

SREERAM COACHING POINT

AS – 5

**Net Profit or Loss for the
period, Prior Period items and
Changes in Accounting Policies**

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AS – 5 deals with

1. Profit or Loss from Ordinary Activities

2. Profit or Loss from Extraordinary Activities

3. Prior Period Items

4. Changes in Accounting Estimate

5. Changes in Accounting Policy

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Ordinary Activities

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1. Profit or Loss from Ordinary Activities

Ordinary Activity

Activities which are part of/incidental to an enterprise business

Treatment

Disclosure is required, when the size and nature of such income or expenditure is relevant to explain the performance of the enterprise for the period.

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Example

1. Written down value of inventories to NRV

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2. Profit or Loss from Extraordinary Activities

Extra-ordinary Activity

Treatment

Income or expense arising from events/transactions which are distinct from the ordinary activities. These activities will not recur frequently or regularly

Disclosure is required when, the income or expense is in the nature of extra-ordinary item.

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Example

1. Loss due to earthquake

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3. Prior Period Item

Prior Period item

The income or expense which arise in current period as a result of error or omission in the preparation of financial statement of one or more prior period

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Treatment

- 1. Effect for the Prior Period item should be made**
- 2. Disclosure should made to show the effect of the prior period item on the current year profit or loss**

Example

- 1. Applying incorrect rate of depreciation**

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4. Change in Accounting Estimate

Accounting Estimate

Accounting Estimates are approximations where actual figure is not known.

Example

1. Provision for bad and doubtful debts

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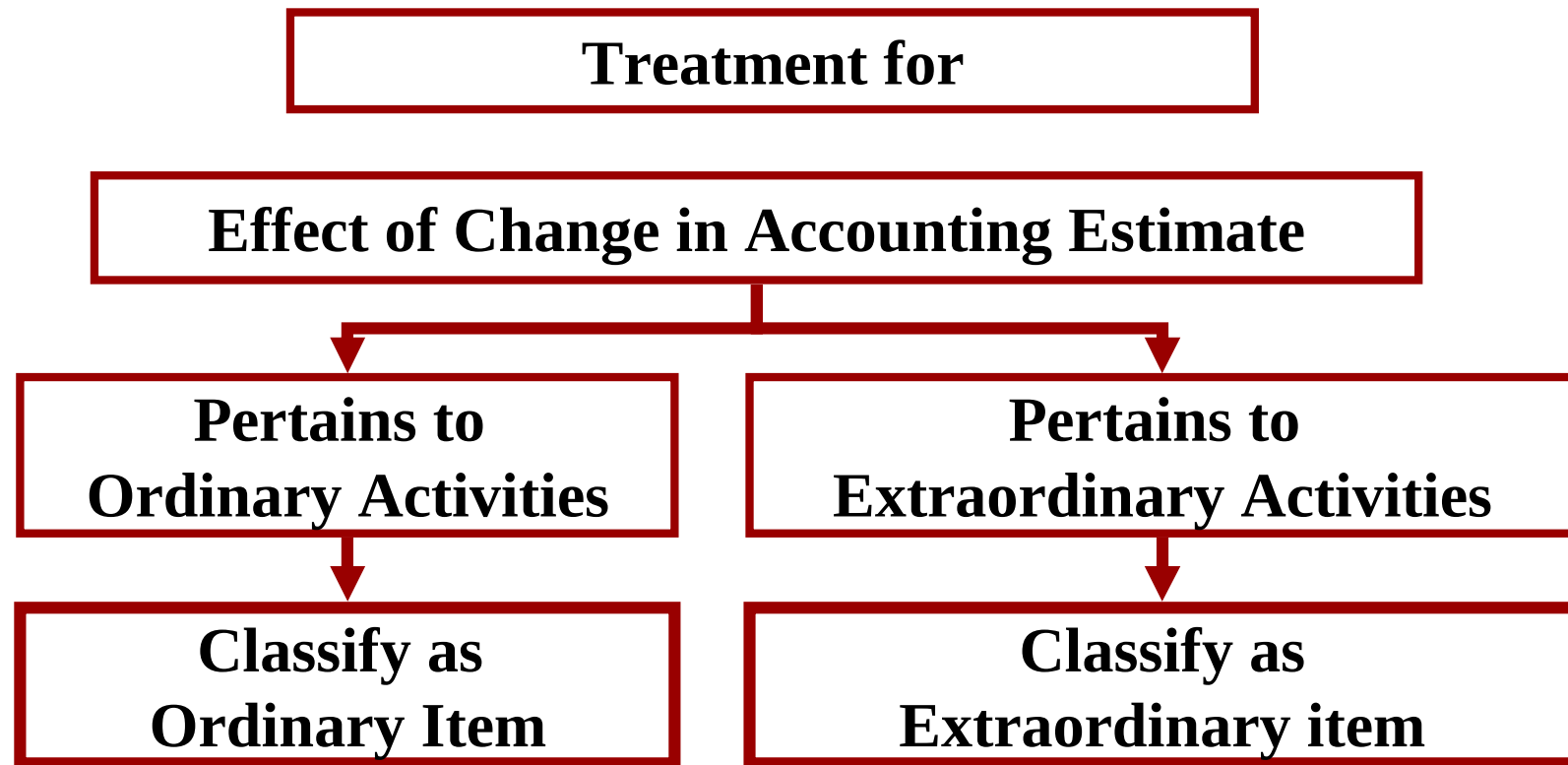
Accounting Estimate requires revision when:

1. There are changes in the circumstances on which estimates were made

2. New information is available

3. Subsequent developments are there

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The following are to be disclosed

1. Effect of change in accounting estimate

**2. Period of Such change
(i.e. only current or both current and future)**

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5. Change in Accounting Policies

Accounting Policy – Refer AS 1

Changes in Accounting Policy – When shall be made?

- 1. Compliance with Accounting standard**
- 2. Compliance with statute or law**
- 3. Better and appropriate presentation of financial statement**

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Disclosure Aspect

1. Material effect should be shown in financial statement to reflect the effect of such change for current period. If effect of change is not ascertainable, the fact should be disclosed.

2. If the effect of change is material for future period, the fact should be disclosed.