

**NEPAL ACCOUNTING STANDARDS ON
INTERIM FINANCIAL REPORTING**

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Nepal Accounting Standard, 17 Interim Financial Reporting (NAS 17) is set out in paragraphs 1-50 and Appendices A-C. All the paragraphs have equal authority. Paragraphs in **bold italic type** state the main principles. NAS 17 should be read in the context of its objective, the *Preface to Nepal Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. NAS 02 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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 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 and its financial condition and liquidity.

Scope

1. This Standard does not mandate which entities shall 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 Nepal Accounting Standards. The Accounting Standards Board encourages publicly traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Standard. Specifically, publicly traded entities are encouraged:
 - (a) to provide interim financial reports at least as of the end of the first half of their financial year; and
 - (b) to make their interim financial reports available not later than 60 days after the end of the interim period.
2. Each financial report, annual or interim, is evaluated on its own for conformity to Nepal Accounting Standards. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to Nepal Accounting Standards if they otherwise do so.
3. If an entity's interim financial report is described as complying with Nepal Accounting Standards, it must comply with all of the requirements of this Standard. Paragraph 22 requires certain disclosures in that regard.
4. This Standard applies to all companies including Public Sector Business Entities which elects to publish interim financial report based on Nepal Accounting Standards.

Definitions

5. *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 NAS 01, Presentation of Financial Statements) or a set of condensed financial statements (as described in this Standard) for an interim period.

Content of an interim financial report

6. NAS 01 defines a complete set of financial statements as including the following components:
 - (a) balance sheet;
 - (b) income statement;
 - (c) a statement of changes in equity showing either:
 - (i) all changes in equity, or

- (ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
 - (d) cash flow statement; and
 - (e) accounting policies and explanatory notes.
7. 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 provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.
8. Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in NAS 01) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard 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 guidance in this Standard apply also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 18) as well as those required by other Nepal Accounting Standards.

Minimum components of an interim financial report

9. *An interim financial report shall include, at a minimum, the following components:*
- (a) *condensed balance sheet;*
 - (b) *condensed income statement;*
 - (c) *a statement of changes in equity showing either:*
 - i. *all changes in equity, or*
 - ii. *changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;*
 - (d) *condensed cash flow statement; and*
 - (e) *selected explanatory notes.*

Form and content of interim financial statements

10. *If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of NAS 01 for a complete set of financial statements.*
11. *If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals 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.*
12. *Basic and diluted earnings per share shall be presented on the face of an income statement, complete or condensed, for an interim period.*
13. NAS 01 provides guidance on the structure of financial statements. The Implementation Guidance for NAS 01 illustrates ways in which the balance sheet, income statement and statement of changes in equity may be presented.

14. NAS 01 requires a statement of changes in equity be presented as a separate component of an entity's financial statements, and permits information about changes in equity arising from transactions with equity holders acting in their capacity as equity holders (including distributions to equity holders) to be shown either on the face of the statement or in the notes. An entity follows the same format in its interim statement of changes in equity as it did in its most recent annual statement.
15. An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements. The parent's separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. If an entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, this Standard neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim financial report.
16. 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 Statement. In such a case, the recognition and measurement principles as laid down in this Statement are applied in respect of such information, unless otherwise specified in the statute or by the regulator.

Selected explanatory notes

17. A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, 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 report. At an interim date, an explanation of events and transactions that is significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date is more useful.
18. *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. The information shall 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:*
 - (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;*
 - (b) explanatory comments about the seasonality or cyclicity 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, buy backs, repayments and restructuring of debt and equity securities;*
 - (f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;*

- g. the following segment information (disclosure of segment information is required in an entity's interim financial report only if NAS 23 (Segment Reporting) requires that entity to disclose segment information in its annual financial statements):**
- i. revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;**
 - ii. intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;**
 - iii. a measure of segment profit or loss**
 - iv. total assets for which there has been a material change from the amount disclosed in the last annual financial statements;**
 - v. a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss;**
 - vi. a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation;**
- (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, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and**
- (j) changes in contingent liabilities or contingent assets since the last annual balance sheet date.**
19. Examples of the kinds of disclosures that are required by paragraph 18 are set out below. Individual Nepal Accounting Standards provide guidance regarding disclosures for many of these items:
- (a) the write-down of inventories to net realisable value and the reversal of such a write-down;
 - (b) recognition of a loss from the impairment of property, plant, and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
 - (c) the reversal of any provisions for the costs of restructuring;
 - (d) acquisitions and disposals of items of property, plant, and equipment;
 - (e) commitments for the purchase of property, plant, and equipment;
 - (f) litigation settlements;
 - (g) corrections of fundamental errors in previously reported financial data;
 - (h) any debt default or any breach of a debt covenant that has not been corrected subsequently; and
 - (i) related party transactions.

20. Other Nepal Accounting Standards specify disclosures that shall be made in financial statements. In that context, financial statements means complete sets of financial statements of the type normally included in an annual financial report and sometimes included in other reports. The disclosures required by those other Nepal 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.

Disclosure of compliance with NAS

21. *If an entity's interim financial report is in compliance with this Nepal Accounting Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with Nepal Accounting Standards unless it complies with all of the requirements of each applicable Standard.*

Periods for which Interim Financial Statements are Required to be Presented

22. *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) income statements for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year; and*
 - (c) a statement of changes in equity showing either: all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;*
 - (d) 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.*
23. 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.
24. Appendix A illustrates the periods required to be presented by an entity that reports half-yearly and an entity that reports quarterly.

Materiality

25. *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.*
26. The *Framework* states that "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements." NAS 02 Accounting Policies, Changes in Accounting Estimates & Errors requires separate disclosure of material extraordinary items, unusual ordinary items, discontinued operations, changes in accounting estimates, fundamental errors, and changes in accounting policies. NAS 02 does not contain quantified guidance as to materiality.

27. While judgment is always required in assessing materiality for financial reporting purposes, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual or extraordinary items, changes in accounting policies or estimates, and fundamental errors are recognised and disclosed based on materiality in relation to interim period data to avoid misleading inferences that might result from nondisclosure. The overriding goal 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

28. *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 published 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.*
29. NAS 02 requires disclosure of the nature and (if practicable) the amount of a change in estimate that either has a material effect in the current period or is expected to have a material effect in subsequent periods. Paragraph 18 (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 the NAS 02 requirement and is intended to be narrow in scope - relating only to the change in estimate. 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

30. *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.*
31. Requiring 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, paragraph 31 acknowledges that an interim period is a part of a larger 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.
32. 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 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.
33. Under the *Framework for the Preparation and Presentation of Financial Statements* (the Framework), recognition is the “process of incorporating in the balance sheet or income statement 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.
 34. For assets, the same tests of future economic benefits apply at interim dates and 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 either. 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.
 35. An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The Framework says that “expenses are recognised in the income statement 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 Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.”
 36. In measuring the 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.
 37. 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 possible 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 18 (d) and 29 require, however, that the nature and amount of any significant changes in estimates be disclosed.
 38. 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 18 (d) and 29 require, however, that the nature and amount of any significant changes in estimates be disclosed.

Revenues received seasonally, cyclically, or occasionally

39. *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.*
40. 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

41. *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

42. Appendix B provides examples of applying the general recognition and measurement principles set out in paragraphs 31-42.

Use of estimates

43. *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.*
44. Appendix C provides examples of the use of estimates in interim periods.

Restatement of previously reported interim periods

45. *A change in accounting policy, other than one for which the transition is specified by a new Nepal Accounting Standard, shall be reflected by:*
- (a) *restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of prior financial years that will be restated in the annual financial statements in accordance with NAS 02 ; or*
- (b) *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.*

46. 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. Under NAS 02, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data, as far back is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under NAS 02 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 46 is to require that within the current financial year any change in accounting policy is applied either retrospectively or if that is not practicable, Prospectively, from no later than to the beginning of the financial year.

47. To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.

Transitional provision

48. On the first occasion that an interim financial report is presented in accordance with this Statement, the following need not be presented in respect of all the interim periods of the current financial year:
- (a) comparative balance sheet and 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.

Compliance with International Accounting Standards

49. Compliance with this NAS ensures compliance in all material respects with IAS 34 Interim Financial Reporting except statement showing changes in equity, segment reporting and consolidation.

Effective date

50. *This Nepal Accounting Standard becomes operative for financial statements covering periods beginning on or after 01 Shrawan 2065 corresponding to 17 July 2008.*

Appendix A

Illustration of periods required to be presented

This Appendix, which is illustrative and does not form part of the standard, provides examples to illustrate application of the principle in paragraph 23. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying its meaning.

Entity publishes interim financial reports half-yearly

1. The entity's financial year ends 15 July (calendar year). The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 13 January 2005:

Balance sheet:

| | | |
|----|-----------------|--------------|
| At | 13 January 2005 | 15 July 2004 |
|----|-----------------|--------------|

Income statement:

| | | |
|-----------------|-----------------|-----------------|
| 6 months ending | 13 January 2005 | 13 January 2004 |
|-----------------|-----------------|-----------------|

Cash flow statement:

| | | |
|-----------------|-----------------|-----------------|
| 6 months ending | 13 January 2005 | 13 January 2004 |
|-----------------|-----------------|-----------------|

Statement of changes in equity:

| | | |
|-----------------|-----------------|-----------------|
| 6 months ending | 13 January 2005 | 13 January 2004 |
|-----------------|-----------------|-----------------|

Entity publishes interim financial reports quarterly

2. The entity's financial year ends 15 July (calendar year). The entity will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 13 January 2005:

Balance sheet:

At 13 January 2005 15 July 2004

Income statement:

6 months ending 13 January 2005 13 January 2004

3 months ending 13 January 2005 13 January 2004

Cash flow statement:

6 months ending 13 January 2004 13 January 2004

Statement of changes in equity:

6 months ending 13 January 2005 13 January 2004

Appendix B

Examples of applying the recognition and measurement principles

This Appendix, which is illustrative and does not form part of the standard, provides examples of applying the general recognition and measurement principles set out in paragraphs 31-42 of this Standard. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their 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 planned 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 legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Provisions

3. A provision is recognised when an entity has no realistic alternative but to make a transfer of economic benefits as a result of an event that has created a legal or constructive obligation. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognised in the income statement, if the entity's best estimate of the amount of the obligation changes.
4. 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 benefits is not a function of the length of the reporting period. It is a question of fact.

Year-end bonuses

5. 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 a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.
6. A bonus is anticipated for interim reporting purposes if, and only if, (a) the bonus is 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.

Contingent lease payments

7. Contingent lease payments can be an example of a legal or constructive obligation that are recognised 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.

Intangible assets

8. 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.

Accumulated leave

9. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period’s entitlement is not used in full. Draft under consideration NAS 14, Employee Benefits, requires that an entity measure the expected cost of and obligation for accumulating compensated absences at the amount the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. That principle is also applied at interim financial reporting dates. Conversely, an entity recognises no expense or liability for non-accumulating compensated absences at an interim reporting date, just as it recognises none at an annual reporting date.

Other planned but irregularly occurring costs

10. An entity’s budget may include certain costs expected to be incurred irregularly during the financial year, such as charitable contributions and employee training costs. Those 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 interim income tax expense

11. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the effective income tax rate applied to the pre-tax income of the interim period.
12. This is consistent with the basic concept set out in paragraph 31 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. 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 effective income tax rate. That annual 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 income tax rate would be re-estimated on a year-to-date basis, consistent with paragraph 31 of this Standard. Paragraph 18(d) requires disclosure of a significant change in estimate.
13. To the extent practicable, an effective income tax rate is applied individually to the interim period pre-tax income. 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 categories of income is used if it is a reasonable approximation of the effect of using more specific rates.
14. To illustrate the application of the foregoing principle, an entity reporting quarterly expects to earn 25,000 pre-tax each quarter and applicable tax rate is 20 per cent on the annual 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 | 5,000 | 5,000 | 5,000 | 5,000 | 20,000 |

20,000 of tax is expected to be payable for the full year on 100,000 of pre-tax income.

15. As another illustration, an entity reports quarterly, earns 45,000 pre-tax profit in the first quarter but expects to incur losses of 15,000 in each of the three remaining quarters (thus having zero income for the year), and effective income tax rate is 20 per cent. 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 | 9,000 | (3,000) | (3,000) | (3,000) | 0 |

Difference in Financial Reporting Year and Tax Year

Tax credits

16. Tax Laws 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 the provisions of tax laws and regulations. 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 carry backs and carry forwards

17. The benefits of a tax loss carry back are reflected in the interim period in which the related tax loss occurs. NAS 09 provides that “the benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset”. A corresponding reduction of tax expense or increase of tax income is also recognised.
18. NAS 09 provides that “a deferred tax asset shall be recognised 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 utilised”. NAS 09 provides criteria for assessing the probability of taxable profit against which the unused tax losses and credits can be utilised. 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.
19. To illustrate, an entity that reports quarterly has an operating loss carry forward of 60,000 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 50,000 in the first quarter of the current year and expects to earn 40,000 in each of the three remaining quarters. Excluding the carry forward, the annual income tax rate is expected to be 20 per cent. Tax expense is as follows:

| | 1st | 2nd | 3rd | 4th | Annual |
|--------------------|-------|-------|-------|-------|--------|
| Tax Expense | 5,500 | 5,500 | 5,500 | 5,500 | 22,000 |

Contractual or anticipated purchase price changes

20. Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are

not anticipated because the resulting asset or liability would not satisfy the conditions in the Framework that an asset must be a resource controlled by the entity as a result of a past event and that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

Depreciation and amortisation

21. 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 dispositions planned for later in the financial year.

Inventories

22. Inventories are measured for interim financial reporting by the same principles as at financial year-end. NAS 04, 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 23 below provides examples of how to apply the net realisable value test at an interim date.

Net realisable value of inventories

23. The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. An entity will reverse a write down to net realisable value in a subsequent interim period only if it would be appropriate to do so at the end of the financial year.

Interim period manufacturing cost variances

24. Price, efficiency, spending, and volume variances of a manufacturing entity are recognised in income at interim reporting dates to the same extent that those variances are recognised in income at financial year-end. Deferral of variances that are expected to be absorbed by year-end is not appropriate because it could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture.

Foreign currency translation gains and losses

25. Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year-end.
26. NAS 11, The Effects of Changes in Foreign Exchange Rates specifies how to translate the financial statements for foreign operations into the reporting currency, including guidelines for using historical, average, or closing foreign exchange rates and guidelines for including the resulting adjustments in income or in equity. Consistent with NAS 11, the actual average and closing rates for the interim period are used. Entities do not anticipate some future changes in foreign exchange rates in the remainder of the current financial year in translating foreign operations at an interim date.
27. If NAS 11 requires that translation adjustments be recognised as income or as expenses in the period in which they arise, that principle is applied during each interim period. Entities do not defer some foreign currency translation adjustments at an interim date if the adjustment is expected to reverse before the end of the financial year.

Impairment of assets

28. An impairment loss shall be recognised if the recoverable amount has declined below carrying amount.

- 29 This Standard requires that an entity apply the same impairment testing, 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 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.

Appendix C

Examples of the use of estimates

This Appendix, which is illustrative and does not form part of the standards, provides examples to illustrate application of the principle in paragraph 44 of this Standard. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

1. **Inventories:** Full stocktaking and valuation procedures may not be required for inventories at interim dates, although it may be done at financial year-end. It may be sufficient to make estimates at interim dates based on sales margins.
2. **Classifications of current and non-current assets and liabilities:** Entities may do a more thorough investigation for classifying assets and liabilities as current or non-current at annual reporting dates than at interim dates.
3. **Provisions:** Determination of the appropriate amount of a provision (such as a provision for warranties, environmental costs, and site restoration costs etc.) may be complex and often costly and time-consuming. Entities sometimes engage outside experts to assist in the annual calculations. Making similar estimates at interim dates often entails updating of the prior annual provision rather than the engaging of outside experts to do a new calculation.
4. **Contingencies:** The measurement of contingencies may involve the 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 also be needed at interim dates.
5. **Revaluations and fair value accounting:** NAS 06, Property, Plant and Equipment, allows as an alternative treatment the revaluation of property, plant, and equipment to fair value. Similarly, Investment Property, requires an entity to determine the fair value of investment property. For those measurements, an entity may rely on professionally qualified valuers at annual reporting dates though not at interim reporting dates.
6. **Intercompany reconciliations:** Some inter company balances that are reconciled on a detailed level in preparing consolidated financial statements at financial year end might be reconciled at a less detailed level in preparing consolidated financial statements at an interim date.
7. **Specialised industries:** Because of complexity, costliness, and time, interim period measurements in specialised industries might be less precise than at financial year-end. An example would be calculation of insurance reserves by insurance companies.