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CHAPTER

INTERIM FINANCIAL REPORTING (IND AS-34)

22.1 What is Interim Financial Reporting (IFR)?

Interim financial reporting is the reporting for periods of shorter than a full financial year, generally for a period of three months or quarterly results. The companies are required to publish the financial results on a quarterly basis.

As per this Standard, Interim Financial Report means a financial report containing either a complete set of financial statement or set of condensed financial statement for an interim period. Interim period is a period of reporting shorter than a full financial year.

22.2 Need and Objective

Timely and reliable interim financial reporting improves the ability of users to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

In general the basic objective of Interim Financial Reporting (IFR) is to provide frequent and timely assessment of entity's performance. However interim reporting has inherent limitation, which is not the case of annual accounts as the reporting period is shortened, the effect of errors in estimations and allocation are magnified. The proper allocation of operation expenses is a significant concern. The main problems are:

- Proper allocation of operating expenses.
- Some operating expenses may be incurred in one interim period and yet benefit the full year operation. For example, advertising expenses, repair and maintenance expenses.
- Seasonal fluctuation - for some entities revenue may be seasonal or cyclical and therefore concentrated in certain interim period.

- Year-end events. For example-Bonus, Incentive based on annual sales target.
- Determination of appropriate amount of provision - pension, gratuity, litigation, contingencies etc.
- Income-tax expenses - one interim period may have profit and next interim period may have losses.

The objective of this standard is to prescribe the minimum content of Interim Financial Report (IFR) and to prescribe the principles for recognition and measurement in a complete or condensed financial statement for an interim period.

22.3 Scope

This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards.

22.4 What are financial statements?

Ind AS-1 defines a complete set of financial statements:

- a balance sheet as at the end of the period;
- a statement of profit and loss for the period;
- a statement for change in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- a balance sheet as at the beginning of the earliest comparative 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.

22.5 Principles of recognition and measurements

As the objective of this Standard is to prescribe the principle for recognition and measurement of income, expenses, assets and liabilities in a complete or condensed financial statements *i.e.* Balance Sheet, Statement of profit and loss, Statement of Cash flow and Accounting Notes and Policies, there

may be two distinctive principles/views of recognition and measurement of income and expenses in interim financial reporting:

- Integral View
- Discrete View

22.5-1 Integral view

This approach treats the interim period as a component/part of the full year. Under this approach, items are allocated to interim periods based on estimates of the total amount for the full year. Costs and expenses are accrued or deferred between interim periods to 'smooth' the results across the year. In practice a full 'integral' approach would involve creating a separate series of accounting standards for interim financial reporting to formalize the criteria to be used for estimating the full year out-turn, dealing with uncertainty and other issues.

22.5-2 Discrete view

An approach to view the interim period in essentially the same manner as a full year, figures are calculated and accruals and estimates made in exactly the same manner as would be the case at the year end.

Ind AS-34 resolves the debate by prescribing the discrete view in general. As per the Standard, income and expenses should be recognized/measured on year to date basis for interim reporting. Year to date basis means financial reporting for the period, which begins on the first day of the fiscal and year ends on given interim date.

Ind AS-34 requires that an entity apply the same accounting policies in its interim financial statements as in its annual 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, 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 recognizing assets, liabilities, income, and expenses for interim periods are the same as in annual financial statements.

For example, X Ltd. prepares the financial report for the first quarter of financial year 2015-2016 *i.e.* 1st April, 2015 to 30th June, 2015 for interim financial reporting purpose. Year to date basis means 1st April, 2015 to 30th June, 2015. If it prepare IFR for second quarter *i.e.,* 1st July, 2015 to 30th September, 2015. Year to date basis means 1st April, 2015 to 30th September 2015 and so on.

Exception to discrete view- However, there is a deviation in recognizing the Income-tax expenses, which is not based on discrete view as explained above.

As per the standard the income-tax expenses is recognized in each interim period on the best estimate of the *Weighted Average Annual Effective Income-tax Rate* expected for the full financial year.

This is consistent with the basic concept that the same accounting recognition and measurement principles shall be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis.

22.6 What is estimated annual effecting tax rate?

An expected annual tax rate which reflects estimates of annual earnings tax rate, tax credits etc. 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.

22.6-1 Measuring interim income tax expense

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.

Example1: An entity reporting quarterly expects to earn ₹ 10,000 pre-tax each quarter and operates in a jurisdiction with a tax rate of 20% on the first ₹ 20,000 of annual earnings and 30% on all additional earnings. Actual earnings match expectations. The following table shows the amount of income-tax expense that is reported in each quarter:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax Expense (₹)	2,500	2,500	2,500	2,500	10,000

Total income for the full year = 10000 × 4 = ₹ 40,000

Total tax payable for the full year: 20% on ₹ 20,000 = ₹ 4,000 and 30% on ₹ 20,000 = ₹ 6,000;

Total tax ₹ 10,000; Annual effective tax rate = 10,000/40,000×100 = 25%

Therefore, tax for each quarter = ₹ 10,000×25% = ₹ 2,500 per quarter

Example 2: An entity reports quarterly, earns ₹ 15,000 pre-tax profit in the 1st quarter but expects to incur losses of ₹ 5,000 in each of the 3 remaining quarters (thus having zero income for the year), and operates in a jurisdiction in which its estimated average annual income-tax rate is expected to be 20% . The following table shows the amount of income-tax expense that is reported in each quarter:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax Expenses (₹)	3,000	(1,000)	(1,000)	(1,000)	0

Effective tax rate in this case will be 20% only and will be applied to each quarter.

22.6-2 Difference in financial reporting year and tax year

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.

Example 3: An entity's financial reporting year ends 30th June and it reports quarterly. Its taxable year ends 31st December. For the financial year that begins 1 July, Year 1 and ends 30th June, Year 2, the entity earns ₹ 10,000 pre-tax each quarter. The estimated average annual income-tax rate is 30% in Year 1 and 40% in Year 2.

	Quarter ending 30th Sep.	Quarter ending 31 Dec.	Quarter ending 31 Mar.	Quarter ending 30 June	Year ending 30 June
Tax Expenses (₹)	3,000	3,000	4,000	4,000	14,000

22.6-3 Tax credits

Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditures, exports, research and development expenditures, or other bases. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income-tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations.

On the other hand, tax benefits that relate to a one-time event are recognized 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. Moreover, in some jurisdictions tax benefits or credits, including those related to capital expenditures and levels of exports, while reported on the income-tax return, are more similar to a government grant and are recognized in the interim period in which they arise.

22.6-4 Tax loss and tax credit carry backs and carry forwards

The benefits of a tax loss carry back are reflected in the interim period in which the related tax loss occurs. Ind AS-12 provides that 'the benefit relating to a tax loss that can be carried back to recover current tax of a

previous period shall be recognized as an asset'. A corresponding reduction of tax expense or increase of tax income is also recognized.

Ind AS-12 provides that 'a deferred tax asset shall be recognized for the 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 utilized'. Ind AS-12 provides criteria for assessing the probability of taxable profit against which the unused tax losses and credits can be utilized. Those criteria are applied at the end of each interim period and, if they are met, the effect of the tax loss carry forward is reflected in the computation of the estimated average annual effective income tax rate.

Example 4: an entity that reports quarterly has an operating loss carry forward of ₹ 10,000 for income-tax purposes at the start of the current financial year for which a deferred tax asset has not been recognized. The entity earns ₹ 10,000 in the 1st quarter of the current year and expects to earn ₹ 10,000 in each of the 3 remaining quarters. Excluding the carry forward, the estimated average annual income tax rate is expected to be 40%. Tax expense is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax Expenses (₹)	3,000	3,000	3,000	3,000	12,000

Total taxable income for full year: ₹ (10,000×4) - 10,000 (carry forwards loss) = ₹ 30,000.

Tax on ₹ 30,000@40% = ₹ 12,000

Estimated annual effecting tax rate = 12000/40000 × 100 = 30%

Tax expense each quarter = ₹ 1000@30% = ₹ 3,000

22.7 Accounting Policies

An entity should apply the same accounting policies in the interim financial statements as are applied in the annual financial statements.

22.8 Minimum Components of Interim Financial Report

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

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

22.9 Form and contents of interim financial statements

An interim financial report can contain either a complete set of financial statements or a set of condensed financial statements.

22.9-1 Complete financial statements

If an entity opts to prepare and presents a complete set of financial statements in the interim financial reporting. It should be prepared in the same format and as per the contents and requirements of annual financial statements.

22.9-2 Condensed financial statements

A condensed interim financial reporting should contain the following minimum information:

- Headings and sub-totals that was included. In the most recent annual financial statements
- Selected Explanatory Notes
- Additional items or notes if there omission makes the interim financial reporting misleading
- Basic and diluted earning per share for the interim period as per Ind AS-33 (not to be annualized) (on the face Statement of profit and loss)

22.9-3 Selection of explanatory notes

Criteria adopted for selection of explanatory notes to be included in interim financial report is updating the financial information, it is assumed that the users of interim financial report are having access to the most recent annual financial statements therefore notes to interim financial report should provide information on financial year to date basis. However it is necessary to disclose any events or transactions, which are material for understanding the interim financial reporting.

22.9-4 The reporting entity

If the reporting entity's most recent annual financial statements were prepared on a consolidated basis, then the interim report should be prepared on the same basis. To publish an interim report that dealt only with the reporting entity and not with its subsidiaries would not be consistent or comparable with the most recent annual financial statements. If the most recent consolidated financial statements included the parent entity's financial statements then the interim financial report may, but is not required, to do so.

22.10 Minimum disclosure of notes

Following minimum disclosure of notes and explanatory statements should be made:

- A statement that the same accounting policies are followed in the Interim financial statements as these followed in the most recent annual financial statements or, if these policies have been changed, a description of the nature and effect of the change.
- Description about the seasonal or cyclical effect on interim financial year.
- Unusual factors that affected assets, liabilities, equity, net income, and cash flow.
- Effect of change in estimates.
- Change in debt and equity through issuance, repurchase and repayments.
- Details of dividend payment.
- Segment revenue, segment result for business segment or geographical segment, whichever is the primary basis of the reporting entity.
- Effect of changes in composition of the entity during interim period, change in composition includes business combination, acquisition, restructuring, disposal of subsidiaries etc.

22.11 Significant events and transactions

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

The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.

- the write-down of inventories to net realizable value and the reversal of such a write-down
- recognition of a loss from the impairment of financial assets, contract assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
- the reversal of any provisions for the costs of restructuring;
- acquisitions and disposals of items of property, plant and equipment;

- commitments for the purchase of property, plant and equipment;
- litigation settlements;
- corrections of prior period errors;
- changes in the business or economic circumstances that affect the fair value of the entity's financial assets
- and financial liabilities, whether those assets or liabilities are recognized at fair value or amortized cost;
- any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and
- related party transactions;
- transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
- changes in contingent liabilities or contingent assets.

22.12 Materiality

Materiality is one of the most fundamental concepts underlying financial report; therefore Standard provides that in deciding how to recognize measure, classify or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data.

Ind AS 1 defines material information and requires separate disclosures of material items.

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.

22.13 Examples of applying the recognition and measurement principles

- ***Seasonal/Occasional Revenue*** **-** As explained earlier the discrete view is taken for measurement and recognizing the revenues therefore such revenue are recognized when they occur. Revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. Examples include dividends, royalties and Government grants.

Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, *e.g.* seasonal revenues of retailers. Such revenues are recognized when they occur.

- ***Cost incurred unevenly during the financial year*** - Costs that are incurred unevenly during an entity'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.
- ***Changes in Estimate*** - Amounts of income and expenditure reported in the current interim period will reflect any change in estimates of amounts reported in prior interim period of the financial year. The amount reported in prior interim period is not retrospectively adjusted; however any significant change in estimates may be disclosed.
- ***Foreign currency translation gains and losses*** - An entity measures foreign currency translation gains and losses for interim financial reporting by the same principles as at financial year end in accordance with the principles as stipulated in Ind AS-21 "The effects of Changes in Foreign Exchange Rates."
- ***Major planned periodic maintenance or overhaul*** - The cost of major 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.
- ***Intangible assets*** - An entity applies the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period. An entity should not 'defer' costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year.
- ***Contractual or anticipated purchase price changes*** - An entity anticipates volume rebates or discounts and other contractual changes in the prices of goods and services in interim periods if it is probable that they will take effect. However, it does not anticipate discretionary rebates and discounts because the resulting liability would not satisfy the conditions of recognition.
- ***Inventories*** - An entity measures inventories for interim financial reporting by the same principles as at the financial year-end. However, to save expense and time, entity often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates.

- ***Net realizable value of inventories*** - An entity determines the net realizable value of inventories by reference to selling prices and related costs to complete and sell the inventories. It reverses a write-down to net realizable value in a subsequent interim period only it as it would be appropriate to do so at the end of the financial year.
- ***Impairment of assets*** - 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. That does not mean an entity must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an entity will review for indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed.
- ***Depreciation and amortization*** - Depreciation and amortization 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.
- ***Pension, Gratuity and other defined benefit schemes*** - An entity should estimate provisions in respect of gratuity and other defined benefit schemes for an interim period on a year-to-date basis by using the actuarially determined rates at the end of the prior financial year. This should be adjusted for significant market fluctuations since that time and significant curtailment, settlements, or other significant one-time events.
- ***Year-end bonuses*** - An entity anticipates a bonus for interim reporting purposes only if, (*a*) the bonus in a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments; and (*b*) a reliable estimate of the obligation can be made.
- ***Provisions*** - An entity applies the same criteria of recognizing and measuring a provision at an interim date as it would at the end of the financial year. The facts subsisting at the balance sheet date determine whether there exists a present obligation that meets the definition and recognition criteria of a liability. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognized in profit or loss, if the entity's best estimate of the amount of the obligation changes.
- ***Short-term employee benefits: Vacations, holidays*** - The employee benefits payable within 12 months from the end of the interim reporting period are considered to be short-term. The principles for recognizing assets, liabilities, income and expenses for interim periods are the same

as in annual financial statements. However, the frequency of reporting should not affect the measurement of annual result.

- ***Contingent lease payments*** - Contingent lease payments can be an example of a legal or constructive obligation that is recognized as a liability. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation can arise in the interim periods of the financial year before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the entity, therefore, has no realistic alternative but to make the future lease payment.

Following is the illustrative example to understand the periods for which interim financial statements are required to be presented.

Scenario (*a*) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31 March (Financial year). The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 30 September 20X2:

Name of the component	Current period	Comparative period
Balance sheet as at	30 September 20X2	31 March 20X2
Statement of profit and loss : 6 months ending	30 September 20X2	30 September 20X1
Statement of cash flows : 6 months ending	30 September 20X2	30 September 20X1
Statement of changes in equity : 6 months ending	30 September 20X2	30 September 20X1

Scenario (*b*) Entity publishes interim financial reports quarterly

The entity's financial year ends 31 March (Financial year). The entity will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 30 September 20X2:

Name of the component	Current periods	Comparative periods
Balance sheet as at	30 September 20X2	31 March 20X2
Statement of profit and loss : 6 months ending; and 3 months ending	 30 September 20X2; and 30 September 20X2	 30 September 20X1; and 30 September 20X1
Statement of cash flows : 6 months ending	30 September 20X2	30 September 20X1
Statement of changes in equity : 6 months ending	30 September 20X2	30 September 20X1

22.14 Restatement of previously reported interim periods

Change in accounting policy - If there is change in accounting policy within the current financial year the effect of change in accounting policy is applied retrospectively by:

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

22.15 Interim Financial Reporting and Impairment

An entity is required to assess goodwill for impairment at the end of each reporting period, to assess investments in equity instruments and in financial assets carried at cost for impairment at the end of each reporting period and, if required, to recognize an impairment loss at that date in accordance with Ind AS-36 and Ind AS-109. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. Appendix to Ind AS-34 provides guidance on whether such impairment losses should ever be reversed.

An entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

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

Example 5: AK Ltd. with a 31st December year end prepared interim financial statements for the 1st half of the year. At 31st December 2018, it has goodwill with a carrying amount of ₹ 1,000. At 30th June 2019, the cash generating units (CGU) to which the goodwill had been allocated at the date of the acquisition became loss-making and AK Ltd. reviewed the assets of the CGU for impairment. This resulted in the goodwill being written down to ₹ 200, with the impairment of ₹ 800 recognized in the income statement. During the 2nd half of the year, the CGUs became profitable once again and, had no impairment been recognized, would have supported a goodwill carrying amount of ₹ 1,000. Despite this, AK Ltd. is not permitted to reverse the impairment and the goodwill will have a carrying amount of ₹ 200 in its annual financial statements for the year ended 31st December 2019.