

Interim Financial Reporting (IAS 34)

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1. Overview and objective of IAS 34

IAS 34 deals with financial reporting for periods shorter than a full financial year—“interim periods”. Its focus is not on **whether** an entity must report, or **how often**, but on **how** interim financial reports must be prepared and what they must contain when an entity is required or chooses to publish them in accordance with IFRS.

Objective (IAS 34.1): To prescribe:

- **Minimum content** of an interim financial report; and
- **Principles for recognition and measurement** in complete or condensed financial statements for an interim period.

Timely and reliable interim reporting improves users’ ability to:

- Assess an entity’s capacity to generate earnings and cash flows;
- Understand trends in performance and financial position;
- Evaluate liquidity and solvency during the year, not only at year-end.

2. Scope and relationship with other IFRS

2.1 Scope (IAS 34.1–3)

Scope of application:

- IAS 34 applies when an entity **is required** or **elects** to publish an interim financial report in accordance with IFRS.
- The standard **does not**:
 - Mandate which entities must publish interim reports;
 - Specify the frequency (e.g. quarterly, half-yearly);
 - Specify how soon after period-end the report must be published.

These matters are usually determined by:

- Securities regulators;
- Stock exchanges, like the JSE, LSE, NYSE or Nasdaq;
- Company law or other national regulations.

Entities typically affected:

- Listed entities whose equity or debt securities are publicly traded;
- Other entities that voluntarily provide interim reports to stakeholders.

2.2 Relationship with other standards

Key linkages:

- **IAS 1** — Presentation of Financial Statements: overall structure and content of financial statements.
- **IAS 8** — Accounting Policies, Changes in Accounting Estimates and Errors: basis for selecting and applying accounting policies where IAS 34 is silent.
- **IFRS 15, IFRS 9, IAS 12, IAS 36, IAS 37**, etc.: recognition and measurement principles applied consistently in interim and annual periods.
- **IFRS 8** — Operating Segments: segment information in interim reports where applicable.
- **IAS 33** — Earnings per Share: EPS disclosures in interim periods for entities with publicly traded shares.

At the time of writing this chapter, the IASB has not explicitly stated that IFRS 18 should also be applied. However, in the opinion of this author, that will greatly enhance its usefulness.

IAS 34 does **not** override other standards; it clarifies how their recognition and measurement principles are applied in shorter reporting periods, with emphasis on **estimates** and **seasonality**.

3. Key definitions (IAS 34.4)

3.1 Interim period

Interim period: A financial reporting period shorter than a full financial year (e.g. three months, six months, nine months).

Examples:

- Quarterly reporting: 3-month periods (Q1, Q2, Q3, Q4).
- Half-year reporting: 6-month periods (H1, H2).

3.2 Interim financial report

Interim financial report: A financial report containing either:

- A **complete set of financial statements** (as per IAS 1); or
- A **set of condensed financial statements** (as permitted by IAS 34),

for an interim period.

The term “interim financial report” includes:

- Financial statements (complete or condensed); and
- Selected explanatory notes.

4. Content of an interim financial report (IAS 34.5–27)

4.1 Minimum components (IAS 34.8)

At a minimum, an interim financial report must include **condensed** versions of:

1. **Statement of financial position** (balance sheet);
2. **Statement of profit or loss and other comprehensive income** (single statement or separate profit or loss and OCI statements);
3. **Statement of changes in equity**;
4. **Statement of cash flows**; and
5. **Selected explanatory notes**.

These condensed statements:

- Include each heading and subtotal from the latest annual financial statements;
- May provide fewer line items and less detail than annual statements;
- Must include additional line items if their omission would make the interim statements misleading.

An entity may choose to present **complete** financial statements instead of condensed ones; in that case, IAS 34's recognition and measurement guidance still applies.

4.2 Form and content of interim financial statements (IAS 34.9–12)

Condensed statements:

- Present the same structure as annual statements but with aggregation of line items.
- Must show at least:
 - All headings and subtotals from the most recent annual financial statements;
 - Additional items if necessary for fair presentation.

Notes to the interim financial statements:

- Focus on **new activities, events, and circumstances** since the last annual reporting date.
- Need not duplicate information already reported in the most recent annual financial statements, unless it has changed significantly.

IAS 34 provides a list of typical note disclosures, including:

- Accounting policies and methods;
- Explanations of seasonality or cyclicity;
- Unusual items (e.g. write-downs, restructuring);
- Changes in estimates;
- Issuances, repurchases, and repayments of debt and equity;
- Dividends;

- Segment information;
- Events after the interim period;
- Changes in contingent liabilities and assets.

4.3 Significant events and transactions (IAS 34.15–16A)

Interim reports must explain events and transactions that are significant to understanding changes in:

- Financial position;
- Performance; and
- Cash flows

since the last annual reporting date.

Examples of significant items requiring disclosure:

- **Write-downs** of inventories or recognition of impairment losses;
- **Reversals** of such write-downs or impairments;
- **Restructuring** costs and reversals;
- **Acquisitions or disposals** of subsidiaries or major assets;
- **Litigation settlements**;
- **Corrections of prior period errors**;
- **Changes in business or economic circumstances** affecting fair values or provisions;
- **Issuance, repurchase, or repayment** of debt and equity instruments.

Entities must also disclose:

- **Compliance with IFRS Accounting Standards** (explicit statement of compliance);
- Any changes in accounting policies and their effects.

5. Periods for which interim financial statements are presented (IAS 34.20–21)

5.1 Comparative information requirements

For an entity that prepares interim financial reports, IAS 34 requires the following comparative information:

Statement of financial position:

- Current interim period end (e.g. 30 June 20X1); and
- Immediately preceding financial year end (e.g. 31 December 20X0).

Statement of profit or loss and other comprehensive income:

- Current interim period (e.g. 6 months ending 30 June 20X1); and

- Comparative interim period of the preceding year (e.g. 6 months ending 30 June 20X0).
- If the entity reports quarterly, it also presents:
 - Current quarter (e.g. 3 months ending 30 June 20X1); and
 - Comparative quarter (e.g. 3 months ending 30 June 20X0).

Statement of changes in equity:

- Current interim period; and
- Comparative interim period of the preceding year.

Statement of cash flows:

- Current interim period; and
- Comparative interim period of the preceding year.

5.2 Illustrative examples

Example 1 — Half-yearly reporting (year-end 31 December):

- Interim report at 30 June 20X1 includes:
 - Statement of financial position: 30 June 20X1 and 31 December 20X0;
 - Statement of comprehensive income: 6 months ending 30 June 20X1 and 30 June 20X0;
 - Statement of changes in equity: 6 months ending 30 June 20X1 and 30 June 20X0;
 - Statement of cash flows: 6 months ending 30 June 20X1 and 30 June 20X0.

Example 2 — Quarterly reporting (year-end 31 December):

- Interim report at 30 June 20X1 includes:
 - Statement of financial position: 30 June 20X1 and 31 December 20X0;
 - Statement of comprehensive income:
 - 6 months ending 30 June 20X1 and 30 June 20X0; and
 - 3 months ending 30 June 20X1 and 30 June 20X0;
 - Statement of changes in equity: 6 months ending 30 June 20X1 and 30 June 20X0;
 - Statement of cash flows: 6 months ending 30 June 20X1 and 30 June 20X0.

6. Materiality in interim reporting (IAS 34.23–25)

6.1 Materiality concept

Materiality in interim reporting is assessed **in relation to the interim period financial data**, not solely in relation to annual figures.

Key points:

- An item may be **material** in an interim period even if it is not material for the full year.
- Conversely, an item may be immaterial in an interim period but material for the full year.
- Judgement is required, considering:
 - Size and nature of the item;
 - Circumstances of occurrence;
 - Impact on users' understanding of interim performance and position.

6.2 Practical implications

- Entities should not defer recognition of items simply because they are expected to be immaterial in the annual financial statements.
- Interim reports must include all material information necessary for fair presentation of the interim period.
- Changes in estimates or accounting policies that are material to the interim period must be disclosed, even if their annual impact is smaller.

Example — Materiality in interim context:

An entity's annual profit is usually around R100 million. In Q1 of the current year, profit is only R5 million due to weak trading conditions. A litigation settlement of R3 million occurs in Q1.

- The R3 million settlement is **material** relative to Q1 profit (60% of profit).
- Even if R3 million might be less significant relative to annual profit, it must be separately disclosed in the interim report because it significantly affects the interim period's performance.

7. Disclosure in annual financial statements (IAS 34.26–27)

If an entity's interim financial reports are not publicly available, IAS 34 requires disclosure in the **annual financial statements** of:

- The fact that interim financial reports have been prepared; and
- The frequency of such reports (e.g. quarterly, half-yearly).

Where interim reports are publicly available, annual financial statements may cross-refer to them but need not repeat all interim information.

8. Recognition and measurement principles (IAS 34.28–42)

8.1 Same accounting policies as annual financial statements (IAS 34.28)

Core rule: An entity must apply the **same accounting policies** in its interim financial statements as in its annual financial statements.

Key implications:

- No “special” interim accounting policies.
- Classification of items (current/non-current, operating/non-operating, etc.) is consistent with annual reporting.
- Measurement bases (e.g. amortised cost, fair value, cost) are unchanged.

However, interim reporting:

- May require **greater use of estimates**; and
- Must reflect the **frequency of reporting** without changing annual measurement bases.

8.2 Frequency of reporting and annual results (IAS 34.29–30)

IAS 34 emphasises that:

- The frequency of reporting (e.g. quarterly vs half-yearly) **must not** affect the measurement of annual results.
- Interim measurements are made on a **year-to-date basis**:
 - Each interim period is part of the full financial year;
 - Recognition and measurement should be consistent with the annual view.

Example — Provision for inventory obsolescence:

An entity estimates inventory obsolescence at year-end using a model based on ageing and turnover. Under IAS 34:

- At each interim date, the entity applies the **same methodology** to estimate obsolescence.
- It does not wait until year-end to recognise obsolescence losses.

8.3 Revenues received seasonally, cyclically, or occasionally (IAS 34.37)

Some revenues are seasonal or cyclical (e.g. retail sales at year-end, tourism in summer, agricultural harvests).

IAS 34 requires:

- Revenues to be recognised **when they satisfy the criteria in IFRS 15**, not smoothed over the year.
- Entities must **not** anticipate or defer seasonal revenues to achieve a smoother profit pattern.

Example — Seasonal revenue:

A ski resort earns most of its revenue in winter (Q1). It must recognise revenue when services are provided in Q1, even though Q2 and Q3 revenues are low. It cannot defer part of Q1 revenue to later quarters to smooth earnings.

8.4 Costs incurred unevenly during the financial year (IAS 34.39)

Certain costs are incurred unevenly (e.g. advertising campaigns, maintenance shutdowns, bonuses, insurance premiums).

IAS 34 requires:

- Costs to be recognised **when they are incurred** or when they meet the criteria for recognition as an asset or liability.
- Entities must **not** anticipate or defer costs simply to smooth interim results, unless such anticipation or deferral is appropriate at year-end under other IFRS.

Example — Annual insurance premium:

An entity pays R1 million insurance premium in January, covering the full year.

- If the premium provides benefits evenly over the year, the entity recognises an **asset (prepaid insurance)** and amortises it over the year.
- This treatment is consistent with annual reporting; it is not a special interim smoothing technique.

8.5 Use of estimates (IAS 34.41)

Interim financial reporting often requires more estimation than annual reporting because:

- Detailed information may not be available at each interim date;
- Many annual calculations (e.g. tax rates, impairment tests) must be approximated.

IAS 34 accepts:

- **Reasonable estimates** for interim periods, provided they are consistent with the annual recognition and measurement principles.
- Entities must update estimates at subsequent interim dates and at year-end.

Example — Income tax expense (see Par. 8.6 below):

- Interim tax expense is based on an estimated **annual effective tax rate**, applied to year-to-date profit.

8.6 Income tax in interim periods (IAS 34.30, 34.39, illustrative examples)

Income tax is a major area of estimation in interim reporting.

Principle:

- Interim income tax expense is calculated by applying the **estimated average annual effective tax rate** to the **year-to-date profit**.

Steps:

1. Estimate the **annual profit before tax** for the current financial year.
2. Estimate the **annual tax expense**, considering:
 - Statutory tax rates;
 - Permanent differences;
 - Expected tax credits;
 - Deferred tax movements.
3. Compute the **estimated annual effective tax rate**:

$$\text{Estimated annual effective tax rate} = \frac{\text{Estimated annual tax expense}}{\text{Estimated annual profit before tax}}$$

4. Apply this rate to **year-to-date profit** at each interim date to determine interim tax expense.

Example — Quarterly tax calculation:

- Estimated annual profit before tax: R100 million.
- Estimated annual tax expense: R28 million.
- Estimated annual effective tax rate: 28%.

Q1:

- Year-to-date profit before tax: R20 million.
- Income tax expense: $28\% \times 20\text{m} = \text{R}5.6$ million.

Q2:

- Year-to-date profit before tax (Q1+Q2): R50 million.
- Year-to-date tax expense: $28\% \times 50\text{m} = \text{R}14$ million.
- Tax expense for Q2 alone: $\text{R}14\text{m} - \text{R}5.6\text{m} = \text{R}8.4$ million.

If estimates change (e.g. expected annual profit revised to R80 million), the effective tax rate is updated and applied prospectively to subsequent interim periods.

8.7 Examples of applying recognition and measurement principles (IAS 34 Illustrative Examples)

IAS 34's illustrative examples (Part B) show how general principles are applied.

8.7.1 Employer payroll taxes and insurance contributions

If payroll taxes or contributions are assessed on an annual basis:

- The employer recognises expense in interim periods using an **estimated average annual effective rate**, even if payments are concentrated early in the year.

8.7.2 Inventory write-downs and reversals

- Inventory is measured at the **lower of cost and net realisable value** at each interim date.
- Write-downs recognised in one interim period may be **reversed** in a subsequent interim period if net realisable value increases, consistent with IAS 2.

8.7.3 Impairment of non-financial assets

- Impairment tests are performed when indicators of impairment exist at interim dates, not only at year-end.
- If an impairment loss is recognised in an interim period and later reversed (where permitted by IAS 36), the reversal is recognised in the subsequent interim period.

8.7.4 Provisions and contingencies

- Provisions (IAS 37) are recognised at interim dates when the recognition criteria are met.
- Contingent liabilities and assets are disclosed in interim reports if they are material and have changed since the last annual reporting date.

9. Restatement of previously reported interim periods (IAS 34.43–45)

If an entity changes accounting policies, corrects errors, or reclassifies items:

- It must **restate** previously reported interim periods of the current financial year, where practicable.
- The approach follows IAS 8:
 - Retrospective application of new policies;
 - Retrospective restatement for errors;
 - Adjustments to comparative information.

Restatement ensures:

- Interim periods within the same financial year are comparable; and
- The annual financial statements reflect consistent policies and classifications.

10. Selected disclosure topics and examples

10.1 Seasonality and cyclicalities

Entities whose operations are highly seasonal must disclose:

- The nature of seasonality;
- The impact on interim results and financial position.

Example — Retail entity:

A retailer earns a large portion of revenue in November–December. In its Q2 interim report (April–June), it discloses:

- That sales are typically low in Q2 due to seasonality;
- Any significant changes in seasonal patterns (e.g. new product launches, changes in consumer behaviour).

10.2 Unusual items

Unusual items (e.g. restructuring, major litigation, asset disposals) must be:

- Separately identified in the interim statement of profit or loss and OCI; and
- Explained in the notes.

Example — Restructuring:

An entity announces a restructuring in Q3, recognising R10 million restructuring provision.

Interim disclosures include:

- Nature of restructuring;
- Amount recognised;
- Expected timing of cash outflows;
- Any changes in estimates in subsequent interim periods.

10.3 Changes in estimates

Changes in estimates (e.g. useful lives, provisions, tax rates) are recognised prospectively and disclosed if material.

Example — Change in depreciation estimate:

In Q2, an entity revises the useful life of a major asset from 10 years to 8 years.

- The change affects depreciation expense from Q2 onwards.
- The interim report discloses:
 - The nature of the change;
 - The effect on current interim period profit;
 - The expected effect on future periods.

10.4 Segment information (IFRS 8)

If an entity is required to provide segment information:

- Interim reports include segment revenue, profit, assets, and other key measures.
- Disclosures focus on changes in segment performance and composition since the last annual reporting date.

10.5 Earnings per share (IAS 33)

Entities with publicly traded shares must present:

- **Basic and diluted EPS** for:
 - The interim period; and
 - The comparative interim period.

EPS is calculated using:

- Profit or loss attributable to ordinary shareholders for the interim period; and
- Weighted average number of shares outstanding during the interim period.

11. Practical example — Half-year interim report

Below is a conceptual example to illustrate how IAS 34 principles come together in a half-year report.

11.1 Background

Entity A:

- Year-end: 31 December.
- Prepares half-year interim reports (30 June).
- Operates in a seasonal industry (peak sales in Q4).

11.2 Components of the interim report (30 June 20X1)

Condensed statement of financial position:

- 30 June 20X1 (current interim date);
- 31 December 20X0 (prior year-end).

Condensed statement of profit or loss and OCI:

- 6 months ending 30 June 20X1;
- 6 months ending 30 June 20X0.

Condensed statement of changes in equity:

- 6 months ending 30 June 20X1;
- 6 months ending 30 June 20X0.

Condensed statement of cash flows:

- 6 months ending 30 June 20X1;
- 6 months ending 30 June 20X0.

11.3 Key disclosures**Seasonality:**

- Note explaining that sales are concentrated in Q4.
- Clarification that low sales in H1 are normal and not indicative of distress.

Unusual item — Litigation settlement:

- Entity settles a lawsuit in May for R5 million.
- Note discloses:
 - Nature of litigation;
 - Amount of settlement;
 - Impact on profit.

Income tax:

- Estimated annual effective tax rate: 27%.
- Tax expense for H1 calculated by applying 27% to year-to-date profit.

Change in estimate — Warranty provision:

- Warranty claims higher than expected in H1.
- Entity revises its estimate of future warranty costs.
- Note discloses:
 - Reason for change;
 - Effect on H1 profit;
 - Expected impact on future periods.

12. Question Bank (MCQs, Scenarios, Calculations)**SECTION A — MULTIPLE-CHOICE QUESTIONS (MCQs)****MCQ 1 — Scope of IAS 34**

IAS 34 applies when an entity:

- A. Is required by local law to publish interim reports
- B. Elects to publish interim reports in accordance with IFRS
- C. Is listed on a stock exchange
- D. Both A and B

- **Correct answer: D**
- **Explanation:** IAS 34 applies whenever an entity *is required* or *elects* to publish interim financial reports in accordance with IFRS. Listing status alone does not trigger IAS 34.

MCQ 2 — Minimum components

Which of the following is **not** a required component of a minimum interim financial report?

- A. Condensed statement of financial position
- B. Condensed statement of profit or loss and OCI
- C. Condensed statement of changes in equity
- D. Full set of notes identical to annual financial statements

- **Correct answer: D**
- **Explanation:** IAS 34 requires *selected* explanatory notes, not full annual-level notes.

MCQ 3 — Accounting policies

IAS 34 requires entities to apply:

- A. Special interim accounting policies
- B. The same accounting policies as annual financial statements
- C. Policies that smooth seasonal fluctuations
- D. Policies that minimise volatility in quarterly earnings

- **Correct answer: B**
- **Explanation:** IAS 34 prohibits special interim policies or smoothing techniques.

MCQ 4 — Materiality

Materiality in interim reporting is assessed:

- A. Only in relation to annual financial statements
- B. Only in relation to interim financial statements
- C. In relation to both interim and annual financial statements
- D. Based on management judgement without reference to IFRS

- **Correct answer: C**
- **Explanation:** From Par. 6.1: “Materiality in interim reporting is assessed in relation to the interim period financial data, *not solely in relation* to annual figures.”

MCQ 5 — Seasonal revenue

Seasonal revenue must be recognised:

- A. Evenly throughout the year

- B. Only when received in cash
- C. When IFRS 15 criteria are met
- D. Only at year-end

➤ **Correct answer: C**

➤ **Explanation:** IAS 34 prohibits smoothing seasonal revenue.

MCQ 6 — Income tax

Interim income tax expense is calculated using:

- A. The statutory tax rate for the interim period
- B. The estimated annual effective tax rate
- C. The prior year's effective tax rate
- D. The tax paid during the interim period

➤ **Correct answer: B**

➤ **Explanation:** From Par. 8.6: "Interim income tax expense is calculated by applying the estimated average annual effective tax rate to the year-to-date profit."

MCQ 7 — Comparative information

A half-year interim report must include:

- A. Only current period figures
- B. Current period and prior year-end figures
- C. Current period and prior year interim period figures
- D. Both B and C

➤ **Correct answer: D**

MCQ 8 — Inventory write-downs

Inventory write-downs at interim dates:

- A. Are prohibited
- B. Must be deferred until year-end
- C. Must be recognised at interim dates
- D. Must be recognised only if permanent

➤ **Correct answer: C**

MCQ 9 — Changes in estimates

Changes in estimates during interim periods:

- A. Are prohibited

- B. Must be recognised prospectively
- C. Must be recognised retrospectively
- D. Must be ignored until year-end

➤ **Correct answer: B**

MCQ 10 — EPS

Entities with publicly traded shares must disclose EPS:

- A. Only annually
- B. Only for the interim period
- C. For both interim and comparative interim periods
- D. Only if profit is positive

➤ **Correct answer: C**

SECTION B — SCENARIO-BASED QUESTIONS (WITH SOLUTIONS)

Scenario 1 — Seasonality and disclosure

RetailCo earns 45% of its annual revenue in November–December. In its Q2 interim report (April–June), revenue is significantly lower than Q1.

Required: Explain how IAS 34 requires RetailCo to present and disclose this seasonality.

Solution:

- Revenue must be recognised when IFRS 15 criteria are met — no smoothing.
- Q2 revenue is presented as earned, even if low.
- Notes must disclose:
 - The nature of seasonality
 - Its impact on interim results
 - Any changes in seasonal patterns

Scenario 2 — Inventory write-down and reversal

In Q1, Entity A writes down inventory by R2 million. In Q2, NRV increases and R1.2 million of the write-down is reversed.

Required: Explain the correct IAS 34 treatment.

Solution:

- Q1: Recognise R2m write-down (IAS 2).
- Q2: Recognise R1.2m reversal (IAS 2).
- Disclose both events as significant interim changes.

- No smoothing across quarters.

Scenario 3 — Restructuring provision

In Q3, Entity B announces a restructuring and recognises a R10m provision.

Required: Explain the disclosure requirements.

Solution: Disclose:

- Nature of restructuring
- Amount recognised
- Expected timing of cash flows
- Any changes in estimates in subsequent interim periods

Scenario 4 — Change in depreciation estimate

In Q2, Entity C revises the useful life of a machine from 10 years to 8 years.

Required: Explain the IAS 34 treatment.

Solution:

- Change in estimate → prospective application (IAS 8).
- Increased depreciation recognised from Q2 onwards.
- Disclose nature and financial effect of the change.

Scenario 5 — Impairment indicators

In Q1, Entity D experiences a major drop in demand. Indicators of impairment exist.

Required: Explain the IAS 34 requirement.

Solution:

- Perform impairment test at interim date (IAS 36).
- Recognise impairment loss, if there is one.
- Disclose the event and assumptions.
- Update estimates in subsequent interim periods.

SECTION C — CALCULATION QUESTIONS (WITH FULL WORKINGS)

CALCULATION SET 1 — Income Tax (Annual Effective Tax Rate)

Question 1 — Basic annual effective tax rate

- Estimated annual profit before tax: R120m

- Estimated annual tax expense: R36m
- Q1 profit before tax: R30m

Required: Calculate Q1 tax expense.

Solution:

- Annual effective tax rate = $36\text{m} / 120\text{m} = 30\%$
- Q1 tax expense = $30\% \times 30\text{m} = \text{R9m}$

Question 2 — Updating the tax rate mid-year

Same entity as in Question 1 above. At end of Q2:

- Revised annual profit estimate = R100m
- Revised annual tax expense = R28m
- Q2 profit before tax = R25m

Required: Calculate Q2 tax expense.

Solution:

- Revised annual effective tax rate = $28\text{m} / 100\text{m} = 28\%$
- Year-to-date profit (Q1 + Q2) = $30\text{m} + 25\text{m} = \text{R55m}$
- Year-to-date tax = $28\% \times 55\text{m} = \text{R15.4m}$
- Tax already recognised in Q1 = **R9m**
- Q2 tax expense = $15.4\text{m} - 9\text{m} = \text{R6.4m}$

Question 3 — Loss in early quarters

- Estimated annual profit: R40m
- Estimated annual tax expense: R12m
- Annual effective tax rate = 30% ($12\text{m} / 40\text{m}$)
- Q1 loss before tax: (R10m)
- Q2 profit before tax: R20m

Required: Calculate Q2 tax expense.

Solution:

- Year-to-date profit = $(10\text{m}) + 20\text{m} = \text{R10m}$
- Year-to-date tax = $30\% \times 10\text{m} = \text{R3m}$
- Tax recognised in Q1 = **R0** (loss)
- Q2 tax expense = **R3m**

CALCULATION SET 2 — Seasonality and Uneven Costs

Question 4 — Seasonal revenue recognition

A ski resort earns R15m revenue in Q1 (winter) and R2m in Q2. It wants to smooth revenue evenly across Q1 and Q2.

Required: Explain the correct IAS 34 treatment.

Solution:

- Recognise R15m in Q1 and R2m in Q2.
- No smoothing permitted.
- Disclose seasonality.

Question 5 — Insurance premium amortisation

Annual insurance premium paid in January: R1.2m. Coverage: 12 months. Q1 ends in March.

Required: Calculate insurance expense for Q1.

Solution:

- Monthly expense = $1.2\text{m} / 12 = \text{R0.1m}$
- Q1 expense = $0.1\text{m} \times 3 \text{ months} = \text{R0.3m}$
- Prepaid expense (current asset) at Q1 end = $1.2\text{m} - 0.3\text{m} = \text{R0.9m}$

Question 6 — Uneven advertising costs

Entity launches a R4m advertising campaign at the start of Q2. Benefits expected over 4 months (Q2–Q3).

Required: Calculate Q2 expense.

Solution:

- Monthly benefit = $4\text{m} / 4 = \text{R1m}$
- Q2 covers 3 months → expense = **R3m**
- Prepaid expense (current asset) at Q2 end = **R1m**

SECTION D — INTEGRATED MINI-CASE

Case: Half-year interim report with multiple events

Entity Z

- Year-end: 31 December

- Interim report: 30 June
- Events:
 1. Q1 inventory write-down R3m
 2. Q2 inventory write-down reversal R1m
 3. Q2 restructuring provision R8m
 4. Revised annual profit estimate: R90m
 5. Revised annual tax expense: R27m
 6. Year-to-date profit before tax: R40m

Required: Describe the interim adjustments and disclosures.

Solution:

1. Inventory write-down Q1: recognise R3m (IAS 2)
2. Reversal Q2: recognise R1m
3. Restructuring provision Q2: recognise R8m
4. Annual effective tax rate = $27\text{m} / 90\text{m} = 30\%$
5. Year-to-date tax = $30\% \times 40\text{m} = \text{R}12\text{m}$
6. Suppose Q1 tax was R3m, then Q2 tax = $12\text{m} - 3\text{m} = \text{R}9\text{m}$
7. Disclose:
 - Seasonality (if applicable)
 - Inventory movements
 - Restructuring
 - Tax rate changes
 - Any changes in estimates

SECTION E — SHORT-FORM THEORY QUESTIONS

Q1: Why does IAS 34 require greater use of estimates?

A: Because interim periods are shorter and detailed information may not be available at each reporting date.

Q2: Why does IAS 34 prohibit smoothing?

A: To ensure interim results reflect actual performance and position, not artificial allocations.

Q3: What is the core principle of IAS 34?

A: Interim periods are an integral part of the annual reporting period.

13. Typical Interim Financial Reports

...follow on the pages below.

POLKA INDUSTRIES LTD

Condensed Interim Financial Statements

For the 6 months ended 30 June 20X5

(All amounts in R'000)

Statement of Financial Position	30 Jun 20X5	31 Dec 20X4
Assets		
Cash and cash equivalents	12,450	9,800
Trade receivables	18,200	16,900
Inventory	24,600	22,300
Prepayments	1,200	900
Total current assets	56,450	49,900
Property, plant and equipment	72,300	74,100
Right-of-use assets	11,900	13,000
Intangible assets	8,400	8,900
Deferred tax assets	2,100	1,700
Total non-current assets	94,700	97,700
Total assets	151,150	147,600
Equity and liabilities		
Share capital	50,000	50,000
Retained earnings	28,900	25,200
Other reserves	4,300	4,300
Total equity	83,200	79,500
Liabilities		
Trade payables	14,800	13,900
Lease liabilities (current)	2,400	2,300
Income tax payable	3,100	2,600
Provisions	1,900	1,400
Total current liabilities	22,200	20,200
Borrowings	32,000	33,000
Lease liabilities (non-current)	6,300	7,000
Deferred tax liabilities	7,450	7,900
Total non-current liabilities	45,750	47,900
Total liabilities	67,950	68,100
Total equity and liabilities	151,150	147,600

Condensed Statement of Profit or Loss and OCI

For the 3 months and 6 months ended 30 June 20X5

Statement of Profit or Loss and OCI	Q2 20X5 (3 months)	Q2 20X4 (3 months)	H1 20X5 (6 months)	H1 20X4 (6 months)
Revenue	41,800	39,200	79,600	74,300
Cost of sales	(27,900)	(26,400)	(53,200)	(50,100)
Gross profit	13,900	12,800	26,400	24,200
Other income	900	700	1,700	1,300
Selling & distribution expenses	(4,200)	(4,000)	(8,300)	(7,900)
Administrative expenses	(3,900)	(3,700)	(7,600)	(7,200)
Inventory (write-down) / reversal	0	(600)	(600)	(600)
Restructuring costs	(1,200)	0	(1,200)	0
Operating profit	5,600	5,200	10,400	9,800
Finance costs	(1,000)	(1,100)	(2,000)	(2,200)
Profit before tax	4,600	4,100	8,400	7,600
Income tax expense	(1,380)	(1,230)	(2,520)	(2,280)
Profit for the period	3,220	2,870	5,880	5,320
Other comprehensive income:				
Fair value gains (losses)	120	80	200	150
Total comprehensive income	3,340	2,950	6,080	5,470

Condensed Statement of Changes in Equity

For the 6 months ended 30 June 20X5

Statement of Changes in Equity	Share Capital	Other Reserves	Retained Earnings	Total Equity
Opening balance at 1 Jan 20X5	50,000	4,300	25,200	79,500
Profit for the period	—	—	5,880	5,880
OCI for the period	—	200	—	200
Dividends declared	—	—	(2,180)	(2,180)
Closing balance at 30 Jun 20X5	50,000	4,500	28,900	83,400

Condensed Statement of Cash Flows (Indirect method)

For the 6 months ended 30 June 20X5

Statement of Cash Flows	H1 20X5	H1 20X4
Cash flows from operating activities:		
Profit before tax	8,400	7,600
Depreciation & amortisation	4,100	4,000
Finance costs	2,000	2,200
Inventory write-down	600	600
Working capital changes:		
Increase in receivables	(1,300)	(1,100)
Increase in inventory	(2,900)	(2,400)
Increase in payables	900	700
Cash generated from operations	11,800	11,600
Income tax paid	(2,000)	(1,900)
Net cash from operating activities	9,800	9,700
Cash flows from investing activities:		
Acquisition of PPE	(2,600)	(3,200)
Net cash used in investing activities	(2,600)	(3,200)
Cash flows from financing activities:		
Dividends paid	(2,180)	(2,000)
Lease payments	(1,370)	(1,300)
Borrowings repaid	(1,000)	(1,000)
Net cash used in financing activities	(4,550)	(4,300)
Net increase in cash	2,650	2,200
Opening cash balance	9,800	8,900
Closing cash balance	12,450	11,100

Notes (summaries)

<u>Note</u>	<u>Summary</u>
Seasonality	Sales peak in Q4; H1 results are not indicative of full-year performance.
Inventory write-down	R0.6m recognised in Q1 due to slow-moving goods.
Restructuring	R1.2m recognised in Q2 relating to warehouse consolidation.
Tax rate	Estimated annual effective tax rate = 30%.
PPE additions	R2.6m invested in machinery upgrades.