

AS 5 - Expert Summary

1. Profit or Loss from Ordinary Activities

Explanation: These are regular business activities – things the company does every day. Income and expenses from regular operations are shown here.

Treatment: Include in the main section of Profit and Loss statement as normal items.

Examples / Illustrative List:

- Sales revenue
- Cost of goods sold
- Salary expenses
- Electricity bills
- Profit/loss on sale of inventory
- Routine service income

2. Profit or Loss from Extraordinary Activities

Explanation: These are rare, unexpected events not related to the normal business activities.

Treatment: Disclose separately in P&L statement. Mention nature and amount clearly.

Examples / Illustrative List:

- Earthquake loss
- Property seizure by govt
- Flood damage in dry area
- Fire loss not covered by insurance

3. Exceptional Items

Explanation: Big or unusual items from normal activities, not formally defined in AS 5 but disclosed for clarity.

Treatment: Show separately under ordinary activities in P&L with a note.

Examples / Illustrative List:

- Inventory write-down
- Litigation settlement
- Restructuring costs

- • Big loss/gain on asset sale
- • One-time bad debt write-off

4. Prior Period Items

Explanation: Income/expenses arising due to error or omission in past financial statements.

Treatment: Disclose separately in current year's P&L. Explain nature and amount.

Examples / Illustrative List:

- • Missed expense from last year
- • Wrong calculation of stock
- • Math error in prior year
- • Forgotten income entry

5. Changes in Accounting Estimates

Explanation: Revised assumptions due to new info or experience. Estimates are approximations, so they may change.

Treatment: Effect shown in current and future periods. Disclose if material.

Examples / Illustrative List:

- • Useful life of asset changes
- • Bad debts estimate updated
- • Change in warranty claim provision

6. Changes in Accounting Policies

Explanation: Shifting from one accounting principle to another (e.g., from SLM to WDV) only if required or for better presentation.

Treatment: Disclose clearly in financials. Show impact if material.

Examples / Illustrative List:

- • Changing depreciation method
- • Adopting new inventory valuation method
- • Switching from cash to accrual basis