Accounting Standard: 5
Net Profit or Loss for period, prior period items
And changes in Accounting Policies

1. This AS is mandatory and application to all entities through Accountant and Auditors.

2. Profits and loss of entity comprises of following items
   (i) Net profits or loss for period from operating activities / ordinary activities.
   (ii) Extraordinary Activities.
   (iii) Prior period items.
   (iv) Changes in Accounting estimates.
   (v) Changes in Accounting policies.

3. **Ordinary Items** means items of income or expenses; which arise from main / principal business activities and incidental items of business. These are not to be disclosed in Statement of Profit and Loss as separate item unless its nature or size is important.
   Following items are considered to be important
   (a) Litigation expenses (settlement expenses)
   (b) Decline in value of inventory
   (c) Profits or Loss on sale of fixed assets.
   (d) Profit or loss on sale of investments.
   (e) Legal Expenses.
   (f) Reversal of Provisions.

4. **Extraordinary Items** are those items which are non-recurring in nature and are not related to business Examples
   - Loss by earthquake
   - Loss by other Abnormal items.

   These items should be disclosed in Profit or Loss A/c in such a way that effect of Extraordinary Items can be seen on financial statement

SPL	
Profit before EOI	xxx
(-) EOI	xxx
Profit Before Tax	xxx
(-) Tax Expenses	xxx
Profit After Tax	xxx

5. **Prior Period Items** are incomes and expenses relating to previous years which were not recognized in earlier years due to errors and omission. These items must arise in Profit and Loss due to errors / omission. These items should be disclosed in Profit and Loss in such way that its impact on profit can be seen.
   <u>Specimen disclosure</u>

SPL	
Profit before EOI & PPI	xxx
+/- EOI	xxx
+/- PPI	xxx
Profit Before Taxes	xxx
- Tax Expenses	xxx

Profit After Taxes	xxx

6. **Changes in Accounting estimates**

   Whenever any income or expenses is recognized, there can be use of certain estimates for calculation of such income / expenses. For Example
   - Useful life for calculation of Depreciation
   - Provision for Bad and Doubtful debts etc.

   Whenever any changes is made is estimate then such effect of change can be material or immaterial. If such effect is material, then it should be disclosed in P&L A/c.

   Separate disclosure is not required for immaterial changes in estimates.

7. **Changes in Accounting Policies**

   Whenever any accounting policy is changed, then we should disclose
   (a) Old policy
   (b) New policy
   (c) Reasons of change in policy
   (d) Effect of change in Accounting policy

   Following can be reasons of change
   (i) Better Presentation
   (ii) Compliance with law
   (iii) Compliance with Accounting Standard

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