

# CHAPTER 28

## INTERIM FINANCIAL REPORTING (IND AS 34)

### QUESTIONS FROM ICAI STUDY MATERIAL

**Q1:** Company A has reported 60,000 as pre tax profit in first quarter and expects a loss of 15,000 each in the subsequent quarters. It has a corporate tax slab of 20 percent on the first 20,000 of annual earnings and 40 per cent on all additional earnings. Calculate the amount of tax to be shown in each quarter.

**Ans:** Amount of income tax expense reported in each quarter would be as below:

Expected total Income = 15,000 [60,000 - (15,000 x 3)]

Expected tax as per slabs = 15,000 x 20% = 3,000

Average Annual Income tax rate = 3,000 / 15,000 = 20%

	Q1	Q2	Q3	Q4
Profit / (Loss) before tax	60,000	(15,000)	(15,000)	(15,000)
Tax charge / (credit)	12,000	(3,000)	(3,000)	(3,000)

**Q2:** ABC Ltd. presents interim financial report quarterly. On 1.4.20X1, ABC Ltd. has carried forward loss of ₹ 600 lakhs for income-tax purpose for which deferred tax asset has not been recognized. ABC Ltd. earns ₹ 900 lakhs in each quarter ending on 30.6.20X1, 30.9.20X1, 31.12.20X1 and 31.3.20X2 excluding the carried forward loss. Income-tax rate is expected to be 40%. Calculate the amount of tax expense to be reported in each quarter.

**Ans:** Amount of income tax expense reported in each quarter would be as below:

The estimated payment of the annual tax on earnings for the current year:

₹ 3,000\* x 40 / 100 = ₹ 1,200 lakhs.

\*(3,600 lakhs - ₹ 600 lakhs) = ₹ 3,000 lakhs

Average annual effective tax rate = (1,200 / 3,600) × 100 = 33.33%

Tax expense to be shown in each quarter = 900 x 33.33% = ₹ 300 lakhs

**Q3:** Innovative Corporation Private Limited (or "ICPL") is dealing in seasonal product and the sales pattern of the product, quarter wise is as under during the financial year 20X1-20X2:

Qtr. I	Qtr. II	Qtr. III	Qtr. IV
ending 30 June	ending 30 September	ending 31 December	ending 31 March
10%	10%	60%	20%

For the first quarter ending on 30 June, 20X1, ICPL has provided the following information:

Particulars	Amounts (in crore)
Sales	70
Employees benefits expenses	25
Administrative and other expenses	12
Finance cost	4

ICPL while preparing interim financial report for first quarter wants to defer ₹ 16 crores expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and that the expenditures are uniform throughout all quarter

Calculate the result of first quarter as per Ind AS 34 and comment on the company's view.

**Ans:** Result of the first quarter ending 30 June

Particulars	Amounts (in crore)
Sales	<u>70</u>
<b>Total Revenue (A)</b>	<b><u>70</u></b>
Less: Employees benefits expenses	(25)
Administrative and other expenses	(12)
Finance cost	<u>(4)</u>
<b>Total Expense (B)</b>	<b><u>(41)</u></b>
<b>Profit (A-B)</b>	<b>29</b>

Note- As per Ind AS 34, the income and expense should be recognized when they are earned and incurred respectively. Seasonal incomes will be recognized when they occur. Therefore, the argument of ICPL is not correct considering the principles of Ind AS 34.

**Q4:** 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? **[MTP Jan 2026]**

**Ans:** If it is considered that there is no quarterly / seasonal variation, therefore normal expected production for each quarter is 500 MT and fixed production overheads for the quarter are 2,500.

Fixed production overhead to be allocated per unit of production in every quarter will be 5 per MT (Fixed overheads / Normal production).

Quarters	Allocations
First Quarter	<ul style="list-style-type: none"> <li>➤ Actual fixed production overheads = 2,500</li> <li>➤ Fixed production overheads based on the allocation rate of 5 per unit allocated to actual production = <math>5 \times 400 = 2,000</math></li> </ul>
	<ul style="list-style-type: none"> <li>➤ Unallocated fixed production overheads to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 = 500</li> </ul>
Second Quarter	<ul style="list-style-type: none"> <li>➤ Actual fixed production overheads on year-to-date basis = 5,000</li> <li>➤ Fixed production overheads to be absorbed on year-to-date basis = <math>1,000 \times 5 = 5,000</math></li> <li>➤ Earlier, 500 was not allocated to production in the 1st quarter. To give effect to the entire 5,000 to be allocated in the second quarter, as per Ind AS 34, 500 are reversed by way of a credit to the statement of profit and loss of the 2nd quarter.</li> </ul>
Third Quarter	<ul style="list-style-type: none"> <li>➤ Actual production overheads on year-to-date basis = 7,500</li> <li>➤ Fixed production overheads to be allocated on year-to-date basis = <math>1,500 \times 5 = 7,500</math></li> <li>➤ There is no under or over recovery of allocated overheads. Hence, no further action is required.</li> </ul>
Fourth Quarter	<ul style="list-style-type: none"> <li>➤ Actual fixed production overheads on year-to-date basis = 10,000</li> <li>➤ Fixed production overheads to be allocated on year-to-date basis <math>1,900 \times 5 = 9,500</math></li> <li>➤ 500, i.e., <math>[2,500 - (5 \times 400)]</math> unallocated fixed production overheads in the 4th quarter, are to be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss.</li> <li>➤ Unallocated production overheads for the year 500 (i.e. <math>10,000 - 9,500</math>) are expensed in the Statement of profit and loss as per Ind AS 2.</li> </ul>

The cumulative result of all the quarters would also result in unallocated overheads of 500, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual results

**Q5:** ABC Limited manufactures automobile parts. ABC Limited has shown a net profit of ₹ 20,00,000 for the third quarter of 20X1.

Following adjustments are made while computing the net profit:

1. Bad debts of ₹ 1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
2. Additional depreciation of ₹ 4,50,000 resulting from the change in the method of depreciation.
3. Exceptional loss of ₹ 28,000 incurred during the third quarter. 50% of exceptional loss have been deferred to next quarter.
4. ₹ 5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Ascertain the correct net profit to be shown in the Interim Financial Report of third quarter to be presented to the Board of Directors. **[Exam Nov 2018 (5 Marks); Dec 21 (4 Marks)]**

**Ans:** In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

1. The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, ₹ 50,000 should be deducted from ₹ 20,00,000.
2. Recognising additional depreciation of ₹ 4,50,000 in the same quarter is correct and is in tune with Ind AS 34.
3. Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 28,000 incurred during the third quarter should be recognized in the same quarter. Hence ₹ 14,000 which was deferred should be deducted from the profits of third quarter only.
4. As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when: it is appropriate to anticipate or defer 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 treatment done relating to deferment of ₹ 5,00,000 is not correct as expenditures are uniform throughout all quarters.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be ₹ 14,36,000 (₹ 20,00,000 - ₹ 50,000 - ₹ 14,000 - ₹ 5,00,000).

**Q6:** The entity's financial year ends on 31<sup>st</sup> March. What are the "reporting periods" for which financial statements (condensed or complete) in the interim financial report of the entity as on 30th September, 20X1 are required to be presented, if:

- (i) Entity publishes interim financial reports quarterly
- (ii) Entity publishes interim financial reports half-yearly.

**[RTP May 2023]**

**Ans:** Paragraph 20 of Ind AS 34, Interim Financial Reporting states as follows:

“Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

- a) 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.
- b) 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.
- c) statement of changes in equity 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.
- d) statement of cash flows 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.

Accordingly, periods for which interim financial statements are required to be presented are provided herein below:

**(i) Entity publishes interim financial reports quarterly**

The entity will present the following financial statements (condensed or complete) in its interim financial report of 30<sup>th</sup> September, 20X1:

Balance sheet at	30 <sup>th</sup> September 20X1	31 <sup>st</sup> March 20X1	-	-
Statement of profit and loss for	3 months ended 30 <sup>th</sup> September 20X1	3 months ended 30 <sup>th</sup> September 20X0	6 months ended 30 <sup>th</sup> September 20X1	6 months ended 30 <sup>th</sup> September 20X0
Statement of changes in equity for	6 months ended 30 <sup>th</sup> September 20X1	6 months ended 30 <sup>th</sup> September 20X0	-	-
Statement of cash flows for	6 months ended 30 <sup>th</sup> September 20X1	6 months ended 30 <sup>th</sup> September 20X0	-	-

**(ii) Entity publishes interim financial reports half-yearly**

The entity’s financial year ends 31<sup>st</sup> March. The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report of 30<sup>th</sup> September, 20X1:

Balance sheet at	30 <sup>th</sup> September, 20X1	31 <sup>st</sup> March, 20X1
Statement of profit and loss for	6 months ending 30 <sup>th</sup> September, 20X1	6 months ending 30 <sup>th</sup> September, 20X0

Statement of changes in equity for	6 months ending 30 <sup>th</sup> September 20X1	6 months ending 30 <sup>th</sup> September 20X0
Statement of cash flows for	6 months ending 30 <sup>th</sup> September 20X1	6 months ending 30 <sup>th</sup> September 20X0

**Q7:** Lal Ltd. provides you the following information for financial year 2019 -2020: Estimated Income for the year ended 31 March 2020:

Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 4,00,000)	₹ 16,50,000
Quarter I	₹ 3,50,000
Quarter II	₹ 4,00,000
Quarter III (including Estimated Capital Gains of ₹ 4,00,000)	₹ 6,00,000
Quarter IV	₹ 3,00,000
Tax Rates:	
On Capital Gains	12%
On Other Income: First ₹ 2,50,000	20%
Balance Income	30%

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income.

[Exam Nov 2020 (6 Marks), MTP NOV 2021]

**Ans:** As per Ind AS 34 '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.

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.

	₹
Estimated annual income exclusive of estimated capital gain (16,50,000 – 4,00,000) (A)	12,50,000
Tax expense on other income:	
20% on ₹ 2,50,000	50,000
30% on remaining ₹ 10,00,000	3,00,000
(B)	3,50,000
Weighted average annual income tax rate = $\frac{B}{A} = \frac{3,50,000}{12,50,000} = 28\%$	

Tax expense to be recognised in each of the quarterly reports :

	₹
Quarter I - ₹ 3,50,000 x 28%	98,000
Quarter II - ₹ 4,00,000 x 28%	1,12,000

Quarter III - ₹ (6,00,000 - 4,00,000) x 28%	56,000	
₹ 4,00,000 x 12%	48,000	1,04,000
Quarter IV - ₹ 3,00,000 x 28%		84,000
		3,98,000

**Q8:** An entity reports quarterly, earns ₹ 1,50,000 pre-tax profit in the first quarter but expects to incur losses of ₹ 50,000 in each of the three remaining quarters. The entity operates in a jurisdiction in which its estimated average annual income tax rate is 30%.

The management believes that since the entity has zero income for the year, its income-tax expense for the year will be zero. State whether the management's views are correct. If not, then calculate the tax expense for each quarter as well as for the year as per Ind AS 34.

[IBS CS4]

**Ans.** As per para 30 (c) of Ind AS 34 '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.

Accordingly, the management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct.

The following table shows the correct income tax expense to be reported each quarter in accordance with Ind AS 34:

Period	Pre-tax earnings (in)	Effective tax rate	Tax expense (in ₹)
First Quarter	1,50,000	30%	45,000
Second Quarter	(50,000)	30%	(15,000)
Third Quarter	(50,000)	30%	(15,000)
Fourth Quarter	(50,000)	30%	(15,000)
<b>Annual</b>	<b>0</b>		<b>0</b>

**Q9:** Due to decline in market price in second quarter, Happy India Ltd. incurred an inventory loss. The Market price is expected to return to previous levels by the end of the year. At the end of year, the decline had not reversed. When should the loss be reported in interim statement of profit and loss of Happy India Ltd.?

**Ans:** Loss should be recognised in the second quarter of the year.

**Q10:** 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 31 st 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.

[RTP Nov 2020; MTP May 2024]

**Ans:** Table showing computation of tax charge:

	Quarter ending 31 <sup>st</sup> March, 2019	Quarter ending 30 <sup>th</sup> June, 2019	Quarter ending 30 <sup>th</sup> Septemb, 2019	Quarter ending 31 <sup>st</sup> December, 2019	Year ending 31 <sup>st</sup> Decembe, 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

Note: As per para B17 of Ind AS 34, 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.

**Q11:** 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. **[RTP Nov 2022]**

**Ans:** 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.

### QUESTIONS FROM OTHER SOURCES

**Q12:** Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2011. On enquiry you observe the following, give the treatment required under IND AS 34:

- (i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.
- (ii) 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.

[Exam May 2025 (4 Marks)]

**Ans:** As per IND AS 34 “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 the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year. The change in the method of inventory valuation is a change in the accounting policy. The change in the method of depreciation is a change in the accounting estimates.

Therefore, the prior interim periods’ financial statements should be restated by applying the change in the method of valuation retrospectively. 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)	4
Add: Dividend income ₹ (4-1) lakhs	3
Add: Extra ordinary gain ₹ (2-1) lakhs	1
Add: Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (3-2) lakhs	1
Less: Sales promotion expenses (80% of ₹ 15 lakhs)	(12)
Less: Gain on sale of investment (occasional gain should not be deferred)	(5)
Adjusted Profit before tax for the third quarter	(8)

### QUESTIONS FROM RTP/MTP/EXAMS

**Q13:** To comply with listing requirements and other statutory obligations Quaker Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of ₹ 700 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 ₹ 700 lakhs and ₹ 300 lakhs respectively for the first two quarters of Financial year 2013-14 and anticipates a net earning of ₹ 800 lakhs in the coming half year ended March 2014

of which ₹ 100 lakhs will be the loss in the quarter ended Dec. 2013. 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 2013-14. **[Exam May 2024 (4 Marks)]**

**Ans:** Estimated tax liability on annual income

$$= [\text{Income ₹1,800 lakhs less b/f losses ₹ 630 lakhs (90\% of 700)}] \times 33\%$$

$$= 33\% \text{ of ₹ 1,170 lakhs} = ₹ 386.10 \text{ lakhs}$$

As per IND AS 34 '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.

Thus, estimated weighted average annual income tax rate = ₹ 386.10 lakhs divided by ₹ 1,800 lakhs = 21.45%

Tax expense to be recognised in each quarter

		₹ in lakhs
Quarter I -	₹ 700 lakhs x 21.45%	150.15
Quarter II -	₹ 300 lakhs x 21.45%	64.35
Quarter III -	(₹ 100 lakhs) x 21.45%	(21.45)
Quarter IV -	₹ 900 lakhs x 21.45%	193.05

**Q14:** Heavy Limited has a plant with normal capacity to produce 90,000 units of a product per annum and expected fixed production overhead for the year is ₹ 18,00,000. There are no quarterly/seasonal variations.

Hence, normal expected production of each quarter is uniform. The actual production of the year is 87,000 units. The production details of each quarter are as under:

Quarter I: 20,000 units

Quarter II: 24,000 units

Quarter III: 23,500 units

Quarter IV: 19,500 units

Calculate the allocation of fixed production overhead for all the four quarters. Will the quarterly results affect annual result?

Give your answer as per Ind AS 34 read with Ind AS 2.

**[Exam July 2021 (5 Marks)]**

**Ans:** Since it is considered that there is no quarterly / seasonal variation, then normal expected production for each quarter is 22,500 units (90,000 units / 4 quarters) and fixed production overheads for the quarter are ₹ 4,50,000 (₹ 18,00,000 / 4 quarters).

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 20 per unit.

(Fixed overheads / Normal production i.e. ₹ 4,50,000 / 22,500 units

Particulars	Quarters			
	I	II	III	IV
Actual fixed production overheads on year to date basis (₹)	4,50,000	9,00,000	13,50,000	18,00,000
Actual production (Units)	20,000	24,000	23,500	19,500
Actual production year to date basis (Units)	20,000	44,000	67,500	87,000
Fixed overheads to be absorbed on year to date basis (₹)	4,00,000	8,80,000	13,50,000	17,40,000
Under recovery year to date (₹)	50,000	20,000	NIL	60,000

#### Quarter I:

Unallocated fixed production overheads ₹ 50,000 (i.e. ₹ 4,50,000 – ₹ 4,00,000) to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 .

#### Quarter II:

Since production increased in second quarter by 1,500 units (24,000 – 22,500) i.e. more than the normal expected production, hence ₹ 30,000 (1,500 units x ₹ 20 per unit) will be reversed by way of a credit to the statement of profit and loss of the 2 nd quarter and debit to cost of production / inventory cost.

#### Quarter III:

Earlier, ₹ 50,000 was not allocated to production / inventory cost in the 1 st quarter. Out of it, ₹ 30,000 was reversed in the 2nd quarter. To allocate entire ₹ 13,50,000 till third quarter to the production, as per Ind AS 34, remaining ₹ 20,000 (₹ 50,000 – ₹ 30,000) will be reversed by way of a credit to the statement of profit and loss of the 3 rd quarter and debit to the cost of production / inventory cost.

#### Quarter IV:

Unallocated fixed production overheads ₹ 60,000 {i.e. ₹ 4,50,000 – (₹ 20 x 19,500)} in the 4th quarter will be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss.

#### For the year:

The cumulative result of all the quarters would also result in unallocated overheads of ₹ 60,000, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual result.

**Q15:** While preparing interim financial statements for the half-year ended 30th September, 20X1, an entity notes that there has been an under-accrual of certain expenses in the interim financial statements for the first quarter ended 30<sup>th</sup> June, 20X1. The amount of under accrual is assessed to be material in the context of interim financial statements. However, it is expected that the amount would be immaterial in the context of the annual financial statements. The

management is of the view that there is no need to correct the error in the interim financial statements considering that the amount is expected to be immaterial from the point of view of the annual financial statements.

Whether the management's view is acceptable?

[RTP Nov 2022]

**Ans:** Paragraph 41 of Ind AS 8, inter alia, states that financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

As regards the assessment of materiality of an item in preparing interim financial statements, paragraph 25 of Ind AS 34, Interim Financial Statements, states that while judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

As per the above, while materiality judgements always involve a degree of subjectivity, the overriding goal is to ensure that an interim financial report includes all the information that is relevant to an understanding of the financial position and performance of the entity during the interim period. It is therefore not appropriate to base quantitative assessments of materiality on projected annual figures when evaluating errors in interim financial statements.

Accordingly, the management is required to correct the error in the interim financial statements since it is assessed to be material in relation to interim period data.

**Q16:** ABC Ltd. requires assistance on whether the following revenue can be anticipated or cost can be deferred as of 30th June, 20X1 while preparing the interim financial statements:

- (i) Dividend income from its investment which is declared in September of every year.
- (ii) 60% of the advertising cost for the whole year is incurred by ABC Ltd. in the first quarter and the remaining 40% in the second quarter

[MTP Nov 2023]

**Ans:** Paragraphs 37 and 38 of Ind AS 34, Interim Financial Reporting state that revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. Examples include dividend revenue, royalties, and government grants. Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers. Such revenues are recognised when they occur.

Further, for costs incurred unevenly during the financial year, para 39 of Ind AS 34 states that costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

In view of the above guidance, in the given case, dividend income received by ABC Limited cannot be anticipated and recognised in financial statements as of 30th June, 20X1.

Further, considering that 60% of advertising cost for the whole year has been incurred by ABC Ltd during the first quarter and 40% in the second quarter, it is a cost incurred unevenly. Applying principles of paragraph 39, it is not appropriate to defer the charge of an incurred advertising expense (60% of whole year cost) at the end of the quarter. Accordingly, all the advertising costs incurred till 30th June, 20X1 should be charged to P&L while preparing its financial statements as of 30 th June, 20X1

Chp Nov 26

**Q17:** Dhruv Limited, a production company, sells television to various companies all over India. Company's financial year ends on 31st March. For the financial year 2022-2023, the company had a net profit after taxes of ₹ 2.4 crores. It prepares and publishes an interim financial report for each quarter of the year. The net profit of the company for the second quarter of 2023-2024 is ₹ 56 Lakhs. Following adjustments are to be made while computing the net profit of second quarter:

- a) The company has a practice of declaring bonus of 5% of its profit after taxes of previous financial year. It has a history of doing so and the amount is recognised equally in each quarter. It declared bonus on 1st June 2023 but recognised the full amount in second quarter.
- b) The company 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 are ₹ 34 lakhs. It provided for the same in this quarter.
- c) Exceptional loss of ₹ 4.2 Lakhs incurred during the second quarter due to workers' strike. 50% of exceptional loss has been deferred to next quarter.

Ascertain the correct net profit with reasons to be shown in the Interim Financial Report of second quarter to be presented to the Board of Directors. **[Exam May 2024 (5 Marks)]**

**Ans:** In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

- a) 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 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.

Accordingly, Bonus amount to be charged in the second quarter would be ₹ 2,40,00,000 X 5% X  $\frac{1}{4}$  = ₹ 3,00,000.

Bonus of ₹ 9,00,000 (₹ 12,00,000 – ₹ 3,00,000) must be reversed.

- b) The cost of a planned major repair and renovation that is expected to occur in later part of the year is not considered 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.

Hence, ₹ 34,00,000 provided in the second quarter must be reversed.

- c) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 4,20,000 incurred during the second quarter should be recognized in the same quarter.

Hence, ₹ 2,10,000 which was deferred should be deducted from the profits of second quarter only.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the second quarter shall be: ₹ 96,90,000 (₹ 56,00,000 + ₹ 9,00,000 + ₹ 34,00,000 - ₹ 2,10,000).

NOTES

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