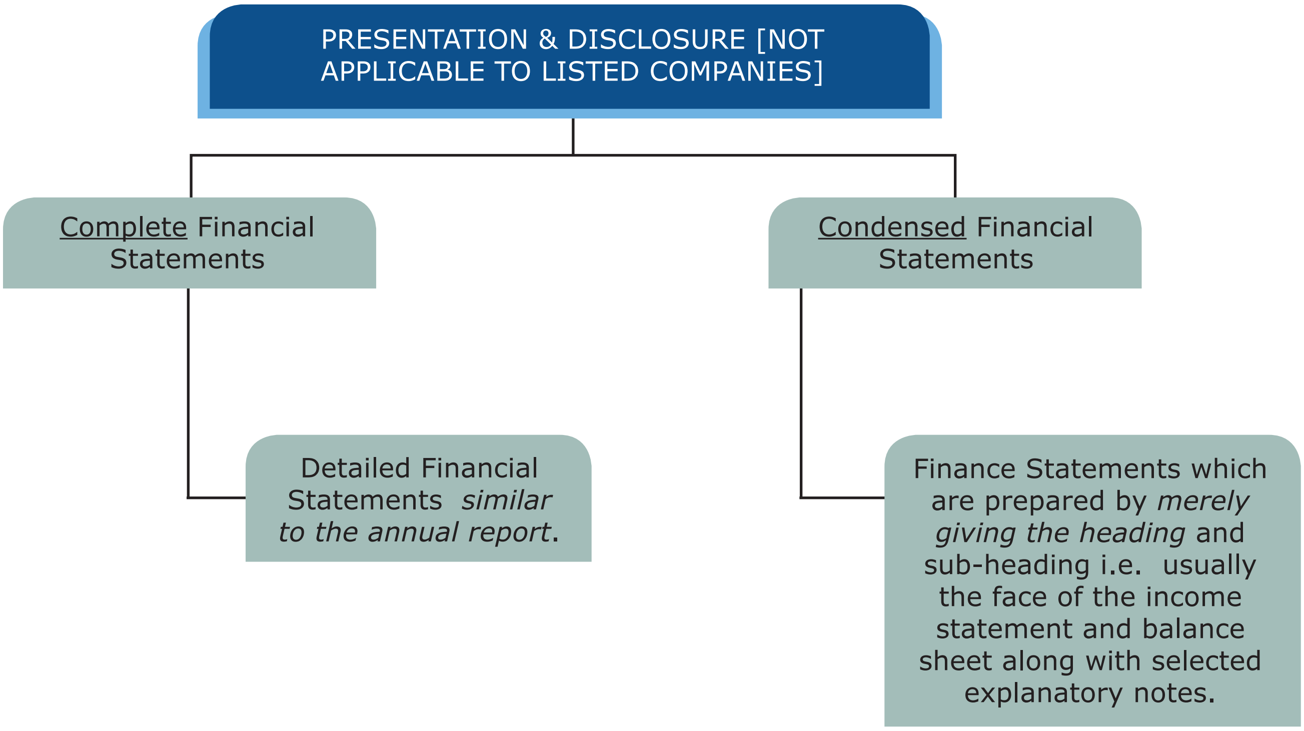
AS 25 – INTERIM FINANCIAL REPORTING

(I) Interim Period

It is defined as a period shorter than a Financial Year. (not necessarily shorter than 12 months). *For e.g., in the year of incorporation, the Financial Year starts from the date of incorporation up to 31st March*. This is not an interim period as it represents the entire Financial Year. (Irrespective of whether it is shorter than 12 months or not)

(II) Presentation and Disclosure



Selected Explanatory Notes – Condensed Financial Statements

1. **Accounting Policies:** Only those policies which have changed during the interim period should be disclosed.
2. **Seasonality:** A separate notes needs to be given for seasonal business. *Example:* Fire crackers.
3. **Other Mandatory Notes:** (To be given only for Material Items)

   Example - Share Issue, Buyback, Business Combination, Demerger, Segment Reporting and Contingent Liabilities.

(III) Recognition and measurement

RECOGNITION & MEASUREMENT
[APPLICABLE TO LISTED COMPANIES AS WELL]

Discrete View

Views each interim period as an **independent (discrete)** period

Expenses/Incomes accruing in the interim period should be recorded in that period

All items (except income tax) will follow discrete view

Integral View

Views the interim period to be a **part of the financial year**

Only income tax is to be accounted as per integral view

(IV) Application of The Integral View To Income Tax

1. Calculate **estimated annual accounting income**. This is to be calculated as per books of account i.e. we should ignore carry forward losses of the previous years, but the losses of the current year should be considered.
2. Calculate **Annual Tax Expenses based on Taxable Profit** (As per Income Tax Act) This tax is calculated after considering carry forward losses of the previous years as well as losses of the current year and the slab rates.
3. Calculate weighted Average Tax Rate (W.A.T.R)

   i.e. $$\text{WATR} = \frac{\text{Annual Tax Expense (Step-2)}}{\text{Annual Accounting Income (Step-1)}} \times 100$$
4. Tax Expense for quarter = Accounting Profit/Loss for quarter x WATR

   The above step 4 is possible only if there is no change in the estimate of income. In case the estimate subsequently changes, we need to recalculate the WATR based on the revised annual estimate and the tax expense should be recorded as follows:

   (Accounting Income Till Date x Revised WATR) – Tax earlier Recorded

CASE – I : Slab Rates

Mr X has the following estimates of income.

Q1 – 1,00,000, Q2 – 2,00,000, Q3 – 3,00,000, Q4 – 4,00,000.

Calculate tax expense to be recorded in each quarter considering the slab rates of 18 – 19 and ignoring surcharge and cess. Further, after earning 1,00,000 and 2,00,000 in Q1 and Q2, Mr X actually earns 4,00,000 in Q3 and revises his estimate of Q4 to 5,00,000 which he actually earns in Q4. Find the tax to be recorded in each Quarter.

Solution:

Q1 and Q2

1. Annual Accounting Income = 10,00,000 [1 + 2 + 3 + 4]
2. Tax (Annual): 0 + 12,500 + 1,00,000 = 1,12,500
   1. W.A.T.R = $\frac{1,12,500}{10,00,000}$ x 100 = 11.25%
   2. Tax Expense
      Q1: 1,00,000 x 11.25% = 11,250
      Q2: 2,00,000 x 11.25% = 22,500

   As the income changes from Q3, we will have to recalculate the WATR as follows:

Q3 and Q4

1. Revised Annual A/C Income = 12,00,000 [1 + 2 + 4 + 5]
2. Revised Annual Tax: 0 + 12,500 + 1,00,000 + [(12,00,000 – 10,00,000) x 30%]
   = 1,72,500
3. Revised W.A.T.R = $\frac{1,75,200}{12,00,000}$ x 100 = 14.375%
4. Tax Expense
   Q3: [(1,00,000 + 2,00,000 + 4,00,000) x 14.375%] – 11,250 – 22,500
   = 1,00,625 – 33,750
   = 66,875
   Q4: 5,00,000 x 14.375% = 71,875

CASE – II: Carry Forward Losses

X Ltd, has carry forward losses of Rs 100 from the previous year. It earns Rs 100 in Q1 and expects to earn 100 each from Q2 up to Q4. Calculate Tax expenses for Q1 and Q2 taking a flat tax rate of 30%. Ignoring surcharge and cess. Ignore Deferred Tax.

Solution:

1. Annual A/c Income: [100 x 4] = 400
2. Annual Tax: (400 – 100) x 30% = 90
3. W.A.T.R: $\frac{90}{400}$ x 100 = 22.5%
4. Tax Expense:

Q1: 100 x 22.5% = 22.5

Q2: 100 x 22.5% = 22.5

(V) Special Cases

(a) **Changes in Accounting Policies**

In case there is a change in accounting policy (e.g.: FIFO to WAM) the effect would be retrospectively adjusted in each quarter to which it pertains.

(b) **Applicability of AS 25 to Listed Companies**

The Presentation & Disclosure of Quarterly Reports would be based on the formats prescribed under clause 41 of the listing agreement and not as per AS 25 However, the measurement & recognition principles of AS 25 continue to apply to listed companies (i.e. Discrete and Internal)

(c) In case an entity prepares a consolidated interim report, the standalone report is optional.