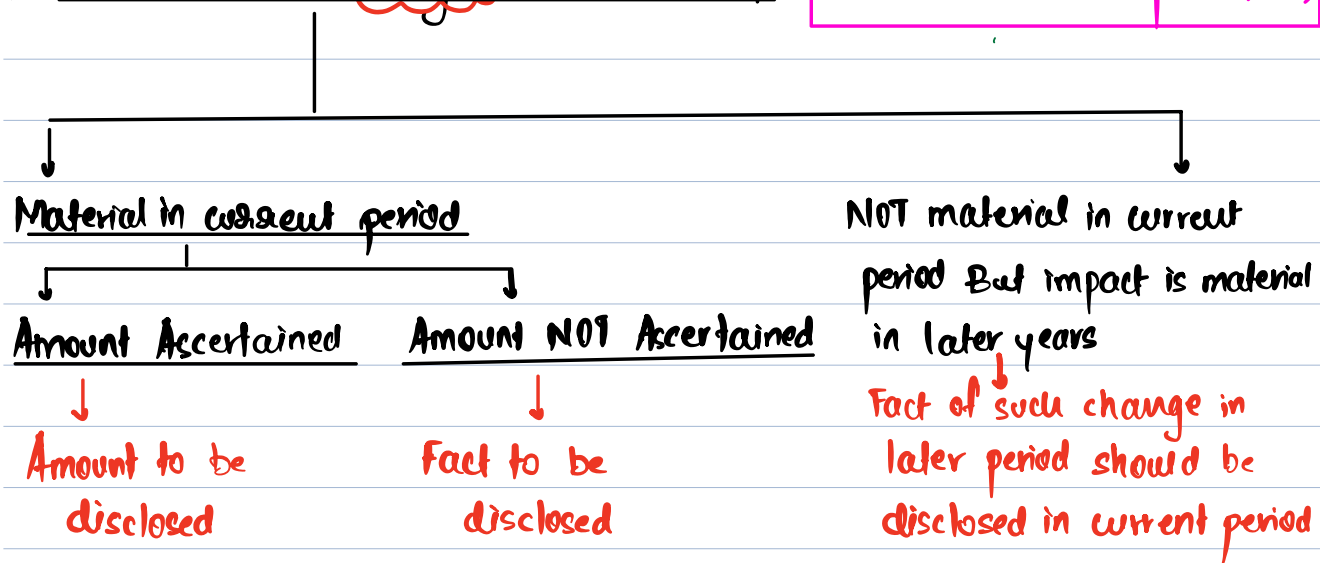
- 1) Inventory — FIFO or Weighted Avg
- 2) Maintaining Books of Acc's - Cash Basis or Accrual Basis.
- 3) PPE (Subsequent meas) - Cost or Revaluation Model.
- 4) Cash Flow Statement - Direct or Indirect Method.

→ Acc. Policy can be changed only when:

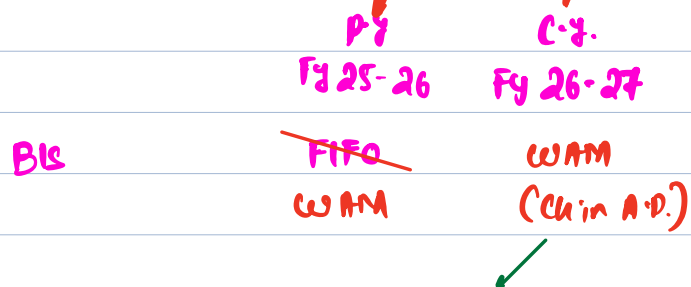
- i) Required by law
- ii) —"— AS
- iii) If it results in better presentation



* Disclosure of changes in Acc. Policy



* Change in Acc. Policy is accounted Retrospectively



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

→ Rattu maar lena
* The following are NOT changes in Acc. Policy

(a) Adoption of new policy for events or transactions that differ in substance from previously occurring events or transactions.

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

(b) 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