Educational Material on
Indian Accounting Standard (Ind AS) 34,
Interim Financial Reporting

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
NEW DELHI

This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised and notified till March 2022.

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Foreword

Implementation of Indian Accounting Standards (Ind AS) in our Country was a significant step. We at the Institute of Chartered Accountants of India (ICAI) are committed to playing a leading role for smooth implementation of Ind AS and have been taking various initiatives for creating awareness and providing guidance on Ind AS. Amongst its various initiatives, ICAI issues Educational Materials on Ind AS with the objective to provide guidance on the application and implementation of each Ind AS. These Educational Materials have been found highly useful by the preparers, auditors and other stakeholders in discharge of their functions. Accounting Standards Board (ASB) of ICAI has formulated the Educational Material on Ind AS 34, *Interim Financial Reporting* which seeks to provide guidance by way of Frequently Asked Questions (FAQs) to explain the principles enunciated in the Standard. This publication will provide guidance to stakeholders on content of an interim financial report, application of the recognition and measurement principles to an interim financial report and various other aspects related to such Report.

I express my sincere gratitude and appreciation for the efforts put in by CA. Pramod Jain, Chairman, CA. Abhay Chhajed, Vice-chairman, Accounting Standards Board, members of the Board and members of the Study Group for their sincere efforts in preparing this Educational material.

I am sure that the publication would be of immense use to professionals and other stakeholders while implementing and applying this Ind AS.

New Delhi
June 20, 2022

CA. (Dr.) Debashis Mitra
President, ICAI

Preface

The ICAI always strives for continuous improvement of financial reporting and plays a proactive role of catalyst in carrying out substantial reforms in the financial reporting framework to describe economic reality as faithfully and neutrally as possible. Today, due to relentless efforts of the ICAI in close co-ordination and interaction with various regulators and stakeholders, the financial reporting standards in force in India are comparable with the best practices across the world.

We at ICAI are proud of our contribution in ensuring that our financial reporting standards are aligned with the international standards and best practices. In the larger interest of the Indian economy and industries, the ICAI through its Accounting Standards Board (the Board) takes various initiatives, from time to time, to train accounting professionals, create awareness and provide necessary guidance to its members and other stakeholders to ensure that the Standards are implemented in the same spirit in which these have been formulated.

Moving forward in this direction, I am pleased to mention that the Board has come out with Educational Material on Ind AS 34, *Interim Financial Reporting*. An interim financial report is a complete or condensed set of financial statements for an interim period which is shorter than a full financial year. Ind AS 34 does not specify which entities must publish an interim financial report. This is generally a matter for relevant law and government regulations. Ind AS 34 applies if an entity following Ind AS in its annual financial statements publishes an interim financial report that asserts compliance with Ind AS. Ind AS 34 prescribes the minimum content of such an interim financial report. It also specifies the recognition and measurement principles applicable to an interim financial report. The Board has prepared this Educational Material to provide guidance in the form of Frequently Asked Questions (FAQs) on the practical issues that the preparers of the financial statements face while applying this Ind AS.

I would like to convey my sincere gratitude to our Honourable President, CA. Debashis Mitra and Vice-President, CA. Aniket Talati for providing us the opportunity of bringing out this publication. I am ever thankful to Vice-Chairman, CA. Abhay Chhajed for his continued support in effective functioning of the

Board. I would also like to thank all the members of the Board for their valuable contribution in various endeavours of the Board.

I am highly thankful to CA. Dayaniwas Sharma for leading the Study Group and also appreciate all the members of the Study Group comprising CA. Gururaj Acharya, CA. Mohan Lavi, CA. Vinayak Pai, CA. Sundaresan S, CA. Sunil Bhumralkar, CA. Manohar Gupta, CA. Udupi Vikram, CA. Gopalakrishnan R and CA. Kamal for preparing the draft of this material.

I would like to acknowledge the sincere efforts and support of CA. S.N. Gupta, Head Technical Directorate, CA. Parminder Kaur, Secretary to the Board, CA. Ruchika Gupta, Assistant Project Officer and CA. Prachi Jain, Assistant Secretary for their valuable contribution in bringing out this Educational Material.

I believe that this publication would be of immense use and great help to the members and other stakeholders for overall understanding and implementation of Ind AS 34.

New Delhi
June 15, 2022

CA. Pramod Jain
Chairman
Accounting Standards Board

Educational Material on Ind AS 34, *Interim Financial Reporting*

I. SUMMARY

[The purpose of this summary is to help the reader gain a broad understanding of the principal requirements of Ind AS 34 (or 'the Standard'). Reference should be made to the complete text of the Standard for a complete understanding of these requirements or in dealing with a practical situation.]

Objective

Ind AS 34 prescribes the minimum content of an interim financial report and prescribes the principles for recognition and measurement in complete or condensed financial statements for an interim period.

Scope

This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards (Ind ASs).

If an entity's interim financial report is described as complying with Ind ASs, it must comply with all the requirements of this Standard.

Definitions

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

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

Content of an interim financial report

The Standard prescribes minimum components for preparation of Interim financial report both for complete set of financial statements and for a set of condensed financial statements.

The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

This Standard does not prohibit or discourage an entity from publishing a complete set of financial statements (as described in Ind AS 1) in its interim financial report. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard.

The recognition and measurement guidance in this Standard also applies to complete financial statements for an interim period, and such statements would include all the disclosures required by this Standard as well as those required by other Ind ASs.

An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements.

Minimum components of an interim financial report

An interim financial report should, at a minimum, include the following components:

- a condensed balance sheet ;
- a condensed statement of profit and loss;
- a condensed statement of changes in equity;
- a condensed statement of cash flows; and
- selected explanatory notes.

Significant events and transactions and other disclosures

An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

Ind AS 34 requires the following:

- mandatory information (paragraph 16A) that shall be disclosed, and
- an illustrative list of events and transactions (paragraph 15B) for which disclosures would be required if they are significant.

When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.

Disclosure of compliance with Ind ASs

If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs.

Periods for which interim financial statements are required to be presented

The Standard prescribes the reporting periods for which the interim financial statements (Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity and Statement of Cash flows) are required to be presented.

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. Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in the preceding paragraph.

Materiality

In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, the Standard acknowledges that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

Disclosure in annual financial statements

If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.

Recognition and measurement

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.

The frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results.

To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.

For Example- 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. 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 income tax rate changes.

Revenues received seasonally, cyclically, or occasionally

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.

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.

Use of estimates

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed.

Preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

Restatement of previously reported interim periods

A change in accounting policy, other than one for which the transition is specified by a new Ind AS, shall be reflected by:

- restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8; or
- when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

II. Frequently Asked Questions (FAQs)

Question 1

Should Interim Financial Reports be presented / published by every company to whom Ind AS applies? When does Ind AS 34 apply?

Response

Paragraph 1 of Ind AS 34, *Interim Financial Reporting* states as under:

"1 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. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports[1]. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards (Ind ASs). [Refer Appendix 1]."

In view of the above, Ind ASs do not require the presentation of interim financial statements. Ind AS 34 also does not mandate which entity should be required to publish interim financial reports. However, governments, securities regulators, stock exchanges, and accountancy bodies often prescribe requirements relating to preparation and reporting of interim financial reports.

Therefore, in the absence of any specific regulatory requirement or obligation of the entity, the entity is not required to publish interim financial information in compliance with Ind AS 34. An entity may choose to prepare interim financial statements on a voluntary basis. Ind AS 34 applies only if an entity applying Ind

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[1] Unaudited Financial Results required to be prepared and presented under Clause 41* of Listing Agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.

* Presently, entities are required prepare and present its interim financial results as per regulation 33 of SEBI (Listing Obligation and Disclosure requirements) Regulations.

AS in its annual financial statements is required or elects to publish an interim financial report in accordance with Ind ASs.

In other words, Ind AS 34 applies if an entity either elects or is required to publish an interim financial report in accordance with Ind AS. Accordingly, if an entity's interim financial report states that it complies with Ind ASs, then all the requirements of Ind AS 34 must be complied with in its interim financial statements.

Question 2

ABC Ltd. is required to provide interim financial report as per local regulatory requirements. While reporting interim financial statements, it applies all Ind AS recognition and measurement principles but it does not provide all the disclosures required by Ind AS 34. Whether ABC Ltd. can describe such financial statements as complying with Ind ASs?

Response

In the given case, ABC Ltd. prepares its interim financial statements complying only with the measurement and recognition principles of all Ind ASs. Further, it has been noted that it has not complied with the disclosure requirements of Ind AS 34.

In this regard, paragraphs 1, 3 and 19 of Ind AS 34, *Interim Financial Reporting* state as follows:

"1 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. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports[2]. This Standard applies if an entity is required or elects to publish

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[2] Unaudited Financial Results required to be prepared and presented under Clause 41* of Listing Agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.

* Presently, entities are required prepare and present its interim financial results as per regulation 33 of SEBI (Listing Obligation and Disclosure requirements) Regulations.

an interim financial report in accordance with Indian Accounting Standards (Ind ASs). [Refer Appendix 1]."

"3 If an entity's interim financial report is described as complying with Ind ASs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard."

"Disclosure of compliance with Ind ASs

19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs."

In view of the above, Ind AS 34 applies if an entity applying Ind AS in its annual financial statements, either elects or is required to publish an interim financial report. Accordingly, if an entity's interim financial report states that it complies with Ind ASs, then all the requirements of Ind AS 34 must also be complied with.

An entity's interim financial report can be described as complying with Ind ASs only if it meets all of the requirements of Ind AS 34. Accordingly, an entity that applies all Ind ASs recognition and measurement requirements in its interim financial report, but does not provide all the disclosures required in Ind AS 34 then such an interim financial report cannot be described as complying with Ind AS.

Therefore, ABC Ltd. cannot describe its interim financial results to be in compliance with Ind AS.

Question 3

Whether a reporting entity should disclose the fact that an interim financial report is in compliance with Ind ASs, if the reporting entity does not prepare interim financial reports as per Ind AS but prepares the year-end financial statements as per Ind AS? Can it make the explicit disclosure of compliance with Ind ASs as per Ind AS 1, *Presentation of Financial Statements* in the annual financial statements?

Response

Paragraph 19 of Ind AS 34, *Interim Financial Reporting,* states as under:

"19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs."

Based on the above, if the reporting entity prepares its interim financial reports which complies with Ind AS 34 and all other Ind ASs, then it should disclose that the entity's interim financial report is in compliance with Ind ASs.

There may be a case where the reporting entity prepares its interim financial report that do not comply with either all or some of the requirements of Ind ASs, however, the year-end financial statements prepared by the same entity, comply with all of the requirements of Ind ASs.

In this context, the following requirements of paragraph 2 of Ind AS 34, *Interim Financial Reporting* may be noted:

"2 Each financial report, annual or interim, is evaluated on its own for conformity to Ind ASs. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to Ind ASs if they otherwise do so."

Based on the above , even though the interim financial reports are not prepared as per the requirements of Ind ASs but if the year-end financial statements comply with all of the requirements of Ind ASs, such year-end financial statements shall be described to have been complying with Ind ASs.

Question 4

What is the objective of permitting an entity to present condensed set of financial statements vis-à-vis a complete set of financial statement?

Response

The objective of permitting an entity to present condensed set of financial statements is to provide less information at interim dates as compared with its annual financial statements, considering timeliness and cost considerations.

The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events and circumstances and does not duplicate information previously reported.

It may be noted that the Standard does not prohibit or discourage an entity from publishing a complete set of financial statements or including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in the Standard.

While Ind AS 1, *Presentation of Financial Statements* does not apply to the structure and content of condensed interim financial statements, paragraphs 15-35 of Ind AS 1 containing general features of preparing financial statements, such as, principles of fair presentation, accrual basis of accounting, materiality, aggregation, offsetting and going concern apply to such financial statements.

Furthermore, there is no difference in recognition and measurement principles in presentation of interim financial reports as either a complete set of financial statements or as a set of condensed financial statements. The recognition and measurement principles for preparing interim financial reports are specified in paragraphs 28 to 41 of Ind AS 34, *Interim Financial Reporting*. The Standard lays down a single recognition and measurement principle that apply to both "complete set" and "condensed set" of interim financial statements.

Question 5

Management of R Ltd. is of the view that in its interim financial report, it can present a three-line condensed statement of cash flows showing only a total of operating, investing and financing cash flow activities. Whether the contention of the management correct?

Response

A condensed statement of cash flows is one of the primary statements that is included as part of interim financial report as prescribed by paragraph 8 of Ind AS 34, *Interim Financial Reporting*.

While presenting condensed statement of cash flows, a reporting entity should take into consideration the requirements of paragraphs 10, 15 and 25 of Ind AS 34 which state as under:

“10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.”

“Significant events and transactions

15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.”

“25 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.”

The interim report should be prepared in a manner that it contains all information, explanation of events and transactions that is relevant to understand the changes in financial position and performance of the entity during the interim period. Information about cash flows help users to understand a reporting entity’s operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

Accordingly, applying guidance given in in paragraphs 10, 15 and 25 of Ind AS 34, a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows. A three-line presentation alone is not expected to meet the requirements of Ind AS 34.

Question 6

What constitutes "selected explanatory notes" in a set of condensed financial statements?

Response

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. Ind AS 34 defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes.

Paragraphs 15 and 15A of Ind AS 34, *Interim Financial Reporting* state as under:

"15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report."

Further, paragraph 15B of Ind AS 34 provides an illustrative list of events and transactions for which disclosures would be required if they are significant. Furthermore, paragraph 16A of Ind AS 34 provides list of information which needs to be included in the interim financial report.

Also, as per paragraph 10 of Ind AS 34, additional notes or line items should be included if their omission would make the condensed interim financial statements misleading.

Therefore, the composition of "selected explanatory notes" in a set of condensed financial statements will require exercise of judgment. In this regard, the entity would be guided by the objective and requirements of paragraphs 6, 10, 15, 15A, 15B and 16A of Ind AS 34.

Question 7

Company A incurs its significant advertising expense in the first quarter of the current financial year. It did not disclose the advertising expenditure incurred last year as a separate line item in its last annual financial statement. Can an entity present additional line items or selected explanatory notes in its condensed interim financial statements that were not included in the most recent annual financial statements?

Response

Paragraphs 10 and 23 of Ind AS 34, *Interim Financial Reporting* state as under:

"10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading."

"23 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data."

Based on the above, if entity believes that certain additional information is required to be disclosed for proper interpretation of the condensed interim financial statements and the omission of such information would make such condensed financial statements misleading, then such information should be included as additional line items or notes in the condensed interim financial statements.

In the instant case, the cost incurred by Company A in the previous year may not be significant enough in the context of the annual financial statements, to require separate disclosure. However, if based on evaluation of its facts it is determined by the company that the cost incurred by it during the quarter pertaining to advertising expenditure is material in relation to interim financial reporting, it should disclose the same irrespective of the fact that the said line item was not presented in its last annual financial statement.

Question 8

Company A had disclosed a contingent liability of Rs. 25 lakhs in the notes to annual financial statements as on March 31, 2021. This has remained unchanged as on June 30, 2021. Company A does not disclose the amount of contingent liability in the condensed interim financial statements for the period ended June 30, 2021 as there is no change in the nature and amount of contingent liability during the interim period Apr 1, 2021 – June 30, 2021. Comment on the appropriateness of the treatment.

Response

Paragraphs 15, 15A and 15C of Ind AS 34, *Interim Financial Reporting* state as under:

"15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report."

"15C Individual Ind ASs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period."

Ind AS 34 presumes that users of an entity's interim financial report also have access to its most recent annual financial report. Though condensed financial statements avoid duplicating previously reported information and focus on new activities, events and circumstances, if the amount of contingent liability is material and relevant for an understanding of the financial statements, its disclosure in the notes to the condensed interim financial statements would be required. Information is material if omitting it or misstating it could influence decisions that users make based on the financial information.

Accordingly, if the contingent liability of Rs. 25 lakhs is material for Company A, then it should disclose the amount of contingent liability as on 30th June, 2021, notwithstanding the fact that there was no change in the contingent liability from that as on 31st March, 2021.

Further, since there has been no change in the nature and amount of contingent liability, the company may not give an explanation about the contingent liability, as the same is already provided in the previous year end annual financial statements.

However, if the contingent liability of Rs. 25 lakhs as on 31st March, 2021 has significantly increased / reduced as on 30th June, 2021, then in the condensed interim financial statements as on 30th June, 2021, Company A must disclose not only the nature and amount of contingent liability but also an explanation regarding the significant changes in contingent liability. (Refer paragraph 15B(m) of Ind AS 34).

Question 9

ABC Ltd. purchased 100% of ownership interest in DEF Ltd. on 25th August, 2020 for a consideration of Rs. 82.75 crores. On 2nd September, 2020, ABC Ltd. sold 60% of its ownership interest in its fully owned subsidiary XYZ Ltd. for a consideration of Rs. 100 crores. Are the above events required to be disclosed in the interim financial reports of ABC Ltd?

Response

As per the facts of the case, ABC Ltd. has obtained control of DEF Ltd. and lost control of its erstwhile subsidiary, XYZ Ltd. during the same interim period.

Paragraph 16A of Ind AS 34, *Interim Financial Reporting, inter-alia,* states,

"16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

(a)-(h)…

(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)-(l)…"

Based on the above, the effect of changes in the composition of ABC Ltd. due to acquisition of a new subsidiary DEF Ltd. and loss of control of its erstwhile subsidiary XYZ Ltd. should be disclosed in the interim financial statements of ABC Ltd.

Question 10

When are recognition and measurement requirements of any new or revised standards applied while preparing condensed interim financial statements of an entity?

Response

The recognition and measurement requirements of any new or revised standards are applied to all interim periods within the annual period in which the new standards are first adopted unless the transitional requirements of a standard permit or require otherwise.

Generally, when amendment to existing standard or a new standard is issued, its transitional provisions prescribe its applicability date including whether it is required to be applied prospectively or retrospectively.

Furthermore, paragraph 19 of Ind AS 34 *Interim Financial Reporting,* state as under:

"19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs."

Based on the above, it can be concluded that an interim financial report shall be described as complying with Ind AS only when all the requirements of Ind AS including any new or revised standard applicable for the current year are complied with.

Question 11

If a legislation requires disclosure of additional line items on the face of the balance sheet and statement of profit and loss applicable for the year ending on or after March 31, 2022, whether a reporting entity is required to comply with the requirement to present additional line items, while preparing condensed financial statements for the interim period ending June 30, 2021?

Response

Paragraph 10 of Ind AS 34, *Interim Financial Reporting* states as under:

"10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading."

Paragraph 10 above requires an entity to present, at a minimum, the line items and notes that were presented in its last annual financial statement. However, the said paragraph also states that an entity shall provide additional line items or notes if their omission would make the financial statements misleading.

Accordingly, if additional line items are prescribed to be presented on the face of the balance sheet and statement of profit and loss that is applicable for the current annual reporting period, then such line items shall be presented while preparing condensed interim financial statements of the current reporting period, if their omission will render the information contained in the condensed interim financial statements misleading.

Question 12

What are the "periods" for which interim financial statements are required to be presented?

Response

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

"20 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.”**

An illustration of periods required to be presented is provided herein below:

a) Entity publishes interim financial reports quarterly

The entity’s financial year ends on 31st March. The entity will present the following financial statements (condensed or complete) in its interim financial report of 30 Sep 20X1.

Balance sheet at	30 Sep 20X1	31 Mar 20X1	-	-
Statement of profit and loss for	3 months ended 30 Sep 20X1	3 months ended 30 Sep 20X0	6 months ended 30 Sep 20X1	6 months ended30 Sep 20X0
Statement of changes in equity for	6 months ended 30 Sep 20X1	6 months ended 30 Sep 20X0	-	-
Statement of cash flows for	6 months ended 30 Sep 20X1	6 months ended 30 Sep 20X0	-	-

b) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31st March. The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report of 30 September 20X1

Balance sheet at	30 Sep 20X1	31 Mar 20X1
Statement of profit and loss for	6 months ending 30 Sep 20X1	6 months ending 30 Sep 20X0
Statement of changes in equity for	6 months ending 30 Sep 20X1	6 months ending 30 Sep 20X0
Statement of cash flows for	6 months ending 30 Sep 20X1	6 months ending 30 Sep 20X0

Question 13

R Ltd. annual reporting period ends on 31st March and it reports its interim results quarterly. During the first quarter, its revenue is mainly generated from sale of its product M. Only a minor percentage of its revenue is attributed to pilot sale of its new product N that it is planning to launch in the next quarter. It expects that revenue from the sale of the said product will increase significantly by the end of the annual reporting period such that product N will provide approximately 20% of the entity's annual revenue. Should "materiality threshold" in the interim financial statement be assessed with respect to interim period or annual period?

Response

Paragraphs 23, 24 and 25 of Ind AS 34, *Interim Financial Reporting* state as follows:

"**23 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.**

24 [3]Ind AS 1 defines material information and requires separate disclosure of material items, including (for example) discontinued operations, and Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

25 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."

An entity makes materiality judgements in preparing both annual financial statements and interim financial reports prepared in accordance with Ind AS 34, *Interim Financial Reporting.* For its interim financial report, the entity considers the same materiality factors as in its annual assessment. However, it takes into consideration that the time period and the purpose of an interim financial report differ from those of the annual financial statements.

In making materiality judgements on its interim financial report, an entity focuses on the period covered by that report, that is:

(a) it assesses whether information in the interim financial report is material in relation to the interim period financial data, not annual data.

(b) it applies the materiality factors on the basis of both the current interim period data and also, whenever there is more than one interim period (eg in the case of quarterly reporting), the data for the current financial year to date.

(c) it may consider whether to provide in the interim financial report information that is expected to be material to the annual financial statements. However,

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[3] Substituted vide Notification No. G.S.R. 463(E) dated 24th July, 2020.

information that is expected to be material to the annual financial statements need not be provided in the interim financial report if it is not material to the interim financial report.

An entity is required to apply judgment based on evaluation of facts and circumstances of each case to determine whether a transaction or event is material or not.

Further, paragraph 114 of Ind AS 115, *Revenue from Contracts with Customers* states as follows:

"114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue."

In the given case, if based on assessment of all facts and circumstances it is determined by the entity that information about revenue from Product N is not qualitatively material to the interim financial statements then the entity is not required to disclose revenue from product N in its interim financial report. Further, the entity is not required to disaggregate its revenue by product lines in accordance with paragraph 114 of Ind AS 115.

In other words, although the revenue of product N is expected to be material information for the annual financial statements, that fact does not influence the materiality assessment in the preparation of the entity's interim financial report.

Question 14

An entity publishes interim financial statement for first 3 quarters and thereafter publishes the annual financial statements without publishing the separate results for the 4th quarter. In such a case, if there is a significant change in the nature and amount of any estimate made in 3rd quarter, then should the same be disclosed?

Response

Paragraph 26 of Ind AS 34, *Interim Financial Reporting* states as under:

"26 If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year."

In view of the above, if an estimate has changed significantly during the final interim period of the year and the same has not been reported as separate interim financial report is not published for that interim period, an entity is required to disclose the following in the notes to the annual financial statements for that year:

- nature of estimate and
- amount of change in estimate made in an interim period

In the instant case, the entity publishes interim financial statement for first 3 quarters and thereafter publishes the annual financial statements without publishing the separate results for the 4th quarter. In such a case, if there is a significant change in the nature and amount of any estimate made in 3rd quarter, which would have been disclosed in the 4th quarter if it had prepared the interim financial statements for the quarter, then the same should be disclosed in the annual financial statements.

Question 15

ABC Ltd. requires assistance on whether the following revenue can be anticipated or cost can be deferred as of 30th June, 2021 while preparing the interim financial statements:

a) Dividend income from its investment which is declared in September of every year.
b) 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.

Response

Paragraphs 37, 38 and 39 of Ind AS 34, *Interim Financial Reporting* state as under:

"**37 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.**

38 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.

Costs incurred unevenly during the financial year

39 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, 2021.

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, 2021 should be charged to P&L while preparing its financial statements as of 30th June, 2021.

Question 16

How should a reporting entity that is preparing interim financial statements, make use of estimates? Explain with examples.

Response

Measurements in accounting are based on a reasonable estimation process. The use of estimates is inherent in the financial reporting process be it annual or interim financial reports. However, the preparation of interim financial reports will require relatively a greater use of estimation methods in comparison with annual reporting. The measurement procedures to be followed in interim financial reporting should be designed to achieve the objectives of providing reliable and relevant information to users of financial statements.

Paragraphs 35, 36 and 41 of Ind AS 34, *Interim Financial Reporting* state as follows:

"35 An entity that reports half-yearly uses information available by mid-year or shortly thereafter in making the measurements in its financial statements for the first six-month period and information available by year-end or shortly thereafter for the twelve-month period. The twelve-month measurements will reflect possible changes in estimates of amounts reported for the first six-month period. The amounts reported in the interim financial report for the first six-month period are not retrospectively adjusted. Paragraphs 16A (d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

36 An entity that reports more frequently than half-yearly measures income and expenses on a year-to-date basis for each interim period using information available when each set of financial statements is being prepared. Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in prior interim periods of the financial year. The amounts reported in prior interim periods are not retrospectively adjusted. Paragraphs 16A (d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed."

"Use of estimates

41 The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation

of interim financial reports generally will require a greater use of estimation methods than annual financial reports."

A reporting entity preparing interim financial statements should make appropriate estimates based on the above guidance. Examples of the use of estimates in interim financial statements are:

a) Provisions

As per paragraph 14 of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets,* a provision shall be recognised when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised.

Further, paragraph 28 of Ind AS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.'

Accordingly, the entity would update the prior annual provision (like warranty provisions, decommissioning obligations) for the purpose of interim financial statements applying the same criteria of recognition and measurement as are applied in its annual financial statements the amount of provisions (like warranty provisions, decommissioning obligations).

b) Pensions

Ind AS 19, *Employee Benefits* requires an entity to determine the present value of defined benefit obligations and the fair value of plan assets (if any) at the end of each reporting period and encourages an entity to involve a professionally qualified actuary in measuring the obligations. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation.

Question 17

Should a third Balance sheet at the beginning of the comparative period be presented in the Interim Financial Report when there is a change in accounting policy either voluntarily or due to initial application of an Ind AS?

Response

As per Ind AS 34, *Interim Financial Reporting*, 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 Ind AS 34) for an interim period.

Paragraph 5 of Ind AS 34, *Interim Financial Reporting,* inter-alia, states as under:

"5 Ind AS 1 defines a complete set of financial statements as including the following components:

(a)-(ea) …and,

(f) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of Ind AS 1."

Therefore, an entity that has opted to provide a complete set of interim financial statements shall present a third balance sheet i.e. balance sheet at the beginning of the comparative period when it applies an accounting policy retrospectively.

Furthermore, the minimum components of a condensed interim financial report are specified in paragraph 8 of Ind AS 34, *Interim Financial Reporting* as mentioned below:

"Minimum components of an interim financial report

8 An interim financial report shall include, at a minimum, the following components:

(a) a condensed balance sheet ;

(b) a condensed statement of profit and loss;

(c) a condensed statement of changes in equity;

(d) a condensed statement of cash flows; and

(e) selected explanatory notes."

Accordingly, from the above, the minimum components of a condensed financial statement do not include a third balance sheet i.e. balance sheet at the beginning of the comparative period when it applies an accounting policy retrospectively.

In addition paragraph 43 of Ind AS 34 states as under:

"43 A change in accounting policy, other than one for which the transition is specified by a new Ind AS, shall be reflected by:

(a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8; or

(b) when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable."

Further, paragraphs 19, 22 and 23 of Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* state as follows:

"Applying changes in accounting policies

19 Subject to paragraph 23:

(a) an entity shall account for a change in accounting policy resulting from the initial application of an Ind AS in accordance with the specific transitional provisions, if any, in that Ind AS; and

(b) when an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively."

"Retrospective application

22 Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

23 When retrospective application is required by Para 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change."

Based on above, in case where an entity that has opted to provide a set of condensed financial statements and makes a change in an accounting policy retrospectively needs to give effect to the change by adjusting the retained earnings at the beginning of the preceding period.

It may be noted that Ind AS 34 does not include the requirements of Ind AS 1 in respect of balance sheet as at the beginning of the preceding period when preparing condensed interim financial statements. As a consequence, in condensed interim financial statements, it is not necessary to provide an additional balance sheet as at the beginning of the earliest comparative period presented where an entity has made a retrospective change in an accounting policy (or a retrospective restatement or a retrospective reclassification). However, an entity may present a third balance sheet on a voluntary basis.

Question 18

MNC Ltd. recognised an impairment loss in respect of goodwill and other intangible assets in its interim financial statements prepared for quarter 2 by applying the principles of Ind AS 36, *Impairment of Assets*. Subsequently, by the end of the reporting period it has been assessed that the value of these assets including goodwill has increased significantly during the period.

Can MNC Ltd. reverse impairment loss in respect of these assets including goodwill recognised in Q2 while preparing its annual financial statements at the end of the reporting period?

Response

Paragraph 28 of Ind AS 34, *Interim Financial Reporting* requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.'

In the given case, the entity has recognised impairment losses in respect of its intangible assets including goodwill while preparing its interim financial statements by following the requirements of Ind AS 36, *Impairment of Assets*.

Paragraph 124 of Ind AS 36, *Impairment of Assets* states, "**An impairment loss recognised for goodwill shall not be reversed in a subsequent period.**"

Further, following guidance for interim financial reporting and impairment losses in respect of goodwill is provided in Appendix A to Ind AS 34, *Interim Financial Reporting.* Paragraphs 8 and 9 of Appendix A to Ind AS 34 state as follows:

"8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

9 An entity shall not extend this accounting principle by analogy to other areas of potential conflict between Ind AS 34 and other Indian Accounting Standards."

Considering the above guidance reversal of impairment of goodwill is prohibited in a subsequent period, be it annual or interim financial statements. With regard to reversal of impairment of other intangible assets, the impairment loss can be reversed if other requirements of Ind AS 36, *Impairment of Assets* are met.

Accordingly, in the given case, MNC Ltd. cannot reverse the impairment loss recognised in respect of goodwill but it can reverse impairment loss recognised in respect of other intangible assets (assuming the requirements of Ind AS 36 are met).

Question 19

Diva Ltd. determined the defined benefit obligation at the end of the preceding financial year using a discount rate of 10% based on market yields on government bonds. The interest rates for market yields on government bonds decreased to 8% by the end of the first quarter, which in the judgment of management materially impacts the financial statements.

Should Diva Ltd. update the net defined benefit obligation for changes in interest rate during the interim reporting period?

Response

Paragraphs 58 and 59 of Ind AS 19, *Employee Benefits*, state as follows:

"**58. An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post -employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period."

In accordance with the above, an entity is required to update the results of actuarial valuations for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Accordingly, in the given case, Diva Ltd. should update the net defined benefit obligation for changes in interest rate during the interim reporting period.

Question 20

An entity previously applied cost model for measuring all classes of its property, plant and equipment (PPE). In quarter 3 of the year, the entity changes its accounting policy to the revaluation model for certain classes of PPE. The entity issued an interim report for the first 2 quarters in which it applied the cost model for all its classes of PPE.

How does an entity account for the above change in its accounting policy in its Interim financial report for quarter 3 and quarter 4?

Response

The entity should account for a change in accounting policy from the cost model to the revaluation model prospectively from the date on which the decision is made and the revaluation is determined as per Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* read with Ind AS 16, *Property, Plant and Equipment.*

Paragraph 17 of Ind AS 8 state as follows:

"**17 The initial application of a policy to revalue assets in accordance with Ind AS 16, *Property, Plant and Equipment,* or Ind AS 38, *Intangible Assets,* is a change in an accounting policy to be dealt with as a revaluation in accordance with Ind AS 16 or Ind AS 38, rather than in accordance with this Standard.**"

When an entity changes its policy from the cost model to the revaluation model under Ind AS 16, it is an exception to the principle of retrospective adjustment of earlier interim periods. These are not changes in accounting policy that are covered by Ind AS 8 in the usual manner, but instead required to be treated as a revaluation in the period. Therefore, the general requirements of Ind AS 34 do not override the specific requirements of Ind AS 8 to treat such changes prospectively.

In the above example, the entity shall account for the revaluation in the interim financial statements of quarter 3 and depreciation on revalued assets shall be accounted for in quarter 3 and quarter 4 interim financial reports. However, since a change to revaluation policy would result in depreciation charge on different basis (cost in the earlier quarter and revaluation in quarter 3), it would be necessary to provide adequate disclosure and explanation in the interim financial statements.

Question 21

ABC Limited manufactures automobile parts. ABC Limited has shown a net profit of Rs. 20,00,000 for the third quarter of 2021.

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) Loss of Rs. 3,00,000 due to fire 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 expenses are uniform throughout all quarters.

Ascertain the correct net profit to be shown in the Interim Financial Report of third quarter.

Response

The following guidance provided in Ind AS 34, *Interim Financial Reporting* may be noted:

"28 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. However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis."

"33 [4]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 they are not recognised. The *Conceptual Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities."

"Costs incurred unevenly during the financial year

39 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 the instant case, the quarterly net profit has not been correctly stated. Considering the above guidance, the quarterly net profit should be adjusted and restated as follows:

(i) 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.

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[4] Substituted vide Notification No. G.S.R. 419(E) dated 18th June, 2021.

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.

(ii) The treatment of loss of Rs. 3,00,000 being recognised in the same quarter is correct.

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

(iv) Deferment Rs. 5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is not in accordance with requirements of Ind AS 34 as expenses 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. 50,000 - Rs. 5,00,000).

Question 22

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 Q1 and Q2 larger amount of payments for this contribution were made, while during the Q3 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.

Response

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 as under:

"32 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.

33 [5]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 they are not recognised. 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, the transactions and events of the instant case should be dealt with as follows while preparing its interim financials:

(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.

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[5] Substituted vide Notification No. G.S.R. 419(E) dated 18th June, 2021.

(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 (in the absence of legal obligation, in case an entity has a practice of paying bonus) 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.

Question 23

Cuba Ltd. is in the process of preparing its interim financial statements. It came across the following events while preparing the financials and is confused as to whether the impact of these events is to be given while preparing its interim results:

(i) It plans to make significant purchases in the next three months. Whether it will have any impact on the depreciation to be charged to P&L in the interim period.

(ii) It is in the process of wage negotiation and anticipates increase in wages of 5% although the demand from the employees is increase in wages of 15%.

Response

Paragraph 30(b) of Ind AS 34, *Interim Financial Reporting* states, "A cost that does not meet the definition of an asset at the end of an interim period is not deferred in the balance sheet 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."

Further, paragraph 33 of Ind AS 34 state as, "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 they are not recognised. 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, the transactions and events in the instant case should be dealt with as follows while preparing its interim results:

(i) Depreciation and amortisation commence when the related asset is ready for its intended use and ceases at the point they qualify for de-recognition. Depreciation and amortisation for an interim period follows the same principles.

Planned asset purchases in subsequent interim periods of a financial year do not affect the depreciation and amortisation expense of the current interim period.

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 and dispositions planned for subsequent interim periods in the financial year.

Note: The above response has been given only from expense accrual stand point and for the sake of simplicity the implications of the above event for assessment of income tax expense for the year/interim period has not been considered.

(ii) The entity needs to make a provision for increase in wages based on the best estimate at which it expects to settle the obligation at the end of the interim reporting period.

Price changes should be recognised as assets or liabilities in interim financial reports if they meet the definition of an asset or liability. Such changes are recognised in interim periods, if it is probable that the same will take effect.

Question 24

How should income tax expense be measured in interim financial reports? Explain with the help of examples?

Response

Paragraph 28 of Ind AS 34, *Interim Financial Reporting* state as under:

“28 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. However, the frequency of an entity’s reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.”

As provided in paragraph 28 above, 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, as provided in paragraph 30(c) of Ind AS 34, 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. 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 income tax rate changes.

Accordingly, income tax expense for the interim period is accrued using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Income taxes are assessed on an annual basis. The estimated average annual rate would be a reflection of the progressive tax rate structure expected to be applicable to the full year's earnings including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the financial year.

Income tax expense is the aggregate amount in respect of current tax and deferred tax. Accordingly, in arriving at the estimated average annual effective income tax rate, the aggregate tax expense estimate for the year needs to be considered, consistent with paragraph 28 of Ind AS 34.

Under tax laws, deductible expenditures are based on amounts of capital expenditure on property, plant and equipment, intangible assets, research and development, etc. The estimated tax benefit for the full year with respect to such expenditure is taken into consideration while arriving at the estimate of average annual effective income tax rate.

The estimated average annual effective income tax rate is required to be re-estimated on a year-to-date basis at the end of each interim reporting period. In arriving at the interim period income tax expense, jurisdiction- wise profit before tax (PBT), income categories taxed at different rates need to be considered.

Let us understand the above mentioned principles by way of few examples as illustrated below:

Example 1

Applicable tax rate

The tax rate slab applicable to companies for a financial year is as provided in the table herein below:

Taxable income	Base tax rate	Surcharge	Health and education cess	Tax rate
Upto Rs. 1 crores	25%	0%	4%	26.00%
Rs. 1 crores – Rs 10 crores	25%	7%	4%	27.82%
Exceeds Rs. 10 crores	25%	12%	4%	29.12%

PBT of Company A

The projected and actual quarter-wise PBT and taxable income of Company A for a financial year are as follows:

Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
Rs. 0.50 cr	Rs. 5.50 cr	Rs 8.00 cr	Rs. 10.00 cr	Rs 24.00 cr

Estimating tax expense in interim financial statements

In the preparation of its interim financial statements for the first quarter, the company needs to apply the estimated weighted average annual effective income tax rate. As the company expects annual PBT of Rs. 24 crores, the company will therefore, provide for income taxes of Rs. 0.1456 crores in the first quarter by applying 29.12%, being the estimated weighted average annual effective income tax rate to the quarter's PBT of Rs. 0.50 crores.

Following table reflects the quarter-wise income tax calculation:

Particulars	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
PBT (A)	Rs. 0.50 cr	Rs. 5.50 cr	Rs 8.00 cr	Rs.10.00 cr	Rs. 24.00 cr
EAAEITR[1](B)	29.12%	29.12%	29.12%	29.12%	29.12%
Tax expense (A*B)	Rs.0.1456 cr	Rs. 1.6016 cr	Rs.2.3296 cr	Rs. 2.912 cr	Rs. 6.9888 cr

[1]*Estimated Average Annual Effective Income Tax Rate*

Example 2 – Change in enacted tax rate during the financial year (Continuing from facts of Example 1)

In the preparation of its interim financial statements for the first quarter, the company recognises tax expense based on the estimated weighted average annual effective tax rate. Company A's tax liability for the full financial year is based on taxable income of Rs. 24 crores. The applicable tax rate is 29.12% being the tax rate applicable to income exceeding Rs. 10 crores. Accordingly, it provides income tax expense of Rs. 0.1456 crores for the first quarter.

Before the finalisation of the accounts for the second quarter, the government enacts revised tax rate for the year by reducing it to 25.17% (base rate plus surcharge).

Company A will provide income taxes based on the revised estimated average annual effective income tax rate viz. 25.17% for the six months ending in the second quarter.

The income tax expense for the second quarter is arrived at by multiplying the PBT for the six-month period (Rs. 6.00 crores) with the revised rate of 25.17% giving a total current tax liability of Rs. 1.5102 crores (6.00*25.17%) and reducing it by the amount of taxes provided in the first quarter (Rs. 0.1456 crores).

The income tax expense for the second quarter would therefore be Rs. 1.3646 crores.

Example 3

Company B reports Rs. 3,75,000 PBT in the first quarter. The estimated PBT for each of the remaining quarters is a loss of Rs. 1,25,000. The applicable tax rate is 30% for all levels of taxable income.

The following table shows the amount of income tax expense that would be reported in each quarter:

Tax expense by quarter

(Amount in Rs.)

Particulars	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
PBT (A)	3,75,000	(1,25,000)	(1,25,000)	(1,25,000)	0
Applicable	30%	30%	30%	30%	NA

tax rate (B)					
Tax expense (A*B)	1,12,500	(37,500)	(37,500)	(37,500)	0

Example 4

Company C expects to earn pre-tax income of Rs. 2,50,000 per quarter. It operates in a tax jurisdiction with an applicable tax rate of 25% on the first Rs. 5,00,000 of annual earnings and 30% for additional earnings.

The following table shows the amount of income tax expense that would be reported in each quarter:

Tax expense by quarter

(Amount in Rs.)

Particulars	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
PBT (A)	2,50,000	2,50,000	2,50,000	2,50,000	10,00,000
EAAEITR[1](B)	27.5%	27.5%	27.5%	27.5%	27.5%[2]
Tax expense (A*B)	68,750	68,750	68,750	68,750	2,75,000

[1]Estimated Average Annual Effective Income Tax Rate

*[2]The tax liability for the full year is 2,75,000 (5,00,000 *25%+ 5,00,000 *30%) and the estimated average annual effective income tax rate is 27.5% (2,75,000/10,00,000)*

Example 5

Carry forward of Unused (unabsorbed) tax losses

Company D has tax losses brought forward at the beginning of the financial year amounting to Rs. 2,50,000. It has not recognised a deferred tax asset as at the end of the most recent financial year. The entity earns Rs. 2,50,000 PBT in the first quarter and the same is expected to continue for each of the remaining quarters. It is presumed that the criteria of Ind AS 12, *Income Taxes* with regard to probability of taxable profit against which the unused tax losses and credits can be utilised is met. Applicable tax rate is 30%.

Ind AS 12 provides the criteria for assessing the probability of taxable profit against which the unused tax losses and credits can be utilised.

In this regard, Ind AS 12 provides that *"a deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised."* Ind AS 12 provides the criteria for assessing the probability of taxable profit against which the unused tax losses and credits can be utilised. Such criteria need to be evaluated at the end of each interim financial period and where it is met, the effect of tax loss carry forward needs to be reflected in the computation of the estimated average annual effective income tax rate.

In the instant case, such criteria need to be evaluated at the end of each interim financial period. Assuming that such criteria is met, the effect of tax loss carry forward would be reflected in the computation of the estimated average annual effective income tax rate.

The following table shows the amount of income tax expense that would be reported in each quarter:

Tax expense by quarter

Amounts in Rs.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual
PBT (A)	2,50,000	2,50,000	2,50,000	2,50,000	10,00,000
EAAEITR[1](B)	22.5%	22.5%	22.5%	22.5%	22.5%[2]
Tax expense (A*B)	56,250	56,250	56,250	56,250	2,25,000

1Estimated Average Annual Effective Income Tax Rate
*2The tax liability for the full year would be Rs. 2,25,000 ((Rs.2,50,000*4 minus brought forward loss Rs.2,50,000)*30%) and the estimated average annual effective income tax rate would be 22.5% (Rs. 2,25,000/10,00,000)*

Example 6: When different rates of tax are applicable to different portions of the estimated annual accounting income

To the extent practicable, a separate estimated average annual effective income tax rate is determined for each tax jurisdiction and is applied individually to the interim period pre-tax income of each jurisdiction. Moreover, if different tax rates apply to different categories of income viz. capital gain, income from profits and gains from business or profession etc. then to the extent practicable, a separate rate is applied to each individual category of pre-tax income.

While the above is desirable, but may not be achievable in all cases and a weighted average rate across jurisdiction or across income categories may be used if it is a reasonable approximation of the effect of using more specific rates.

Estimated annual income is Rs. 1 lakh (inclusive of estimated capital gains of Rs. 20,000). Assume Tax Rates are as follows:

On Capital Gains 10%.
On Other Income: On First Rs. 40,000 - 30%
Balance Income - 40%

Assuming there is no difference between the estimated taxable income and the estimated accounting income.

Tax Expense:
On Capital Gains portion of annual income: 10% of Rs. 20,000 = Rs. 2,000
On Other Income: 30% of Rs. 40,000 + 40% of Rs.40,000 = Rs. 28,000
Total: Rs.30,000

Weighted Average Annual Effective Tax Rate:
On Capital Gains portion of annual income: 2,000/20,000× 100 = 10%
On Other Income: 28,000/80,000 × 100 = 35%

If the estimated income of each quarter is Rs.25,000 and income of Rs.25,000 for 2nd Quarter includes capital gains of Rs.20,000, the tax expense for each quarter will be calculated as below:

Quarter	Income (in Rs.)	Tax Expense (in Rs.)
Quarter I	25,000	35% of 25,000= 8,750
Quarter II :		
Capital Gains income	20,000	10% of 20,000 = 2,000
Other Income	5,000	35% of 5,000 = 1,750
Total tax expense for Q2		3,750
Quarter III	25,000	35% of Rs.25,000 = 8,750
Quarter IV	25,000	35% of Rs. 25,000 = 8,750
Total tax expense for the year		**30,000**

Question 25

MNO Ltd. has made definite plans to acquire certain item of property, plant and equipment (PPE). It has entered into a contract with a vendor to supply the said PPE. As per the terms of the contract, the delivery of the said item of PPE would be made in fourth Quarter. Can the entity take the benefit of tax deduction on account of depreciation available for tax purpose on the aforesaid PPE (to be acquired) while preparing the interim financial statements of 1st, 2nd and 3rd Quarters for the purpose of calculation of income tax expense?

Response

As provided in paragraph 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. 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 income tax rate changes.

Accordingly, interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Under tax laws, capital expenditure on property, plant and equipment, intangible assets, research and development, etc. are tax deductible. The estimated tax benefit for the full year with respect to such expenditure is taken into consideration in arriving at the estimate of average annual effective income tax rate.

In arriving at the best estimate of the weighted average annual income tax rate, the assets that would qualify for tax depreciation and book depreciation on the annual basis needs to be considered and the current and deferred taxes are recognised accordingly. The assets that are expected to be capitalised in subsequent interim periods of a financial year would therefore be considered in arriving at an estimate of the tax rate that would be applicable for the full financial year.

Accordingly, in the given case MNO Ltd. can take the benefit of the expected tax deduction on account of depreciation that will be charged on the said item of PPE when it will be put to use in the fourth quarter.

Appendix I

Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 34, Interim Financial Reporting and the corresponding International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board.

Major difference between Ind AS 34, *Interim Financial Reporting* and IAS 34, *Interim Financial Reporting*

(i) A footnote has been added to paragraph 1 of Ind AS 34, *Interim Financial Reporting* that unaudited financial results required to be prepared and presented under Clause 41 of listing agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.

(ii) IAS 34 (paragraphs 8A and 11A) provides option either to follow single statement approach or to follow two statement approaches. Ind AS 34 allows only single statement approach on the lines of Ind AS 1, *Presentation of Financial Statements*, which also allows only single statement approach.

Appendix II

Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 34, Interim Financial Reporting and the Accounting Standard (AS) 25, Interim Financial Reporting.

Major differences between Ind AS 34, *Interim Financial Reporting* and AS 25, *Interim Financial Reporting*

(i) Ind AS 34 requires disclosure by way of an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. AS 25 does not specifically requires such disclosure.

(ii) Ind AS 34 prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill (in harmony with paragraph 124 of Ind AS 36, which prohibits reversal of impairment loss recognised for goodwill in a subsequent period) or an investment in either an equity instrument or a financial asset carried at cost. There is no such specific prohibition in AS 25. Ind AS 34 includes Appendix A which addresses the interaction between the requirements of Ind AS 34 and the recognition of impairment losses on goodwill in Ind AS 36 and the effect of that interaction on subsequent interim and annual financial statements.

(iii) Under AS 25, if an entity's annual financial report included the consolidated financial statements in addition to the separate financial statements, the interim financial report should include both the consolidated financial statements and separate financial statements, complete or condensed. Ind AS 34 states that it neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report, if an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements.

(iv) AS 25 requires the Notes to interim financial statements (if material and not disclosed elsewhere in the interim financial report), to contain a statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, in case of change in those policies, a description of the nature and effect of the change. Ind AS 34 additionally requires the above information in respect of methods of computation followed. (Paragraph 16A(a) of Ind AS 34).

(v) While AS 25 requires furnishing of information on contingent liabilities only, Ind AS 34 requires furnishing of information on both contingent liabilities and contingent assets, if they are significant. (Paragraph 15B(f)) of Ind AS 34).

(vi) Ind AS 34 requires that, where an interim financial report has been prepared in accordance with the requirements of Ind AS 34, that fact should be disclosed. Further, an interim financial report should not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS (the latter statement is applicable when interim financial statements are prepared on complete basis instead of 'condensed basis'). AS 25 does not contain these requirements. (Paragraph 19 of Ind AS 34).

(vii) Under AS 25, when an interim financial report is presented for the first time in accordance with that Standard, an entity need not present, in respect of all the interim periods of the current financial year, comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year and comparative cash flow statement for the comparable year-to-date period of the immediately preceeding financial year. Ind AS 34 does not have this transitional provision.