



# Ind AS Case Study

## The articulation of Profit and Loss and Other Comprehensive Income

### INTRODUCTION

This case study aims to illustrate that although Profit and Loss (PL) and Other Comprehensive Income (OCI) are, in substance, two separate statements (they can also be shown as a single statement), there is an articulation between the two. Profit for the period is the total of income (that should have been received) *less* expenses (that should have been paid), excluding the components of Other Comprehensive Income, which is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. The articulation of PL and OCI is done through reclassification adjustments, which are amounts reclassified to PL (as realised gains) in the current period that were recognised in OCI (as unrealised gains) in current or previous periods.

# The articulation of Profit and Loss and Other Comprehensive Income

## REFERENCE

**Paragraph 93 of Ind AS 1:** *Presentation of Financial Statements* states, “A reclassification adjustment is included with the related component of OCI in the period that the adjustment is reclassified to PL. The amounts may have been recognised in OCI as unrealised gains in the current or previous periods. These unrealised gains must be deducted from OCI in the period in which the realised gains are reclassified to PL to avoid including them in total comprehensive income **twice**.”

## CASE STUDY EXAMPLE

### Statement of Profit and Loss for the year ended 31 March 20x5 (Extract) (CU)

Revenue		8,700
Cost of sales		(3,510)
		<b>5,190</b>
Other income		150
Administrative expenses		(633)
Distribution expenses		(569)
Other expenses		(1,575)
<b>Accounting Profit</b>		<b>2,563</b>
Tax expense –		
Current tax expense (@ 40%)	1,002	
Deferred tax expense	90	
Deferred tax income	(144)	
Deferred tax liability	(12)	
Deferred tax asset	30	(966)
<b>Profit for the period</b>		<b>1,597</b>

No adjustment has been made to the following. **A Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 March 20x5 is to be prepared by taking into consideration the following information –**

### 1. Property, Plant and Equipment

#### Property, Plant and Equipment (CU)

Date	Heads of account	Carrying Amount			Tax Base			Original cost		
		Dr	Cr	Balance	Increase	Decrease	Balance	Increase	Decrease	Balance
<b>20x4</b>										
Apr 1				300			200			320
<b>20x5</b>										
Mar31	Revaluation surplus	24		324		100	100		80	240
	Deferred tax liability	16		340						
	Depreciation		100	240						

## 2. Employee benefits

### Actuarial loss/(gain) on defined benefit plan (CU)

	Plan Liabilities	Plan Assets	Defined Benefit Liability
Balance bf (1 April 20x4)	3,000	(2,500)	500
Service costs –			
Current service costs	300	–	300
Past service costs	200	–	200
Loss on settlement	100	–	100
Net interest cost (@5%)	150	(125)	25
Benefits paid	(300)	300	–
Contributions made	–	(500)	(500)
Actuarial loss/(gain) – balancing figure	50	(75)	(25)
Balance cf (31 March 20x5)	3,500	(2,900)	600

## 3. Financial asset measured at fair value through other comprehensive income

### Investment in Debt Instruments (CU)

Date	Heads of Account	Carrying amount			Tax Base		
		Dr	Cr	Balance	Increase	Decrease	Balance
20x4 Apr 1				220			200
20x5 Mar 31	Fair value gain	6		226			
	Deferred tax liability	4		230			
	Cash		230	–		200	–

## 4. Investment in foreign operation

### Investment in Foreign Operation (CU)

Date	Heads of Account	Dr	Cr	Balance
20x4 Apr 1				1,075
20x5 Mar 31	Foreign currency translation reserve	105		1,180
	Deferred tax liability	70		1,250
	Cash		1,250	–

**Note:** Carrying amount of foreign currency translation reserve as on 31 March 20x4 is CU 45 (net of tax).

## SOLUTION

### 1. Property, plant and equipment

There is no taxable/deductible temporary difference, since the accounting depreciation and tax depreciation are the same. Therefore, no deferred tax arises in profit and loss.

The difference between the carrying amount of a revalued asset and its tax base is a taxable temporary difference and gives rise to a *deferred tax liability*. The revalued carrying amount of property, plant and equipment (PPE) will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowed for tax purposes in future periods.

#### Journal

Property, plant and equipment	CU 40
Revaluation surplus (Other Comprehensive Income)	CU 24
Deferred tax liability (Other Comprehensive Income)	CU 16

A portion of the revaluation surplus in respect of PPE is transferred directly to retained earnings, ie, not through profit and loss. In other words, it is not reclassified to profit and loss. The amount of revaluation surplus transferred is the *net of tax* difference between depreciation based on the revalued carrying amount of PPE (CU 100) and depreciation based on PPE's original cost (CU 80). The amount transferred is:  $CU (100 - 80) \times 60\% = CU 12$ .

#### Journal

Revaluation surplus (Statement of Changes in Equity)	CU 12
Retained earnings (Statement of Changes in Equity)	CU 12

### 2. Employee benefits

The amount to be recognised in profit and loss for the period in respect of defined benefit plan is the aggregate of the following –

a) Current service cost	CU 300
b) Past service cost	CU 200
c) Loss on settlement	CU 100
d) Net interest cost	<u>CU 25</u>
	<b>CU 625</b>

A deductible temporary difference arises in PL, and results in a deferred tax asset, when the amount allowed as deduction (ie, benefits paid CU 300) is less than the amount shown as expenses (ie, aggregate of service cost and net interest cost CU 625). The amount of deferred tax asset is =  $CU (625 - 300) \times 40\% = CU 130$ .

#### Journal

Deferred tax asset	CU 130
Deferred tax income	CU 130

Remeasurements of net defined benefit liability, ie, actuarial gains/(losses) arising in the period would be recognised in OCI. The amount is CU 25. The *net of tax* of this amount, ie,  $CU\ 25 \times 60\% = CU\ 15$  will appear in OCI.

**Journal**

Plan assets	CU 75
Plan liabilities	CU 50
Remeasurement of defined benefit obligation (OCI)	CU 15
Deferred tax liabilities (OCI)	CU 10

### 3. Financial asset measured at fair value through Other Comprehensive Income

In the tax jurisdiction in which the entity operates, unrealised gains/(losses) arising on the revaluation of investments of this nature are not taxable (deductible) unless the investment is sold.

The gain on sale of investment in debt instruments is CU 30 (CU 230 – CU 200), which is taxable. In effect, the net gain after tax CU 18 ( $CU\ 30 \times 60\%$ ) is reclassified from OCI to PL. Also, the corresponding deferred tax liability is reclassified from OCI to PL.

**Journal**

Fair value gain	CU 18
Profit and loss	CU 18
Deferred tax liability	CU 12
Tax expense	CU 12

### 4. Investment in foreign operation

The gain on foreign currency translation is measured through OCI and recognised as foreign currency translation reserve. On disposal of the foreign operation, the cumulative gain on foreign currency translation is to be reclassified from OCI to PL. Also, the cumulative deferred tax liability is to be reclassified from OCI to PL.

**Journal**

Foreign currency translation reserve	CU 150 (45 + 105)
Profit and loss	CU 150
Deferred tax liability	CU 100 (30 + 70)
Tax expense	CU 100

**Statement of Profit and Loss and Other Comprehensive Income  
for the year ended 31 March 20x5 (Extract)**

		(CU)
Revenue		8,700
Cost of sales (3,510 + 100 <sup>1</sup> )		(3,610)
		<b>5,090</b>
Other income		150
Administrative expenses (633 + 600 <sup>2</sup> )		(1,233)
Distribution expenses		(569)
Other expenses (1,575 + 25 <sup>3</sup> )		(1,600)
<b>Accounting profit</b>		<b>1,838</b>
Tax expense –		
Current tax expense (1,002 – 40 <sup>4</sup> – 120 <sup>5</sup> + 12 <sup>6</sup> + 100 <sup>7</sup> )	954	
Deferred tax expense	90	
Deferred tax income (144 + 130 <sup>8</sup> )	(274)	
Deferred tax liability (12 + 12 <sup>9</sup> + 100 <sup>10</sup> )	(124)	
Deferred tax asset	30	(676)
<b>Profit for the period (before reclassification adjustments)</b>		<b>1,162</b>
Amount reclassified from Other Comprehensive Income to Profit and Loss –		
Fair value gain in debt instruments (60% of (230 – 200))	18	
Exchange differences gain on translating foreign operations (45 + 105)	150	168
<b>Profit for the period (after reclassification adjustments)</b>		<b>1,330</b>
<i>Other Comprehensive Income (net of tax)</i>		
<b>Items that will not be reclassified subsequently to Profit and Loss</b>		
Revaluation surplus on property, plant and equipment	24	
Remeasurement of defined benefit obligation (60% of 25)	15	39
<b>Items that may be reclassified subsequently to Profit and Loss</b>		
Investment in debt instruments –		
Fair value gain arising during the period	6	
Reclassification adjustments for amounts recognised in profit and loss	(18)	(12)
Investment in foreign operations –		
Exchange differences gain on translating foreign operations during the period	105	
Reclassification adjustment for amounts recognised in profit and loss	(150)	(45)
<b>Total Comprehensive Income</b>		<b>1,312</b>

<sup>1</sup> Depreciation on PPE

<sup>2</sup> Aggregate of service costs (300 + 200 + 100)

<sup>3</sup> Net interest cost (150 – 125)

<sup>4</sup> Tax deduction on depreciation of PPE (40% of 100)

<sup>5</sup> Tax deduction on employee benefits paid (40% of 300)

<sup>6</sup> Taxable amount of gain on sale of debt instruments [40% of (230 – 200)]

<sup>7</sup> Taxable amount of gain on disposal of foreign operation [40% of (1,250 – 1,000)]

<sup>8</sup> Deductible temporary difference on employee benefits [40% of (600 – 300 + 25)]

<sup>9</sup> Reclassification of deferred tax liability for investment in debt instruments [40% of (230 – 200)]

<sup>10</sup> Reclassification of deferred tax liability for investment in foreign operations (30 + 70)