Accounting Standard (AS) 25
(issued 2002)

Interim Financial Reporting

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[This Accounting Standard includes paragraphs set in ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective, the Preface to the Statements of Accounting Standards[1] and the 'Applicability of Accounting Standards to Various Entities' (See Appendix 1 to this Compendium).]*

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 enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity.

Scope

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

2. A statute governing an enterprise or a regulator may require an enterprise 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.

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[1] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which Accounting Standards are intended to apply only to items which are material.

3. The requirements related to cash flow statement, complete or condensed, contained in this Standard are applicable where an enterprise 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:

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

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

5. During the first year of operations of an enterprise, 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

6. A complete set of financial statements normally includes:

(a) balance sheet;

(b) statement of profit and loss;

(c) cash flow statement; and

(d) notes including those relating to accounting policies and other statements and explanatory material that are an integral part of the financial statements.

7. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an enterprise 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.

8. This Standard does not prohibit or discourage an enterprise 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 enterprise 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 16) as well as those required by other Accounting Standards.

Minimum Components of an Interim Financial Report

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

- ***(a) condensed balance sheet;***
- ***(b) condensed statement of profit and loss;***
- ***(c) condensed cash flow statement; and***
- ***(d) selected explanatory notes.***

Form and Content of Interim Financial Statements

10. If an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements.

11. If an enterprise prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements

should 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 should be included if their omission would make the condensed interim financial statements misleading.

12. If an enterprise presents basic and diluted earnings per share in its annual financial statements in accordance with Accounting Standard (AS) 20, Earnings Per Share, basic and diluted earnings per share should be presented in accordance with AS 20 on the face of the statement of profit and loss, complete or condensed, for an interim period.

13. If an enterprise'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.

14. Illustration I attached to the Standard provides illustrative format of condensed financial statements.

Selected Explanatory Notes

15. A user of an enterprise's interim financial report will ordinarily have access to the most recent annual financial report of that enterprise. 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. 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 enterprise since the last annual reporting date is more useful.

16. An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:

- ***(a) 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, 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 (see paragraphs 12 to 14 of Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies);***

(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, buy-backs, repayments and restructuring of debt, equity and potential equity shares;***

(f) ***dividends, aggregate or per share (in absolute or percentage terms), separately for equity 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 enterprise's primary basis of segment reporting (disclosure of segment information is required in an enterprise's interim financial report only if the enterprise is required, in terms of AS 17, 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 enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and***

(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 enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.

17. Other Accounting Standards specify disclosures that should 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 enterprise's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.

Periods for which Interim Financial Statements are required to be presented

18. Interim reports should 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) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.***

19. For an enterprise 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, enterprises whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in the preceding paragraph.

20. Illustration 2 attached to the Standard illustrates the periods required to be presented by an enterprise that reports half-yearly and an enterprise that reports quarterly.

Materiality

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

22. The Preface to the Statements of Accounting Standards states that "The Accounting Standards are intended to apply only to items which are material". The Framework for the Preparation and Presentation of Financial Statements, issued by the Institute of Chartered Accountants of India, states that "information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information".

23. 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 or extraordinary items, changes in accounting policies or estimates, and prior period items 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 enterprise's financial position and performance during the interim period.

Disclosure in Annual Financial Statements

24. An enterprise 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 25 requires certain disclosures to be made in the annual financial statements for that financial year.

25. 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 should be disclosed in a note to the annual financial statements for that financial year.

26. Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, 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 16(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 5 requirements and is intended to be restricted in scope so as to relate only to the change in estimates. An enterprise is not required to include additional interim period financial information in its annual financial statements.

Recognition and Measurement

Same Accounting Policies as Annual

27. An enterprise should 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 enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis.

28. Requiring that an enterprise 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 enterprise's reporting should not affect the measurement of its annual results, paragraph 27 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.

29. 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 enterprise would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount;

(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.

30. 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 dates.

31. For assets, the same tests of future economic benefits apply at interim dates as they apply at the end of an enterprise'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 date must represent an existing obligation at that date, just as it must at an annual reporting date.

32. 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.

33. In measuring assets, liabilities, income, expenses, and cash flows reported in its financial statements, an enterprise 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.

34. An enterprise 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 16(d) and 25 require, however, that the nature and amount of any significant changes in estimates be disclosed.

35. An enterprise 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 16(d) and 25 require, however, that the nature and amount of any significant changes in estimates be disclosed.

Revenues Received Seasonally or Occasionally

36. Revenues that are received seasonally or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise's financial year.

37. Examples include dividend revenue, royalties, and government grants. Additionally, some enterprises 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

38. Costs that are incurred unevenly during an enterprise's financial year should 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

39. Illustration 3 attached to the Standard illustrates application of the general recognition and measurement principles set out in paragraphs 27 to 38.

Use of Estimates

40. The measurement procedures to be followed in an interim financial report should 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 enterprise 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.

41. Illustration 4 attached to the Standard illustrates the use of estimates in interim periods.

Restatement of Previously Reported Interim Periods

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

43. 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 42 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

44. 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

Illustrative Format of Condensed Financial Statements

This illustration which does not form part of the Accounting Standard, provides illustrative format of condensed financial statements. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Paragraph 11 of the Accounting Standard provides that if an enterprise prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements should 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 the Standard. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.*

The purpose of the following illustrative format is primarily to illustrate the requirements of paragraph 11 of the Standard. It may be noted that these illustrative formats are subject to the requirements laid down in the Standard including those of paragraph 11.

Illustrative Format of Condensed Financial Statements for an enterprise other than a bank

(A) Condensed Balance Sheet

	Figures at the end of the current interim period	Figures at the end of the previous accounting year
I. Sources of Funds		
1. Capital		
2. Reserve and surplus		
3. Minority interests (in case of consolidated financial statements)		
4. Loan funds: (a) Secured loans (b) Unsecured loans		
Total		
II. Application of Funds		
1. Fixed assets (a) Tangible fixed assets (b) Intangible fixed assets		
2. Investments		
3. Current assets, loans and advances (a) Inventories (b) Sundry debtors (c) Cash and bank balances (d) Loans and advances (e) Others		
Less: Current liabilities and provisions (a) Liabilities (b) Provisions		
Net Current assets		
4. Miscellaneous expenditure to the extent not written off or adjusted		
5. Profit and loss account		
Total		

(B) Condensed Statement of Profit and Loss

	Three months ended	Corresponding three months of the previous accounting year	Year-to-date figures for current period	Year-to-date figures for the previous year
1. Turnover				
2. Other Income				
Total				
3. Changes in inventories of finished goods and work in progress				
4. Cost of raw materials and consumables used				
5. Salaries, wages and other staff costs				
6. Other expenses				
7. Interest				
8. Depreciation and amortisations				
Total				
9. Profit or loss from ordinary activities before tax				
10. Extraordinary items				
11. Profit or loss before tax				
12. Tax expense				
13. Profit or loss after tax				
14. Minority Interests (in case of consolidated financial statements)				
15. Net profit or loss for the period				
Earnings Per Share 1. Basic Earnings Per Share 2. Diluted Earnings Per Share				

(C) Condensed Cash Flow Statement

	Year-to-date figures for the current period	**Year-to-date figures for the previous year**
1. Cash flows from operating activities		
2. Cash flows from investing activities		
3. Cash flows from financing activities		
4. Net increase/(decrease) in cash and cash equivalents		
5. Cash and cash equivalents at beginning of period		
6. Cash and cash equivalents at end of period		

(D) Selected Explanatory Notes

This part should contain selected explanatory notes as required by paragraph 16 of this Standard.

Illustrative Format of Condensed Financial Statements for a Bank

(A) Condensed Balance Sheet

	Figures at the end of the current interim period	Figures at the end of the previous accounting year
I. Capital and Liabilities		
1. Capital		
2. Reserve and surplus		
3. Minority interests (in case of consolidated financial statements)		
4. Deposits		
5. Borrowings		
6. Other liabilities and provisions		
Total		
II. Assets		
1. Cash and balances with Reserve Bank of India		
2. Balances with banks and money at call and short notice		
3. Investments		
4. Advances		
5. Fixed assets (a) Tangible fixed assets (b) Intangible fixed assets		
6. Other Assets		
Total		

(B) Condensed Statement of Profit and Loss

	Three months ended	Corresponding three months of the previous accounting year	Year-to-date figures for current period	Year-to-date figures for the previous year
	1	2	3	4
1. Interest earned (a) Interest/discount on advances/bills (b) Interest on Investments (c) Interest on balances with Reserve Bank of India and other inter banks funds (d) Others				
2. Other Income				
Total Income				
1. Interest expended				
2. Operating expenses (a) Payments to and provisions for employees (b) Other operating expenses				
3. Total expenses (excluding provisions and contingencies)				
4. Operating profit (profit before provisions and contingencies)				
5. Provisions and contingencies				
6. Profit or loss from ordinary activities before tax				
7. Extraordinary items				
8. Profit or loss before tax				
9. Tax expense				

(B) Condensed Statement of Profit and Loss *(Contd.)*

	Three months ended	Corresponding three months of the previous accounting year	Year-to-date figures for current period	Year-to-date figures for the previous year
10. Profit or loss after tax				
11. Minority Interests (in case of consolidated financial statements)				
12. Net profit or loss for the period				
Earnings Per Share 1. Basic Earnings Per Share 2. Diluted Earnings Per Share				

(C) Condensed Cash Flow Statement

	Year-to-date figures for the current period	Year-to-date figures for the previous year
1. Cash flows from operating activities		
2. Cash flows from investing activities		
3. Cash flows from financing activities		
4. Net increase/(decrease) in cash and cash equivalents		
5. Cash and cash equivalents at beginning of period		
6. Cash and cash equivalents at end of period		

(D) Selected Explanatory Notes

This part should contain selected explanatory notes as required by paragraph 16 of this Standard.

Illustration 2

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 18 and 19. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

Enterprise Preparing and Presenting Interim Financial Reports Half-Yearly

1. An enterprise 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 2001:

Balance Sheet:		
As at	30 September 2001	31 March 2001
Statement of Profit and Loss:		
6 months ending	30 September 2001	30 September 2000
Cash Flow Statement[2]:		
6 months ending	30 September 2001	30 September 2000

Enterprise Preparing and Presenting Interim Financial Reports Quarterly

2. An enterprise 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 2001:

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

Balance Sheet:		
As at	30 September 2001	31 March 2001
Statement of Profit and Loss:		
6 months ending	30 September 2001	30 September 2000
3 months ending	30 September 2001	30 September 2000
Cash Flow Statement:		
6 months ending	30 September 2001	30 September 2000

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

3. An enterprise 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 2001:

Balance Sheet:		
As at	30 September 2001	31 March 2001
		30 September 2000
Statement of Profit and Loss:		
6 months ending	30 September 2001	30 September 2000
3 months ending	30 September 2001	30 September 2000
12 months ending	30 September 2001	30 September 2000
Cash Flow Statement:		
6 months ending	30 September 2001	30 September 2000
12 months ending	30 September 2001	30 September 2000

Illustration 3

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 27-38 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 enterprise 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 enterprise 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 enterprise has no realistic alternative but to make the payments, and (b) a reliable estimate of the obligation can be made.

Intangible Assets

6. An enterprise 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 enterprise'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 27 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 effective annual 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 27 of this Standard. Paragraph 16(d) 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 enterprise 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 enterprise'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 enterprise 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 Deductions/Exemptions

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 Carryforwards

15. A deferred tax asset should be recognised in respect of carryforward tax losses to the extent that it is virtually certain, supported by convincing evidence, that future taxable income will be available against which the deferred tax assets can be realised. 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 enterprise that reports quarterly has an operating loss carryforward of Rs 100 lakhs for income tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The enterprise 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 on Valuation of 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, enterprises 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 enterprise 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 11 on Accounting for the Effects of Changes in Foreign Exchange Rates.

Impairment of Assets

22. Accounting Standard on Impairment of Assets[3] requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount.

23. An enterprise applies the same impairment tests, recognition, and reversal criteria at an interim date as it would at the end of its financial year. That does not mean, however, that an enterprise must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an enterprise will assess the indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed.

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[3] Accounting Standard (AS) 28, 'Impairment of Assets', specifies the requirements relating to impairment of assets.

Illustration 4

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. Enterprises 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. An example is calculation of insurance reserves by insurance companies.