TOPIC 27

INDAS 34
INTERIM FINANCIAL REPORTING

INDEX

Quote:- Without Rain Nothing grows,

Learn to Embrace the storms of your life

Purpose of IFR:

- To update the Shareholders and other stakeholders along with timely information.
- Interim Financial Report under this standard is different from the Interim financial results as required by SEBI through LODR (Listing obligation and disclosure requirements) and not applicable to Interim financial results.
- Ind AS 34 does not mandate an entity as when to prepare such a report.

Interim Period means:

Interim period is a financial reporting period shorter than a full financial year.

Interim financial report means:

Interim financial report means a financial report containing either a **complete set** of financial statements (as described in Ind AS 1, Presentation of Financial Statements, or **a set of condensed** financial statements (as described in this Standard) for an interim period.

Note: During the first year of operations of an enterprise its annual financial reporting period may be shorter than a financial year. In such case that shorter period is not considered as an interim period.

What About This Standard:

- The standard outlines the recognition, measurement and disclosure requirements for interim reports.
- This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period.

CONTENTS OF AN INTERIM FINANCIAL REPORT – CONDENSED SET:

An Interim Financial Report shall include the following:

- A condensed balance sheet
- A condensed statement of profit and loss
- A condensed statement of changes in equity
- A condensed statement of cash flows
- Notes, comprising significant accounting policies and other explanatory information

An entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements.

The interim financial report focuses on new activities, events, and circumstances and does not duplicate information previously reported.

(PROVIDE LESS INFORMATION BUT IT SHOULD BE RELEVANT)

Periods for which interim financial statements are required to be presented:

(Most important for exam)

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. For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.

An entity is not required to include additional interim period financial information in its annual financial statements.

Student Notes:-

RECOGNITION AND MEASUREMENT:

Sr. No.	Criteria	Recognition and Measurement
1	**Same accounting policies as annual**	An entity shall apply the same accounting policies in its interim financial statements **as are applied in its annual financial statements**, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.
2	Revenues received cyclically, occasionally or seasonally	1. 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. 2. Certain entities earn more revenue in certain interim periods of a financial year than other interim periods. Such revenues are recognised when they occur. Example seasonal revenues of retailers.
3	Costs incurred unevenly during the financial year	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. **Examples:** **Employer payroll taxes and insurance contributions**

Provisions

This Standard requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its financial year.

Year-end bonuses

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.

Depreciation and amortisation

Depreciation and amortisation for an interim period is based only on assets owned during that interim period. It does not take into account asset acquisitions or dispositions planned for later in the financial year.

Inventories

Inventories are measured for interim financial reporting by the same principles as at financial year end. Ind AS 2, *Inventories* establishes standards for recognising and measuring inventories.

Net realisable value of inventories

The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. An entity will reverse a write-down to net realisable value in a subsequent interim period only if it would be appropriate to do so at the end of the financial year.

Foreign currency translation gains and losses

Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year-end.

Significant events and transactions

The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.

1. **the write-down of inventories to net realisable value and the reversal of such write down;**
2. **recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss**
3. the reversal of any provisions for the costs of restructuring;
4. **acquisitions and disposals of items of property, plant and equipment;**
5. commitments for the purchase of property, plant and equipment;
6. **litigation settlements;**

7. corrections of prior period errors;
8. changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
9. any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
10. Related party transactions;
11. transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
12. changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
13. **Changes in contingent liabilities or contingent assets.**

Other disclosures

In addition to disclosing significant events and transactions, an entity shall include the following information, in the notes to its interim financial statements:

a) A statement that the same accounting policies and methods of computation are followed in the interim financial statements. If those recently used policies or methods have been changed, a description of the nature and effect of the change should also be given.
b) Explanatory comments about the seasonality or cyclicality of interim operations.
c) The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that is unusual because of their nature, size or incidence.
d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
e) Issues, repurchases and repayments of debt and equity securities.
f) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.
g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if Ind AS 108, Operating Segments, requires that entity to disclose segment information in its annual financial statements):
   ii. Revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

iii. Intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

iv. A measure of segment profit or loss.

v. a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

vi. A description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

vii. a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

h) Events after the interim period that have not been reflected in the financial statements for the interim period.

i) The effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by Ind AS 103, Business Combinations.

j) for financial instruments, the disclosures about fair value of Ind AS 113, Fair Value Measurement, and Ind AS 107, Financial Instruments: Disclosures.

k) for entities becoming, or ceasing to be, investment entities, as defined in Ind AS 110, Consolidated Financial Statements, the disclosures in Ind AS 112, Disclosure of Interests in Other Entities.

Q402. (ICAI)

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

Solution

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

Expected total Income = Rs 15,000 [60,000- (15,000 x 3)]				
Expected tax as per slabs = 15,000 x 20% = Rs 3,000				
Average Annual Income tax rate = 3,000/15,000 = 20%				
	Q1	**Q2**	**Q3**	**Q4**
Profit before tax	60,000	(15,000)	(15,000)	(15,000)
Tax expense	12,000	(3,000)	(3,000)	(3,000)

INTERIM FINANCIAL REPORTING AND IMPAIRMENT

An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with Ind AS 36. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date.

Accordingly, an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

Q402. (ICAI MODULE)

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

Following adjustments are made while computing the net profit:

(i) Bad debts of Rs 1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.

(ii) Extraordinary loss of Rs 3,00,000 incurred during the quarter has been fully recognised in this quarter.

(iii) Additional depreciation of Rs 4,50,000 resulting from the change in the method of depreciation.

(iv) Rs 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.

Solution

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: Bad debts of Rs 1,00,000 have been incurred during current quarter. Out of this, the company has deferred 50% (i.e.) Rs 50,000 to the next quarter. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in paragraph 39 of Ind AS 34 are fulfilled. Accordingly, Rs 50,000 should be deducted from Rs 20,00,000.

The treatment of extra-ordinary loss of Rs 3,00,000 being recognised in the same quarter is correct.

Recognising additional depreciation of Rs 4,50,000 in the same quarter is correct and is in tune with Ind AS 34.

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:

(i) it is appropriate to anticipate or defer 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 treatment done relating to deferment of Rs 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 Rs 14,50,000 (Rs 20,00,000 - Rs 5,00,000 - Rs 50,000).

Q403:

A Ltd. expects to receive dividend income of Rs.100 crores on its investments in the quarter October to December, 2018. It proposes to recognise Rs. 25 crores dividend income in interim financial statement of each quarter. Is this justified.

Ans.: As per para 36 of AS 25 revenues received seasonally/occasionally should be recognized as they occur and not be anticipated/deferred.

Hence, entire 100 crores; to be recognized in October to December, 2005, quarterly statement.

Q404:

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 ending on 30th June, 2006 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 Rs.10 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 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.

Ans.:

Particulars		(Rs.in crores)
Result of first quarter ending 30th June, 2006		
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 and IndAS 34.

Q405. (Exam Nov. 18 – 5 Marks)

Navya Limited manufacturer of ceramic tiles has shown a net profit of Rs 15,00,000 for the first quarter of 2018-2019. Following adjustments were made while computing the net profit:

(i) Bad debts of Rs 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of Rs 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of Rs 3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of Rs 1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under **Ind AS 34** and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors.

Answers:

As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

(i) Bad debts of Rs 1,64,000 have been incurred during current quarter. Out of this, the company has deferred 75% i.e. Rs 1,23,000 to the next 3 quarters. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in Ind AS 34 are fulfilled. Accordingly, Rs 1,23,000 should be deducted from the net profit of the current quarter Rs 15,00,000.

(ii) Deferment of sales promotion expenses of Rs 4,50,000 is not correct. It should be charged in the quarter in which the expenses have been incurred. Hence, it should be charged in the first quarter only.

(iii) Recognising additional depreciation of Rs 3,50,000 in the same quarter is correct and is in tune with Ind AS 34.

(iv) The treatment of extra-ordinary loss of Rs 1,36,000 being recognised in the same quarter is correct.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be Rs 15,00,000 - Rs 1,23,000 - Rs 4,50,000 = Rs 9,27,000.

Student Notes:-

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