SSAP 25
STATEMENT OF STANDARD ACCOUNTING PRACTICE 25
INTERIM FINANCIAL REPORTING

(Issued September 1999; revised August 2001 and December 2001)

*The standards, which have been set in **bold italic type,** should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Objective

The objective of this Statement 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 enterprise's capacity to generate earnings and cash flows and its financial condition and liquidity.

Scope

1. This Statement does not mandate which enterprises 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 enterprises whose debt or equity securities are publicly traded to publish interim financial reports. This Statement applies if an enterprise is required or elects to publish an interim financial report in accordance with Statements of Standard Accounting Practice. The Hong Kong Society of Accountants encourages publicly traded enterprises to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Statement. Specifically, publicly traded enterprises 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 Statements of Standard Accounting Practice. The fact that an enterprise 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 Statement does not prevent the enterprise's annual financial statements from conforming to Statements of Standard Accounting Practice if they otherwise do so.

3. If an enterprise's interim financial report is described as complying with Statements of Standard Accounting Practice, it must comply with all of the requirements of this Statement. Paragraph 19 requires certain disclosures in that regard.

Definitions

4. The following terms are used in this Statement with the meanings specified:

<u>Interim period</u> is a financial reporting period shorter than a full financial year.

<u>Interim financial report</u> means a financial report containing either a complete set of financial statements (as described in SSAP 1 "Presentation of financial statements") or a set of condensed financial statements (as described in this Statement) for an interim period.

Content of an interim financial report

5. SSAP 1 defines a complete set of financial statements as including the following components:

   a. balance sheet;

   b. income statement;

   c. statement of ~~recognised gains and losses~~changes in equity;

   d. cash flow statement~~or other statement showing movements in net assets during the period~~ ; and

   e. accounting policies and explanatory notes.

6. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an enterprise may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Statement 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 Statement is intended to prohibit or discourage an enterprise from publishing a complete set of financial statements (as described in SSAP 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Statement prohibit or discourage an enterprise from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Statement. The recognition and measurement guidance in this Statement applies also to a complete set of financial statements for an interim period, and such statements would include all of the disclosures required by this Statement (particularly the selected note disclosures in paragraph 16) as well as those required by other Statements of Standard Accounting Practice.

Minimum components of an interim financial report

8. An interim financial report should include, at a minimum, the following components:

   a. condensed balance sheet;

   b. condensed income statement;

   c. condensed statement of ~~recognised gains and losses~~changes in equity;

   d. condensed cash flow statement~~or other condensed statement showing movements in net asssets during the period~~ ; and

   e. selected explanatory notes.

Form and content of interim financial statements

9. ***If an enterprise publishes a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements of SSAP 1 for a complete set of financial statements.***

10. ***If an enterprise publishes a set of condensed financial statements in its interim financial report, those condensed statements should 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 Statement. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.***

11. ***Basic and diluted earnings per share should be presented on the face of an income statement, complete or condensed, for an interim period.***

12. SSAP 1 provides guidance on the structure of financial statements and includes an appendix, "Illustrative financial statement structure", that provides further guidance on major headings and subtotals.

13. SSAP 1 requires that a statement of ~~recognised gains and losses~~ changes in equity be presented as a separate component of an enterprise's financial statements~~; and requires information about changes in equity arising from capital transactions with owners and distributions to owners to be shown in the notes~~.

14. An interim financial report is prepared on a consolidated basis if the enterprise'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 enterprise's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, this Statement neither requires nor prohibits the inclusion of the parent's separate financial statements in the enterprise's interim financial report.

Selected explanatory notes

15. A user of an enterprise's interim financial report will also have access to the most recent annual financial report of that enterprise. 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 enterprise since the last annual reporting date is more useful.

16. ***An enterprise should 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 should normally be reported on a financial year-to-date basis. However, the enterprise should 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 cyclicality 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 or proposed (aggregate or per share) separately for ordinary shares and other shares;***

g. ***segment revenue and segment result for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting (disclosure of segment data is required in an enterprise's interim financial report only if ~~such information is also disclosed~~ SSAP 26, Segment Reporting, requires that enterprise to disclose segment data in its annual financial statements);***

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 enterprise 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.***

17. Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual Statements of Standard Accounting Practice 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. extraordinary items;

i. any debt default or any breach of a debt covenant that has not been corrected subsequently; and

j. related party transactions.

18. Other Statements of Standard Accounting Practice 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. The disclosures required by those other Statements of Standard Accounting Practice are not required if an enterprise'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 Statements of Standard Accounting Practice

19. If an enterprise's interim financial report is in compliance with this Statement of Standard Accounting Practice, that fact should be disclosed. An interim financial report should not be described as complying with Statements of Standard Accounting Practice unless it complies with all of the requirements of each applicable Statement and each applicable Interpretation.

Periods for which interim financial statements are required to be presented

20. Interim reports should 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 recognised gains and losses 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 enterprise 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, enterprises 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 1 illustrates the periods required to be presented by an enterprise that reports half-yearly and an enterprise that reports quarterly.

Materiality

23. In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

24. The "Foreword to Statements of Standard Accounting Practice and Accounting Guidelines" states that "Statements of Standard Accounting Practice are not intended to apply to immaterial items". 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". SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" requires separate disclosure of material extraordinary items, unusual ordinary items, discontinued operations, changes in accounting estimates, fundamental errors, and changes in accounting policies. SSAP 2 does not contain quantified guidance as to materiality.

25. While judgement is always required in assessing materiality for financial reporting purposes, this Statement 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 non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an enterprise'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 should be disclosed in a note to the annual financial statements for that financial year unless such information is disclosed elsewhere in the annual report.

27. SSAP 2 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 Statement 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 SSAP 2 requirement and is intended to be narrow in scope - relating only to the change in estimate. An enterprise 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 enterprise should 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 enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis.

29. Requiring that an enterprise 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 enterprise's reporting should 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 enterprise 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 enterprise'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 enterprise 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 enterprise 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 16(d) and 26 require, however, that the nature and amount of any significant changes in estimates be disclosed.

36. An enterprise 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 should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise's financial year.***

38. Examples include dividend revenue, royalties, and government grants. Additionally, some enterprises 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 enterprise's financial year should 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 2 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 should 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 enterprise 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 3 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 Statement of Standard Accounting Practice, should be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of prior financial years (see paragraph 20) in accordance with SSAP 2.***

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 SSAP 2, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data, if practicable. However, if the amount of the adjustment relating to prior financial years is not reasonably determinable, then under SSAP 2 the new policy is applied prospectively. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy be applied retrospectively to 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. Except for the revised paragraphs 8(d) and 16(g), the ~~The~~ accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to periods beginning on or after 1 January 2000. The revised paragraph 8(d) should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 July 2001. The revised paragraph 16(g) should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 August 2001. Earlier adoption is encouraged but not required.

Compliance with International Accounting Standard

47. Compliance with this Statement ensures compliance with International Accounting Standard IAS 34 "Interim financial reporting".

Appendix 1

Illustration of periods required to be presented

This Appendix, which is illustrative and does not form part of the Statement, provides examples to illustrate application of the principle in paragraph 20. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning.

Enterprise publishes interim financial reports half-yearly

1. The enterprise's financial year ends 31 December (calendar year). The enterprise will present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 30 June 2000:

Balance sheet:		
At	30 June 2000	31 December 1999
Income statement:		
6 months ending	30 June 2000	30 June 1999
Cash flow statement:		
6 months ending	30 June 2000	30 June 1999
Statement of recognised gains and losses:		
6 months ending	30 June 2000	30 June 1999

Enterprise publishes interim financial reports quarterly

2. The enterprise's financial year ends 31 December (calendar year). The enterprise will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 30 June 2000:

Balance sheet:		
At	30 June 2000	31 December 1999
Income statement:		
6 months ending	30 June 2000	30 June 1999
3 months ending	30 June 2000	30 June 1999
Cash flow statement:		
6 months ending	30 June 2000	30 June 1999
Statement of recognised gains and losses:		
6 months ending	30 June 2000	30 June 1999

Appendix 2

Examples of applying the recognition and measurement principles

This Appendix, which is illustrative and does not form part of the Statement, provides examples of applying the general recognition and measurement principles set out in paragraphs 28-39 of this Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning.

Employer payroll taxes and insurance contributions

1. If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the financial year. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of the financial year, and the employer makes no further payments through the end of the year.

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 enterprise 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 enterprise 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 enterprise's best estimate of the amount of the obligation changes.

4. This Statement requires that an enterprise 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 enterprise 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 enterprise, therefore, has no realistic alternative but to make the future lease payment.

Intangible assets

8. An enterprise 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.

Pensions

9. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate 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.

Vacations, holidays, and other short-term compensated absences

10. 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. An enterprise may measure the expected cost of and obligation for accumulating compensated absences at the amount the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. That principle may also be applied at interim financial reporting dates. Conversely, an enterprise 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

11. An enterprise'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

12. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

13. This is consistent with the basic concept set out in paragraph 28 of this Statement that the same accounting recognition and measurement principles should 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 estimated average annual effective income tax rate. That estimated average annual rate would reflect a blend of the progressive 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 estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with paragraph 28 of this Statement. Paragraph 16(d) of this Statement requires disclosure of a significant change in estimate.

14. To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. 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 jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

15. To illustrate the application of the foregoing principle, an enterprise reporting quarterly expects to earn $10,000 pre-tax each quarter and operates in a jurisdiction with a tax rate of 20 per cent on the first $20,000 of annual earnings and 30 per cent on all additional 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($)	2,500	2,500	2,500	2,500	10,000

$10,000 of tax is expected to be payable for the full year on $40,000 of pre-tax income.

16. As another illustration, an enterprise reports quarterly, earns $15,000 pre-tax profit in the first quarter but expects to incur losses of $5,000 in each of the three remaining quarters (thus having zero income for the year), and operates in a jurisdiction in which its estimated average annual income tax rate is expected to be 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($)	3,000	(1,000)	(1,000)	(1,000)	0

Difference in financial reporting year and tax year

17. If the financial reporting year and the income tax year differ, income tax expense for the interim periods of that financial reporting year is measured using separate weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years.

18. To illustrate, an enterprise's financial reporting year ends 30 June and it reports quarterly. Its taxable year ends 31 December. For the financial year that begins 1 July, Year l and ends 30 June, Year 2, the enterprise earns $10,000 pre-tax each quarter. The estimated average annual income tax rate is 30 per cent in Year l and 40 per cent in Year 2.

	Quarter Ending 30 Sept. Year 1	Quarter Ending 31 Dec. Year 1	Quarter Ending 31 Mar. Year 2	Quarter Ending 30 June Year 2	Year Ending 30 June Year 2
Tax expense($)	3,000	3,000	4,000	4,000	14,000

Tax credits

19. Some tax jurisdictions 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 most 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. Moreover, in some jurisdictions tax benefits or credits, including those related to capital expenditures and levels of exports, while reported on the income tax return, are more similar to a government grant and are recognised in the interim period in which they arise.

Tax loss and tax credit carrybacks and carryforwards

20. The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset. A corresponding reduction of tax expense or increase of tax income is also recognised.

21. In accordance with SSAP 12, a deferred tax asset should only be recognised for the carryforward of unused tax losses and unused tax credits to the extent that there is a reasonable expectation of sufficient future taxable income to ensure recoverability of the deferred tax asset. In particular, the recognition of deferred tax assets should normally be discontinued when an operating loss occurs or recurs. Under such circumstances, it may not be appropriate to carryforward as an asset the balance of unused tax losses and unused tax credits in the balance sheet. The Appendix of SSAP 12 sets out circumstances where deferred tax relating to unused tax losses and unused tax credits may be treated as recoverable. Those circumstances are considered at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the computation of the estimated average annual effective income tax rate.

22. To illustrate, an enterprise that reports quarterly has an operating loss carryforward of $10,000 for income tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The enterprise earns $10,000 in the first quarter of the current year and expects to earn $10,000 in each of the three remaining quarters. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40 per cent. Tax expense is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense($)	3,000	3,000	3,000	3,000	12,000

Contractual or anticipated purchase price changes

23. 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 enterprise 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

24. 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

25. Inventories are measured for interim financial reporting by the same principles as at financial year end. SSAP 22 "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 inventories at interim dates. To save cost and time, enterprises often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. Following are examples of how to apply the net realisable value test at an interim date and how to treat manufacturing variances at interim dates.

Net realisable value of inventories

26. The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. An enterprise will reverse a writedown 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

27. Price, efficiency, spending, and volume variances of a manufacturing enterprise 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

28. Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year end.

29. SSAP 11 "Foreign currency translation" 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 SSAP 11, the actual average and closing rates for the interim period are used. Enterprises 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.

30. If SSAP 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. Enterprises 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.

Valuations

31. In general, investment properties are required by SSAP 13 "Investment properties" to be included in the balance sheet at their open market value, based on a period end valuation carried out annually by professionally qualified valuers. Accordingly, an enterprise will consider the valuations of its investment properties held at the end of an interim period and make appropriate adjustments in accordance with paragraph 17 of SSAP 13 if the changes in value of the investment properties since the last financial year are significant. This Statement does not require, however, revaluation to be made by professionally qualified valuers at the end of each interim period.

32. SSAP 17 "Property, plant and equipment" allows an item of property, plant and equipment to be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent depreciation. It also provides that a revaluation should be made if the carrying amount of a revalued asset differs materially from that which would be determined using fair value at the balance sheet date. Accordingly, the same principles on revaluation would apply to items of property, plant and equipment held at the end of an interim period as those held at the end of a financial year.

33. This Statement does not require an enterprise to arrange for a revaluation to be made by professionally qualified valuers on the revalued assets held at the end of each interim period. Rather, an enterprise will carry out a review for indications of significant changes in the value of these assets since the end of the most recent financial year to determine whether any adjustments are needed.

Impairment of assets

34. SSAP 17 "Property, plant and equipment" requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount. SSAP 16 "Research and development costs" imposes a similar requirement with respect to capitalised development costs.

35. This Statement requires that an enterprise 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 enterprise must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an enterprise 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 3

Examples of the use of estimates

This Appendix, which is illustrative and does not form part of the Statement, provides examples to illustrate application of the principle in paragraph 41 of this Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning.

1. **Inventories:** Full stock-taking 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:** Enterprises 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) may be complex and often costly and time-consuming. Enterprises 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. **Income taxes:** Enterprises may calculate income tax expense and deferred income tax liability at annual dates by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction. Paragraph 14 of Appendix 2 acknowledges that while that degree of precision is desirable at interim reporting dates as well, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

5. **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.

6. **Assets carried at valuation:** An enterprise that has assets carried at revalued amounts needs to consider whether the valuations of these assets at an interim reporting date are significantly different from those shown at the last annual reporting date and make adjustments as appropriate.

7. **Intercompany reconciliations:** Some intercompany 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.

8. **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.