

AS 25

INTERIM FINANCIAL REPORTING

Question 1 (RTP Nov 18, Nov 20)

NB Pg. No.

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

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

Information regarding the 1st quarter ended on 30th June, 20X1 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.

Solution

Particulars	(₹ In crores)	
Result of first quarter ended 30th June, 20X1		
Turnover	80	
Other Income	Nil	
Total (a)		80
Less: Changes in inventories		Nil
Salaries and other cost		60
Administrative and selling Expenses (4+8)		12
Total (b)		72
Profit (a)-(b)		8

According to AS 25, the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be **recognized when they occur**. Thus, the company's view is not as per AS 25.

Question 2

NB Pg. No.

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	30th September	31st December	31st March
15%	15%	50%	25%

For the First quarter ending 30th June, 20X1, 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, 20X1

		(₹ 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

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

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

? Question 3

NB Pg. No.

Accountants of Poornima Ltd. showed a net profit of ₹ 7,20,000 for the third quarter of 20X1 after incorporating the following:

- Bad debts of ₹ 40,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- Extra ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in this quarter.
- 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, the 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.

Recognising 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

NB Pg. No.

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, 20X1. The Financial Year is FY 20X1-X2.

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, 20X1:

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 20X1 and 31 March 20X1).
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 20X1 and same for 31 December 20X0 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 20X1 to 31 December 20X1 and 1 April 20X0 to 31 December 20X0).

Question 5

NB Pg. No.

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-20X1. 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.

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

Question 6

NB Pg. No.

On 30th June, 20X1, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 31st July, 20X1, the company paid ₹ 60,000 for property taxes assessed for the calendar year 20X1. 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, 20X1.

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, 20X1, 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 20X1, ₹ 30,000 would be reported as an expense for six months ended on 30th September, 20X1 while out of the remaining ₹ 30,000, ₹ 15,000 for January, 20X1 to March, 20X1 should be shown as payment of the **outstanding amount of previous year** and another ₹ 15,000 related to quarter October, 20X1 to December, 20X1 would be reported as **prepaid expenses**.

Question 7

NB Pg. No.

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 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter.

Solution :

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

	₹
Estimated Annual Income (A)	10,00,000
Tax expense:	
30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 5,00,000	2,00,000
(B)	3,50,000

$$\text{Weighted average annual income tax rate} = \frac{A}{B} = \frac{3,50,000}{10,00,000} = 35\%$$

Tax expense to be recognized in each of the quarterly reports	₹
Quarter I - ₹ 75,000 × 35%	26,250
Quarter II - ₹ 2,50,000 × 35%	87,500
Quarter III - ₹ 3,75,000 × 35%	1,31,250
Quarter IV - ₹ 3,00,000 × 35%	1,05,000
₹ 10,00,000	3,50,000

Question 8

NB Pg. No.

To comply with listing requirements and other statutory obligations, Prateek Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of Rs. 350 lakhs under Income-tax Law, of which 90% is eligible for set off as per the recent verdict of the Court, that has attained finality. No deferred tax asset has been recognized on such losses in view of the uncertainty over its eligibility for set off. The company has reported quarterly earnings of Rs. 350 lakhs and Rs. 150 lakhs respectively for the first two quarters of financial year 2017-2018 and anticipates net earnings of Rs. 400 lakhs in the coming half year ended March 2018 of which Rs. 50 lakhs will be the loss in the quarter ended December, 2017. The tax rate for the company is 30% with

a 10% surcharge. You are required to calculate the amount of tax expense to be reported for each quarter of financial year 2017-2018.

Solution :

Estimated tax liability on annual income = [Income Rs. 900 lakhs – b/f losses Rs. 315 lakhs (90% of 350)] x 33% = 33% of Rs. 585 lakhs = Rs. 193.05 lakhs

As per para 29(c) of AS 25 Interim Financial Reporting, income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Thus, estimated weighted average annual income tax rate = Rs. 193.05 lakhs divided by Rs. 900 lakhs = **21.45%**

Tax expense to be recognized in each quarter	Rs. in lakhs
Quarter I – Rs. 350 lakhs x 21.45%	75.075
Quarter II – Rs. 150 lakhs x 21.45%	32.175
Quarter III – (Rs. 50 lakhs) x 21.45%	(10.725)
Quarter IV – Rs. 450 lakhs x 21.45%	96.525
	193.05

Question 9

NB Pg. No.

Adam 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 Gross Annual Income 33,00,000 (inclusive of Estimated Capital Gains of Rs; 8,00,000)
 Estimated Income of Quarter I is Rs; 7,00,000, Quarter II is Rs; 8,00,000, Quarter III (including Estimated Capital Gains of Rs; 8,00,000) is Rs; 12,00,000 and Quarter IV is Rs; 6,00,000;

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

Solution :

As per para 29 of AS 25 Interim Financial Reporting, income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

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.

	Rs.
Estimated annual income exclusive of estimated capital gain	
(33,00,000 – 8,00,000) (A)	25,00,000
Tax expense on other income:	
30% on Rs. 5,00,000	1,50,000
40% on remaining Rs. 20,00,000	8,00,000
(B)	9,50,000
Weighted average annual income tax rate = $\frac{B}{A}$	
(9,50,000/25,00,000) x 100 = 38%	

Tax expense to be recognized in each of the quarterly reports

		Rs.
Quarter I - Rs. 7,00,000 × 38%		2,66,000
Quarter II - Rs. 8,00,000 × 38%		3,04,000
Quarter III - Rs. (12,00,000 - 8,00,000) × 38%		
Rs. 8,00,000 × 12%	1,52,000	
Quarter IV - Rs. 6,00,000 × 38%	96,000	2,48,000
		2,28,000
		10,46,000

Question 10

NB Pg. No.

The accounting year of X Ltd. ends on 30th September, 20X1 and it makes its reports quarterly. However for the purpose of tax, year ends on 31st March every year. For the Accounting year from 1-10-20X0 to 30-9-20X1, the quarterly income is as under:

1st quarter ending on 31st December, 20X0	₹ 200 crores
2nd quarter ending on 31st March, 20X1	₹ 200 crores
3rd quarter ending on 30th June, 20X1	₹ 200 crores
4th quarter ending on 30th September, 20X1	₹ 200 crores
Total	₹ 800 crores

Average actual tax rate for the financial year ending on 31st March, 20X1 is 20% and for financial year ending 31st March, 20X2 is 30%. Calculate tax expense for each quarter.

Solution :

Calculation of tax expense

1st quarter ending on 31st December,	20X0 200 x20%	₹ 40 lakhs
2nd quarter ending on 31st March,	20X1 200 x20%	₹ 40 lakhs
3rd quarter ending on 30th June,	20X1 200 x30%	₹ 60 lakhs
4th quarter ending on 30th September,	20X1 200 x30%	₹ 60 lakhs

Question 11

NB Pg. No.

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 the 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 12

NB Pg. No.

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 13

NB Pg. No.

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.