# Exposure Draft

## Accounting Standard (AS) 34

## *Interim Financial Reporting*

**Last date for the comments: May 12, 2019**

**Issued by**
**Accounting Standards Board**
**The Institute of Chartered Accountants of India**

## Exposure Draft
## Accounting Standard (AS) 34, *Interim Financial Reporting*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules, 2006, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, such as, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI), NACAS[1] and the Ministry of Corporate Affairs (MCA) , it has been decided to upgrade Accounting Standards to bring them nearer to Ind AS. Accordingly, the Accounting Standards Board of ICAI has initiated the process of upgradation of these standards which will be applicable to all entities to whom Ind AS are not applicable. While formulating these Standards, ASB decided, wherever possible, to maintain the consistency with the paragraph numbers and with the numbering of Standards of the Ind AS.

In the above background, ASB has finalised AS 34, *Interim Financial Reporting*, taking AS 25, *Interim Financial Reporting*, notified by MCA as the base. Major differences between draft AS 34 and Ind AS 34, *Interim Financial Reporting*, are included in the Appendix 1 of the draft Standard. Major differences between draft AS 34 and AS 25 are given in Appendix 2 of the draft Standard.

This is the Exposure Draft of the upgraded Accounting Standard (AS) 34, *Interim Financial Reporting*, issued by the ASB, for comments. AS 34 refers to provisions of following AS which are under formulation:

(i) AS 12, *Income Taxes*
(ii) AS 33, *Earnings per Share*
(iii) AS 36, *Impairment of Assets*

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

***How to Comment:***
*Comments can be submitted using one of the following methods so as to receive not later than May 12, 2019:*

| | |
|---|---|
| Electronically: | click on http://www.icai.org/comments/asb/ to submit comments online |
| Email: | Comments can be sent at commentsasb@icai.in |
| Postal: | Secretary, Accounting Standards Board,<br>The Institute of Chartered Accountants of India,<br>ICAI Bhawan, Post Box No. 7100,<br>Indraprastha Marg, New Delhi – 110 002 |

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

[1] NACAS was in existence prior to the constitution of National Financial Reporting Authority (NFRA) on October 1, 2018.

# Accounting Standard (AS) 34

## Interim Financial Reporting

*[This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.]*

## Objective

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in a complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows, its financial condition and liquidity.

## Scope

1. This Standard does not mandate which entities should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an entity is required or elects to prepare and present an interim financial report, it shall comply with this Standard.

2. A statute governing an entity or a regulator may require an entity to prepare and present certain information at an interim date which may be different in form and/or content as required by this Standard. In such a case, the recognition and measurement principles as laid down in this Standard are applied in respect of such information, unless otherwise specified in the statute or by the regulator.

3. The requirements related to cash flow statement, complete or condensed, contained in this Standard are applicable where an entity prepares and presents a cash flow statement for the purpose of its annual financial report.

# Definitions

4. **The following terms are used in this Standard with the meanings specified:**

   ***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 AS 1, *Presentation of Financial Statements*, or a set of condensed financial statements (as described in this Standard) for an interim period.**

4A. During the first year of operations of an entity, its annual financial reporting period may be shorter than a financial year. In such a case, that shorter period is not considered as an interim period.

## Content of an Interim Financial Report

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

   (a) balance sheet as at the end of the period;

   (b) statement of profit and loss for the period;

   (c) statement of changes in equity for the period;

   (d) a statement of cash flows for the period;

   (e) notes comprising significant accounting policies and other explanatory information; and

   (ea) comparative information in respect of the preceding period as specified in paragraphs 38 of AS 1.

   (f) [Refer Appendix 1].

6. 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 present less information at interim dates as compared with its annual financial statements. The benefit of timeliness of presentation may be partially offset by a reduction in detail in the information provided. Therefore, this Standard requires preparation and presentation of an interim financial report containing, as a minimum, a set of condensed financial statements. The interim financial report containing condensed financial statements is intended to provide an update on the latest annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

7. This Standard does not prohibit or discourage an entity from presenting a complete set of financial statements in its interim financial report, rather than a set of condensed financial statements. This Standard also does not 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 principles set out in this Standard apply also to complete financial statements for an interim period, and such statements would include all disclosures required by this Standard (particularly the selected disclosures in paragraph 16A) as well as those required by other Accounting Standards.

### Minimum Components of an Interim Financial Report

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

**(a) condensed balance sheet;**

**(b) condensed statement of profit and loss;**

**(c) condensed statement of changes in equity;**

**(d) condensed statement of cash flows; and**

**(e) selected explanatory notes.**

**8A [Refer Appendix 1]**

## Form and Content of Interim Financial Statements

**9. If an entity prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of AS 1 for a complete set of financial statements.**

**10. If an entity prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and sub-headings 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.**

**11. If an entity presents basic and diluted earnings per share in its annual financial statements in accordance with Accounting Standard (AS) 33, *Earnings Per Share*, basic and diluted earnings per share shall be presented in accordance with AS 33 on the face of the statement of profit and loss, complete or condensed, for an interim period.**

**11A-13 [Refer Appendix 1]**

14. If an entity's annual financial report included the consolidated financial statements in addition to the parent's separate financial statements, the interim financial report includes both the consolidated financial statements and separate financial statements, complete or condensed.

## Selected Explanatory Notes

15 At an interim date, 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 last annual reporting period is more useful.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. It is, therefore, not necessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual financial report.

15B-15C [Refer Appendix 1]

16-18 [Refer Appendix 1]

## Other Disclosures

**16A An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:**

**(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change;**

**(b) explanatory comments about the seasonality of interim operations;**

**(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;**

**(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;**

**(e) issuances, repayments and restructuring of debt and equity securities;**

**(f) dividends, aggregate or per share (in absolute or percentage terms), separately for ordinary[2] shares and other shares;**

**(g) segment revenue, segment capital employed (segment assets minus segment liabilities) and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting (disclosure of segment information is required in an entity's interim financial report only if the entity is required, in terms of AS 108, *Segment Reporting*, to disclose segment information in its annual financial statements);**

**(h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;**

**(i) the effect of changes in the composition of the entity during the interim period, such as business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations; and**

[2] Here 'Ordinary' shares refer to 'equity' shares.

**(j) material changes in contingent liabilities since the last annual balance sheet date.**

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

16B. Other Accounting Standards specify disclosures that shall be made in financial statements. In that context, financial statements mean complete set of financial statements normally included in an annual financial report and sometimes included in other reports. The disclosures required by those other Accounting Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.

**19 [Refer Appendix 1].**

**Periods for which Interim Financial Statements are required to be presented**

**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 for the period 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.**

21 For an entity whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date 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.

21A. Illustration 1 attached to the Standard illustrates the periods required to be presented by an enterprise that reports half-yearly and an enterprise that reports quarterly.

22 [Refer Appendix 1]

**Materiality**

**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 AS 1 and AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, define an item as material if its omission or mis-statement could influence the economic decisions of users of the financial statements. AS 1 requires disclosure of material items, including (for example) discontinued operations, and AS 8 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 Judgement is always required in assessing materiality for financial reporting purposes. For reasons of understandability of the interim figures, materiality for making recognition and disclosure decision is assessed in relation to the interim period financial data. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed based on materiality in relation to interim period data. The overriding objective 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.

## Disclosure in Annual Financial Statements

**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 prepared and presented 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.**

26A An entity may not prepare and present a separate financial report for the final interim period because the annual financial statements are presented. In such a case, paragraph 26 requires certain disclosures to be made in the annual financial statements for that financial year.

27 Accounting Standard (AS) 8, requires disclosure, in financial statements, of the nature and (if practicable) the amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods. Paragraph 16A(d) of this Standard requires similar disclosure in an interim financial report. Examples include changes in estimate in the final interim period relating to inventory write-downs, restructurings, or impairment losses that were reported in an earlier interim period of the financial year. The disclosure required by the preceding paragraph is consistent with AS 8 requirements and is intended to be restricted in scope so as to relate only to the change in estimates. An entity is not required to include additional interim period financial information

in its annual financial statements.

## Recognition and Measurement

### Same Accounting Policies as Annual

**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.**

29 Requiring that an entity apply the same accounting policies in its interim financial statements as in its annual financial statements may seem to suggest that interim period measurements are made as if each interim period stands alone as an independent reporting period. However, by providing that the frequency of an entity's reporting shall not affect the measurement of its annual results, paragraph 28 acknowledges that an interim period is a part of a financial year. Year-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current financial year. But the principles for recognising assets, liabilities, income, and expenses for interim periods are the same as in annual financial statements.

30 To illustrate:

(a) the principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that an entity would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount;

(b) a cost that does not meet the definition of an asset at the end of an interim period is not deferred on the balance sheet date either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year; and

(c) 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.

31 Under the *Framework for the Preparation and Presentation of Financial Statements*,

recognition is the “process of incorporating in the balance sheet or statement of profit and loss an item that meets the definition of an element and satisfies the criteria for recognition”. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, both at annual and interim financial reporting periods.

32 For assets, the same tests of future economic benefits apply at interim dates as they apply 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 as well. Similarly, a liability at an interim reporting period must represent an existing obligation at that date, just as it must at an annual reporting period.

33 Income is recognised in the statement of profit and loss when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. Expenses are recognised in the statement of profit and loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. The recognition of items in the balance sheet which do not meet the definition of assets or liabilities is not allowed.

34 In measuring assets, liabilities, income, expenses, and cash flows reported in its financial statements, an entity that reports only annually is able to take into account information that becomes available throughout the financial year. Its measurements are, in effect, on a year-to-date basis.

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 any 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.

**Revenues received Seasonally or Occasionally**

**37 Revenues that are received seasonally 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.**

**Applying the Recognition and Measurement principles**

39A. Illustration 2 attached to the Standard illustrates application of the general recognition and measurement principles set out in paragraphs 28 to 39.

40 [Refer Appendix 1]

**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.**

41A Illustration 3 attached to the Standard illustrates the use of estimates in interim periods.

42 [Refer Appendix 1]

## Restatement of previously reported interim periods

**43 A change in accounting policy, other than one for which the transition is specified by an Accounting Standard, shall be reflected by restating the financial statements of prior interim periods of the current financial year.**

44 One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy be applied retrospectively to the beginning of the financial year.

## Transitional Provision

45. On the first occasion that an interim financial report is presented in accordance with this Standard, the following need not be presented in respect of all the interim periods of the

current financial year:

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

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

## Illustration 1

## Illustration of Periods Required to Be Presented

*This illustration which does not form part of the Accounting Standard, Illustrates application of the principles in paragraphs 20 and 21. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.*

**Entity Preparing and Presenting Interim Financial Reports Half- Yearly**

1. An entity whose financial year ends on 31 March, presents financial statements (condensed or complete) for following periods in its half-yearly interim financial report as of 30 September 2017:

| | | |
|---|---|---|
| **Balance Sheet:** | | |
| As at | 30 September 2017 | 31 March 2017 |
| **Statement of Profit and Loss:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of changes in equity:** 6 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of Cash Flow[3]:** 6 months ending | 30 September 2017 | 30 September 2016 |

**Enterprise Preparing and Presenting Interim Financial Reports Quarterly**

2. An entity whose financial year ends on 31 March, presents financial statements (condensed or complete) for following periods in its interim financial report for the second quarter ending 30 September 2017:

| | | |
|---|---|---|
| **Balance Sheet:** | | |
| As at | 30 September 2017 | 31 March 2017 |
| **Statement of Profit and Loss:** | | |
| 6 months ending | 30 September 2017 | 30September 2016 |
| 3 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of changes in equity:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of Cash Flow:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |

[3] It is assumed that the entity prepares a cash flow statement for the purpose of its Annual Report.

**Entity whose business is highly seasonal Preparing and Presenting Interim Financial Reports Quarterly**

3. An entity whose financial year ends on 31 March, may present financial statements (condensed or complete) for the following periods in its interim financial report for the second quarter ending 30 September 2017:

| | | |
|---|---|---|
| **Balance Sheet:** | | |
| As at | 30 September 2017 | 31 March 2017 |
| | | 30 September 2016 |
| **Statement of Profit and Loss:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |
| 3 months ending | 30 September 2017 | 30 September 2016 |
| 12 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of changes in equity:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |
| 12 months ending | 30 September 2017 | 30 September 2016 |
| **Statement of Cash Flow:** | | |
| 6 months ending | 30 September 2017 | 30 September 2016 |
| 12 months ending | 30 September 2017 | 30 September 2016 |

## Illustration 2

## Illustration of Applying the Recognition and Measurement Principles

*This illustration, which does not form part of the Accounting Standard, illustrates application of the general recognition and measurement principles set out in paragraphs 28-39 of this Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.*

### Gratuity and Other Defined Benefit Schemes

1. Provisions in respect of gratuity and other defined benefit schemes for an interim period are calculated on a year-to-date basis by using the actuarially determined rates at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

### Major Planned Periodic Maintenance or Overhaul

2. The cost of a major planned periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes unless an event has caused the entity to have a present obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

### Provisions

3. This Standard requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its financial year. The existence or non-existence of an obligation to transfer economic benefits is not a function of the length of the reporting period. It is a question of fact subsisting on the reporting date.

### Year-End Bonuses

4. The nature of year-end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

5. A bonus is anticipated for interim reporting purposes if, and only if, (a) the bonus is a legal obligation or an obligation arising from past practice for which the entity has no realistic alternative but to make the payments, and (b) a reliable estimate of the obligation can be made.

### Intangible Assets

6. An entity will apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period. Costs incurred before the recognition criteria for an intangible asset are met are recognised as an expense. Costs incurred after the specific point in time at which the criteria are met are recognised as part of the cost of an intangible asset. "Deferring" costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year is not justified.

### Other Planned but Irregularly Occurring Costs

7. An entity's budget may include certain costs expected to be incurred irregularly during the financial year, such as employee training costs. These costs generally are discretionary even though they are planned and tend to recur from year to year. Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally is not consistent with the definition of a liability.

### Measuring Income Tax Expense for Interim Period

8. 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.

9. This is consistent with the basic concept set out in paragraph 28 that the same accounting recognition and measurement principles should be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis. Therefore, interim period income tax expense is calculated by applying, to an interim period's pre-tax income, the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate. That estimated average annual income tax rate would reflect the 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. The estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with paragraph 28 of this Standard. Paragraph 16A requires disclosure of a significant change in estimate.

10. To the extent practicable, a separate estimated average annual effective income tax rate is determined for each governing taxation law and applied individually to the interim period pre-tax income under such laws. Similarly, if different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries), to the extent practicable a separate rate is applied to each individual category of interim period pre-tax income. While that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates across such governing taxation laws or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

11. As illustration, an entity reports quarterly, earns Rs. 150 lakhs pre-tax profit in the first quarter but expects to incur losses of Rs 50 lakhs in each of the three remaining quarters

(thus having zero income for the year), and is governed by taxation laws according to which its estimated average annual income tax rate is expected to be 35 per cent. The following table shows the amount of income tax expense that is reported in each quarter:

(Amount in Rs. lakhs)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
|---|---|---|---|---|---|
| **Tax Expense** | 52.5 | (17.5) | (17.5) | (17.5) | 0 |

**Difference in Financial Reporting Year and Tax Year**

12. If the financial reporting year and the income tax year differ, income tax expense for the interim periods of that financial reporting year is measured using separate weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years.

13. To illustrate, an entity's financial reporting year ends 30 September and it reports quarterly. Its year as per taxation laws ends 31 March. For the financial year that begins 1 October, Year 1 ends 30 September of Year 2, the entity earns Rs 100 lakhs pre-tax each quarter. The estimated weighted average annual income tax rate is 30 per cent in Year 1 and 40 per cent in Year 2.

(Amount in Rs. lakhs)

| | Quarter Ending 31 Dec. Year 1 | Quarter Ending 31 Mar. Year 1 | Quarter Ending 30 June Year 2 | Quarter Ending 30 Sep. Year 2 | Year Ending 30 Sep. Year 2 |
|---|---|---|---|---|---|
| **Tax Expense** | 30 | 30 | 40 | 40 | 140 |

**Tax Credits**

14. Tax statutes may provide deductions/exemptions in computation of income for determining tax payable. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate, because these deductions/exemptions are calculated on an annual basis under the usual provisions of tax statutes. On the other hand, tax benefits that relate to a one-time event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate.

**Tax Loss and Tax Credit Carryforwards**

15. A deferred tax asset shall be recognised in respect of carry forward 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. The criteria are to be applied at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the computation of the estimated average annual effective income tax rate.

16. To illustrate, an entity that reports quarterly has an operating unused loss of Rs100 lakhs for income tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The entity earns Rs 100 lakhs in the first quarter of the current year and expects to earn Rs 100 lakhs in each of the three remaining quarters. Excluding the loss carryforward, the estimated average annual income tax rate is expected to be 40 per cent. The estimated payment of the annual tax on Rs. 400 lakhs of earnings for the current year would be Rs. 120 lakhs {(Rs. 400 lakhs - Rs. 100 lakhs) x 40%}. Considering the loss carryforward, the estimated average annual effective income tax rate would be 30% {(Rs. 120 lakhs/Rs. 400 lakhs) x 100}. This average annual effective income tax rate would be applied to earnings of each quarter. Accordingly, tax expense would be as follows:

(Amount in Rs. lakhs)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
|---|---|---|---|---|---|
| **Tax Expense** | 30.00 | 30.00 | 30.00 | 30.00 | 120.00 |

**Contractual or Anticipated Purchase Price Changes**

17. Volume rebates or discounts and other contractual changes in the prices of goods and services are anticipated in interim periods, if it is probable that they will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are not anticipated because the resulting liability would not satisfy the conditions of recognition, viz., that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

**Depreciation and Amortisation**

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

**Inventories**

19. Inventories are measured for interim financial reporting by the same principles as at

financial year end. AS 2 *Inventories*, establishes standards for recognising and measuring inventories. Inventories pose particular problems at any financial reporting date because of the need to determine inventory quantities, costs, and net realisable values. Nonetheless, the same measurement principles are applied for interim inventories. To save cost and time, entities often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. Paragraph 20 below provides an example of how to apply the net realisable value test at an interim date.

**Net Realisable Value of Inventories**

20. The net realisable value of inventories is determined by reference to selling prices and related costs to complete and sell the inventories. An entity will reverse a write-down to net realisable value in a subsequent interim period as it would at the end of its financial year.

**Foreign Currency Translation Gains and Losses**

21. Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year end in accordance with the principles as stipulated in AS 21 on *Effects of Changes in Foreign Exchange Rates*.

**Impairment of Assets**

22. Accounting Standard on Impairment of Assets[4] requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount.

23. An entity applies the same impairment tests, recognition, and reversal criteria at an interim date as it would at the end of its financial year.

[4] Accounting Standard (AS) 36, *Impairment of Assets*, specifies the requirements relating to impairment of assets.

## Illustration 3

## Examples of the Use of Estimates

*This illustration which does not form part of the Accounting Standard, illustrates application of the principles in this Standard. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.*

1. **Provisions:** Determination of the appropriate amount of a provision (such as a provision for warranties, restructuring costs, gratuity, etc.) may be complex and often costly and time-consuming. Entity’s sometimes engage outside experts to assist in annual calculations. Making similar estimates at interim dates often involves updating the provision made in the preceding annual financial statements rather than engaging outside experts to do a new calculation.

2. **Contingencies:** Measurement of contingencies may involve obtaining opinions of legal experts or other advisers. Formal reports from independent experts are sometimes obtained with respect to contingencies. Such opinions about litigation, claims, assessments, and other contingencies and uncertainties may or may not be needed at interim dates.

3. **Specialised industries:** Because of complexity, costliness, and time involvement, interim period measurements in specialised industries might be less precise than at financial year end.

# Appendix 1

*Note 1:This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 34 and the corresponding Indian Accounting Standard (Ind AS) 34, Interim Financial Reporting*

*Note 2: Existing AS 25, Interim Financial Reporting, is taken as base for formulation of upgraded AS 34. Therefore, consistency with paragraph numbers of Ind AS 34 could be achieved to limited extent.*

**Comparison with Ind AS 34, *Interim Financial Reporting***

1. Under AS 34, if an entity is required or elects to prepare and present an interim financial report, it should comply with the standard unless a statute governing the entity or a regulator requires otherwise (paragraphs 1 and 2 of AS 34). Ind AS 34 applies only if an entity is required or elects to prepare and present an interim financial report in accordance with Accounting Standards (paragraph 2 of Ind AS 34). Accordingly, paragraph 19 of Ind AS 34 provides that where an interim financial report has been prepared in accordance with the requirements of Ind AS 34, that fact should be disclosed.

2. Paragraph 5(f) of Ind AS 34 which provides that a complete set of financial statements comprises 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 has been deleted in AS 34 in line with similar deletion under AS 1. However, paragraph number is retained in order to maintain consistency with paragraph numbers of Ind AS 34.

3. Under AS 34, 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 (paragraph 14 of AS 34). However, Ind AS 34 states that it neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis (paragraph 14 of Ind AS 34).

4. Ind AS prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill. There is no such specific mention in AS 34. In this regard, there is Appendix A of Ind AS 34, *Interim Financial Reporting and Impairment*, which addresses the interaction between the requirements of Ind AS 34 and the recognition of impairment losses on goodwill in Ind AS 36. This Appendix has not been included in AS 34.

5. Paragraph 15B of Ind AS 34 provides a lists of events and transactions for which disclosures are required if they are significant. The same has been deleted in AS 34 in order to simplify the Standard for the entities to whom Ind AS are not applicable. However, paragraph number has been retained in order to maintain consistency with paragraph numbers of Ind AS 34. As a result, paragraph 15C of Ind AS 34 has not been included in AS 34.

6. Segment reporting will be based on AS 17, *Segment Reporting*, and not on Ind AS 108, *Operating Segments*. Therefore, disclosures pertaining to segment information required in paragraph 16A(g) are based on AS 17.

7. AS 34 requires that a change in accounting policy, other than one for which the transition is specified by an Accounting Standard, shall be reflected by restating the financial statements of prior interim periods of the current financial year. However, Ind AS 34 additionally requires restatement of financial statements of comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8, subject to specific provisions when such restatement is impracticable.

8. AS 34 contains a transition provision that 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 preceding financial year (paragraph 45 of AS 34). Ind AS 34 does not have this transitional provision.

9. Following Illustrations of AS 25 have been included in AS 34:
   (i) Illustration of Periods Required to Be Presented
   (ii) Illustration of Applying the Recognition and Measurement Principles
   (iii) Illustration on Examples of the Use of Estimates

   These illustrations are not there in Ind AS 34.

10. The following paragraphs appear as deleted in Ind AS 34. In order to maintain consistency with paragraph numbers of Ind AS 34, the paragraph numbers have been retained in AS 34:
    (i) Paragraph 8A
    (ii) Paragraphs 11A-13
    (iii) Paragraph 16
    (iv) Paragraph 16A(l)
    (v) Paragraphs 17-18
    (vi) Paragraphs 22
    (vii) Paragraph 40
    (viii) Paragraph 42

## Appendix 2

*Note 1:This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 34 and the Accounting Standard (AS) 25, Interim Financial Reporting*

**Comparison with AS 25, *Interim Financial Reporting***

1. As per AS 25, the contents of an interim financial report include, at a minimum, a condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement and selected explanatory notes. AS 34 requires, in addition to the above, a condensed statement of changes in equity. (Consequential to change in AS 1).

2. Reference to extraordinary items (in the context of materiality) has been deleted in AS 34 in line with AS 1. (Paragraph 25) However, AS 25 contains the reference of extraordinary items.

3. 'Illustration I: *Illustrative Format of Condensed Financial Statements*' of AS 25 has not been included in AS 34.