AS-25: SUMMARY CHART

Applicability :- Companies having Networth <250 crores

AS-25 doesnot mandate prepration of Interim Fin. Reports (IFR)
AS-25 doesnot mention the timeliness of prepration of IFR.
AS-25 doesnot discuss the aspects of review/audit of IFR.

AS-25 simply mentions the presentation, disclosure, recognition & measurement aspects of IFR. If any company chooses to prepare IFR, then they should comply with the guidelines of AS-25.

Listed Companies preparing Interim Financial Results as per clause 41 of Listing Agreement with SEBI, that donot fulfil the definition of IFR as per AS-25, will need to follow the recognition and measurement principles of AS-25.

Interim Period :- A period shorter than full financial year. However if the 1st financial year is lesser than 12months it will not be considered an interim period.

Interim financial Statements :-

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1. **Complete Set of Financial Statements**

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Prepared just like Annual financial statements.

All accounting policies followed will be disclosed in the F.S.

All Accounting Standards have to be complied with.

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- → Complete B/s
- → Complete P&L
- → Complete Cashflow
- → Significant Accounting Policies
- → Notes to Accounts

2. **Condensed Set of Financial Statements**

↓

Should involve all headings & subheadings that are mentioned in Annual financial Statements.

Only selected explanatory notes need to be disclosed.

Any additional points should be disclosed if ommission of the same will make the F.S. misleading.

- → Condensed B/s
- → Condensed P&L
- → Condensed Cashflow
- → Selected explanatory notes.

Explanatory Notes :-

1. Accounting Policies
2. Accounting Estimates
3. Seasonality of Business
4. Composition of business
5. Capital Restructuring
6. Dividend
7. Segment Reporting
8. Contingent liabilities
9. Unusual Items

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PERIODS FOR WHICH INTERIM FIN STAT WILL BE PRESENTED

	Current Year	Comparative
1. Balance Sheet	End of Current Interim Period. (Year to Date Info.)	End of Preceeding FY.
2. P&L	1. Current I.P. 2. Cumulative YTD	1. Pre year same I.P 2. Pre year cum. YTD of same period.
3. Cash flow	1. Cumulative YTD	1. Pre year cum. YTD of same period

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Transitional Provision :- If a company is preparing IFR for the 1st time, it need not present the comparatives of preceeding period for P&L and Cash flow.

RECOGNITION PRINCIPLES

Same recognition principles as followed for Annual FS.

Income: Recognise when accrued
Expenses: Recognise when incurred. } **Accrual Basis**

* Anticipation or Deferrment should not be done unless the same is appropriate from Annual FS POV.

Eg :- Income Received in advance, o/s Income received.
Expense paid in advance, o/s expenses paid.

Assets :- when FEB will be derived.

Liability :- when obligation to pay arises.

* When cost is incurred in an interim period but the asset recognition recog is not satisfied at the end of interim period then such cost should be recognised as an expense immediately and should not be deferred.

Unusual Items :- Recognised in the period in which it is earned or incurred.

Seasonal Incomes :- Recognise as and when earned. Donot defer.

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Extraordinary Items :- Recognised in the period in which it is earned or incurred.

Heavy Advt. Expense :- Recognise in the period in which it is incurred.

Income Tax Expense :- Recognise by calculating Weighted Average Annual Effective Tax Rate (WAAETR)

WAAETR = Total tax for FY. / Total estimated Inc. for FY.

Changes in Accounting Policies during Interim Period

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Disclose :- Nature of Change
Effect on FS.

Such change will have a retrospective effect on FS.

Changes in Accounting Estimates during Interim Period

Disclose :- Nature of Change
Effect on FS

Such change will have a prospective effect on FS.

	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

PBT = 8

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:

+0.45

$\boxed{-3}$ (a) Property Tax of ₹ 60,000 paid during the quarter for the full year has been recognized in full.

$\boxed{-1}$ (3) Last Q.

$\boxed{+2}$ Q2 = 12 15 3

$\boxed{-3.75}$ (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.

2.7 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.

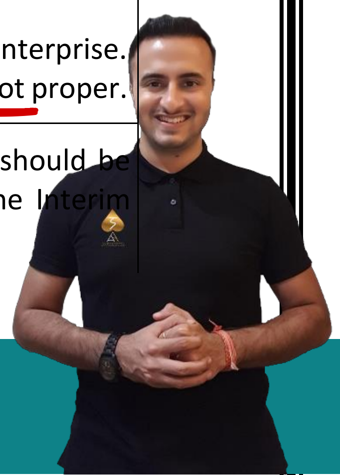
Acc. Pol. (d) Cumulative Loss of ₹ 3 Lakhs resulting from the change in the method of Valuation of Inventory was recognised in the 2nd quarter, which included ₹ 2 Lakhs related to earlier quarters. 3 PQ=2 CQ=1

(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.



Loss due to change in method of Valuation	The amount relating to earlier quarters to be taken and adjusted against those respective periods.
Gain on Invts Sale	Apportioned Gain on Sale of Investments in first quarter to be reversed.

Q10 ICAI SM

$$\text{WAAETR} = \frac{\text{Total Tax}}{\text{Total Income}} = \frac{350000}{1000000} = \underline{\underline{35\%}}$$

Total Tax : 500000 × 30% = 150000
500000 × 40% = 200000
= 350000

Tax Expense to be recognised :-

Q1 : 75000 × 35% = 26250
Q2 : 250000 × 35% = 87500
Q3 : 375000 × 35% = 131250
Q4 : 300000 × 35% = 105000

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Illustration 3

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

(i) Bad debts of ₹ 40,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.

(ii) Extra ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in this quarter.

(iii) 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).

Homework

Illustration 4

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*

recognised in Q1 itself -

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

(i) it is appropriate to anticipate that type of cost at the end of the financial year, and

(ii) costs are incurred unevenly during the financial year of an enterprise.

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

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TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *AS 25 mandates the following in relation to interim financial reports.*

   (a) *which entities should publish interim financial reports.*

   (b) *how frequently it should publish interim financial reports.*

   (c) *how soon it should publish after the end of interim period.*

   (d) *none of the above.*

2. *The standard defines Interim financial Report as a financial report for an interim period that contains a set of .... financial statements.*

   (a) *Complete*

   (b) *Condensed*

   (c) *Financial statement similar to annual*

   (d) *Either complete or condensed*

3. *ABC Limited has reported ₹ 85,000 as per tax profit in first quarter and expects a loss of ₹ 25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first ₹ 20,000 earnings and 40% on all additional earnings. Calculate tax expenses that should report in first quarter interim financial report.*

   (a) *₹ 17,000*

   (b) *₹ 30,000*

   (c) *₹ 2,000*

   (d) *AS 25 does not mandate to report tax expenses*

4. *An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in*

accounting estimate → change → prospective effect

Q1 : Prov for warranty = 10 m × 5% = 500,000

Q2 : Prov for warranty = (10m + 15m) × 10% = 2500000

2000000

L60

the second quarter were ₹ 15 million. What would be the provision charged in the second quarter's interim financial statements?

(a) ₹ 1 million

(b) ₹ 2 million

(c) ₹ 1.25 million

(d) ₹ 1.5 million

Period Ended : 31/12/21 — Comparative

B/S : Ended on 31/12/21 → 31/3/21

P/L : 1) 1/10/21 - 31/12/21 → 1/10/20 - 31/12/20

2) 1/4/21 - 31/12/21 → 1/4/20 - 31/12/20

Cashflow 3) 1/4/21 - 31/12/21 → 1/4/20 - 31/12/20.

Theoretical Questions

5. *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.*

6. *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?*

7. *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?*

Scenario based Question

8. *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?*

AS-15 Liability

9. *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.*

→ fully recognised in Q1.

1-1-31-12

1-4-30-9

10. *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%.*

PT

1-1 1-4 30-9 31-12

Cost incurred in preceeding I.P. → PT outstanding paid → "Liability reduced"

This will be treated as cost of current I.P.

Cost not incurred → PT paid in advance → "Asset created"

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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.

11. *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:*

+3L (i) *Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.* → Unusual Income → accrue - fully recog.

−12L (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.* → Heavy expenditure - recognise when incurred → 12L

C.I. A.E

(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.* No adjustment required.

+1 (iv) *₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.* Q3 - 1 Q4 - 1

Change in Accou. Policy

+1 (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.* 3lakhs PQ = 1 CQ = 2

−5 (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.* Q1 = 20L

Prepare the adjusted profit before tax for the third quarter. Q1 = 5 Q2 = 5 Q3 = 5 Q4 = 5

ANSWERS/HINTS

Answers to the Multiple Choice Questions

1.	(d)	**2.**	(d)	**3.**	(a)	**4.**	(b)

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Answers to the Theoretical Questions

5. As per Accounting Standard 25, Interim reports should include interim financial statements (condensed or complete) for periods as given below.

Quote

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:*

Analysis & conclusion as we have presented.

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).

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6. 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.

7. 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.

prospective effect

Answers to the Scenario based Question

1.4.

31/12

8. 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.

9. 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.

10. 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

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

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

11. 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)		4
Add: Dividend income ₹ (4-1) lakhs		3
Excess depreciation charged in the 3rd quarter, due to change in the method		-
Extra ordinary gain	₹ (2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively	₹ (3-2) lakhs	1
		9
Less: Sales promotion expenses (80% of ₹ 15 lakhs)		(12)
Gain on sale of investment (occasional gain should not be deferred)		(5)
Adjusted Profit before tax for the third quarter		(8)