

INTERNATIONAL ACCOUNTING STANDARD 34

Interim financial reporting

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 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 international financial reporting standards. The International Accounting Standards Committee (*) 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 international financial reporting 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 international financial reporting standards if they otherwise do so.
- 3 If an entity's interim financial report is described as complying with international financial reporting standards, it must comply with all of the requirements of this standard. Paragraph 19 requires certain disclosures in that regard.

DEFINITIONS

- 4 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 IAS 1 *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

- 5 IAS 1 defines a complete set of financial statements as including the following components:
 - (a) a balance sheet;
 - (b) an 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;

(*) The International Accounting Standards Committee was succeeded by the International Accounting Standards Board, which began operations in 2001.

- (d) a cash-flow statement; and
 - (e) notes, comprising a summary of significant accounting policies and other explanatory notes.
- 6 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.
- 7 Nothing in this standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in IAS 1) 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 applies 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 16) as well as those required by other standards.

Minimum components of an interim financial report

- 8 An interim financial report shall include, at a minimum, the following components:
- (a) condensed balance sheet;
 - (b) condensed income statement;
 - (c) condensed statement showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
 - (d) condensed cash-flow statement; and
 - (e) selected explanatory notes.

Form and content of interim financial statements

- 9 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 IAS 1 for a complete set of financial statements.
- 10 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.
- 11 Basic and diluted earnings per share shall be presented on the face of an income statement, complete or condensed, for an interim period.
- 12 IAS 1 provides guidance on the structure of financial statements. The Implementation Guidance for IAS 1 illustrates ways in which the balance sheet, income statement and statement of changes in equity may be presented.
- 13 IAS 1 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.
- 14 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.

Selected explanatory notes

- 15 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 are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date is more useful.
- 16 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, repurchases, and repayments 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 IFRS 8 *Operating segments* 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 discontinued operations. In the case of business combinations, the entity shall disclose the information required to be disclosed under paragraphs 66-73 of IFRS 3 *Business combinations*; and
 - (j) changes in contingent liabilities or contingent assets since the last annual balance sheet date.

- 17 Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual standards and interpretations 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 prior period errors;
 - (h) [deleted]
 - (i) any loan default or breach of a loan agreement that has not been remedied on or before the balance sheet date; and
 - (j) related party transactions.
- 18 Other standards specify disclosures that should 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. Except as required by paragraph 16(i), the disclosures required by those other 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 IFRSs

- 19 If an entity's interim financial report is in compliance with this standard, that fact shall be disclosed. An interim financial report shall not be described as complying with standards unless it complies with all of the requirements of international financial reporting standards.

Periods for which interim financial statements are required to be presented

- 20 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;
 - (c) statement showing changes in equity 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; and
 - (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.
- 21 For an entity whose business is highly seasonal, financial information for the 12 months ending on the interim reporting date and comparative information for the prior 12-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.
- 22 Appendix A illustrates the periods required to be presented by an entity that reports half-yearly and an entity that reports quarterly.

Materiality

- 23 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.
- 24 IAS 1 and IAS 8 *Accounting policies, changes in accounting estimates and errors* define an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. IAS 1 requires separate disclosure of material items, including (for example) discontinued operations, and IAS 8 requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two standards do not contain quantified guidance as to materiality.
- 25 While judgement is always required in assessing materiality, 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 items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. 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

- 26 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.
- 27 IAS 8 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 16(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 IAS 8 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

- 28 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.
- 29 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 28 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.
- 30 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.
- 31 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.
- 32 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.
- 33 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.'
- 34 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.
- 35 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 12-month period. The 12-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 16(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.
- 36 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 16(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

Revenues received seasonally, cyclically, or occasionally

- 37 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.
- 38 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

- 39 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

- 40 Appendix B provides examples of applying the general recognition and measurement principles set out in paragraphs 28-39.

Use of estimates

- 41 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.
- 42 Appendix C provides examples of the use of estimates in interim periods.

RESTATEMENT OF PREVIOUSLY REPORTED INTERIM PERIODS

- 43 A change in accounting policy, other than one for which the transition is specified by a new standard or interpretation, shall be reflected by:
- (a) 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 IAS 8; 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.
- 44 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 IAS 8, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under IAS 8 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 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 the beginning of the financial year.
- 45 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.

EFFECTIVE DATE

- 46 This standard becomes operative for financial statements covering periods beginning on or after 1 January 1999. Earlier application is encouraged.