AS-25: INTERIM FINANCIAL REPORTING

Presentation, Size, Recognition & Measurement

APPLICABILITY OF AS-25

→ doesnot mandate prepration of IFR

Listed Companies and Companies having Net worth >= 250 crores:- IND AS 34
For Listed Companies SEBI guidelines are applicable and hence Clause 41 is also applicable to these companies. As per Clause 41 Preparation and Presentation of Interim Financial Results is mandatory for these companies.
Companies having Net worth < 250 crores:- AS-25
AS-25 doesnot mandate the preparation of Interim Financial Statements, but those companies who opt for the preparation of the Interim Financial Statements should follow the guideline of AS-25.

26/8/23 → 1/9/23 → 31/3/24

7 months

INTERIM PERIOD

→ 3m, 6m, 9m

Interim Period *is a financial reporting period* ***shorter*** *than a full financial year. However, if the first annual financial reporting period is shorter than a financial year, that shorter period is* ***not*** *considered as an Interim Period.*

clear

INTERIM FINANCIAL REPORTS

Interim Financial Report *means a Financial Report containing either –*

(a) ***Complete*** *set of Financial Statements, or*

(b) ***Condensed*** *set of Financial Statements (as described in AS - 25) for an interim period*

Contents of a Complete Set of Financial Statements:-

A Complete Set of Financial Statements normally includes -

1. Balance Sheet,
2. Statement of Profit and Loss,
3. Cash Flow Statement,
4.Notes including those relating to Accounting Policies and other Statements and Explanatory Material that are an integral part of Financial Statements.

Contents of a Condensed Set of Financial Statements:-

Minimum Components: *An Interim Financial Report should include, at a minimum, the following components –*

(a) Condensed Balance Sheet,
(b) Condensed Statement of Profit and Loss,
(c) Condensed Cash Flow Statement, and
(d) Selected Explanatory Notes.

If an Interim Financial Report contains **Complete Set of Financial Statements**	If an Interim Financial Report contains **CondensedFinancial Statements**
The form and contents should conform to the requirements as applicable to Annual Complete Set of Financial Statements.	**It should include:** • Each of the headings and sub-headings included in its most recent annual Financial Statements. • Selected Explanatory Notes as required by AS - 25. • Additional line items or notes, if their omission would make the condensed Interim Financial Statements misleading.
Disclosures under other Accounting Standards are also **applicable**	Disclosures under other Accounting Standards are **not applicable.**

Presentation of items disclosed in Annual Financial Statements: *When an Enterprise presents in its Annual Financial Statements -*

consolidated

(a) Basic and Diluted EPS as per AS - 20,

(b) Consolidated and Separate Financial Statements as per AS - 21, the same shall be presented in the complete or condensed Profit or Loss Statement and the Financial Report prepared for an interim period.

EXPLANATORY NOTES / INFORMATION TO BE DISCLOSED IN AN INTERIM FINANCIAL REPORT.

Minimum Contents of the Notes: An Enterprise should include the following information, as a minimum, in the notes to its Interim Financial Statements, if **material** and if **not disclosed elsewhere** in the Interim Financial Report -

1. Accounting	A statement that the same accounting policies are followed In

Policies:	theInterim Financial Statements as those followed in the most recent annual Financial Statements or, if those policies have been changed, a description of the nature and effectof the change,
2. Seasonality:	Explanatory comments about the seasonality of interim operations,
3. Unusual Items:	Nature and amount of items affecting Assets, Liabilities, Equity, Net Income, or Cash Flows that are unusual because of their nature, size, or incidence (as perAS -5),
4. Change in Estimates:	Nature and amount of changes in estimates of amounts reportedin prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period,
5. Capital Re-structuring:	Issuances, Buy-Backs, Repayments and Re-structuring of Debt, Equity and Potential Equity Shares,
6. Dividends:	Dividends, aggregate or per Share (in absolute or percentage terms),separately for Equity Shares and Other Shares,
7. Segment Reporting:	Segment Revenue, Segment Capital Employed (Segment Assets minus Segment Liabilities) and Segment Result for Business Segments or Geographical Segments, whichever is the Enterprise's primary basis of segment reporting (this will be required only if AS - 17 is applicable for the annual Financial Statements),
8. Composition Changes:	Effect of changes in the composition of the Enterprise during the interim period, such as amalgamations, acquisition or disposal of Subsidiaries and long-term investments, re-structurings, and Discontinuing Operations, and
9. Contingent Liabilities:	Material changes in Contingent Liabilities since the last annual Balance Sheet date.

The above information should be reported on a financial year-to-date basis. However, the Enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.

Q2 end
Interim Financial Reporting

PERIODS FOR WHICH INTERIM FINANCIAL STATEMENTS SHOULD BE PRESENTED

STATEMENT	CURRENT PERIOD	COMPARATIVE PERIOD
Balance sheet	1.End of current interim period	End of immediately preceding financial year

3m
July - Sept → B/S
X

Sept 2024 End
A → 800
31/3/24 ← 30.9.23
A → 500
1/4 - Land 1000000

30/9/24 → July-Sep   April-Sept   → seasonal

C.I.P - Acr   Y.T.D   Scr.

L59

Statement of profit and loss 1. 1/7/24 - 30/9/24 2. 1/4/24 - 30/9/24	1.Current interim period and 2.cumulatively for the year-to-date	1.Comparable interim period and 2.year-to-date of immediately preceding financial year A.F.Y. P.F.Y.
Cash flow statement 1. YTD 1/4/24 - 30/9/24	1.Cumulatively for the current financial year-to-date	1.Comparable year-to-date of immediately preceding financial year P.F.Y.

SEASONAL BUSINESS: For Enterprises running highly seasonal business, the financial information for the 12 months ending on the interim reporting date and comparative information for the prior 12-month period may be additionally given in the Statements.

R&M   IBE ← Accrual

RECOGNITION PRINCIPLES FOR THE FOLLOWING IN INTERIM FINANCIAL STATEMENTS

R&M → clause 41

Item / Para	Recognition Principle
Asset	• The tests of future economic benefits apply to assets at interim dates, as they apply at the end of a financial year. • Costs that would not qualify as assets at the year-end, would not qualify at interim dates as well.
Asset Capitalisation	A cost that does not meet the definition of an "Asset" at the end of an interim period, is **not** deferred on the Balance Sheet date, either to await future information as to whether it has met the definition of an asset, or to smooth earnings over interim periods within a financial year.
Liability	A Liability at an Interim Reporting Date must represent an **existing** obligation at that date, just as it must at an annual reporting date.
Income	Income is recognised in the Profit and Loss Statement, when a measurable increase in future economic benefits has arisen, by way of increase in an asset or decrease of liability.
Expense	• Expenses are recognised in the Statement of Profit & Loss when a measurable decrease in future economic benefits has arisen, due to decrease of asset or increase in liability. • The recognition of items in the Balance Sheet that do not meet the definition of Assets or Liabilities is not allowed.

Losses	• 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.
Income Tax [Para 29(c)]	• Income Tax Expense is recognised in each interim period, based on the best estimate of the Weighted Average Annual Effective Income Tax Rate expected for the full financial year. • Amounts accrued for Income Tax Expense in one interim period may have to be adjusted in a subsequent interim period of that financial year, if the estimate of the Annual Effective Income Tax Rate changes.

TREATMENT FOR REVENUES RECEIVED SEASONALLY OR OCCASIONALLY & OTHER IMPORTANT ITEMS.

Q3 ***1. Occasional Receipts:*** Dividend. Royalty	Revenues that are received seasonally or occasionally within a financial year should **not** be anticipated or deferred as of an interim date, if anticipation or deferral would not be appropriate at the end of the Enterprise's financial year, e.g. Dividend Revenue, Royalties, and Government Grants.
2. Seasonal Revenues:	Some Enterprises consistently earn more revenues in certain interim periods of a financial year than in other interim periods, e.g. seasonal revenues of Retailers. Such revenues are recognised when they occur.
*3.**Extraordinary Items:-***	No deferment is allowed. Recognise in the Quarter in which it is incurred.
*4.**Heavy Advertisements**:-*	No Deferment is allowed. Recognise in the period in which it is incurred.

EFFECT OF CHANGE IN ACCOUNTING POLICY

Q2 / Q3

One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. The effect of the principle requires that within the current financial year any change in accounting policy be applied **retrospectively** to the beginning of the financial year.

Income Tax

Example :-

1st 200000 = 5%
2nd 500000 = 10%
3rd 300000 = 15%
Balance = 20%

Quarterly Earning (PBT)

Q1 = 400,000
Q2 = 500,000
Q3 = 700,000
Q4 = 800,000

Solution :- Income tax Expense :-

Weighted Average Annual Effective Tax Rate = $\dfrac{\text{Total Annual Tax}}{\text{Total Estimated Annual Earnings}}$

→ **Total Annual Tax** :

200000 × 5% = 10000
500000 × 10% = 50000
300000 × 15% = 45000
1400000 × 20% = 280000
Total Annual Tax = 385000

WAAETR = $\dfrac{385000}{2400000}$

= 16.04%

Income Tax Epense to be recognised :-

Q1 :- 400000 × 16.04% = 64160

Q2 :- 500000 × 16.04% = 80200

Q3 :- 700000 × 16.04% = 112280

Q4 :- 800000 × 16.04% = 128320

Example 2 :-

Tax on business income

1st 100000 : 15%
Balance : 25%

Capital Gain = 20%

LS9

Business Income Estimated

Q1 = 40000
Q2 = 60000 (including 30000 Capital Gain)
Q3 = 50000
Q4 = 50000

Calculate Tax Expense to be recognised in each quarter

Solution :-

$$WAAETR = \frac{\text{Total tax}}{\text{Total Annual Income}} = \frac{32500}{170000} = 19.11\%$$

Total Tax :- 1st 100000 × 15% = 15000
70000 × 25% = 17500
32500

Tax Expense to be recognised in each quarter :-

Q1 :- 40000 × 19.11% = 7644
Q2 :- 30000 × 19.11% = 5733
30000 × 20% = 6000 11733
Q3 :- 50000 × 19.11% = 9555
Q4 :- 50000 × 19.11% = 9555

MCQ 3 ICAI SM

Earnings	Q1	Q2	Q3	Q4	Total
	85000	(25000)	(25000)	(25000)	10000

Tax Expense = 10000 × 20% 2000

$$WAAETR = \frac{\text{Total tax}}{\text{Total Income}} \quad \frac{2000}{10000} = 20\%$$

Tax Expense : Q1 = 85000 × 20% = 17000 → ✓ → DTL
Q2 = (25000) × 20% = (5000) → DTL rev.
Q3 = = (5000) → DTL rev.
Q4 = = (5000) → DTL rev.

10:15000

CHANGE IN ACCOUNTING ESTIMATES

Separate Disclosure: When there is a **significant change** in the estimate of an amount reported in an interim period, the impact of such change will be recorded in the current interim period only i.e. prospective effect only.

Eg: 1. Change in method of depn
2. Change in amt of write down of inv.
3. Reversal of impairment loss
4. Increase in amount of imp. loss.

TRANSITIONAL PROVISION

On the first occasion that an interim financial report is presented in accordance with this Statement, the following need not be presented in respect of all the interim periods of the current financial year:

(a) Comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year; and

(b) Comparative cash flow statement for the comparable year-to-date period of the immediately preceding financial year.

APPLICABILITY OF AS - 25 to INTERIM FINANCIAL "RESULTS" (not Reports)

Timely Review Specific format LA AS-25 → I/E/A/L → R&M Comp.

[ICAI Guidance Note]

Results vs Reports: Interim Financial Results may be required to be presented in pursuance of requirements of a Statute / Regulator. The applicability of AS - 25 for such **"Results"** is laid down in ICAI's Guidance Note.

Example: Clause 41 of Listing Agreement between Stock Exchanges and Listed Enterprises requires the presentation of Quarterly Financial **Results.** → clear

Principle: "Interim Financial Results" (e.g. as required by Listing Agreements) do not meet the definition of "Interim Financial Reports" as per AS - 25. The applicability of AS - 25 willbe as under:

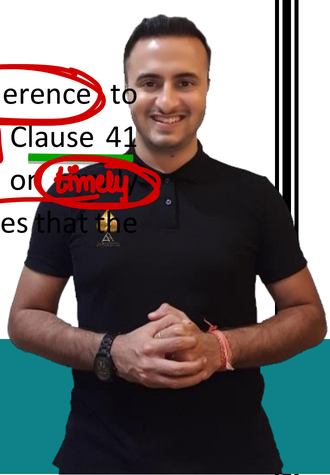
Particulars	AS - 25 is
Presentation and Disclosure Requirements	NOT APPLICABLE
Recognition and Measurement Principles of items (i.e. Assets, Liabilities, Income & Expense)	APPLICABLE

LA → Clause 41 → IF Results.

For Knowledge Purpose

Difference Between AS-25 and Clause 41: While AS-25 talks about adherence to Accounting Principles for financial Reporting and also its comprehensiveness, Clause 41 emphasises on the specific format of reporting. Clause 41 also emphasises on timely reporting and review of the financial statements that are reported. It also specifies that the

Chartered Accountant



interim period should be a quarter whereas AS-25 consider any period less than a FY to be an interim period.

→ Q1 = loss 50000
Q3 gain 50000 (AS-28 : 10000 ignore)

x − 50000 = x − 50000 ; +10000 x

ADDITIONAL QUESTIONS

QUESTION 1:-

(*Topics Involved: AS-25: Change in Accounting Estimate, AS-28: Reversal of Impairment Loss AS-2:- Valuaiton of inventory)*

S Ltd experienced ₹ 50,000 decline in the market value of its Inventory in the first quarter of its financial year. The Company had expected this decline to reverse in the third quarter, and in fact, the third quarter recovery exceeded the previous decline by

₹ 10,000. The Company's inventory did not experience any other declines in market value during the financial year. What amount of loss and/or gain should the Company report in its Interim Financial Statements for the first and third quarters?

Answer:-

1. **Quote:** As per AS-25, the principles of AS-2 have to be applied for Interim Financial Reporting also.

2. **Conclusion:** The loss of ₹ 50,000 has to be recognised in the First Quarter, and the reversal of the same (not exceeding cost), i.e. upto ₹ 50,000, should be recognized only in the Third Quarter.

$\frac{\text{Total tax}}{\text{Total Income}} = \frac{(400-100) \times 40\%}{400} = \frac{120}{400} = \boxed{30\%}$

QUESTION 2:-

M Ltd reports quarterly, and has an Operating Loss carried forward of ₹ 100 Lakhs

for income-tax purposes at the start of the current financial year for which a DTA has not been recognised. Makara earns ₹ 100 Lakhs in the first quarter of the current year,and expects to earn ₹ 100 Lakhs in each of the three remaining quarters. Excluding the

Loss carried forward, the Estimated Average Annual Income-Tax Rate is expected to be 40%. Calculate the amount of Income-Tax Expense reported in each quarter.

Q1 = 100 × 40%

(400 − 100) × 40% = 120L ; 120L / 400 = 30%

300L

Answer:-

- Estimated Tax Liability on Annual Income = (Income ₹ 400 Lakhs - b/fd Loss ₹ 100 Lakhs) × 40% = ₹ 120 Lakhs.
- Estimated Average Annual Effective Income-Tax Rate = ₹ 120 Lakhs ÷ ₹ 400 Lakhs = 30%.
- For AS - 25 purposes, this Average Annual Effective Income-Tax Rate would be appliedto earnings of each quarter.

WAAETR = 120 / 400 = 30%

Accordingly, Tax Expense would be as follows -

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax Expense	₹ 30 Lakhs	₹ 30 Lakhs	₹ 30 Lakhs	₹ 30 Lakhs	₹ 120 Lakhs
	100x30%	100x30%	100x30%	100x30%	

QUESTION 3:- 700x90% = 630L

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 DeferredTax 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 2015-2016 and anticipates Net Earnings of ₹ 800 Lakhs in the coming half-year ended March 2016 of which ₹ 100 Lakhs will be the loss in the quarter ended Dec. 2015. The tax rate for the company is 30% with a 10% Surcharge. You are required to calculate the amount of TaxExpense to be reported for each quarter of financial year 2015-2016.

Answer 3:- **(₹ Lakhs)** Q1 = 700 Q2 = 300 Q3 = (100) Q4 = 900

Computation of Average Annual Effective Income Tax Rate

	Particulars	**₹ Lakhs**
(a)	Estimated Income for the year (Q1 700 + Q2 300 + Q3 Loss (100) + Q4 900)	1,800
(b)	Brought Forward Loss set-off as per Court verdict (90% of 700)	(630)
(c)	Estimated Income as per Income Tax Law (a - b)	1,170
(d)	Estimated Tax liability for the year (1,170 × 33%) **Note:** Tax Rate = 30% + 10% Surcharge = **33%** (EC and SHEC are ignored in this computation.)	386.1
(e)	Estimated Average Annual Effective Income Tax Rate (d ÷ a)	**21.45%**

For AS - 25 purposes, this average Annual Effective Income Tax Rate would be applied toearnings of each quarter.

1.Tax Expense as per AS-25: Tax Expense would be as follows -

Total tax

$$\left[(700+300-100+900)-630\right] \times 33\% = 386.1$$

Total Income

$$700+300-100+900 = 1800$$

$$\text{WAAETR} = 21.45\%$$

Tax Expense :-

Q1 : $700 \times 21.45\% = 150.15$ ✓

Q2 : $300 \times 21.45\% = 64.35$ ✓

Q3 : $(100) \times 21.45\% = (21.45)$ ✓

Q4 : $900 \times 21.45\% = 193.05$ ✓

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax Expense	700 × 21.45% = ₹ 150.15 Lakhs	300 × 21.45% =₹ 64.35 Lakhs	(100) × 21.45% = ₹ (21.45) Lakhs	900 × 21.45% = ₹ 193.05 Lakhs	₹ 386.1 Lakhs

QUESTION 4:- Self Study → Smine

Saurav Limited reported a Profit before Tax of ₹ 8.00 Lakhs for the 2nd quarter endingon 30th September 2016. On enquiry, following issues were noticed:

PBT = 8
+0.45
-3
-1
+2
-3.75
2.7

(a) Property Tax of ₹ 60,000 paid during the quarter for the full year has been recognized in full.

3 Last Q. Q2 = 12 15 3

(b) 1/5th of ₹ 15 Lakhs being Marketing Promotional Expenses incurred on 23rd September, 2016 has been recognized ~~based on past experience of higher sales~~ in the last quarter of the year.

15/5 = 3 12 15

(c) 50% of the Loss of ₹ 2 Lakhs incurred on disposal of a Business Segment has been allocated to this quarter.

(d) Cumulative Loss of ₹ 3 Lakhs resulting from the change in the method of Valuation of Inventory was recognised in the 2nd quarter, which included ₹ 2 Lakhs related to earlier quarters.

Acc. Pol. 3 PQ = 2 CQ = 1

(e) Gain of ₹ 15 Lakhs from Sale of Investments sold in the 1st quarter was apportioned equally over the full year.

15/4 = 3.75 → Q1 Q2 Q3 Q4

You are required to give proper treatment as required by AS-25 on Interim Financial Reporting and to recast the adjusted Profit before Tax for the 2nd quarter.

Answer 4:-

Item	Treatment
Property Taxes	Property Taxes of ₹ 60,000 relatable to the entire calendar year should be apportioned on time basis, i.e. 3 months period expense ₹ 15,000 will be reported as Expense.
Marketing Promotional Expenses	Costs should be anticipated or deferred only when - • It is appropriate to anticipate that type of cost at the end of the fin.year, and • Costs are incurred unevenly during the fin.year of an Enterprise. **[Para 38]** In this case, recognition of 1/5th of Expense is not proper.
Loss on Disposal of Business Segment	Net Loss on Disposal of Business Segment ₹ 2,00,000 should be **reported in full,** since the loss was incurred during the Interim Period.