

**AS : 5** Net profit or Loss for the period, prior period items & changes in Accounting policies

## Objective

- To bring uniformity in preparation of Income statements.
- To prescribe classification and disclosure requirements for items of Income/ gains & expenses/ losses recog. in a statement of P&L.

## Classification of items in P&L by AS (5)

1. Ordinary (Ordinary but Exceptional)
2. Extra-ordinary items
3. Prior period items
4.  $\Delta$  in Accounting policies
5.  $\Delta$  in Accounting Estimates

## DEFINITION - Classification

### ORDINARY ACTIVITIES:

- Any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

Para 12 of AS 5 states that, where income or exp. arise out of Ordinary activities but are of exceptional size, nature or incidence, [Ordinary but Exceptional]

## Disclosure Requirements

→ NO separate disclosure required below are circumstances attract Para 12

1. write-down of Inv. to NRV as well as reversal of such write-down
2. Restructuring of activities of an entrp and reversal of any prov. there of
3. Disposals (a) FA (b) Long-term inv.
4. legislative changes having Retrospective appl.
5. litigation settlements (Ex: change in dep. meth.)
6. other reversal of prov.

Disclosed as separate line

→ item in the statement of P&L.

## EXTRA - ORDINARY ITEMS

Income (or) exp. that arise from events / transac.

- i. that are clearly distinct from ordinary acti &
- ii. are NOT expected to recur freq. or regularly.

- No principle laid down, because event may be extraordinary for one entity, yet the same time ordinary for another.

Ex: Loss by Earthquake - extraordinary for many claims from Policy holders arising from earthquake. is not extra-ordinary for Ins. entrp.

### Example:

- Attachment of prop. of entrp.
- Earthquakes, fire, strike

### Disclosure: (Para 8)

- Disclosed as a part of Net P/L for period.
- Nature Amount of each extra-ord item should be separately disclosed in statement of P/L in a manner that its impact on current P/L can be perceived.
- Present before computation of PBT

**Prior-Period items:** are income (or) exp. which arise in current period as a result of errors or omissions in the prep.

of FS of one (or) more periods.

- Mathematical errors only.
- (-) corrections of Accounting estimates made in Py
- (-) Normal con recurring adj.
- (as least paid with retrospective effect of revision of wages)

### Examples:

- Applying incorrect rate of dep.
- Omission to account any money.

### Disclosure:

- \* Normally included in Net P/L for current period (or) (above line)
- ↓ shown in statement of P&L after determination of current Net P/L. (below line)

*Key*

| Definition - Classification                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Disclosure Requirements                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Changes in Accounting Estimates :</b></p> <p>↓</p> <p>should be included in determination of Net P/L in</p> <p>→ The period of change (cor)</p> <p>→ Period of change + future periods (it effects both)</p> <ul style="list-style-type: none"> <li>• Effect on <math>\Delta</math> in A/cing estimate should be classified using the same classification of P&amp;L as was used previously for the estimate.</li> <li>→ If change in A/cing estimate affects an item previously classified as extraordinary item, the effect of change should be taken as "n".</li> </ul> | <p>→ <math>\Delta</math> in estimate for doubtful debts</p> <p>→ <math>\Delta</math> in estimated working life of deprec.</p> <p><b>Disclosure :</b></p> <ul style="list-style-type: none"> <li>• Nature &amp; amount of <math>\Delta</math> in estimate has material effect in current period (cor) subsequent periods should be disclosed.</li> <li>• If impracticable to quantify, facts should be disclosed.</li> </ul>                                             |
| <p><b>Changes in Accounting policies</b> only if</p> <ol style="list-style-type: none"> <li>required by Statute (cor)</li> <li>for compliance with an AS (cor)</li> <li>Better presentation of FS</li> </ol> <p><b>Conflict policy vs Estimate ?</b></p> <p>→ Treat such change as Accounting estimate with proper disclosure.</p>                                                                                                                                                                                                                                               | <p><b>Disclosure :</b></p> <ul style="list-style-type: none"> <li>• <b>material effect :</b> <ul style="list-style-type: none"> <li>→ should be disclosed.</li> <li>→ not in current period, but expected to materially effect in later periods, the fact should be disclosed.</li> </ul> </li> <li>• The impact of, and adj resulting from, such change, if material should be disclosed.</li> <li>• effect is not ascertainable, fact should be indicated.</li> </ul> |

| Nature of Transaction                                                                                                                                                                           | Category                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>change in METHOD of depreciation / Inventory valuation</p> <p><math>\Delta</math> in P&amp;L <math>\Delta</math> RATE of depreciation</p> <p><math>\Delta</math> LIFE of Asset</p>           | <p>Accounting policy</p> <p><math>\Delta</math> in Accounting Estimate</p>                                                                                                                                                                                                                                            |
| <p>Mathematical errors in comp dep.</p> <p>Depreciation fraudulently cor through oversight not correctly aggregated</p> <p>wrong counting of closing stock.</p> <p><b>PRIOR PERIOD ITEM</b></p> | <p>FA destroyed in Earthquake / fire / flood.</p> <p>Attachment of a property by court</p> <p><b>Extra-ordinary Item</b></p> <p>major disposal of FA</p> <p>P/L on sale of Asset</p> <p>" " Inv</p> <p>writing off G/W / P&amp;P</p> <p>Non-adm of claim by Tax Dept</p> <p><b>Ordinary but Exceptional items</b></p> |