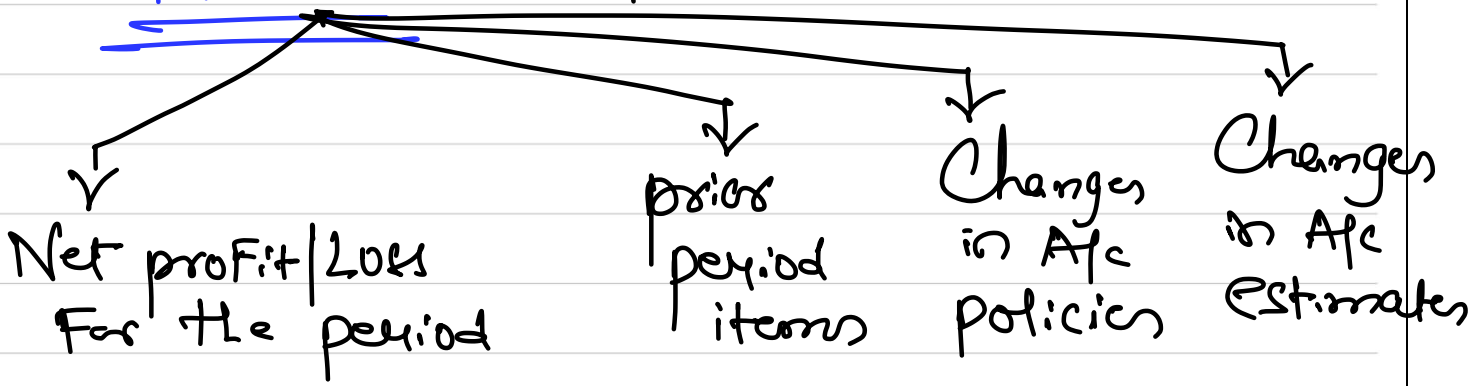


AS-5

Scope



1) This is a p&l a/c based standard.

2) Net Profit/Loss For the period :-

a) Any Income or Expense shall be considered while calculating Net Profit/Loss for the period unless there is a separate treatment of such Income/Expense as per any AS.

(agar kisi Income/Exp. ka koi specific treatment defined hai an per any AS then usko AS k according treat karo, p&l me mat daalo)

Example:- AS 16 \Rightarrow Interest Cost should be Capitalised if related to QA.

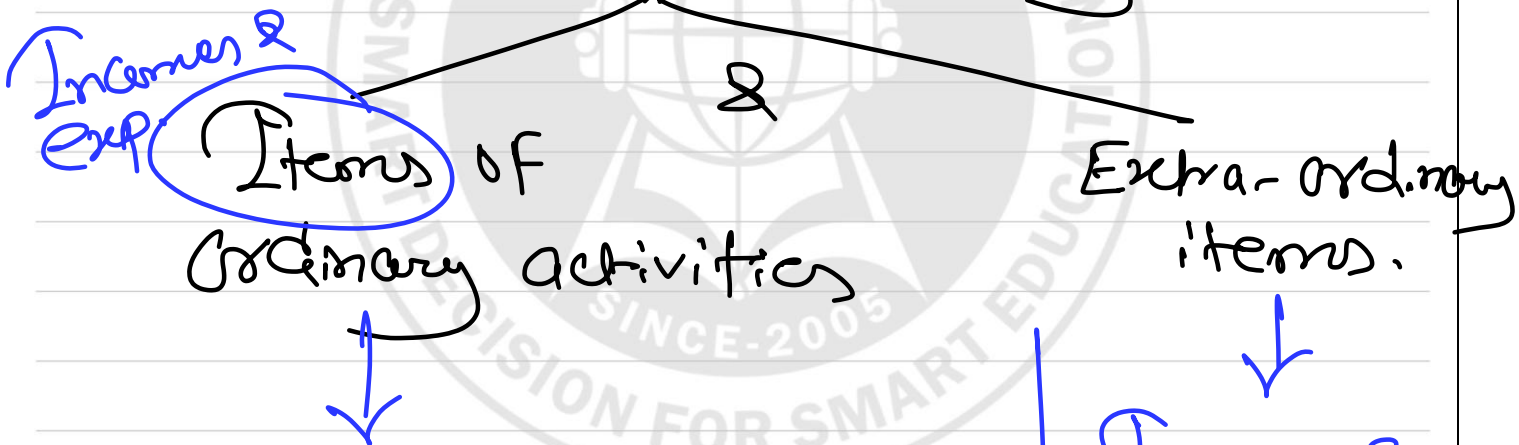
AS 12 \Rightarrow Govt. Grant in the nature

Of promoter's Contribution
transfer to CR

AS 19 = Initial Direct Cost incurred
by Lessee (in F/L),
to be Capitalised to the
Cost of Leased Asset.

AS 10 = Upward Revaluation Gain
transfer to RR

b) Net profit/Loss for the period is
Calculated from following :-



Ordinary activities :- Any Business
activities which is related
to the main operation

Requirement of AS 5 :-

Any Item of Income/Expense
whose size or nature is

CA. JAI CHAWLA (FCA, M.COM, DISA, IFRS) (7887 7887 05)

Such that its separate

- Incomes & Expenses
- Which are clearly different from ordinary activity
- & Which does not occur regularly

Disclosure is necessary

to explain the performance of Entity, then

it should be separately disclosed in P&L.

Net Profit/Loss

(i.e. Non recurring)

Example :-

Loss due to Fire/earthquake

Refund of Govt. Grant

insurance claim received

VRS Payment to Retiring Employees.

Where to disclose in P&L

if Separate Head is already available

if No Separate Head is available

To be shown under such Head :-

Under "Exceptional items" in P&L

Eg: Employee Benefit Exp

Eg: -> Inventory from cost to NRV

• Amounts of Salary Paid of Last 5 years.

Requirement of AS 5

All Extra ordin. items should be separately disclosed in P&L &

should not be combine with Ordinary activity items.

- Past Service Cost (AS15)

3) Prior Period Items :-

- Any Income / Expense
- Which arise in Current year
- due to any **ERROR** or **Omission** of Previous year,

(any **ERROR** / **Omission** of **Py** — Which is known in **(y)**)

Example:-

a) Wrong Depreciation Rate Used in Py.

b) No provision Created in Py.

→ prov. for Tax
prov. for any exp.

c) Wrongly Treated Op. Lease as Finance Lease

d) In py, there is omission to record any Income or Expense

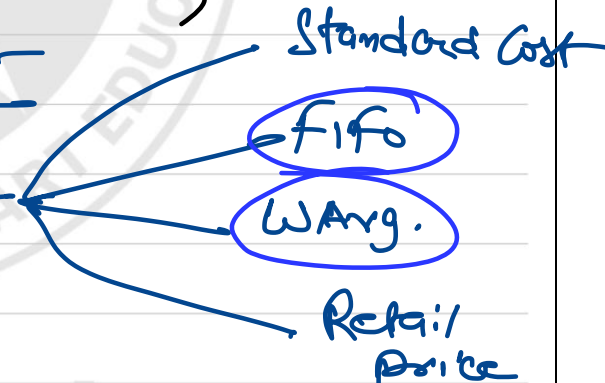
Requirement as per AS 5 :-

Any Prior period item (Income/Exp) Known in Cy shall be **separately disclosed in p&L** so that its impact on Cy profit can be shown.

4) Changes in Accounting policy :-

Accounting policy means "Any method Used to measure & record any Asset, Liability, Income or Expense. (Even though such method prescribed by any AS or not)"

Examples of A/c policies :-

a) AS 2 \Rightarrow Inventory Cost 

b) AS 2 \Rightarrow Inventory measurement
Lower of Cost or NRV

c) AS 3 \Rightarrow Direct method
or
Indirect method \Rightarrow CFOA

d) As 7 \Rightarrow Contract Revenue
 \rightarrow as per " % of Completion method "

e) PPE
As 10 \Rightarrow Cost model
Rerevaluation model

f) As 11 \Rightarrow Ex. Loss on LTFCMI
P&L (or) para 46 treatment

g) As 12 \Rightarrow Govt. Grant
P&L (or) Deferred & Amortised Over the multiple years
Immediately

h) As 13 \Rightarrow Investment Value
which $\left\{ \begin{array}{l} \text{Cost} \\ \text{or} \\ \text{mv} \end{array} \right.$ (or) Cost only.

i) As 14 \Rightarrow Purchase method \Rightarrow Net Assets to be recorded at fair Value

j) As 16 \Rightarrow Borrowing Cost \rightarrow Capitalised to QA
or \rightarrow P&L

k) As 23 \Rightarrow Investments measure at Equity method

l) As 26 \Rightarrow Intangible Assets

→ measure at Cost
→ at $\frac{1}{2}$ Fr

m) As 29 \Rightarrow To Create a provision for any outflow (or)

NOT to Create provision

Requirement of As 5 when there is a Change in Acc Policy:-

→ disclose the effect of such change in Financial Statement

(effect on Profitability)

→ Effect in (Retrospective effect)

Cy

↓
disclose in

Cy

& amt of such effect if possible

Future Period

↓
disclose in Cy that

it will impact future year profitability along with Amt if possible

5) Change in A/c Estimates :-

While measuring any Asset (eg. PPE WDV at B/s date) or any Liability (DBO Liability), if we don't have any accurate data or information then we have to take certain assumption or some degree of estimation.

Ex:-

Depreciation method (As 10)
Amortisation method (As 26)
DBO Liability estimated
by Actuary (As 15)

Provision for Doubtful
Debts

Provision for Income Tax

Creating DTA/DTL
Warranty Provisions

Requirement of As 5 :-

Changes in A/c Estimates shall be disclosed separately in fin/statements.

Impact on Financial Statements => **Propective**

Change in method of Dep \Rightarrow Change in A/c Estimates.

Retrospective effect \Rightarrow Making Changes in py Financial Statements.

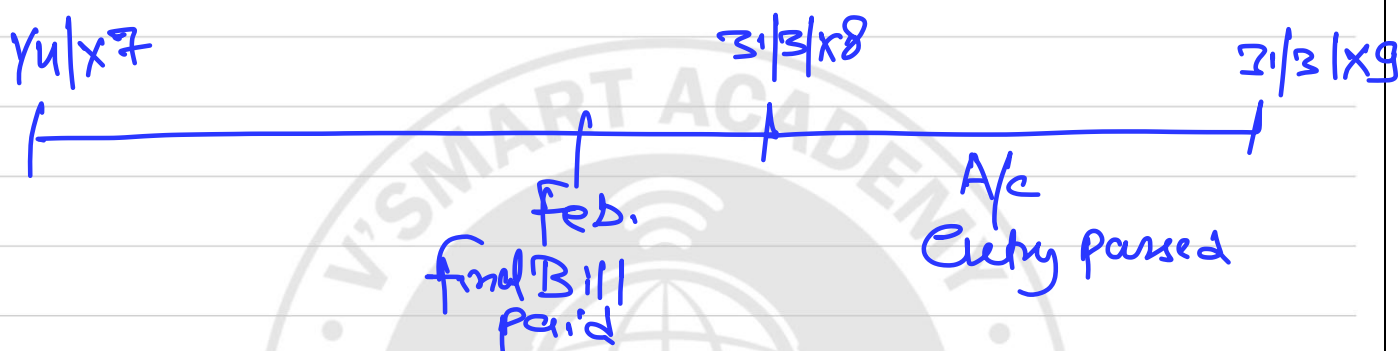
| Ordinary Activity | Extra-Ordinary item | Prior Period item | Change in A/c Policy | Change in A/c Estimate |
|--------------------------------------|---|---|---|--|
| Change in Method of Dep. | Goods destroyed due to flood & claim received | Fuel surcharge billed last year but accounted in cy | Change from Cost model to Revaluation model | Change in Method of Dep. |
| GST paid due to demand Notice | Effect/Loss due to theft is Extra-ordm. | Theft of Cash/Stock in py found out in cy | Earlier we used to create provision but now decided not to create provision or vice versa | Change in provision of staff welfare |
| Effect of Change in provision Asset. | Govt Grant Refundable | Treating Op. Lease as FL wrongly Capitalised BC | | Change in Warranty provision or BD provision |
| Receipt of Govt. Grant. | | | | actual BD more than provision. |
| Legislative Changes (Exceptional) | | | | |

Applying
Wrong %
of Dep.

Change
in
Useful
life

* Change in management decision to pay Pension is not change in Ac policy.

Q1



Provision As per AS 5, PPI are those
Incomes & Expenses which arise in
Cy as a result of Error or omission
in fy.

The PPI shall be Separately disclosed in
P&L statement so that its impact in
Cy profit can be analysed by users.

Facts & Conclusion :- ^{final} Billing was made in fy
x7-x8 & also paid in same year. Hence it
should be accounted for in the year
20x7-x8.

Actual A/c took place in X8-X9 which is incorrect hence it's PPI.

Rs. 5.30 lakhs should be separately disclosed in cy P&L statement.

Q5

Provision :- Extraord. Items are those incomes & exp. which are clearly distinct from ordinary activity & which doesn't occur regularly.

Facts :- Changes in method of Dep is change in A/c Estimate & its effect should be disclosed separately under the head "Depreciation & Amortisation"

Conclusion :- Treat done by entity is incorrect since it is not an Extraord. item & retrospectively effect should not be done

It should be present as an item of ordinary activity with change in A/c estimate.

Q106

Provision :- Extra-ordinary items are those incomes/expenses which are clearly distinct from ordinary activity & does not occur frequently.

Items of ordinary activity whose size or nature is such that their disclosure is necessary to explain the performance of entity, then such items shall be separately disclosed. \downarrow Net P/L

Facts & Conclusions :-

Payment of GST demand is an item of ordinary activity since it is related to consultancy service.

However, its separate disclosure is necessary to explain the performance of entity.

It is not an Extra-ordinary item.

Q203

Provision :- a) PFI meaning
b) Extra ordinary items meaning.

Facts & Conclusions :- Entity has not passed any entry in the year of Loss, since Entity may not have about receipt of claim. Hence it cannot be treated as PFI.

However, Loss of 100000 & Receipt of 350000 Claim can be treated as Extra-ordinary item, because it arises due to flood.

Its separate disclosure in P&I Statement will be required.

Note:- If flood situation is normal in that area where entity operates then it can be treated as an item of ordinary activity.

Q206

Change in Staff Welfare provision is Change in A/c Estimate since it's changed due to New situations/Conditions.

Its effect should be disclosed separately as an item of ordinary activity.

Q207

(b) Change in management decision to pay Pension is not an A/c policy.

1) Change in provision amt ?

↳ Change in A/c estimate

2) Earlier i Used to Create provision for Warranty now i decided not to create provision. ?

↓
Change in A/c Policy

V'Smart Academy

| Ordinary Activity | Extra-ordinary Activity | Prior period item | Change in Alc policy | Change in Alc estimates |
|---|--|---|--|---|
| Change in method of Dep. | Goods destroyed due to flood & claim received. | Fuel surcharge billed last year but accounted in C.Y. | change from cost model to revaluation model | Change in method of Dep. |
| GST paid due to demand notice. | Effect loss due to theft is extra-ordinary. | Theft of cash / stock in P.Y. found out in C.Y. | earlier we use to create prov. but now decided not to create prov. & vice-versa. | change in prov. of Staff welfare |
| Effect of Change in provision Amt. | Govt. Grant refundable | Treating op. Lease as finance lease. | change in cost formula used in measuring cost of inventories. | Change in warranty provision or Bad debt provision. |
| Receipt of Govt. grant | Loss by fire in factory. | Wrongly Capitalised Borrowing cost. | Applying wrong % of Dep. | Actual Bad debt more than prov. |
| Legislative changes (exceptional item) | | Rectification of error in inventory valuation. | | Change in useful life. |
| Write down of inventories to NRV | | | | |
| Revision of wage -s with retrospective effect | | | | |
| Sale of land (exceptional) | | | | |

* change in management decision to pay pension is not change in Alc policy.