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Investment Accounts

Meaning

Investment means the acquisition of any asset for earning of income by way of interest, dividend, rent or capital acquisition

Types of Investment

* Fixed Income Bearing Securities
* Variable Income Bearing Securities

Fixed Income Bearing Securities

They are securities where the rate of income and the date of income, both, are fixed.

Important Terms

* Ex-Interest Quotation
* Cum-Interest Quotation

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Ex Interest Quotation
It is a type of Quotation, i.e. the price quoted in the market, which does not include the amount of accrued interest in it.
In this type of transaction, the buyer will have to pay and the seller will have to receive the price separately for the security and amount of interest.

Cum Interest Quotation
It is the price of the security including the amount of accrued interest in it.
One should deduct the amount of accrued interest in order to find out how much amount is paid (or received) for that particular security.

Notes
* Interest is always calculated on face value
* For any transaction, accrued interest is calculated for the period starting from the last date of payment,

till the date of the transaction.

* For any particular transaction, Ex-Interest Quotation or Cum-Interest Quotation, if not specified, is always assumed to be an Ex-Interest Quotation. However, this assumption shall be specified in the answer.

Average Cost of Investment

$$\frac{\text{All Debits in Amount Column} - \text{All Credits in Amount Column (except transaction amount)}}{\text{All Debits in FV Column} - \text{All Credits in FV Column (except transaction amount)}} \times \text{Face Value of Transaction}$$

Note:

Investment can be valued as per FIFO or average cost. In the absence of information, average cost method is assumed

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Working Note For Purchase → Ex-Interest

Quotation	XXXX
Add: Brokerage	XX
Add: Fees	XX
Add: Stamp charges	XX
COST ⇒	XXXX
Interest	XXX

Working Note for Purchase → Cum-Interest

Quotation	XXXX
Add: Brokerage	XX
Add: Fees	XX
Add: Stamp charges	XX
	XXXX
Less: Interest	(XXX)
COST ⇒	XXXX

Working Note for Sale → Ex-Interest

Quotation	XXXX
Less: Brokerage	(XX)
NET SELLING PRICE	XXXX
Interest	XXX

Working Note for Sale → Cum-Interest

Quotation	XXXX
Less: Brokerage	(XX)
	XXXX
Less: Interest	(XXX)
NET SELLING PRICE	XXX

Variable Income Bearing Securities

This refers to investment in those scrips where the rate of income and date of payment are not fixed.

Bonus Shares

* Debit in FV Column
* Nothing in Dividend Column
* Nothing in Amount Column

Dividend

* Pre- Acquisition Dividend
  → Credit in Amount Column
  → Nothing in Dividend Column
  → Nothing in FV Column.
* Post - Acquisition Dividend
  → Credit in Dividend Column
  → Nothing in FV Column
  → Nothing in Amount Column

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Right Shares

* Purchase of Shares
  → Debit in FV column
  → Debit in Amount Column
  → Nothing in Dividend column

* Sale of Right

As per AS 13, sale of right is credited to P&L A/c if existing shares are purchased Ex-Right.
If shares are purchased cum-Right, then the credit of sale of right is to investment A/c, in the amount column.

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Fire Insurance Claim

Loss of Stock Policy

Step 1: Find agreed GP Ratio

Step 2: Find estimated value of closing stock, as on the date of Fire

Step 3: Calculate the value of Goods Salvaged

Step 4: Find loss suffered

Step 5: Amount of claim

Step 1: Find Agreed GP Ratio

* Prepare Trading A/c for the previous year
* If opening stock, closing stock, or both are undervalued or overvalued, then the effect of such undervaluation or over valuation should be adjusted, i.e., stock should be valued at cost
* If in current year, an enterprise has abnormal goods, then it should be excluded and GP ratio should be calculated

only on normal sales

* If any ~~adjusted~~ agreed increase or decrease is given in GP, then GP ratio should be adjusted with such increase or decrease.

$$GP\ ratio = \frac{Gross\ Profit}{Sales} \times 100$$

Step 2 : Find Estimated value of Closing Stock as on the Date of Fire

* Prepare a Memorandum Trading A/c starting from the first day of the accounting period till the date of fire
* If any information is given for the abnormal goods, it should be excluded and GP ratio (as calculated in step 1) should be applied to Normal Sales only
* If there are any price level fluctuations in the current year as compared to the price level prevailing in the previous year, it should be adjusted as follows :

- → Convert current year data into previous year basis
- → Apply GP ratio (as calculated in Step 1) to such converted sales and find gross profit on previous year basis
- → Find Balancing Figure as closing stock in the previous year basis.
- → Reconvert such closing stock into current year basis assuming FIFO method.

* while valuing stock as on the date of fire, it should include value of normal goods as well as abnormal goods. In case any specific information is given for valuing abnormal goods, consider that. otherwise, take the Book value of Abnormal Goods.

Find Loss Suffered — Step 4

STATEMENT OF CLAIM.

Value of Goods as on Date of Fire	XXXX
Less: Value of Goods Salvaged [Not handed over to Insurance Company]	(XXX)
Loss Suffered ⟹	XXXX

Step 5: Amount of Claim

* **Full Insurance**

When amount of policy (sum insured) is equal to the actual insurable amount (sum insurable), then it is called full insurance

Amount of Claim = Loss Suffered

* **Over Insurance**

When the policy amount is more than actual insurable amount, then it is called over-insurance

Amount of Claim = Loss Suffered

* **Under - Insurance**

When the amount of policy is less than actual insurable amount, then it is called under insurance

→ **Insurance Policy with Average Clause**

$$\text{Amount of Claim} = \frac{\text{Amount of Policy} \times \text{Loss Suffered}}{\text{Actual Insurable Amount}}$$

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→ **Insurance Policy without Average clause**

Amount of Claim = Amount of Policy OR Loss Suffered } WHICHEVER IS LOWER

* **Note**

In the absence of specific information, always assume that the policy is with average clause.

Actual Insurable Amount = Value of Goods as on the Date of Fire

Loss of Profit Policy

Step 1: Find Agreed GP Ratio

Step 2: Find Short Turnover or Turnover Lost

Step 3: Find GP Lost

Step 4: Net Claim for Increased Cost of Working

Step 5: Amount of claim

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Step 1: Find Agreed GP Ratio

* Agreed GP Ratio

$$= \frac{\text{Insured Standing Charges + Net Profit - Net Loss}}{\text{Turnover of last Accounting Year}} \times 100$$

* If any agreed increase or decrease is given in GP ratio, then it should be incorporated.

Step 2: Find Short Turnover

Standard Turnover	XXXX
Add:/ Less: Trend in Turnover	XXX/(XXX)
Adjusted Standard Turnover ⇒	XXXX
Less: Actual Turnover	(XXX)
Short Turnover ⟹	XXX

Step 3: GP lost

GP lost = Short Turnover × Agreed GP Ratio

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Step 4: Net claim For Increased cost of working

1. Additional Expenses/Increased cost of working. XXXX

2. $\frac{\text{GP on Adjusted Annual Turnover}}{\text{GP as above + Uninsured Standing charges}} \times$ Additional Expenses

OR XXXX

$\frac{\text{NP + Insured Standing charges}}{\text{NP + All Standing charges}} \times$ Additional Expenses

3. GP on Additional Turnover
OR XXXX
GP on reduction avoided in Turnover

Gross claim For Increased cost of working XXXX
[lower of ①, ② and ③]
Less: Savings in Insured Standing Charges (XXX)
Net claim For increased cost of working ⇒ XXXX

Step 5: Amount of Claim

* Statement of Claim

Particulars	Amount (₹)
GP lost	XXXX
Add:/Less: Net claim for Increased Cost of working	(XXX)
GROSS CLAIM	XXXX

* Full insurance

When the amount of policy is equal to the actual insurable amount, it is called full insurance

Amount of Claim = Gross Claim

* Over Insurance

When the amount of policy is greater than the actual insurable amount, it is called over insurance

Amount of Claim = Gross Claim

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* Under Insurance

When the amount of policy is lesser than the actual insurable amount, it is called under insurance.

→ **When Policy Contains Average clause**

$$\text{Amount of claim} = \frac{\text{Amount of Policy}}{\text{Actual Insurable Amount}} \times \text{Gross Claim}$$

→ **When Policy Does not Contain Average clause**

Amount of claim = Lower of Amount of Policy or Gross Claim

* Note:

In case of absence of specific information, always assume that the policy is with average clause.

Actual Insurable Amount = Gross Profit on Adjusted Annual Turnover

Turnover

* **Annual Turnover**

Turnover in the previous year

* **Actual Turnover**

Turnover during the disturbance period

* **Additional Turnover**

Turnover because of additional expenses incurred

* **Adjusted Annual Turnover**

Turnover in the 12 months immediately preceeding the date of fire

Accounts From Incomplete Records

Capital Comparison Method

* It is also called Statement of Affairs Method
* In this method, we prepare Statement of Affairs for 2 different dates and we find the balance of capital on that date.

Then, in order to find the profit or loss for that period, both capital balances are compared and adjustments are made for drawings, interest on drawings, capital and interest on capital.

Statement of Profit

Particulars	₹
Closing Capital Balance	XXXX
Add: Drawings	XXX
Add: Interest on Drawings	XXX
Less: Additional Capital	(XXX)
Less: Interest on Capital	(XXX)
Less: Opening Capital Balance	(XXX)
PROFIT/LOSS FOR THE PERIOD ⟹	XXXX

Types of Single Entry System

* Pure Single Entry
* Simple Single Entry
* Quasi Single Entry

Techniques of Obtaining Complete Accounting Information

* General Techniques
* Derivation of Information From Cash Book
* Analysis of Sales Ledger and Purchase Ledger
* Fresh Investment by proprietors or partners
* Distinction between business expenses and Drawings

Hire Purchase

Method of Accounting

* **In the books of Hire Purchaser**
  - → Cash Price Method
  - → Interest Suspense Method
* **In the books of Hire Vendor**
  - → Sales Method
  - → Interest Suspense Method

Opening O/s Cash Price

$$= \frac{\text{Installment} + \text{Closing O/s Cash Price}}{100 + (R/K)} \times 100$$

where R = Rate of Interest p.a.

K = No. of Installments p.a.

Interest in last installment = 2nd last Installment − last Installment

Journal Entries in the Books of Hire Purchaser
Cash Price Method.

Asset Purchased

Asset A/c Dr. Cash Price
To Hire Vendor A/c

Down Payment Made

Hire Vendor A/c Dr. Down Payment
To Bank A/c

Interest Due

Interest A/c Dr. Interest
To Hire Vendor A/c

Installment Paid

Hire Vendor A/c Dr. Installment + Interest
To Bank A/c

Depreciation charged

Depreciation A/c Dr. Depreciation
To Asset A/c

Transfer to P&L A/c

Profit and Loss A/c Dr. Depreciation + Interest
To Depreciation A/c Depreciation
To Interest A/c Interest

[The first two entries appear only once in the life of the asset]

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Journal Entries in the books of Hire Purchaser
Interest Suspense Method

Asset Purchased

Asset A/c Dr. Cash Price
To Hire Vendor A/c

Down Payment Made

Hire Vendor A/c Dr. Down Payments
To Bank

Interest Suspense

Interest Suspense A/c Dr Total Interest Amount
To Hire Vendor A/c

Interest Due

Interest A/c Dr. Interest for the Year
To Interest Suspense A/c

Installment Paid

Hire Vendor A/c Dr. Installment + Interest
To Bank A/c

Depreciation

Depreciation A/c Dr. Depreciation
To Asset A/c

Transfer to P&L A/c

Profit and Loss A/c Dr. Depreciation + Interest
To Depreciation A/c Depreciation
To Interest A/c Interest

Journal Entries in the books of Hire Vendor
Cash Price Method

Sales

Hire Purchaser A/c	Dr.	Cash Price
To HP Sales A/c		

Down Payment Received

Bank A/c	Dr.	Down Payment
To Hire Purchaser A/c		

Interest Due

Hire Purchaser A/c	Dr.	Interest
To Interest A/c		

Installment Received

Bank A/c Dr. Installment + Interest
To Hire Purchaser A/c

Transfer of HP Sales

HP Sales A/c Dr. HP Sales
To Trading A/c

Transfer of Interest

Interest A/c Dr. Interest
To Profit or Loss A/c

Journal Entries in the books of Hire Vendor
Interest Suspense Method

Sales

Hire Purchaser A/c	Dr.	Cash Price
To HP Sales A/c		

Down Payment Received

Bank A/c	Dr.	Down Payment
To Hire Purchaser A/c		

Interest Suspense Method

Hire Purchaser A/c	Dr.	Total Interest
To Interest Suspense A/c		

Interest Due

Interest Suspense A/c Dr. Interest for the Year.
To Interest A/c

Installment Received

Bank A/c Dr. Installment + Interest
To Hire Purchaser A/c

Transfer to Trading A/c

HP Sales A/c Dr. HP Sales
To Trading A/c

Transfer to P&L A/c

Interest A/c Dr. Interest
To Profit and Loss A/c

Departmental Accounts

Types of Departments
* Dependent
* Independent

Basis of Allocation
* Expenses incurred specially for each department are charged
* Common expenses distributed among the departments on a suitable basis

Inter Department Transfers
* Cost
* Market Price
* Cost Plus Agreed Percentage of Profits

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Advantages of Departmental Accounting
* Evaluation of Performance
* Growth Potential of Each Department
* Justification of Capital Outlay
* Judgement of Efficiency
* Planning and Control

Methods of Departmental Accounting
* Single set of books of accounts for all departments
* Separate set of books of accounts for each department

Stock Reserve

$$\frac{\text{Transfer price of Unsold Stock} \times \text{Profit Included in Transfer Price}}{\text{Transfer Price}}$$

Journal Entry for Creation of Stock Reserve

Profit and Loss A/c Dr.
To Stock Reserve A/c

Journal Entry for Reversal of Stock Reserve

Stock Reserve A/c Dr.
To Profit and Loss A/c

Disclosure in Balance Sheet

Current Assets.	XXX
Stock	XXX
Less: Stock Reserve	XX
	XXX

Memorandum Stock and Memorandum Mark up Account Method

Goods supplied to each department are debited to a memorandum departmental stock account at a cost plus a mark up to give the normal selling price of the goods. The sale proceeds of the department are credited in the memorandum Departmental Stock Account and amount of

mark up is credited to the Departmental Mark up Account. When it is necessary to reduce the selling price below the normal selling price, i.e., cost plus mark up, the reduction is entered in the Memorandum Stock Account as well as in the Mark up Account.

This method helps to achieve effective control of stock movements of various departments.

Branch Accounts

Classification of Branches

* Inland Branches
* Foreign Branches

Types of Branches

* Independent Branches
* Dependent Branches

Methods of Charging Goods to Branches

* At cost
* At Selling Price
* At wholesale Price
* At arbitrage price

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Methods of Maintaining Accounts of Dependent Branches

* Goods Invoiced at Cost or Selling Price
  - → Debtors Method
  - → Stock and Debtors Method
  - → Trading and Profit and Loss Method [Final Accounts Method]
* Goods Invoiced at Wholesale Price
  - → Wholesale Branches Method

Foreign Branches

* Integral Foreign Operations
* Non-Integral Foreign Operations

Translation of Non-Integral Foreign Operations

* Balance Sheet Items → Closing Rate
* Items of Income and Expenses → Actual Rate
* Resulting exchange rate difference should be accumulated in a "foreign currency translation reserve" until the disposal of "net investment in non-integral foreign operation"

Translation of Integral Foreign Operations
At the rate prevailing on the date of the transaction

Proforma Branch A/c

Branch A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Balance b/d		By Bank A/c	
Cash		(cash remitted)	
Stock		By Return to HO	
Debtors		By Balance c/d	
Petty Cash		Cash	
Fixed Assets		Stock	
Prepaid Expenses		Debtors	
To Goods Sent to Branch		Petty cash	
To Bank A/c		Fixed Assets	
(sundry expenses)		Prepaid Expenses	
To P&L A/c (profit)		By P&L A/c (loss)	
	═		═

Stock and Debtors Method

* **Branch Stock Account (or Branch Trading Account)**
  Ascertainment of shortage and surplus
* **Branch Profit and Loss Account**
  Calculation of net profit or loss
* **Branch Debtors Account**
  Ascertainment of closing balance of debtors
* **Branch Expenses Account**
  Ascertainment of total expenses incurred
* **Goods Sent to Branch Account**
  Ascertainment of cost of goods sent to branch

Change in Classification from Integral to Non-Integral Branch

* Translation procedure applicable to non-integral shall be followed from the date of change.
* Exchange difference arising on the translation of the non-monetary assets at the date of re-classification is accumulated in foreign currency translation reserve.

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Change in Classification from Non-Integral to Integral Branch

* Translation procedure as applicable to integral should be applied from the date of change
* Translated amount of non-monetary items at the date of change is treated as historical cost.
* Exchange difference lying in foreign currency translation reserve is not to be recognised as income or expense till the disposal of the operation even if the foreign operation becomes integral.

Partnership Accounts

Piecemeal Distribution

* Maximum Loss Method
* Highest Relative surplus Capital Method

Dissolution of Partnership

* Expiry of term or undertaking for which it was formed
* Death of the Partner
* Insolvency of the Partner.

Dissolution of Partnership Firm

* Mutual Agreement between partners
* All partners except one become insolvent
* The business becomes illegal
* In case of a partnership at will, where a partner gives notice of dissolution
* The court orders dissolution

Cases when court orders dissolution

* Where a partner has become of unsound mind
* where a partner suffers from permanent incapacity
* where a partner is guilty of misconduct in the business
* where a partner transfers his interest or share to a third party
* where the business cannot be carried on except at a loss
* where it appears to be just and equitable
* Where a partner persistently disregards the partnership agreement

Treatment of losses on dissolution

[losses include capital deficiencies]

* out of profits
* out of capital
* by the partners individually in the proportion in which they are entitled to share profits.

Treatment of Assets on dissolution

* In paying debts of the firm to third parties
* In paying debts of the firm towards partners
* In paying balance of capital to the partners
* the residue, if any, to be divided among the partners in the proportion in which they are entitled to share profits.

Consequences of Insolvency of a Partner

* The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made
* The firm is dissolved on the date of order of adjudication unless there is a contract to the contrary
* The estate of the insolvent partner is not liable for any act of the firm after the date of order of adjudication
* The firm cannot be held liable for any acts of the insolvent partner after the date of order of adjudication

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Loss Arising From Insolvency of a Partner

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners according to the decision in the English case Garner vs. Murray.

According to this, the solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realisation of assets to be borne by all partners in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The provisions of the Indian Partnership Act are not contrary to the Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per the deed should be applied.

Capital Ratio on Insolvency

* Partners are free to have either fixed or fluctuating capitals in the firm
* If they are maintaining capitals at fixed amounts, then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary, etc. are done through current accounts which may have debit or credit balances and insolvency loss is distributed in the ratio of fixed capitals.
* But, if capitals are not fixed and all transactions relating to drawings, profits, interest, etc. are passed through Capital Accounts, then capital ratio will be determined after adjusting all the reserves and the accumulated profits, drawings, interest on capitals and drawings to the date of dissolution but before adjusting profit or loss on realisation account.
* If some partner is having debit balance in his capital account and is not insolvent, then he cannot be called upon to bear the loss on account of insolvency of other partner.

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Insolvency of all partners

* When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances, it is better not to transfer the amount of creditors to Realisation A/c.

* Creditors may be paid the amount available including the amount contributed by the partners.

* The unsatisfied portion of creditors account is transferred to capital Accounts of the partners in the profit sharing ratio. Then capital accounts are closed. In doing so, the Partner's capital Account having the worst position is closed first and so, the last account will be closed automatically.

Maximum Loss Method

Each installment realised is considered to be worthless the final payment, i.e. outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a distribution is made, following either Garner vs. Murray Rule or the profit sharing ratio rule.

Highest Relative Capital Method

According to this method, the partner who has the highest relative capital, that is, whose capital is greater in proportion to his profit sharing ratio, is first paid off. This method is also called as proportionate capital method.

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Nature of Limited Liability Partnership

* A limited liability partnership is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners.
* A limited liability partnership should have perpetual succession
* Any change in the partners of a limited liability partnership should not affect the existence, rights or liabilities of the limited liability partnership.

Save as otherwise provided, the provisions of the Indian Partnership Act 1932 should not apply to a limited liability partnership.

Incapacity of a Person to become a partner in an LLP

* He has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
* He is an undischarged insolvent
* He has applied to be adjudicated as an insolvent and his application is pending

Minimum number of partners in an LLP

As per section 6 of the LLP Act, every LLP should have at least two partners.

If at any time, the number of partners of an LLP is reduced below two and the LLP carries on business for more than 6 months while the number is so reduced, the person who is the only partner of the LLP during the time that it so continues to carry on business after those six months and has the knowledge that it is carrying on business with him alone will be personally liable for the obligations of the LLP during that period.

Liabilities of Designated Partners

* He is responsible for the doing of all acts, matters and things as are required to be done by the LLP in respect of the compliance of the provisions of the Act including filing of any document, return, statement and the like report pursuant to the provisions of the Act and as may be specified in the LLP agreement

* liable to all penalties imposed on the LLP for any contravention of these provisions.

Changes in Designated Partners

* A LLP may appoint a designated partner within 30 days of a vacancy arising for any reason and provisions of sub-sections (4) and (5) of section 7 will apply in respect of such new designated partner.

Provided that if no designated partner is appointed, or if at any time there is only one designated partner, each partner will be deemed to be a designated partner.

Conversion of a Firm or Company to LLP

* Firm to LLP

provisions of the Act and second Schedule to the Act

* Private limited Company to LLP

provisions of the Act and third Schedule to the Act

* Public limited, unlisted company to LLP

provisions of the Act and fourth schedule to the Act

Limitation of liability of an LLP and its partners

* An obligation of an LLP arising out of a contract or otherwise, will be solely the obligation of the LLP.
* Liabilities of the LLP should be met out of the properties of the LLP
* A partner is not personally liable, directly or indirectly, for an obligation referred above solely by reason of being a partner in the LLP.
* An LLP is not bound by anything done by a partner in dealing with a person, if.
  → The partner does not have the authority ~~or doesn't know~~ on behalf of LLP in doing a particular act
  → The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP.
* The liability of the LLP and its partners perpetrating fraudulent dealings will be unlimited for all or any of the debts or other liabilities of the LLP.
* LLP is liable if a partner of LLP is liable for any person as a result of wrongful omission on his part in the course of business of the LLP or with his authority.

Financial disclosures and Returns of LLP.

34(1) Every LLP should maintain such proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash basis or accrual basis and according to the double entry system of accounting and should maintain the same at its registered office for such period as may be prescribed

34(2) Every LLP should within six months of the end of each FY prepare a statement of account and solvency for the said FY as at the last day of the said FY in such form as may be prescribed and such statement should be signed by the designated partners of the LLP.

34(3) Every LLP should file within the prescribed time, the statement of account and solvency with the registrar every year in such form and manner and accompanied by such fee as may be prescribed.

34(4) The accounts of an LLP must be audited in accordance with such rules as may be prescribed

34(5) Every LLP is required to file an annual return which is duly authenticated with the registrar within sixty days of the closure of its financial year in such form and manner and with such fees as may be prescribed.

Assignment and Transfer of Partnership Rights

* The rights of a partner to the share of profits and losses of an LLP and to receive distribution in accordance with the LLP agreement are transferable wholly or in part
* The transfer of any right by a partner as above does not by itself cause the disassociation of the partner or a dissolution or winding up of the LLP.
* Similarly, the transfer of any right as above does not entitle the transferee to participate in the management or the conduct of the activities of the LLP, or give access to any information concerning the transactions of the LLP.

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Winding Up and Dissolution of LLP

* LLP may be wound up voluntarily or by the tribunal and such LLP so wound up may be dissolved.

* The LLP may be wound up by the tribunal if

→ The LLP decides that it should be wound up by the tribunal

→ For a period of more than 6 months, the number of partners of the LLP is reduced below two.

→ The LLP is unable to pay its debts

→ The LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order.

→ The LLP has defaulted in the filing of the Statement of Account and solvency with the Registrar for five consecutive financial years.

→ The tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Amalgamation of Partnership Firms includes

* Closing the old books of amalgamating firms
* Opening the new books of amalgamating firms

Introduction To Accounting Standards

Accounting Standards Deal with
* Recognition of Events and Transactions
* Measurement of Transactions and Events
* Presentation of transactions and Events
* Disclosure Requirements

Accounting Standards Standardise Diverse Accounting Policies to
* Eliminate the non comparability of financial statements and thereby improving the reliability of financial statements to the maximum possible extent
* Provide a set of accounting policies, standard valuation norms and disclosure requirements.

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Standard Setting Process
* Identification of Area
* Constitution of Study Group
* Preparation of Draft and its circulation
* Ascertainment of views of different bodies on the draft
* Finalisation of Exposure Draft
* Comments Received on Exposure Draft
* Modification of the Draft
* Issue of Accounting Standards

Benefits of Accounting Standards
* Standardisation of Alternative Accounting Treatments
* Comparability of Financial Statements
* Requirements for Additional Disclosures

There are now effectively 27 notified Accounting standards in force.

Need For Convergence Towards Global Standards

The emergence of trans-national corporations has necessitated raising of capital from all parts of the world

Enterprises need to understand the differences between rules governing financial reporting in the foreign country as well as home country. Translation and re-instatement are of great importance due to globalisation.

Accounting standards and principles need to be robust so that there is an increased degree of confidence in the financial statements presented.

The need for international analysts and investors to compare financial statements has led to the growing support for an internationally accepted set of accounting standards for cross-borders filings, and harmonising the financial statements.

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Global standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements while safeguarding the public interest.

This brings about uniformity, rationalisation, comparability, transparency and adaptability in financial statements.

This convergence is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It creates a new standard of accountability and greater transparency.

It reduces operational challenges for accounting firms and focuses their value and expertise around an increasingly unified set of standards.

The convergence is very significant for companies with joint listings in both domestic and foreign countries.

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Convergence with IFRS

Indian Accounting Standards (Ind AS) converged with the International Financial Reporting Standards (IFRS) shall be implemented on a voluntary basis from 1st April 2015 and mandatorily from 1st April 2016.
Separate roadmaps have been prescribed for implementation of Ind AS to Banking, Insurance Companies and NBFCs.

In the scenario of globalisation, India cannot isolate itself from the development taking place world wide. So far as the ICAI and the government authorities and various regulators such as Securities and Exchange Board of India and RBI are concerned, the aim has always been to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards.

Indian Accounting Standards

Ind AS are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with the National Advisory Committee on Accounting Standards (NACAS).

Framework for Preparation and Presentation of the Financial Statements

Principal Areas Covered by the Framework

* Components of Financial statements
* Objectives of financial statements
* Assumptions underlying financial statements
* Qualitative characteristics of financial statements
* Elements of Financial statements
* Criteria for recognition of elements in financial statements
* Principals of measurement of financial elements
* Concepts of Capital and Capital Maintenance

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Components of Financial Statements
* Balance Sheet
* Statement Showing Changes in Equity
* Statement of Profit and Loss
* Cash Flow Statement
* Notes to Accounts and Other Statements

Objectives of Financial Statements
To provide information about the financial position, peformance and cash flows of an enterprise that is useful to the users.

Users of Financial Statements
* Investors
* Employees
* Lenders
* Suppliers and creditors
* Customers
* Government
* Public

Fundamental Accounting Assumptions
* Going Concern
* Accrual
* Consistency

Qualitative Characteristics of Financial Statements
* Understandability
* Relevance
* Comparability
* Reliability

Financial Statements are required to show a TRUE and FAIR view of the performance, position and cash flows of the enterprise

Elements of Financial Statements
* Income
* Expense
* Equity
* Liability
* Asset

Measurement Basis of Elements of Financial Statements
* Historical Cost
* Current Cost
* Realizable Value
* Present Value

Bases to check Maintenance of Capital
* Financial capital Maintenance at Historical Cost
* Financial capital Maintenance at current purchasing power
* Physical capital Maintenance at current costs

Applicability of Accounting Standards

Enterprises to which Accounting Standards Apply

Accounting standards apply in respect of any enterprise engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes.

They do not apply to enterprises SOLELY carrying on activities which are not of commercial, industrial or business nature.

Financial Items to which the Standards Apply

They apply to items that are considered material, i.e, its omission or misstatement affects the decision of the user. Materiality is judged on a case to case basis and items that are material are to be specially (separately) disclosed.

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Income Computation and Disclosure Standards

ICDS I Accounting Policies
ICDS II Valuation of Inventories
ICDS III Construction Contracts
ICDS IV Revenue Recognition
ICDS V Tangible Fixed Assets
ICDS VI The Effects of Changes in Foreign Exchange Rates
ICDS VII Government Grants
ICDS VIII Securities
ICDS IX Borrowing Costs
ICDS X Provisions, Contingent Liabilities & Contingent Assets

Accounting Standards and Income Tax Act 1961

Accounting standards intend to reduce diversity in application of accounting policies and principles. They intend to improve the comparability of financial statements and promote transparency and fairness in the presentation. Deductions and exemptions allowed in computation of taxable income on the other hand, is a matter of fiscal policy of the government

Thus, an expense required to be charged against the revenue by an accounting standard does not imply that the same is always deductible for income tax purposes. Likewise, any recognition of revenue in the financial statements cannot be avoided because it is exempted u/s 10 of the Income Tax Act 1961.

According to the Criteria for Classification of Entities and Applicability of Accounting Standards, as issued by the government, there are two levels, namely Small and Medium-sized Companies (SMCs) as defined in the Companies (Accounting Standards) Rules 2006 and companies other than SMCs. Non SMCs are required to comply with all the Accounting Standards in their entirety, while certain exemptions/relaxations have been given to SMCs.

Criteria for classification of entities for applicability of Accounting Standards for corporate and non-corporate entities have been prescribed as per the Government Notification

Profit or Loss Pre and Post Incorporation

Pre-Incorporation Profits

* It is transferred to Capital Reserve
* It can be used for
  - → writing off Goodwill on Acquisition.
  - → writing off preliminary expenses
  - → writing down over-valued assets
  - → issuing of bonus shares
  - → paying up partly paid shares

Pre-Incorporation Losses

* It is treated as a part of business acquisition cost and is transferred to Goodwill A/c.
* It can be used for
  → setting off against post incorporation profit
  → addition to Goodwill on acquisition
  → writing off capital profit

Apportionment of Gross Profit or Gross Loss between the Pre and Post incorporation Period

* Sales Ratio

  On the Basis of turnover in the respective periods
* Cost of Goods Sold

  On the Basis of cost of goods sold in the respective periods in the absence of any information regarding turnover.
* Time Ratio

  On the basis of time in the respective periods in the absence of any information regarding turnover and cost of goods sold.

Basis of Apportionment

Item	Ratio
* Variable Expenses linked with Turnover	Sales Ratio
* Fixed Common Charges	Time Ratio
* Expenses Exclusively Relating to Pre-Incorporation Period	Pre
* Expenses Exclusively Relating to Post-Incorporation Period	Post
* Audit Fees	
→ Company Audit Fees	Post
→ Tax Audit Fees	Sales Ratio
* Interest on Purchase Consideration to the Vendor	
→ For the Period from Date of Acquisition to date of incorporation	Pre
→ From the date of incorporation to Date of Payment	Post

Accounting for Bonus Issue and Right Issue

Bonus Issue

* Bonus issue means an issue out of free additional shares to the existing shareholders
* It can be issued out of
  - → free reserves
  - → securities premium
  - → capital redemption reserve
* Bonus shares should not be issued out of revaluation reserves.

Bonus Issue is also called as Scrip Issue and Capitalisation Issue. It is capitalisation of profits

Rights Issue

Rights Issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in the proportion to their existing holdings within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price. Rights are often transferable.

The difference between the cum-right and ex-right value of the share is the value of the right.

The accounting treatment of rights share is the same as that of issue of ordinary shares.

The right issue offers considerable advantages to existing shareholders enabling them to maintain their rights in the company and is equally advantageous to the company for its relatively simple logistics and cost effectiveness as compared to a public issue.

However, the dilution in the value of the match is a major limitation

Bonus Issue has the major effects:

* Share capital gets increased according to the bonus issue ratio
* Effective Earnings per share, book value and other per share values stand reduced
* Markets take the action usually as a favourable act.
* Market Price gets adjusted on issue of bonus shares
* Accumulated profits get reduced

Journal Entry for Issue of Right Shares

* Issue at Par

Bank A/c Dr.
  To Equity share Capital A/c

* Issue at Premium

Bank A/c Dr.
  To Equity share Capital A/c
  To Securities Premium A/c

Journal Entries for Bonus Issue

Sanction of an Issue of Bonus Shares

Capital Redemption Reserve A/c	Dr.
Securities Premium A/c	Dr.
Capital Reserve A/c	Dr.
General Reserve A/c	Dr.
Profit and Loss A/c	Dr.
To Bonus to Equity Shareholders A/c	

Issue of Bonus Shares

Bonus to Equity Shareholders A/c	Dr.
To Equity Share Capital A/c	

Only the cash portion, i.e. portion realised in cash are considered in case of securities premium and capital reserve

Making Final Call

Share Final Call A/c Dr.
To Equity Share Capital A/c

Sanction of Bonus by converting Partly Paid shares into Fully Paid Shares

General Reserve A/c Dr.
Profit and Loss A/c Dr.
To Bonus to Equity Shareholders A/c

Bonus by converting Partly Paid Shares into Fully Paid Shares

Bonus to Equity Shareholders A/c Dr.
To Share Final Call A/c

Redemption of Preference Shares

Redemption of Preference Shares can be by way of
* The proceeds of a fresh issue of shares
* The capitalisation of undistributed profits
* The combination of both.

Only Fully Paid up Shares can be redeemed.

Journal Entries for Redemption of Preference shares by Issue of Fresh Equity shares
When New shares are issued at par
Bank A/c Dr.
To Equity share capital A/c

When New Shares are issued at premium

Bank A/c Dr.
To Equity Share Capital A/c
To Securities Premium A/c

When Preference Shares are Redeemed at Par

Preference Share Capital A/c Dr.
To Preference Shareholders A/c

When Preference Shares are Redeemed at a Premium

Preference Share Capital A/c Dr.
Premium on Redemption of Preference Shares A/c Dr.
To Preference Shareholders A/c

When Payment is made to Preference Shareholders

Preference Shareholders A/c Dr.
To Bank A/c

Transfer to P&L A/c

Profit and Loss A/c Dr.
To Premium on Redemption of Preference Shares A/c

Minimum Proceeds of Fresh Issue of Shares
= Nominal Value of Preference Shares to be Redeemed
— Maximum amount of reserves and surplus available for redemption.

Minimum Number of Shares to be Issued

$$= \frac{\text{Minimum Proceeds of Fresh Issue of Shares}}{\text{Face value per share}}$$

Journal Entries for Redemption of Preference Shares by Capitalisation of Undistributed Profits

When shares are Redeemed at Par

Preference Share Capital A/c Dr.
 To Preference Shareholders A/c

When shares are Redeemed at a Premium

Preference share capital A/c Dr.
Premium on Redemption of Preference Shares A/c Dr.
 To Preference Shareholders A/c

When Payment is made to Preference Shareholders

Preference Shareholders A/c Dr.
 To Bank A/c

Transfer to P&L A/c

Profit and Loss A/c Dr.
To Premium on Redemption of Preference Shares A/c

Creation of Capital Redemption Reserve

General Reserve A/c Dr.
Profit and Loss A/c Dr.
To Capital Redemption Reserve A/c

Amount to be transferred to CRR
Face Value of Shares Redeemed
Less: Proceeds from New Issue (Nominal Value)

Journal Entry for Receipt of Calls-in-Arrears

Bank A/c Dr.
To Calls-in-Arrears A/c

Redemption of Debentures

Types of Debentures

* Secured Debentures
* Unsecured Debentures
* Convertible Debentures
* Non-Convertible Debentures
* Redeemable Debentures
* Irredeemable Debentures
* Registered Debentures
* Bearer Debentures
* First Mortgage Debentures
* Second Mortgage Debentures

Methods of Redemption of Debentures
* Payment in Lumpsum
* Payment in Installments
* Purchase in Open Markets
* Conversion into Shares

Adequacy of Debenture Redemption Reserve

* For Debentures issued by All India Financial Institutions Regulated by RBI and Banking companies for both public & privately placed debentures	No DRR is required
* For other Financial Institutions	DRR will be as applicable to NBFC registered with RBI.
* For Debentures issued by NBFCs registered with RBI and for housing finance companies registered with the National Housing Companies	25% of value of outstanding debentures issued through public issue. No DRR is required in case of privately placed debentures

* For Debentures issued by other companies including manufacturing and infrastructure companies

→ 25% of the value of outstanding debentures issued through public issue

→ Also, 25% DRR is required in the case of privately placed debentures by listed companies

→ For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of outstanding debentures

Note

Debentures create a charge, either fixed or floating, on all or some of the assets of the company. Debentures may be redeemed after a fixed number of years or elapse of certain period

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Journal Entries

1. At the End of the First Year

a) For setting aside the fixed amount for Redemption

Profit and Loss A/c Dr.
To Debenture Redemption Reserve A/c

b) For investing the amount set aside for Redemption

Debenture Redemption Reserve Investment A/c Dr.
To Bank A/c

2. At the End of the Second Year and Subsequent Years other than the Last Year

a) For Receipt of Interest on Debenture Redemption Reserve Investments

Bank A/c Dr.
To Interest on Debenture Redemption Reserve Investment A/c

b) For transfer of Interest on Debenture Redemption Reserve Investment to Debenture Redemption Reserve

Interest on Debenture Redemption Reserve Investment A/c Dr.
To Debenture Redemption Reserve A/c

c) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
To Debenture Redemption Reserve A/c

d) For investment of the amount set aside for the redemption and the interest earned on the Debenture Redemption Reserve Investment.

Debenture Redemption Reserve Investment A/c Dr.
To Bank A/c

3. At the End of the Last Year

a) For Receipt of Interest

Bank A/c Dr.
To Interest on Debenture Redemption Reserve Investment A/c

b) For transfer of Interest on Debenture Redemption Reserve Investment to Debenture Redemption Reserve.

Interest on Debenture Redemption Reserve Investment A/c Dr.
To Debenture Redemption Reserve A/c

c) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
To Debenture Redemption Reserve A/c

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d) For encashment of Debenture Redemption Reserve Investments

Bank A/c Dr.
To Debenture Redemption Reserve Investment A/c

e) For the transfer of profit or loss on realisation of Debenture Redemption Reserve Investments

i) In case of Profits

Debenture Redemption Reserve Investment A/c Dr.
To Debenture Redemption Reserve A/c

ii) In case of Loss

Debenture Redemption Reserve A/c Dr.
To Debenture Redemption Reserve Investment A/c

f) For amount due to debenture holders on redemption.

Debenture A/c Dr.
To Debenture Holder A/c

g) For Payment to Debenture Holders.

Debenture Holder A/c Dr.
To Bank A/c

Journal Entries for Purchase, Receipt of Interest and Cancellation of own Debentures

Purchase of Own Debentures

Own Debentures A/c Dr.
Interest A/c Dr.
To Bank A/c

Loss on Purchase of Own Debentures

Profit and Loss A/c Dr.
To Own Debentures A/c

Interest on Own Debentures Received

Bank A/c Dr.
To Interest A/c

Cancellation of Own Debentures

Debenture A/c Dr.
To Own Debentures A/c
To Capital Reserve A/c (if any)

Financial Statements of Companies

Financial Statements

* Balance Sheet
* Statement of Profit and Loss
* Cash Flow Statement
* Statement showing changes in Equity
* Notes and other statements

Compliance Requirements given by

* Schedule III to the Companies Act 2013
* Accounting Standards notified by the MCA
* Other Statutory Requirements

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Managerial Remuneration in case of Sufficient Profits

* If there is only one whole time director, manager or managing director, then the managerial remuneration is 5% of Net Profits

* If there are more than one whole time director, manager or managing director, then the managerial remuneration is 10% of net Profits.

* In case of existence of whole time directors, managers or managing directors, other directors are entitled to remuneration of 1% of net Profits.

* In case of absence of whole time directors, managers or managing directors, other directors are entitled to remuneration of 3% of net profits.

Managerial Remuneration in Case of Insufficient or Negative Profits is based on Effective Capital

Effective Capital	Managerial Remuneration
* Upto 5 cr	60 lacs
* 5cr to 100cr	84 lacs
* 100cr to 250 cr	120 lacs
* More than 250 cr	120 lacs + 0.01% of effective capital exceeding 250 cr.

Effective Capital Includes

- Paid up Capital
- Reserves and Surplus [except revaluation reserve]
- long term borrowings
- long term deposits

In case of an Investment Company, investments are a part of effective capital, but in other companies, investments are not to be considered as a part of ~~investment~~ effective capital.

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Net Profits For the Purpose of Managerial Remuneration

Includes

* All operating and working expenditure
* All payments to employees
* Finance charges
* Any other revenue expenditure
* Bad Debts written off
* Compensation paid as legal liability
* Depreciation as per Companies Act 2013
* Revenue Profit
* Subsidies received from government or public authorities for the purpose

Excluded

* Tax Payable
* Voluntary Compensation paid
* Abnormal Loss or Capital Loss
* Any expenditure that is not actual
* Provisions
* Depreciation according to the books
* Managerial Remuneration
* Securities Premium, i.e. premium on issue of securities
* Profit on Forfeiture of Shares

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Dividend Distribution Tax

* DDT is calculated on Dividend as per Sections 115 O,P,Q of the Finance Act 1995 as follows:

CDT / DDT	15%
+ Surcharge	12%
+ Cess	3%

* Dividend is calculated on Paid up

Dividend = Paid up Capital x Dividend %

DDT = Dividend x DDT %

Surcharge = DDT x Surcharge %

Cess = [DDT + Surcharge] x Cess %

* Dividends cannot be declared except out of profits

* Capital cannot be returned to the shareholders by way of dividend

Balance Sheet as per Schedule III of Companies Act 2013

Particulars	Notes	PY	CY
A. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share Capital			
b. Reserves and Surplus			
c. Money received against share warrants			
2. Share Allotment Money received pending allotment			
3. Non-current Liabilities			
a. Long Term Borrowings			
b. Deferred Tax Liabilities			
c. Other Non-Current Liabilities			
d. Long Term Provisions			
4. Current Liabilities			
a. Short Term Borrowings			
b. Trade Payables			
c. Other Current Liabilities			
d. Short Term Provisions			
TOTAL (A) ⟹			

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Particulars	Notes	PY	CY
B. ASSETS			
1. Non-Current Assets			
a. Fixed Assets			
i. Tangible Assets			
ii. Intangible Assets			
iii. Capital Work in Progress			
iv. Intangible Assets in Construction/Progress			
b. Non-Current Investments			
c. Deferred Tax Assets			
d. Long Term loans and Advances			
e. Other Non-Current Assets			
2. Current Assets			
a. Current Investments			
b. Inventories			
c. Trade Receivables			
d. Cash and Cash Equivalents			
e. Short Term loans and Advances			
f. Other current Assets			
TOTAL (B) ⟹			

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Statement of Profit and Loss as per Schedule III of Companies Act 2013

Particulars	Notes	PY	CY
I. Revenue From operations			
II. Other Incomes			
TOTAL (A)			
III. Cost of Raw Materials Consumed			
IV. Purchase of stock in Trade			
V. Changes in Inventories			
VI. Employee Benefit Expenses			
VII. Finance cost			
VIII. Depreciation and Amortization Expenses			
IX. Other Expenses			
TOTAL (B)			
X. Profit Before Tax [A-B]			
XI. Less: Tax			
XII. Profit After Tax			

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Disclosure Requirements

* Previous Year column is exclusively for the purpose of comparison
* Any item which is greater than 1% of the turnover or one lakh, has to be separately disclosed
* Shares issued for a consideration other than cash, have to be separately disclosed
* Any additions or appropriations to or from reserves and surplus should be separately disclosed.
* Any preliminary expenditure, miscellaneous expenditure or incorporation expenditure should be subtracted from reserves and surplus
* An item is considered as a current item only if it fits within the operating cycle
* Interest, if any, accrued against a loan, should be disclosed separately
* Interest due, if accrued and ~~not~~ due, is a current item, and if accrued and not due, is a non-current item
* Historical cost of Fixed Assets has to be disclosed

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* Inventory held with a third party should be disclosed separately
* Trade Receivables exceeding 6 months should be separately disclosed
* Bank balance with the scheduled bank and non-scheduled bank should be separately disclosed.
* Assets purchased or disposed should be disclosed
* Authorised share capital forms part of financial statements
* Contingent liabilities should be disclosed as a footnote to the Balance Sheet
* Cash equivalents only include Cash and Bank
* Only Intangible assets purchased or acquired will appear in the financial statements.
Any self generated intangible assets dont form part of the financial statements.

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Cash Flow Statement

It is a statement prepared to analyse the inflow and outflow of cash and cash equivalents resulting from operating activities, investing activities and financing activities

The main point of difference between cash flow statement and fund flow statement is the presentation

Cash and cash Equivalents

* Cash refers to currency currently in use, issued by the Reserve Bank of India
* Cash equivalents have the following characteristics
  → Readily Convertible
  → Insignificant Risk
  → Short Term instruments (less than 3 months)
  → Highly liquid

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Cash Flow Statement as per AS-3.

Particulars	Amount(₹)	Amount(₹)
1. Cash Flow From Operating Activities		xxx
2. Cash Flow From Investing Activities		xxx
Cash Inflow From Investing Activities	xxx	
Less: Cash outflow From Investing Activities	(xxx)	
3. Cash Flow From Financing Activities		xxx
Cash Inflow From Financing Activities	xxx	
Less: Cash outflow From Financing Activities	(xxx)	
4. Opening Balance of Cash and Cash Equivalents		xxx
5. Closing Balance of cash and Cash Equivalents		xxx

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Approaches to Ascertain Cash Flow From Operating Activities

* Direct Approach

Particulars	Amount(₹)	Amount(₹)
Cash Inflow From Operating Activities	xxx	
Less: Cash Outflow From Operating Activities	(xxx) →	
Cash Flow From operating Activities		xxx

* Indirect Approach

Particulars	Amount
Net Profit	xxxx
Add/less: Non operating and Non cash Items	xxx (xxx)
Cash Flow From Operating Activities before changes in working capital	xxxx
Add/less: Changes in working capital	xxx/(xxx)
Cash Flow From Operative Activities	xxx

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Statement Showing Changes in working capital

Particulars	Amount (₹)
Current Assets ↑	−
Current Assets ↓	+
Current liabilities ↑	+
Current liabilities ↓	−
Changes in working Capital ⇒	xxx

Points to Remember While closing ledger Accounts

* Balancing Figure in all the ledger accounts will be either Cash A/c (majority of the times), and in case of reserves and surplus, any other accumulated profit, accumulated losses or any other unamortised expenditure, will be P&L
* If any account already has cash A/c, then the balancing figure, subject to certain reservations and exceptions, is P&L A/c

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Stock Taken over by Issue of Shares
* Subtract such stock from Closing Stock
* Closing Stock after adjusting such stock should be considered while arriving at changes in Working Capital to comply with Double Entry

Notes Regarding Statement showing changes in Working Capital
Working Capital = Current Assets − Current Liabilities
The Exceptions to items appearing in this statement are
* Provision For Taxation
[Due to Presentation Requirement by AS-3]
AS 3 requires a clear distinction between
→ Cash Flow From Operating Activities Before Tax
→ Cash Flow From Operating Activities After Tax
* Proposed Dividend
As it is a financing outflow, it will affect the operating cash flow if it is included in the statement showing changes in working capital

Steps to Solve a Problem in Cash Flow Statement

Step 1 Identify items Requiring Working Note

* Read adjustments and keep 'chukki' in Balance Sheet
* Identity items with difference in Opening and closing Balance (other than current assets & current liabilities)

Open ledger A/c for each item identified INDIVIDUALLY

Step 2 Prepare a Statement Showing Changes in working Capital

It comprises only of Current Assets and Current Liabilities

△ Do not include 'cash' and Cash Equivalents

Statement Showing Changes in Working Capital

Particulars	Amount (₹)
Current Assets ↑	–
Current Assets ↓	+
Current Liabilities ↑	+
Current Liabilities ↓	–
Changes in working Capital ⇒	xxxx

△ Changes refers to Opening Balance – Closing Balance

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Step 3 Read Adjustments and Make necessary changes and entries in the respective ledgers
Use Double Entry System

Step 4 Close ledger accounts and identify items affecting the Cash Flow Statements - Khandaan and circle them. Also, mention the nature of activities
- (O) Operating Activities
- △ Investing Activities
- [F] Financing Activities

Step 5 Prepare Cash Flow Statements

Step 6 Check if Closing Cash Equivalents and Cash is equal to Opening Cash and Cash Equivalents
- <u>Add:</u> Cash Flow from Operating Activities
- <u>Add:</u> Cash Flow from Investing Activities
- <u>Add:</u> Cash Flow from Financing Activities

Step 7 If Step 6 tallies, say TADAA!