Advanced Accounting

Summary Notes with AS Charts

Dissolution of Partnership Firm

Steps for Dissolution of partnership

1. **Open Realisation A/c:-** Transfer all assets at book values to realisation A/c except cash A/c and at Bank A/c

(Asset A/c will be closed by transferring balances to realisation A/c)

Realisation A/c.....Dr.	xxx	
To Assets A/c (Individually)		xxx

- Debtors A/c & Provision for Bad debts A/c are separate accounts. Therefore Debtors A/c shall be credited with gross value.
- Cash & Bank A/c to be prepared separately (It will be closed at the end).

2. **Transfer of liabilities :-** These A/c of outsiders liabilities & provisions to be closed / debited & credited to realisation A/c.

Liabilities A/c......Dr.	xxx	
Provisions A/c.......Dr.	xxx	
To Realisation A/c		xxx

3. Reserve & Balance to Profit & Loss Account to be transferred to partners capital A/c in old ratio.

4. Realisation A/c credited with actual amount realised by sale of asset or asset taken over by any by partner.

Cash /Bank A/c ....Dr. (Asset sold)	xxx	
Partners Capital A/c...........Dr. (Asset taken Over)	xxx	
To Realisation A/c.		xxx

5. Exp. of dissolution & Actual payment of liabilities are debited to realisation A/c.

Realisation A/c ....Dr.	xxx	
To Cash A/c (Expenses or liabilities paid)		xxx
To Partners Capital A/c (Liabilities taken over by any partner)		xxx

6. Profit or loss in realisation A/c is credited or debited to partners capital A/c in old ratio.

7. Close partner capital Accounts by making payment or collecting amount.

In case of collection from partner

Cash A/c......Dr.
To Partners Capital A/c

In case of payment to partners

Partners Capital A/c......Dr.
To cash A/c

❖ Dissolution due to Insolvency of Partner Insolvency of a partner

(First 7 steps are same as given above)

Remaining partners (other than insolvent partner) will contribute in last agreed capital ratio.

What is last agreed capital ratio?

In case of fixed capital Method

No need of any adjustment in capital A/c.
(Take ratio of capital A/c exclude Current A/c).

In case of fluctuating capital Method

Take capital ratio after all adjustment but before adjustment of loss on Realisation.

Note: - Garner VS. Murray principle is not compulsory in India & PSR or capital ratio may be applied for sharing deficiency of insolvent partner depending on partnership agreement or facts given in the problem.

If noting is specified in the problem then generally ratio is applied.

'GARNER VS MURRAY 'Rule.

- **Loss on realisation**
  - Distributed in PSR to all partners in Profit Sharing Ratio
  - Loss on realisation shall be brought in by solvent partner in cash
- **Loss due deficiency on of insolvency of a partner**
  - Distributed to partners having credit balance in their capital ratio.
    - **Fixed Capital Method** → Capital Ratio before Adjustment
    - **Fluctuation Capital Method** → Capital ratio after all adjustment except realisation loss.

PIECEMEAL PAYMENTS

Assets are sold / Realised step by step (Not at once) therefore payments are also made in pieces / parts as & when cash is received from sale or realisation of assets.

METHODS

Maximum Loss Method

- Each instalment realised is as final payment. & Partners capital A/cs are adjusted on that basis each time when distribution is made, following either Garner Vs. Murray Rule or PSR

Highest Relative Capital Method

- Partners who has higher relative capital, that is, whose capital is greater proportion to his PSR is first paid.

Step 1 – Capital of all partners are divided by their profit sharing ratio.

Step 2 – Smallest amount of capital after division is treated as basic capital.

Step 3 – Calculate capital of other partner multiplying their PSR to basic capital.

Step 4 – Deduct capital step 3 from original capital which is excess capital.

- By repeating process once or twice, we can ascertain excess capital of each partner.

Step 5 – Partners with largest excess capital will be paid first, 2nd payment to partner who ranks next until capital of partners are reduced to their Profit Sharing Ratio.

Accounting for Employee Stock Option Plan

- It is option for employees to purchase shares of company at the end of specified period.

- Company enters into an agreement with employees for ESOP

  Matter of An Agreement -

  1. Employee will get choice to purchase shares of company if they continue their service for minimum specified period.
  2. It is an option for employee but is an obligation for company to issue shares. Therefore company shall book ESOP compensation after it enters in an agreement with employees.

- Concept of ESOP - Example with date

  Agreement Date – 24^{th} November 2018

  Minimum Period to be completed – E.g. 5 years

  Vesting Date – 24^{th} Nov. 2023

  Exercise Period – E.g. 1 Year.

ESOP

Agreement Date	Minimum period to be completed	Vesting Date	Exercise period	Not Exercised
E.g. 24^{th} Nov 2018	E.g. 5 years	24^{th} Nov.2023	E.g. 1 Year	
↓	↓	↓	↓	↓
Grant Date	Vesting Period (Minimum period of service to be completed by employee to become Eligible for ESOP)	Date on which minimum period of service is completed by employee	It is period which starts after vesting date in which employee will actually purchase shares	If not Taken / exercised then option will lapse
↓				
Date of Agreement between employer & employee				

Exercise Price – Discounted price compared to market price at which employees are allowed to purchase shares. Employees may leave their job before completion of minimum period, then in such case their option will lapse.

Formula = [Applied every year]

$$\left\{\frac{\text{Expected shares for option} \times \text{Discount} \times \text{Period Completed}}{\text{Minimum Period}}\right\} - \left\{\text{Expenses already recognised till last year}\right\}$$

Journal Entries at the End of Each Year

1. Employee Compensation Expenses A/c ....Dr. { Prepare working note for calculation }

   To Employee Stock Options Outstanding A/c

   (Being expenses in respect of ESOP recognised during the year)

2. Profit & Loss A/c ....Dr.

   To Employee Compensation Expenses A/c

   (Being the transfer of Employees Compensation Expenses A/c to Profit & Loss A/c)

3. At the time of issue of shares to employees for ESOP (After Completion of Minimum Period)

Bank A/c ....Dr.	[No. of options x Exercise Price]
Employees Stock Options Outstanding A/c.........Dr.	[No. of options x Fair value of option]
To Share Capital A/c	[No. of options x Face value]
To Securities Premium A/c	[No. of options x (Exercise Price + Fair value of option - face Value)]

   (Being ESOPs exercised during period)

4. If in any year after applying formula amount of expenses to be provided is negative then, such negative amount is treated as excess provision.

Transfer such amount to General Reserve. This is mainly because all employee who enter into agreement may not retain for minimum period.

Employee Stock Options Outstanding A/c................Dr.
To General Reserve A/c
{No. of options lapsed x Fair value of each option}

NOTE – Same entry shall be recorded if there is a balance in Employee Stock Option outstanding Account after completion of exercise period.

5. If employee discontinue is job then he is not eligible for option, such option shall be Cancelled / forfeited. This cancellation shall NOT be treated as forfeiture.

Important points

1. In the problem if market price & exercise price is given then Discount = Market Price – Exercise Price
2. In few problems we may find fair value of option then, there is no need to calculate option price & fair Value of option can be treated as Option Price / Discount.
3. Fair value of shares & fair value of share option is different
   a) Fair value of share is given = Market Price / Fair value of shares (-) Exercise / Issue Price
   b) Fair Value of Shares option = Discount

✸ In case if it is specified in problem that options are exercised in same year than there is no need to create ESOP Outstanding Account and following entry is sufficient

a) Bank Account ....Dr.
ESOP Compensation Account ....Dr.
To Equity Share Capital Account
To Securities Premium Account

b) P & L Account ....Dr.
To ESOS Compensation Expenses Account

Buy Back of Securities

Buy Back of Shares Means - Purchase back of shares by Company

Buy back of Equity Shares

Redemption of Preference Shares

This Can be Done By

a) Proceeds of fresh issue of shares

b) By using Free Reserves;

(Free reserve are transferred to CRR & then Bonus shares can be issued out of CRR)

To maintain capital after buy back or redemption

Limits of Buy Back

1. 25% of Total Outstanding Equity Shares (In Numbers).
2. 25% of (Paid up Capital + Free Reserves)/Buy Back Price per share. (It includes Securities premium, P&L A/c, General Reserve but not Statutory Reserve).
3. Post buy back "Debt Equity Ratio" shall not exceed 2:1

Calculation of Number of Shares for Buy Back

1) Shares Outstanding Test

Total Number of Equity Shares x 25% = (XXX)

2) Resource Test

= 25% (Paid capital + Free Reserve)/ Buy Back Price = No. of shares (xxx).

3) Debt Equity Ratio Test

a) Debt/ Loan at Present	xxx	
b) Minimum shareholders Fund (Post Buy Back) {Step(a)/2}	xxx	
c) Actual Shareholders Fund at Present	xxx	
d) Excess shareholders fund over minimum [Step c-Step b]	xxx	

e) No. of shares for buy back — xxx

$$= \frac{\text{Excess/Difference (Step d)}}{\text{Buy Back price + Provision For CRR}}$$

Whichever is less from 3 tests.

Journal Entries

Redemption of Preference shares	Buy back of Equity shares
(i) Amount Due	(i) Amount Due
Preference share Capital A/c ....Dr.	Equity share capital A/c......................Dr.
Premium Payable A/c ....Dr.	Premium Payable on Buy-back A/c...Dr.
To Preference Shareholders A/c	To Equity Shareholders A/c
(ii) Amount Paid	(iii) Amount Paid
Preference Shareholders A/c ....Dr.	Equity Shareholders A/c ....Dr.
To Bank A/c	To Bank A/c
(iii) Adj. of Premium against Profit /Loss	(iii) Adj. of Premium against Profit /Loss
General Reserve/Profit &Loss A/c ....Dr.	General Reserve/Profit &Loss A/c.....Dr.
Securities Premium A/c..........................Dr.	Securities Premium A/c.......................Dr.
To Premium Payable A/c	To Premium Payable on Buy Back A/c
(iv) Transfer to Capital Redemption	(iv) Transfer to Capital Redemption
Reserves	Reserves
General Reserve A/c...............................Dr.	General Reserve ....Dr.
Profit &Loss A/c ....Dr.	Profit &Loss A/c ....Dr.
To Capital Redemption Reserves A/c	To Capital Redemption Reserves A/c
(v) Issue of Bonus Shares	(v) Issue of Bonus Shares
Securities Premium A/c ....Dr.	Securities Premium A/c ....Dr.

Revenue Reserve A/c ....Dr.	Revenue Reserve A/c ....Dr.
General Reserve A/c ....Dr.	General Reserve A/c ....Dr.
P& L A/c ....Dr.	P& L A/c ....Dr.
To Bonus Issue to Shareholders A/c	To Bonus Issue to Shareholders A/c
(vi) Bonus to shareholders A/c ....Dr.	(vi) Bonus to shareholders A/c.....Dr.
To Equity Share Capital A/c.	To Equity Share Capital A/c.

Transfer to Capital Redemption Reserves =

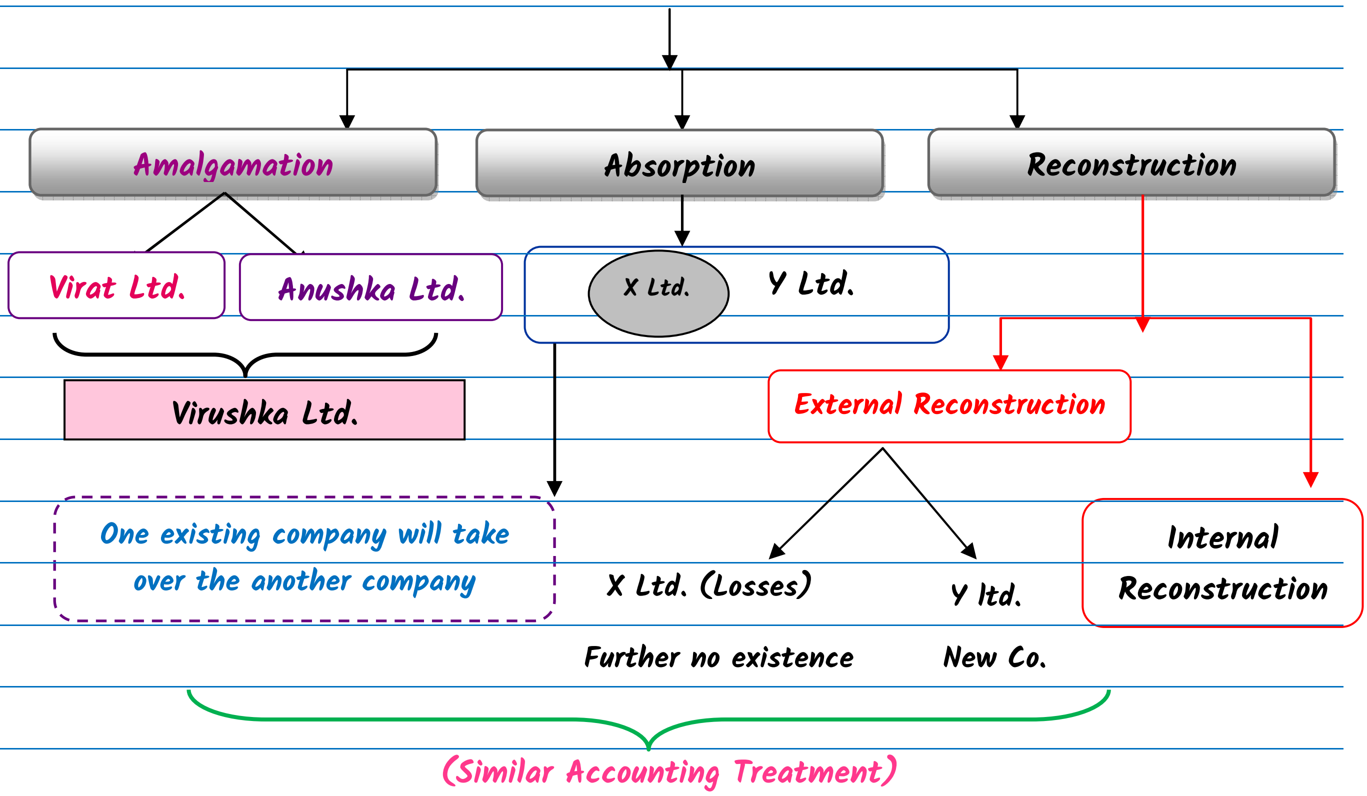
Nominal Value shares Redeemed - Nominal Value of shares issued

Buy back has effect on mainly 3 items of Balance sheet

Share Capital	Reserve & Surplus	Cash & Cash Equivalent
(-)Buy Back	Premium Payable	(+) Proceeds of New issue
(+) New Shares	Capital Redemption Reserves	(-) Payment of Buy Back
(+) Bonus	Bonus	

AMALGAMATION & ABSORPTION & RECONSTRUCTION

Scope of this chapter



Amalgamation –

Two companies dissolved & New company formed to take over business of two companies

Absorption –

One existing company took over business of other company.

External Reconstruction –

New Company will be formed to take over the business of existing / old company.

Accounting Treatment

1. One or more company(ies) getting closed / dissolved in all above three types – Prepare Realisation Account.
2. Another company whether existing or new is taking over business – Pass Journal entries for business purchase.
3. Therefore, In case of amalgamation, Absorption & Reconstruction there is no change in accounting treatment.

Purchase Consideration

1. Payment made to equity shareholders & Preference shareholders in form of Cash, Equity shares, Preference shares or debentures are treated as purchase consideration.
2. Therefore, payments to debenture holders in the form of cash / debenture are not treated as Purchase Consideration.
3. As well as realisation expenses paid by transferee company is not treated as purchase consideration.
4. Other payments of liability settlement is NOT Purchase consideration.

Methods of calculating Purchase Consideration

- Net Asset Method
- Net Payment Method
- Lump-sum Method

Net Asset Method

Assets Acquired (Agreed Price)	xxx
(-) Liabilities taken over	(xxx)
Net Assets	xxx
(+) Goodwill	xxx
Total Purchase Consideration	xxx

If payment is not given in problem or share issued is given but number of Shares or price of shares is not given then follow Net Asset Method

Net Payment Method / Lump-sum Method

1. Consider payment to equity & preference shareholders Only. Note:- Payment to debenture holders in cash or debentures is not considered.
2. Payment of Realisation expenses not considered.
3. Purchase consideration –

Payment to equity shareholder of transferor Company in cash / shares / debentures	XXX
(+) Payment to preference shareholders of transferor co. in cash / shares/ debentures	XXX
Purchase consideration	XXX
(-) Net Assets acquired As per 1st Method	
Goodwill / Capital Reserve	XXX

Intrinsic Value Of Share

It is real value of shares on the basis of Net Asset in business

All Assets (At current Price)	xxx
(-) All Liabilities	(xx)
Net Asset	xxx

$$\text{Intrinsic Value of shares} = \frac{\text{Net Assets}}{\text{No. of equity shares.}}$$

ACCOUNTING TREATMENT

Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
Conditions for Merger (5 फेरे)	If any of the condition is not fulfilled / Satisfied.
1. All assets & liabilities are taken over (As well as reserves are acquired).	Then it is treated as purchase.
2. At Book Value only.	
3. Same business will be carried on .	Accounting as per purchase method.
4. At least 90% of shareholders of transferor Company ready to become shareholder of new company.	
5. Consideration paid in shares except fractional Shares.	
Accounting as per pooling of Int. method.	

Intention – To come together & do business	
Consequences	Accounting as per purchase method.
1. All reserves are also acquired with assets & Liabilities.	1. Reserves are not acquired (If nothing is specified then all assets including cash & bank after adjustment realisation expenses shall be acquired.
2. Assets & liabilities are shown at Book Value.	2. Assets & liabilities are shown at agreed price.
3. Excess payment for net asset or realisation expense of transferor company.	3. Excess / Less payment for realisation of expenses.
a) Extra payment – Deducted from General reserve / P&L A/c.	a) Extra Payment treated as goodwill
b) Less Payment – Added in GR / P&L A/c. (No effect to Goodwill / Capital Reserve)	b) Less Payment treated as Capital Reserve.
↓	↓
If realisation expenses paid by transferee company of transferor company	Statutory Reserve – In case of Purchase, reserves are not acquired. Therefore separate treatment is required for statutory reserve.
Deduct from P & L A/c / General Reserves.	Transferee company must show statutory Reserve in their Books of Accounts / Balance sheet.
↓	↓
Statutory Reserves	Journal Entry
In case of merger all reserves are acquire at the time of business purchase.	Amalgamation Adjustment A/c ....Dr.
Hence Statutory Reserves are also acquired	To Statutory Reserve
Due to this there is no need to give separate treatment for statutory reserves.	Shown in Reserve & surplus
	Shown in Reserve &Surplus as negative
	(Previously it was required to be shown on Asset Side).

- This separate treatment of A/c is required in the books of Transferee Company. There is no change in accounting treatment in books of transferor whether it is purchase or merger.
- In the books of transferor co. If preference shareholders are discharged / settled at premium, then such payment to preference shareholders shall be treated as loss for equity shareholders And such loss shall be debited to realisation Account / Equity shareholders Account.

Journal Entries

In the books of transferor company

(No change in following entries whether it is purchase / merger)

1.	To close Asset Account –	Realisation Account ....Dr.		xxx
		To Assets Account	(Individually) (At B.V.)	xxx
2.	To close Liabilities Account –	Sundry Liabilities A/c.........Dr.	(Individually) (At B.V.)	xxx
		To Realization A/c.		xxx

(Note: Debtors Account & Provision for doubtful debts A/c both are separate A/c. Hence Debtors A/c shall be credited with Gross value & provision for doubtful debts Account shall be debited with its value)

3.	To close share capital & reserve Account	Equity share capital A/..........Dr.		xxx
		Reserve A/c ....Dr.	(Individually)	xxx
		To Equity Shareholders A/c		xxx
		Preference share Capital A/C.....Dr.		xxx

		To Preference shareholders A/c	xxx
4.	Purchase consideration Due	Transferee Co./ New CO. A/c....Dr.	xxx
		To Realisation A/c	xxx
5.	Sale of assets not taken over by new co.	Cash A/c ....Dr.	xxx
		To Realisation A/c	xxx
6.	Paid of liabilities not taken over by new co.	Realisation A/c...................Dr.	xxx
		To Cash A/c	xxx
7.	Purchase Consideration Received	Cash/Bank A/c.......................Dr.	xxx
		Shares in New Co. A/c..........Dr.	xxx
		Debentures in New co. A/c....Dr.	xxx
		To New Company A/c	xxx
8.	Payment to Pref. share holders	Preference shareholders A/c...Dr.	xxx
		To Cash / Bank A/c	xxx
	(If any excess amount paid, then such amount debited to realisation/ Eq. shareholders A/c).		
9.	Payment to Equity Shareholders	Equity Shareholders A/c ....Dr.	xxx
		To cash / bank A/c	xxx
		To Eq. shares of transferee Co. A/c	xxx
10.	Liquidation expenses	Realization A/c.......................Dr.	xxx
		To Cash/Bank A/c.	xxx

Note – If problem states two companies are merged it doesn't mean it is merger, please check conditions given.

In the books of New Company (Transferee Company)

1. **Business Purchase A/c**

Business Purchase A/c……………….Dr	xxx	
To Transferor co. / Vendor co. A/c.		xxx(p.c.)

2. **Recording of assets and Liabilities.**

Asset A/c ……………………………..Dr.	xxx	
To Liabilities A/c		xxx
To Business Purchase A/c		xxx

If Extra amount paid then,

Assets A/c…………………..Dr.	xxx	
Goodwill A/c…………………..Dr.	(Bal. Figure) xxx	
To liabilities A/c.		xxx
To Business Purchase A/c.		xxx

In merger no concept of G/W or Capital Reserve then profits / difference adjusted in General Reserve / P&L A/c.

If less paid then,

Asset A/c ……………………..Dr.	xxx	
To liabilities A/c		xxx
To Business Purchases A/c		xxx
To Capital Reserve Account		(Bal. Figure)xxx

3. **Purchase Consideration Paid.**

Transferor Co. A/c …………Dr.	xxx	
To Cash / Bank		xxx
To Equity shares		xxx
To Debentures		xxx

4. **Realisation Expenses of transferor company paid by transferee.**

Goodwill A/c ……..Dr.	xxx	(In case of purchase)
P&L A/c / General Reserve A/c……… Dr.	xxx	(In cases of merger)
To Cash/ Bank A/c	xxx	

If following words are given in problem. What does it mean?

Discharged at Premium	Vs. Issued at Premium
↓ Paid at premium	
↓ No securities premium A/c is involved	↓ Securities premium A/c is involved
↓ Just Extra payment is made for settlement in cash / shares.	↓ Ex. ₹ 11,00,000 preference shares are discharged by issuing preference shares of ₹ 100 @ 10 %Premium.
For Example - 11,00,000 preference shares are discharged at 10% premium by issuing Preference shares of transferee company	↓ 11,00,000 – liability is constant
11,00,000 + 10 % = 12,10,000	11,00,000/ 100 + 10
12,10,000 are Preference shares issued and transfer it share capital amount .	Premium = 10,000 shares x ₹ 10 =1,00,000
	Transfer 1,00,000 to securities premium Account Remaining in Preference share Capital.

- **Transferor company sold goods to transferee company at profit before amalgamation. (vice versa)**

Inventory remaining with other company which is taken over back. Then such inventory contains unrealised profit & such profit shall be reversed.

1st effect – deduct it from inventory & 2nd effect – deduct it from P&L.

- **Special Adjustment**

Debentures of 5,00,000 discharged at premium of 20% @ ₹ 96 i.e. (96%).

Hence 5,00,000 + 20% = ₹ 6,00,000.

No. of Debentures = 6,00,000 / 96 = 6,250 X ₹ 100 (Face value) = 6,25,000.

Objectives of Internal Reconstructions

1. Is to write off losses & fictitious assets.
2. To show actual position of business through new balance sheet.
3. For writing off losses there must be profit which is possible by either reducing capital liabilities or increasing asset value.
4. Such profit shall be credited to capital reduction/ reconstruction A/c and then losses/ fictitious Assets shall be written off be debiting capital reduction account
5. If there is credit balance in capital reduction account even after writing off losses and fictitious Assets then such profit/balance shall be transferred to capital reduction/ reconstruction account

Liabilities

Balance in present Balance Sheet

Paid less amount than liability

Liabilities A/c ....Dr.

To Bank A/C

To Capital Reduction A/c

Balance is not shown in Balance sheet

Unrecorded liabilities.

Examples

1. Preference divided payable.
2. Unrecorded Creditor.

- Entry for only amount paid -

Capital Reduction A/c ....Dr.

To Bank A/c

In this case balance was not available in balance Sheet and it is unrecorded still we have to make Payment.

Hence it is additional liability. This Will be debited in CAPITAL Reduction A/c.

Amount which is not paid shall be ignored.

Liquidation of Companies

- Required in this Chapter -
  - Statement of Affairs
  - Liquidators statement of final Account

    (Problem may specify that receiver & liquidator both are appointed)
  - Deficiency Account (as per list H - Minimum 3 years)
  - List B Contributories

Statement of Affairs

List to be attached with Statement of Affairs

List A – Assets which are not specifically pledged.

List B – Assets which are specifically pledged (Secured).

List C - Preference share creditors (Government dues, employees).

List D – Floating charge on debenture holder.

List E – Unsecured Creditor.

List F – Preference shareholders.

List G – Equity shareholders

List H – Deficiency Account

Format of statement of Affairs

Particulars					Amount
Assets which are not specifically pledged (as per list 'A')					
Cash/Bank	xxx				
Debtors	xxx				
Machinery	xxx				xxx
Assets which are specifically pledged (as per List B)					
Particulars Of Asset	Estimated realizable values ₹	Amt. due to secured creditors	Deficiency Transfer to Unsecured creditors	Surplus carried to outer Column ₹	
Estimated Amount Available for Payment					xxx

Summary of Gross Asset	
1. Gross realisable value of assets specifically Pledged	xxx
2. Other Assets	xxx
Gross Assets	xxx

Summary of Gross Liabilities

Gross Liabilities	Liabilities	
xxx	Secured Creditors (As per list B) to the extent to which claims are estimated to be covered by assets specifically pledged.	-
xxx	Preferential creditors (as per list 'C')	XXX
	Estimated balance available for Debenture holders & unsecured Creditors.	XXX
xxx	Debenture holders secured by a floating charge (as per list 'D')	XXX
	Estimated balance available for Unsecured creditors.	
xxx	Unsecured creditors (as per list 'E')	
	Balance/Surplus for Preference / Equity Shareholders.	XXX
	Preference shareholder (AS Per List E).	XXX
	Equity Shareholder (AS per List G).	XXX
	Estimated surplus / deficiency as required to Contributors (list H)	XXX

List H Deficiency Account

(Shall be prepared for previous 3 years) - 1 Statement

No.	Particulars	Amount
A.	Items contributing deficiency	
1.	Excess of Capital & liabilities over Assets (Opening Balance of Loss)	xxx
2.	Net dividend & Bonus during period (Equity+ Preference)	xxx
3.	Net Treading Losses after charging expenses, tax etc.	xxx
4.	Losses other than trading losses	xxx
5.	Loss on realisation of Asset	xxx
6.	Other losses	xxx

B.	Items reducing deficiency	
7.	Excess of Assets over Capital & Liabilities (Opening balance of profits)	xxx
8.	Net Trading profit after charging expenses etc.	xxx
9.	Profits & Income other than trading	xxx
10.	Other Items (Profit on realisation of asset)	xxx
	Deficiency	xxx

Preferential Creditors

1. All Government dues E.g. Taxes.
2. Salaries & wages (salary / wages of 4 months for workers and excess of salary / wages due over 4 months treated as unsecured).
3. Contribution to employee state insurance.
4. Compensation to employees in respect of death and disablement.
5. Pension fund/Gratuity fund.

Remuneration of Liquidator

- If percentage of remuneration is given on total assets realised then remember that percentage shall be calculated on total amount received from assets specifically pledged + Assets not specifically pledged.

  And if 'Surplus' from assets specifically pledged is given then 'Add' payment to secured creditors to find out total amount realised from assets specifically pledged.
- If percentage is given on payment to unsecured creditors, then 'Deduct' all payments, expenses & other remuneration from total assets to find Payment / amount available for unsecured.

If amount is sufficient to pay unsecured creditors & Remuneration

Percentage on total Amount of Unsecured Creditors given in Question.

If amount is not sufficient

Treat that amount = 100 + percentage

$$= \frac{\text{Amt. available} \times \text{percentage of remuneration}}{100 + \text{Percentage}}$$

By this, we can separate amount made to unsecured creditors.

Liquidators Final Statement of Affairs

Receipt	₹	Payments	₹
To cash & Bank Balance	xxx	By Legal Charges / Expenses	xxx
To Assets realised (Individually)	xxx	By liquidators Remuneration	xxx
(Assets not Specifically pledged)		By Preferential Creditors	xxx
To surplus from assets specifically	xxx	(Debenture + Interest) -	
Pledged.		-If Company is solvent	
To calls in arrears	xxx	Interest upto date of payment	
To calls made on uncalled shares	xxx	-If Insolvent	
		Interest upto date of winding up	
Note – At the time of payment to		By Unsecured Creditors	xxx
equity shareholders we shall		By Preference shareholders with	xxx
consider that Loss suffered by		accrued dividend (if any)	
each class of shareholder		By calls in Advance	xxx
shall be same).		By Equity shareholders	xxx
	xxx		xxx

In case one class of Equity Share -

Paid 100 (fully paid-up) and another class of shareholders paid 80 (fully paid) then suitable adjustment shall be made to keep loss per share same for both classes of share.

For calculation assume that full amount is received and find total amount received after calls.

Total amount available / total no. of shares (Uniform Price)

= Amount repayable if full amount is received per share

Explanation

Suppose above calculation shows that amount repayable is ₹ 30 (After assumption) then class of shareholders who paid 100 shall get ₹ 30 and class of shareholders who paid ₹ 80 will get ₹ 10.

(30 – 20) = 10

(Payable) (Receivable) (Payable)

Important Concept

If one share of ₹ 100 Face Value & another is of ₹ 50 Face value.

100 FV – 1,00,000 Shares

50 FV – 1,50,000 Shares

Total - 2,50,000 Shares

Then make / convert equity shares to uniform price of ₹ 100.

After conversion

₹ 100 Face value = 1,00,000 shares

Then 1,50,000 at ₹ 50 Face Value is How much?

50 1,50000 converted to 100 FV = 75,000

Hence Total shares at uniform price of 100 = 1,75,000 (1,00,000+75,000)

Liquidation Process in case Receiver is appointed by Debenture holder.

If receiver / liquidator both are appointed then receiver will sale specific assets given in problem and collect surplus after payment of secured liabilities.

Then he will make payment in following sequence.

1. Receiver's Expenses
2. Receiver's Remuneration
3. Preferential Creditors
4. Debenture holders with interest due
5. Remaining surplus with receiver after payment of other items shall be transferred to Liquidator.

Liquidator will collect surplus from receiver and sell other items & payment shall be made as

a) Liquidation Expenses
b) Liquidation Remuneration
c) Unsecured Creditors
d) Preference shareholders including arrears (if any)
e) Equity Shareholders (Prepare working note of notional calls to find out net amount payable / receivable to equity shareholders).

Rebate on Bill Discounted

- It is basically advance income for bank.
- This is unexpired portion of discount or it is discount / interest related to next year which is received in current year
- It is treated as liability (similar to advance income)
- Rebate on bill discounted is advance income / liability for current year but it is actual income for next year

Journal entries In the books of Bank

First Year:-

	Particulars	Entry	₹
1.	Bills received for discounting.	Bill Purchased/Discount A/c ....Dr. (Full Value)	xxx
		To Customer A/c (Full value after Discount)	xxx
		To Interest / Discount A/c	xxx

Year end :-

	Particulars	Entry	₹
2.	Discount / interest related to next year is Transferred to rebate Account (liability).	Interest/Discount A/c ....Dr	xxx
		To Rebate on Bill	xxx
		(Above balance in rebate A/c is income of next Year)	

Remaining Balance:-

	Particulars	Entry	₹
3.	Remaining balance in Interest / discount A/c transferred to P&L A/c	Interest / Discount A/c.................................Dr.	xxx
		To P&L A/c.	xxx

In Next Year

Particulars	Entry	₹
1. Last year rebate / advance interest is income of current year which shall be reversed & transferred to interest / discount account (Income)	Rebate on Bill discounted A/c ....Dr. To Interest/ Discount A/c	xxx xxx
2. Bill received & Discounted	Same Entry of 1st Year (1st Entry)	-
3. Transfer to rebate A/c	Same Entry as 2nd entry of 1st Year	-
4. Remaining balance transferred to P&L A/c	-	-

Solution for Question No. 9 (Page No. 132) from regular batch notes.

Journal Entries

Sr. No.	Particulars	₹	₹
1.	Rebate on Bill Discounted A/c...........Dr.	9	
	To Interest /Discounted A/c		9
	(Being transfer of opening balance and rebate on Bills Discounted to interest A/c)		
2.	Bills purchased A/c.................Dr.	4000	
	To interest / Discount A/c (4000 x 18% x 73/365)		144
	To Customer A/c (4000-144)		3856
3.	Interest/ Discount A/c ....Dr.	10.8	
	To Rebate on bill (600 x 18% x 36.5 / 365)		10.8
	(Being unexpired portion of discount in respect of discounted bill carried forward to next year)		

4.	Interest/Discount A/c (9+144-10.8)	142.2	
	To P&L A/c		142.2

Ledger Accounts

1) Interest Discount A/c

Date	Particulars	Amount	Date	Particulars	Amount
2012	To Rebate on Bills Disc.	10.8	2011	By Rebate o Bill	9
2012	To P&L A/c	142.2	2011-12	By Bill purchased	144
		153			153

2) Rebate on Bills Discounted A/c

Date	Particulars	Amount	Date	Particulars	Amount
2011	To Interest/Discount A/c	9	2011	By Balance b/d	9
2012	To Balance C/d	*10.8	2012	By Interest A/c	10.8
		19.8			19.8

Bills for collection (View point of Bank)

1. When bills for collection received.

Bill for collection (asset) A/c ....Dr.
To bill for collection (liability) A/c

2. When bills are collected on dishonoured.

Bill for collection (Assets) A/c...............Dr.
To Bill for collection (Asset) A/c

Reverse Entry

In case for bills of collection, bank shall collect amount and bank shall pay this amount to customer. In this case, bank will not get any amount except commission (If any). Therefore, in this case amount is receivable to bank & immediately it is payable to customer & to maintain record, bank treat this bill for collection as asset as well as liabilities.

- If bank accepted any bill or endorsed any bill then it creates liability on bank. Therefore bank will create acceptances, endorsements and other obligations account.

Non Performing Assets (NPA)

It is a loan / advanced for which the principal or interest remained overdue for period of 90 days or more.

Further classification of NPA

Sub-Standard Assets	Doubtful Assets	Loss Assets
Assets which has remained NPA for less than or equal to 12m.	Assets which has remained NPA For more than 12 m.	Asset is treated as loss asset If is recognised as uncollectable by authorised person of bank or RBI
NPA $\leq$ 12 months	NPA > 12 months In this Case NPA = Substandard asset	

Rates of Provisions

No.	Category of Advances / Assets	Rates %
1.	Standard Assets/ Advances	
	• Direct advances to agricultural and Small and Micro Enterprises (SMEs).	0 .25
	• Advances to Commercial Real Estate- Residential Housing Sector (CRE-RH).	1.00
	• All other loans & advances not included in above.	0.40
2.	Sub- standard Advances	
	• Secured Exposures	15
	• Unsecured Exposures	25
	• Unsecured Exposures in respect of Infrastructure loan.	20

3.	Doubtful Advances - Unsecured Portion	100
4.	Doubtful Advances - Secured Portion	
	• For Doubtful up to 1 year	25
	• For Doubtful > 1 year and up to 3 years	40
	• For Doubtful > 3 years	100
5.	Loss Advances/Assets	100

Recognition of Interest

In case of performing Assets

Interest on loan is recognised when it is Earned / due (No need to wait till receipt)

In case of Non- Performing Assets

Interest on loan is recognised only when it is received

Capital Adequacy Ratio

Objective - To strengthen the soundness and stability of the banking system.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Risk Funded / Weighted Asset}}$$

Minimum requirements of capital fund in India

a) Existing Banks 9%

b) New Private Sector Banks 10%

c) Banks undertaking insurance business 10%

d) Local Area Banks 15%

Risk weighted assets

Items	% of risk
- Cash balance	0
- Cash balance with RBI	0
- Cash balance with / Loan to Government	0
- Loan Guaranteed by Government	0
- Balance with other Bank	20%
- Other Investment	100%
- Premises, Furniture & Fixtures	100%
- Bank Staff Advances	20%
- Investment in Government Securities	0
- Investment in other approved securities / In other Banks / in	
Security repayment of which is guaranteed by bank	20%
- TDS, Advance tax, interest Due on government securities	0
Loan to public	100%
Other Assets	100%
Off balance sheet items	
- Guarantee & other obligation	100%
- Acceptance, endorsement & letter of credit	100%

Capital Fund (Tier I + Tier II)

Tier I Capital

Particulars	₹
Paid up Share Capital	xxx
(+) Statutory Reserve	xxx
(+) Securities Premium	xxx
(+) Reserve (Capital reserve arising out of sale of Assets)	xxx
	xxx

Tier II Capital

Particulars	₹
Capital Reserve & Other Reserve	xxx
(Less) Discounted to extent of 55%	(xx)
	xxx
(Less) Intangible Asset	(xx)
	xxx

Financial statements of Banking Companies

Form Of Profit & Loss Account

Profit and Loss Account or the year ended 31st March, 20.....

	Particulars	Sch. No.	CY ended	PY ended
1.	Income		xx	xx
	Interest earned	13	xx	xx
	other income	14	xx	xx
	Total		xxx	xxx
2.	Expenditure			
	Interest expended	15	xx	xx
	Operating expenses	16	xx	xx
	Provisions and contingencies			
	Total		xxx	xxx
3.	Profit / Loss		xx	xx
	Net profit/loss (-) for the year (1-2)		xx	xx
	Profit / loss(-)brought forward		xx	xx
	Balance carried over to balance sheet		xx	xx

Important Points to Remember

- Transfer to reserve (Statutory Reserve) shall be out of current year's profits only.
- In schedule No. 13 for "Interest Earned" if interest & discount includes interest on Investment, deduct it and show it seperately in same schedule 13.
- Balance of rebate of current year shall be deducted from interest & discount in schedule 13 & Opening balance of rebate shall be added if it is not yet included.
- Provision & conntengencies shall include -
    1. Substandard Doubtful Asset
    2. Provison for taxation

       {Percentage of tax given (Total Income – Interest expended + other expenses + provision for standard, substand doubtful assets)}.

Non-Banking Financial Companies

Features of Non-Banking Financial Companies (NBFC)

- NBFC is similar to banking but some services are restricted to NBFC.
- NBFC cannot accept demand deposits.
- General functions of NBFC
  1. Giving Loans
  2. Giving Guarantee
  3. Insurance & Investment
- Following NBFC'S require registration under RBI.
  1. Loan Company
  2. Core investment company
  3. Infrastructure / Asset Finance Company
- Conditions

  Must have net owned funds of not less than 200L

What is Net Owned Fund

1st Owned Fund		2nd Net Owned Fund	
Paid up Capital	xxx	Owned Fund	xxx
(+)Free Reserves	xxx	(-) Investment in subsidiary	xxx
(-) Losses/Differed Exp.	(xx)	Excess of Investment over	
Owned Fund	xxx	10% of owned funds)	

Provisioning requirement on standard, substandard Asset

Particulars	Non – systematically IMP NBFC	Systematically IMP NBFC
Standard Asset	.25%	.35%
Sub Standard Asset	10%	10%
Doubtful asset on unsecured	100%	100%
Doubtful Assets on Secured Portion		
- Upto 1 Year	20%	20%
- 1 Year to 3 Year	30%	30%
- More than 3 year	50%	50%
Loss Asset	100%	100%

Provisioning Norms on Hire Purchase & Lease

Particulars	₹
Installment Due but not received	xxx
(+) Installment due in future	xxx
(-) Interest Income not yet recognized in future	(xx)
(-) Depreciated Value of Asset	(xx)
Basic Provision	xxx

Additional Provision –

Where hire charges over lease rental overdue	% of provision
Upto 12 month	Nil
12 month and Upto 24 month	10 % of Net Book Value
24 month and Upto 36 month	40 % of Net Book value
36 month and Upto 48 month	70 % of Net Book Value
More than 48 month	100 % of Net Book Value

Calculation of Net Book Value

Particulars	Amount
Total Investment due and not due	xxx
(-) Future Installment Interest	(xx)
(-) Provision made	(xx)
Net Book Value	xxx

Classification of Assets of NBFC

1. **Standard Assets -**

No Defaulting repayment (Not NPA Yet)

2. **Sub – Standard Assets -**

Assets are classified as NPA for period not exceeding 12 months (Previously it was 12 m.)

3. **Double Asset -**

Asset classified as substandard asset for period exceeding 12 months (Previously it was 14 months)

4. **Loss Asset -**

Recognised as not recoverable by management / Auditor

NPA:- An Asset in respect of which interest has remained overdue for 3 months (Previously It was 6 months)

Not Paid	3 months	NPA	12 Months	After 12 months
	Standard		Substandard	Doubtful Asset Unless Recognised as loss asset by Management / Auditor

Short Note on Earning Value

When value of shares is calculated on the basis of earning then it is treated as / known as earning value

Steps -

1. Calculate average profits after tax 3 years (After preference dividend & after adjustment of extra ordinary items)

2. Divide the average profit calculated above by total no. of equity shares, to find out per share earnings.

3. Earning Value =

$$\frac{\text{Per share earning}}{\text{Capitalisation Rate}}$$

Manufacturing Company	Trading company	Other company
8%	10%	12%

If company is loss making company then earning value is treated as 0

Capital to Risk Weighted Asset Ratio

$$\frac{\text{Capital Employed}}{\text{Risk Weighted Assets}} \times 100 = \text{CRAR (Minimum 15\% is expected)}$$

Capital Employed

Tier I

Cannot be less than 10%

Net Owned Fund

(Refer Previous Explanation)

Tier II

Preference shares other than	
Compulsory convertible	xxx
(+) Revaluation Reserve	xxx
(+) Capital Reserve	xxx
(+) Perpetual Debt Instrument	xxx

Risk Weighted Assets

Particulars	Risk weights
Cash & Bank Balance	0
Investment in approved scheme	0
Bonds of public sectors Bank	20
Fixed Deposit / Certificate of Deposits / Bonds of Public finance instrument	100
Stock in Hire Purchase System	100
Inter corporate loan	100
Loan to staff	100
Other secured loans	100
Bills purchased & discounted	100
Premises & furniture	100

Interest Income Recognition

Interest Income Recognition
- On NPA → On Receipt Basis
- On Regular Asset → On Accrual Basis

Liquid Asset Requirement –

Minimum liquid assets is to maintained by NBFC is 15% of public deposits outstanding

15%
- Not less than 10% → Approved Securities
- Remaining → Scheduled Commercial Bank

Distinguish between NBFC and Bank

Sr. No.	NBFC	Bank
1.	Cannot accept demand deposits	Can accept demand deposits.
2.	Cannot issue cheques drawn on itself	Can issue cheques drawn on itself.
3.	NBFC is not part of payment & settlement system.	
4.	Deposit insurance facility of the deposit insurance & credit guarantee Cooperation (DICGC) is not available for NBFC.	

Companies Exempted from RBI

1. Housing Finance Companies – Regulated by National Housing Bank
2. Merchant Banking companies - Regulated by SEBI
3. Stock Exchanges - Regulated by SEBI
4. Stock broking companies - Regulated by SEBI
5. Nidhi Companies – Regulated by SEBI
6. Insurance Company – Regulated by IRDA
7. Chit Fund Companies – Regulated by respective State Government

Registration & Regulation on NBFC

1. NBFC is not allowed to commence / carry on business without obtaining certificate of registration issued by RBI.
2. A company incorporated under companies Act 2013 and desirous of commencing business of NBFC.
3. Then it should comply following regulations.
   a) Should be registered under- companies Act.
   b) Should have net owned fund of 200L.
   c) Find then apply for registration with RBI.

NBFC Non systematically important / Non deposit taking company	NBFC – Systematically important
↓	↓
Having Asset size below 500cr.	Having Asset size below 500cr. Or above.

Nidhi Company

- It's a NBFC. Its core business is borrowing & lending money between their members
- They are also known as permanent fund, benefit fund or mutual benefit fund.

CHIT Fund company (BHISSY)

Subkuch Holding company ke point of view se

Rule No. 1

Inter-company balances are required to be eliminated (to avoid double counting).

a) Share capital of subsidiary is adjusted against investment of holding company at face Value – Remaining capital
(Remaining capital belongs to minority & added to minority interest.)

b) Inter-company debts/ loans shall be eliminated.

- Inter-company balances of Debtors (Bills Receivables) and Creditors (Bills Payables)
- Inter-company loans & advances will be cancelled.
- Cash in transit or goods in transit shall be cancelled.

Rule No. 2

Calculate minority Interest (Bacche logo ka hissa alag rakho nahi to rone lagenge)

- If minority interest is negative in consolidated balance sheet then it is shown as negative figure on liability side, finally it will deducted form share capital.
- When holding company acquires more than 50% but less than 100% shares of subsidiary company, then shares which are not acquired by holding company are treated as minority Shareholders.
- Minority interest shall be shown separately to identify holding companies total interest in Subsidiary company. It is shown below shareholders fund.
- Minority interest is the proportion of subsidiary companies net assets/shareholders fund.

We can calculate minority interest with following formula

Particulars	₹
Portion of share capital belongs to minority	xxx
(Add) Portion of pre-acquisition profit belongs to minority	xxx
(Add) Portion of post Acquisition profit belongs to minority	xxx
	xxx

Note:- Minority interest is calculated every time on date of consolidated balance sheet.

Rule No. 3

Calculation of goodwill / Capital Reserve (Also known as Cost Control)

1. Generally calculated on date of acquisition
2. If value of investment in subsidiary company by holding company is higher than value of Net asset acquired (share capital + Reserve) on acquisition date then difference is Goodwill And if the situation is opposite then there is Capital Reserve.
3. In this Case Investment cost for subsidiary company share will not be cancelled against Share capital of subsidiary company unless goodwill = difference is shown on asset side.

Particulars	₹	₹
Cost of investment		xxx
(-) Pre-acquisition of Investment		(xx)
Net cost of Investment		xxx
(-) Portion of net asset of subsidiary company		(xx)
Share capital	xxx	
Reserve & Surplus on acquisition date	xxx	(xxx)
Goodwill / (Capital Reserve)		xxx

Rule No. 4

Divide Reserve & Surplus in Pre-acquisition & Post Acquisition.

Pre – acquisition

- Portion belongs to Holding company Example = 80% → Adjusted in goodwill / Capital Reserve Calculation.
- Portion belongs to Subsidiary company Example = 20% → Added in calculation of minority interest along with their share capital.

Post – acquisition

- Share belongs to Minority 20% → Added in calculation of minority interest along with their share capital.
- Share belongs to majority 80% → Added in Reserve / P & L A/c

Rule No. 5

If Assets & Liabilities are revalued on date of acquisition **(such profit or loss is treated as pre- acquisition)**

1. Revaluation of fixed assets upward / increasing

   either goodwill $\downarrow$ or capital reserve $\uparrow$

2. Revaluation of assets downwards / decreasing

   Either Goodwill $\uparrow$ or capital reserve $\downarrow$

- Assets to be shown at revalued price.
- Extra depreciation on increased price = Debited to P&L A/c.

OR Reversal of Depreciation = Credited to P&L A/c.

We can find out Net Asset By

Option 1

Assets (Revalued Price)	xxx
(-) Liabilities (Revalued Price)	xxx
Net Asset	xxx

Holding Company 80% | Subsidiary Co. 20%

Follow this option if Assets / liabilities are revalued or share capital & reserve not given

Option 2

Share capital (FMV)	xxx
(+) P&L A/c	xxx
(+) Reserves	xxx
(+) Revaluation Reserve	xxx
Net Asset	xxx

Holding Company 80% | Subsidiary Co. 20%

Rule No. 6

Dividend declared by subsidiary Company

If declared out of pre-acquisition profit

It is traded as recovery of cost of investment & deducted from cost of investment

It has impact on calculation of Goodwill / Capital Reserve.

If declared out of post acquisition

It is treated as Income & Credit to P&L A/c of holding company

Uniform Accounting Policy

At the time of consolidation of Balance sheet of two entities, if policies are not uniform, Then before consolidation we must adjust the balances of Balance Sheet of subsidiary Company according to accounting policies / method adopted by holding company.

Example: - Depreciation / Inventory valuation.

Rule No. 7

If Debentures / Preference shares are acquired at higher or lesser price than face value -

Treatment is similar to Rule No. 3 except pre-acquisition profit are not deducted here to find out goodwill or capital reserve.

In case of preference shares

Investment in preference shares shall be Cancelled as face value

Difference shall be transferred to goodwill / capital reserve

In case of debentures

Investment in debentures shall be cancelled at Face value

Difference shall be transferred to P&L A/c

Note :-

- If balance sheet of holding & subsidiary company is given but date of b/s of subsidiary company is different or is of previous year then prepare/ restate the balance sheet of subsidiary company as per date to match with date of balance of holding company.
- If it is not given in question to restate balance sheet then find out balances of Assets & Liabilities on due date of Balance sheet of holding company.

- If balance sheet of holding company & subsidiary company is not available on same date then consolidation is not possible.

- Due to continuous losses minority interest may become negative such access & any other further losses applicable to minority (Negative balance) are adjusted and deducted form P&L A/c or Consolidated P & L A/c.

- If subsidiary subsequent reports profit then all such profits are added / allocated in consolidated & P&L account until minority's share of losses previously absorbed by majority has been recovered.

AS 4 - CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Events that occur after the Balance Sheet date but before approval of accounts by Governing body i.e. (Board of Directors)

Adjusting Events are

- *Condition /Event exist on Balance Sheet Date.*
- *Events occurring after the balance sheet date provide additional information on the conditions existing on the BS date.*
- *The additional information materially affects the Amounts on the Balance Sheet date.*

Requires Adjustment in the balances of assets and liabilities as on Balance Sheet date

Example of Adjusting Events

Insolvency of customer - Conditions:

a. Condition of insolvency existed on balance sheet date.
b. Customer is not yet declared Insolvent on Balance sheet date.
c. He is declared insolvent after Balance sheet date but before Approval of Financial Statement by BOD.
Then Balances of Debtors shall be adjusted by making provision for doubtful debts for entire amount

Exceptions to the rule of Non-adjusting event

(a) Going concern assumption rendered invalid.
(b) Statutory requirements.

Even though above situations are Non- Adjusting Events, it should be adjusted as on Balance sheet

Non-Adjusting Events are

- *If Conditions of Adjusting events not satisfied*
- *Do not require adjustment of Assets or Liabilities.*
- *Disclose Non - Adjusting events in report of Approving authority if significant (e.g., Board's Report)*

What to disclose

-Nature of events Nature of event, an estimate of financial effect, or a statement that such an estimate cannot be made.

Examples of Non Adjusting Events

1. *Decline in market value of investment*
2. *Major Business combination after Balance Sheet date.*
3. *Announcing plan to discontinue operations.*
4. *The distraction of a major production plant by a fire after reporting period.*
5. *Announcing or commencing the implementation of a major restructuring.*
6. *Abnormally large changes after Balance Sheet date in asset prices or foreign exchange rates.*
7. *Commencing major litigation arising solely out of events that occurred after the reporting period.*
8. *Changes in tax rates announced after Balance sheet date*

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Chart - AS – 5 Net profits/ loss for the period, prior period items & changes in Accounting Policies

Issues Discussed in AS-5

Presentation & Disclosure of

Ordinary Activities

Activities which are Related normal course of business, & incidental to entity's main business activities.

Examples

Sale of goods, providing services, sale of scrap, interest income/expense, salary expense, provisions.

Exceptional items (Ordinary Acitivities)

On size, nature or incidence of transactions those activities require separate disclosure. These items are generally termed as exceptional items.

Examples -

-Profit /Loss on sale of Asset

- Theft of Cash/Stock

-Litigation Settlements

Disclosure

Ordinary Activities required Separate Disclosure of Nature and Amount

Extraordinary Activities

These items are not expected to occur as part of a business.

Examples

- Loss due to earthquake
- Attachment of property of the enterprise
- Refund of Government Grant.

Disclosure

Due to size, Nature or Incidence of transactions those activities require separate disclosure,

Prior Period Items.

These are income or expenses arise in the current period as a result of errors or omissions in the preparation of the FS of one or more prior periods.

Examples

- Omission to record for income and expenditure.
- Non provision of expenses which are already incurred or due.
- Depreciation rate was incorrect.
- Treating operating lease as finance lease

Disclosure

These items should be disclosed separately in the P&L A/c show the impact of prior period items in the current year

Presentation and Accounting Treatment of

Changes in Accounting Estimates

A change in the estimated amount in any items of FS

- When it is difficult to distinguish the change in estimate & change in accounting policy , treat the change as change in accounting estimate.
- Adopt same classification as was previously used.

Examples

Changes in the -

1. Amount of provision for doubtful debts.
2. Useful life of depreciable assets.
3. Method of depreciation.

Disclosure

- Nature of change
- Amount of change
- Any change in an accounting estimate having effect in later periods.

Changes in Accounting Policies

A change in the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of FS.

Allowed only if-.

-Required by Statute

- Required by AS or

- Leads to better presentation of FS.

Examples

- Changes from weighted average to FIFO(Inventory Inventory Valuation)
- Changes from cost model to revaluation model

Disclosure

1. What is changed?
2. How much impact on FS
3. If there is no impact in the year of change but there is material impact in the future years, the fact of such impact in the year of change.

AS 7 - Construction Contracts

1 Types of Construction Contract

Fixed price contract

In these contracts contractor agrees for fixed price of the contract or a fixed rate per unit of output.

E.g. Contractor receives ₹ 5 crore after construction of building or he receives ₹ 5 crore per building constructed.

Cost plus contract

In these contracts, contractor is reimbursed all allowable/defined costs as defined plus fixed percentage of fee/profit.

Contractor receives amount spent for construction + 2 % of amount spent OR receives amount spent for construction + ₹ 5 lakh.

2 Measurement of Contract Revenue on the Basis of

- *Completion of a physical proportion of the contract work*
- *Percentage of work performed*
- *Survey method*

Percentage of work performed =

$$\frac{\text{Contracts cost incurred till balance sheet date}}{\text{Estimated total contract cost}}$$

(Cost incurred + Expected Future cost)

Costs =
Direct costs + Allocable costs + Costs specifically chargeable to Contract.

Important Point:-

If Total costs > Contract Revenue Estimated loss can be recognized immediately Irrespective of

(i) % of completion
(ii) Started work or not
(iii) Whether or not income from other contracts

3 Points to remember

1. *When the outcome of construction contract cannot be estimated reliably then revenue shall be recognised to the extent of cost incurred.*
2. *Group of contract shall be treated as single contract if contracts are interrelated and all contracts are negotiated as single package otherwise segmenting (separation) is required.*

4. Calculation of Total Revenue

Initial Contract Amount	***XX***
Add: - Variations in contract work	*XX*
Add: - Incentives receipts received by contractor (If probable that performance standards will be met & reliable measurement is possible)	*XX*
Add/Less: - Increase/Decrease in Escalation	*XX*
Add: - Claims Amount, raised on customer for delay Caused, errors design, etc...	*XX*
Add: - Penalties due to delay caused by contractor	*XX*
Add: - Penalties due to delay caused by contractor	*XX*
Total Revenue	***XX***

5. Disclosures

1. *The amount of contract revenue recognised.*
2. *The methods used to determine the contract revenue; and the percentage of completion;*

An entity should disclose the following for contracts in progress at the balance sheet date:

(a) The total amount of costs incurred and recognised profits (less recognised losses) up to the balance sheet date;

(b) The amount of advances received; and the amount of retention money with the contractee.

1. *As – 9 deals with the recognition (recording) of revenue in the profit and loss statement of an entity*

Revenue means Gross Inflow of cash, Receivables or other consideration arising in the course of ordinary activities of an enterprise.

This AS does not deal with revenue which dealt under other AS.

2. *This Standard discusses the following revenues*

Sale of goods

1. *Ownership of goods have been transferred*
2. *Risk and rewards has been transferred*
3. *There is no uncertainty regarding consideration (i.e. Cash or Receivables) at the time of recognition*

Rendering of services

Revenue from services is generally recognised as service is performed. The performance of service measured by two methods

Proportionate of completion Method

When performance involves more than one act

Recognise on significant completion Method

When performance consist of single act

Other Income

Interest

Interest is recognised on time proportion basis based on the outstanding amount and rate applicable

Royalty Income

Royalty is recognised on accrual basis in accordance with the terms of agreement.

Dividend Income

Dividend income is recognised when a right to receive dividend is established irrespective of the year it is relating to.

There should NOT be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed till the time there is NO uncertainty.

3. Situations and guidance on recognition of revenue under each situation.

Situation	Guidance on recognition
Installation fees	*Recognise only when installation is completed and accepted by the customer;*
Advertisement income	*Recognise the revenue when the related advertisement appears before the public.*
Insurance agency commission	*Recognise on the effective commencement or renewal dates of the related insurance policies.*
Admission fees on artistic performances, banquets or any special programs.	- *Recognise revenue when event takes place.* - *When a subscription received is for number of events, the fee received should be allocated to each event on a systematic and rational basis.*
Tuition fees	*Recognise over the period of instruction on SLM basis.*
Entrance fees	*Revenue recognition depends on the nature of the services being provided.*
Financial service commissions	*Recognition of Revenue depends upon:* *1. Whether the service has been provided "once for all" or on a "continuing" basis;* *2. The incidence of costs relating to service;* *3. When the payment for the service will be received.*

4. Disclosure

4. *Revenue recognition policy*
5. *Change in policy if any*
6. *Disclose if revenue recognition is postponed*
7. *Gross turnover, Excise duty and net turnover - Disclose Separately*

Chart AS 17 SEGMENT REPORTING

1. Important Concepts

What is Segment Reporting? → Disclosure/Reporting of Information of product and Location of Entity based on Sales, Profit, Assets, and liabilities is known as Segment Reporting.

Core Element of AS – 17 → Core Element of this standard is reporting more than Accounting

Why Segment Reporting? → To gives very good understanding of the company to the stake holders, so that stake holders can take informed decisions.

2. Types of Segment

Business Segment

Segment is made on the basis of Products / Services with different risk and returns.

Geographical Segment

Segment is made on the basis of its operation/customers in different geographical areas, which are exposed to different risk and

3. Important Definitions

Segment Revenue → Direct revenue + Allocated + Inter segment {Except extraordinary items, finance income & Investment income}

Segment Expense → Direct expense + Allocated + Inter segment {Except extraordinary items, Finance expense, Income-tax expense and General Admin expense}

Segment Asset → Operating assets + directly attributable assets

Segment Liabilities → Operating Liabilities + Directly attributable liabilities

Segment Result (Profit/ Loss) → Segment Revenue – Segment Expenses

4. **Is every segment reportable?**

No, only which satisfies anyone of the below Conditions are reportable.

- Segment Revenue >= 10% of total revenue of all segments
- Segment result is 10% or more of
  a. Total of segments profits only.
  b. Total of segments losses only.
  (Whichever is Higher)
- Segment assets >=10% of total assets of all segments
- At least 75% of external revenue should be reported - If not add more segments
- Management can add extra segments at their discretion

Note – If Any segment is reportable because, it satisfied any of first 3 conditions then, it should continue to be reportable in the next year irrespective of criteria.

5. **Disclosure**

1. Primary segment 2. Secondary segment

Let us see Primary Disclosure

1) Revenue {Direct + Other Segments}. 2) Segment Results
3) Carrying amount of Segment Assets 4) Cost of acquisition of tangible and intangibles during the year. 5) Depreciation and amortisation expenses
6) Non-cash expenses other than depreciation and amortisation.

Business Segment Disclose above

Geographical segment- {Disclose above points}
- **By Assets**
- **By Customers**

AS 18 – Related Party Disclosures

1.

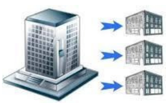
Objectives of AS 18

To establish requirements for disclosure of

- **Related party relationships**
- **Transactions between a reporting enterprise and its related parties**

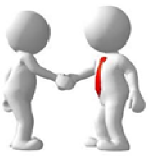
2.

Applicable To



(a) Enterprises that controlled by the reporting enterprise

(b) Associates and joint ventures of the entity



(c) Individuals who have control or significant influence directly or indirectly & their relatives

(d) Key management personnel and relatives of such personnel

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence

3.

Important Concepts

Enterprises that controlled by the reporting enterprise → ***Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);***

Related Party → ***During the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.***

Related party transaction → ***A transfer of resources or obligations between related parties regardless of price charged or not.***

Control

Ownership, directly or indirectly, of more than one-half of the voting power of an enterprise, or

- Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or

- A substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

A Joint venture

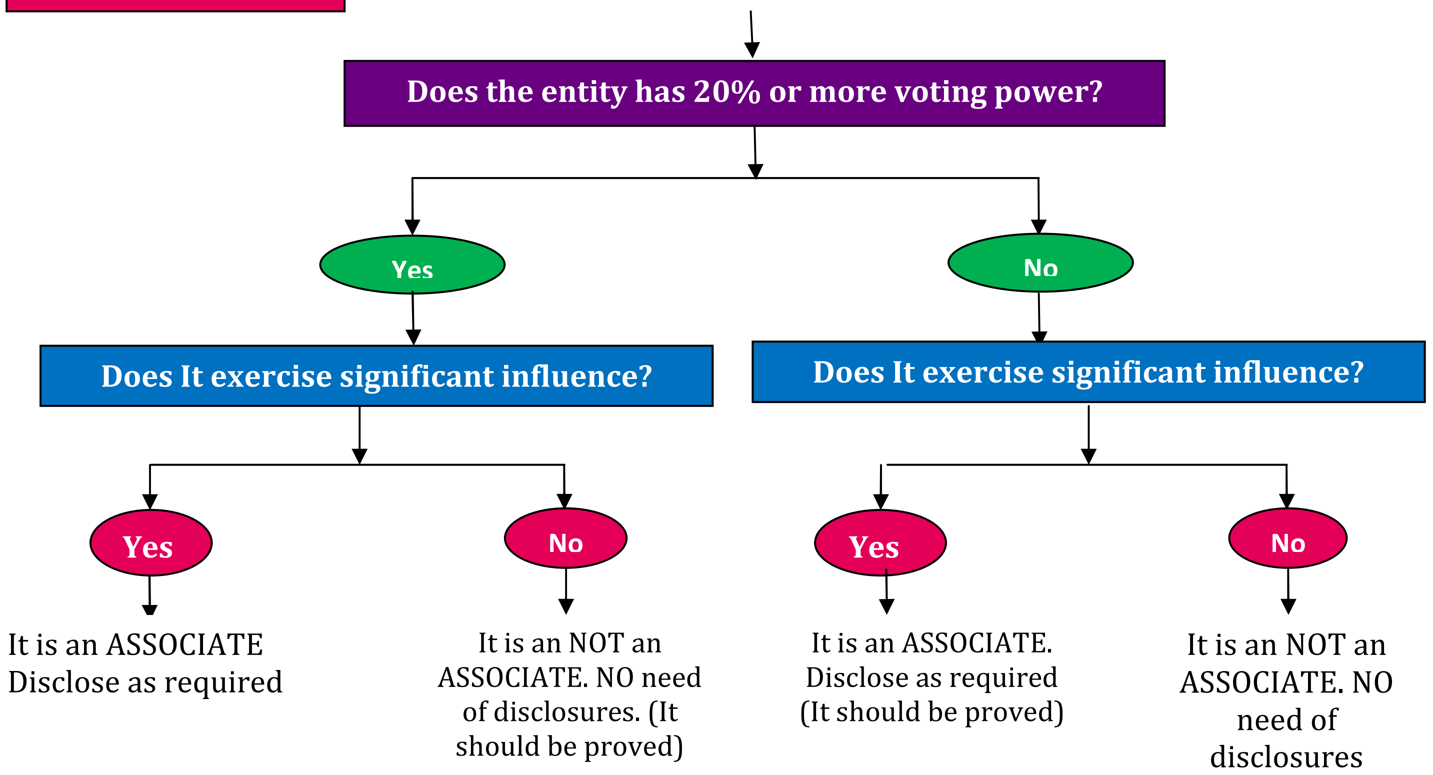
A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

Key management personnel

– Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.
Example of key managerial personnel are Managing director, whole time director, Chief executive officer etc....

Significant influence

Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.



4.

AS- 18 Not Applicable to-

1. *Finance providers*
2. *Government Dept.*
3. *State Controlled Entities*
4. *Single Supplier/customer etc...*

5.

Disclosures

Is it related at any time during the period?

Yes

Any transaction took place i.e. transfer of resources or obligation

If Yes

Disclose the following:
(a) Name
(b) Relationship
(c) Nature of transaction
(d) Amount of transaction
(e) O/S balance, if any
(g) Amounts written off /back during the period.

If No → ***Does control exist?***

Yes

Disclose the following:
(a) Name
(b) Relationship
Other disclosure not required.

No

No disclosure required.

Examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- *Purchases or sales of goods (finished or unfinished);*
- *Purchases or sales of fixed assets;*
- *Rendering or receiving of services;*
- *Agency arrangements;*
- *Leasing or hire purchase arrangements;*
- *Transfer of research and development;*
- *License agreements;*
- *Finance (including loans and equity contributions in cash or in kind);*
- *Guarantees and collaterals; and*
- *Management contracts including for deputation of employees.*

AS 19 – Lease

1.

Objectives of AS 19

To prescribe in the books of lessee & lessor

The accounting treatment of Lease

Accounting policies and disclosures related to lease

2.

Leases are broadly classified into two

The classification of leases is based on risk and rewards incidental to ownership of the asset.

If the risks and rewards incidental to ownership lie with the Lessor - it is

Operating lease

(ये सचमे lease है)
Accounting for rental is required)

If the risks and rewards incidental to ownership lie with the Lessee - it is called as

Finance lease

Accounting treatment is similar to sale on the basis of substance over form)

2.

Accounting for operating lease

In the books of Lessor:

1. Record lease out asset as the fixed assets in the balance sheet
2. Charge depreciation as per AS 6
3. Recognise lease income in P & L account using straight-line method.
4. Other cost of operating lease should be recognized as expenses in the year in which they are incurred.
5. Initial direct cost of lease may be expensed out immediately or deferred as per lease term.

In the books of lessee:

1. Lease payments should be recognized as an expense in the P & L account on a straight-line basis over the lease term.

3. Indicators of finance lease

1. *Lessor will transfer ownership of asset to lessee by the end of lease term.*
2. *Lessee has option to purchase he asset at the price sufficiently lower than fair value on the date of option becomes exercisable.*
3. *Lease term is for major part of economic life of asst (75% approx.)*
4. *Specified asset given on lease.*
5. *Total amount collected as lease payment is 90% or more of fair value (approx.)*

4. Accounting for Finance Lease

In the books of Lessor:

1. Recognise asset given under finance lease as receivable at an amount equal to net investment in the lease and corresponding credit to sale of assets.

Net Investment: Gross investment – unearned finance income

Gross Investment: Minimum lease payment from Lessor point of view + unguaranteed residual value

Unearned Finance Income: Gross investment - PV of gross investment

2. Recognition of Finance Income: On the basis net investment outstanding in respect of finance lease.

In the books of lessee:

1. Lease assets as well as liability for lease should be recognized at the lower of:

a. Fair value of the leased assets at the inception of lease, or

b. Present Value (PV) of minimum lease payment (MLP) from the lessee's point of view.

2. Apportionment of lease payment:

a. Principal Amount: It is reduced from the outstanding liability.

b. Finance charges: It is allocated over lease term on the remaining principal balance.

3. Charge depreciation on finance lease assets as per AS 10.

4. Initial direct cost for financial lease is included in assets under lease.

Note: - If seller quotes artificially lower rate of interest then consider market rate of interest.

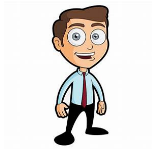
5.

Minimum Lease Payment (MLP)


Lessor

Rent + Guaranteed RV +Unguaranteed RV

Lesse



Rent + Guaranteed RV

↓

Lease asset recorded at fair value or present value of minimum lease payment

↓

Whichever lower

6.

Accounting Entries for Finance Lease

Lessor

1. **Entry for sale**

- Lessee A/c ....Dr.
  To Sales/Assets

2. **Interest due to year end**

- Lessee A/c ....Dr.
  To Interest A/c

↓

- No Depreciation

↓

- Installment
  Bank A/c ....Dr.
  To Lessee A/c

Lessee

1. **Entry for sale**

- Asset A/c ....Dr.
  To Lesser A/c

(Fair value or PV or Minimum Lease Payment whichever less)

2. **Interest due to year end**

- Interest A/c.............Dr.
  To Lessor A/c

↓

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

↓

- Lessor A/c.............Dr.
  To Bank A/c

7. Accounting Entries for Operating Lease

Lessor

1. **Rent Received**

- Bank A/c ....Dr.
  To rent received A/c

2. **Depreciation**

- Depreciation A/c ....Dr.
  To Assets A/c

Lessee

Rent Paid

- Rent A/c ....Dr.
  To Bank A/c

8. When a manufacturer or dealer of the asset gives the asset or lease

In case of Operating Lease

No change in accounting treatment.
(There is only one minor change: - Initial direct cost shall not be deferred)

In case of Finance Lease

Lessor

Includes –
(a) Profit on sale
(b) Finance Charges

A) Sale, value = FV or PV of MPL (lower)
B) Cost of sales
= Cost of leased asset
= PV of UGRV

Profit recognised = (A – B)

(c) Inception of lease

Note: - If lessor quotes artificially lower rate of interest then consider market rate of interest for calculation of PV

Lessee

Same as previous

9. **Sale & Lease back transaction when it is operating lease**

If sale price is equal to fair value

Lessor shall transfer profit or loss immediately

If SP is less than fair value

Loss shall be transferred to P&L immediately except if loss will be compensated by future lease payment then sc loss to be deferred; in proportion to lease payment

If sale price is above FV

Profit upto fair value recognised as profit and excess over is amortised over period of lease.

10. **Sale & Lease back transaction when it is Finance lease**

Profit or loss on sale of asset shall be deferred / amortised over lease period in proportion of leased asset.

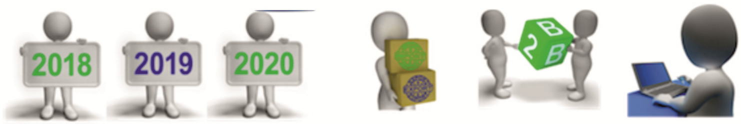
Remaining treatment same

AS – 20 Earnings Per Share

1. Objective of AS - 20

=> To specify the principles for presenting of EPS to improve comparisons:

Over Time | **Between Different Entities**



2. Presentation of Earning Per Share

An entity should present Basic EPS and Diluted EPS on the face of P&L a/c. Basic & Diluted EPS should be presented separately for each class of equity shares that has a different right in sharing the net profit.

Basic EPS

$$= \frac{\text{Net Profit or Loss for the period attributable to Equity share holders (i.e. after preference dividend and dividend distribution tax)}}{\text{Weighted average number of equity shares outstanding during the period}}$$

Diluted EPS

$$= \frac{\text{Net profit or loss attributable to equity share holders after giving effect of potentially dilutive equity shares}}{\text{Weighted average number of shares outstanding after giving effect of potentially dilutive equity shares}}$$

Meaning of weighted average Number – Share should be adjusted for time weight factors & partly paid shares converted to equivalent shares.

Assume that - All dilutive potential equity shares are converted into equity shares and hence the P&L should be adjusted.

Meaning of Potential Equity Shares

It is a financial instrument or other contract, which entitles or may entitle the holder to equity shares.

E.g. (a) Convertible debentures/preference shares; (b) Share warrants; (c) ESOP (d) Loan agreement, if the borrower has to issue equity shares in case of default of conditions.

3.

Restatement of Basic EPS

- ***In case of bonus issue, shares splitting, consolidation of shares in current year then previous year's basis EPS shall also be restated as if bonus shares split took place at the beginning of last year for better comparison.***

- ***EPS not to be adjusted for transactions occurring after the BS date and not affecting amount of capital used for earning profits.***

4.

Calculation of Basic EPS in case of Rights issue

Right shares are generally issued at less than fair value it means that there is bonus element and treatment shall be similar to bonus issue therefore we should restate (adjust) previous years.

$$\text{Bonus Factor} = \frac{\text{Fair value per share immediately prior to the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

Theoretical ex - rights FV per share =

$$= \frac{\text{Fair value of shares outstanding before rights issue + Amount received on issue of rights}}{\text{Total number of shares after rights issue}}$$

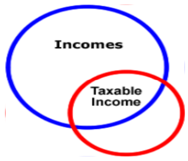
5.

Mandatory Disclosures

Basic & Diluted EPS (Whether positive or negative)
- **Fact of a change in calculations of EPS due to bonus, right etc.,**
- **Reconciliation of net profit or loss with the numerator**
- **Weighted average no. of equity shares for Basic & Diluted EPS & their reconciliation with each other**
- **Nominal value of shares along with EPS figures.**

1.

Types of INCOME



Accounting Income

Profit or loss for a period before deducting tax expense

Taxable income

The income for a period determined in accordance with the rules established by the taxation Laws, upon which income tax is payable

2.

Reasons for differences between accounting income and taxable income

Timing difference

This type of difference arises in one period and capable of reversal in one or more subsequent period.

Example:
1. Difference due to rate of depreciation.
2. Difference due to method of depreciation.
3, Expenses debited in P& L A/c of current year but allowed for tax purpose in subsequent period. Like section 43B of Income Tax Act, 1961 (Allows expenses on cash basis only)

Differences are going to be realised in the future, the equity should create deferred tax asset/liability in the year in which difference arises & reverse the same in the year in which difference is rectified

Permanent difference

This type of difference arises in one period and not capable of reversal subsequently.

The following items are income or expense either for accounting or income tax purpose and it will never be reversed in life. Hence the entity need NOT defer the tax expense for future years.

(a) Agricultural Income;
(b) Expenses disallowed U/S 40A;
(c) Dividend income; (It is shown as income in accounting but it won't be taxed)
(d) Penalties or fines;
(g) Employers' contribution to unapproved provident fund.

Note: Permanent differences do not result in deferred tax asset or deferred tax liability.

Deferred Tax Asset (DTA)

DTA should be recognised when taxes of initial year are higher & subsequent year are lower.

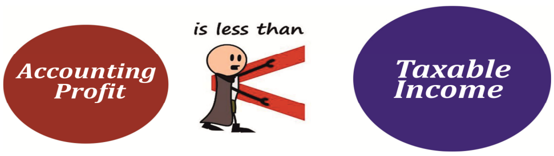
(Entity will receive benefit of tax paid in future years)

Deferred Tax Liability

DTL should be recognised when taxes of initial year are less and subsequent years higher
(Entity needs to pay higher tax in coming year which is saved in current year)

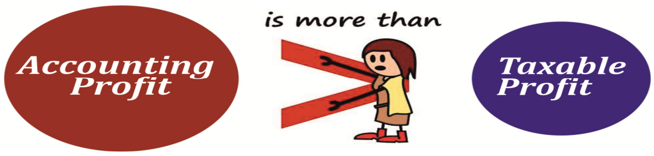
DTA shall be recorded only if there is reasonable certainly that sufficient future taxable income will be generated against which such deferred tax can be adjusted

Accounting Profit < Taxable



For recognition DTL there is no need to analyse any certainty level

Accounting Profit >Taxable Profit



AS – 24 Discontinuing Operations

1. Objective of AS - 24 → *To establish principles for reporting information about discontinuing operations*

2. *A Discontinuing Operation is a component of an enterprise/Entity Which*

- *Represents separate major line of business or geographical area of operations*
- *Can be separated / distinguished For*
  - **Operational Purpose**
  - **Financial reporting purpose**
- *Is discontinued (as per a single plan) by*

Methods of Discontinuing

Selling substantially in total either in single transaction or demerger or spin off

Selling off component's assets individually (piecemeal disposal) and settling its liabilities also individually.

Terminating through abandonment; i.e. stopping the operations (as it is) without selling its assets/components. (Stopping with an intention to sell)

3. Important Points

Mere gradual phasing out is not considered as discontinuing operation.
Examples:-

1. **Gradual phasing out of product line or class of service.**
2. **Shifting of some production or marketing activities for particular line of business from one location to other.**
3. **Closing of facility to achieve productivity, improvement or other cost savings.**

4.

Disclosure Requirements

Initial Disclosure Event

Entered into binding sale agreement.
Or BOD approved a formal plan and announced the same (Whichever is earlier).
Immediately disclose the informationto most affected parties.

Every Year End Disclosure

- Describe discontinuance
- Which segment is discontinued?
- Date and nature of initial disclosure event.
- Total amount of assets & Liabilities related
- Revenues & Expenses attributable to that segment.
- Pre-tax P&L and tax expense separately.
- Net cash flows attributable to the segment.

AS 26 Intangible Assets

1. **Meaning of Intangible Assets (IA)**

Intangible Assets are assets, without physical substance, which are identifiable (Capable of being sold separately), non-monetary in nature and held for use in Production of Goods and Services.

2. **Recognition & Measurement of Intangible Assets**

Initial Recognition/Measurement of Intangible Asset

Subsequent expenditure of Intangible Assets

Intangible Assets are Capitalise only when Future Economic Benefit is probable

Purchased By Cash/Credit

Purchase price
Add: - All Direct exp related to acquisition

Purchased by Barter & Issuing securities

Value of Fixed Asset given

Or

Fair Market Value of Intangible Asset received.

Whichever is clearly evident.

Self Generation

Phases of generation of IA

Research Expenses for acquiring knowledge

Charge to P & L

Development Expenses

Capitalise only when six criteria satisfied

Conditions for Capitalisation.

1. Technical feasibility checked.
2. Resources available for development.
3. It is expected that there will be future economic benefits.
4. Management approval obtained.
5. Goodwill, brands, masthead, title shall not be treated as an asset if it is self generated (Not purchased) because it is not possible to calculate cost incurred for self generated asset.
6. If any asset contains tangible as well as intangible part, then treatment shall be based on dominant part. In other word if intangible part is dominant then it shall be treated as intangible. Example: - software in Pendrive /CD.

3. *Amortisation of Intangible Asset*

Useful life of Intangible Asset

Amortise over its useful life (Assumption Max. life = 10 yrs, if expected useful life cannot be expected.)

Method of Amortisation

Any method which reflects the pattern of Flow of Economic Benefits

If not possible to determine pattern of future economic benefit - Follow Straight Line Method

4. Disclosures

(a) Separately for internally generated & other intangible assets Useful lives/amortization rate, amortization method.
Gross carrying amount, accumulated amortization and impairment losses
Additions, disposals, impairment losses recognized or reversed, amortisation, other changes in carrying amount during the period.
(b) If amortised period > 10 yrs - Reasons for the same.
(c) Existence & carrying amount of assets whose title is restricted & of assets pledged as security for liabilities.
(d) Amount of commitments for acquisition of assets.
(e) Research & Development recognized as expense during the period.

AS 29 – Provisions Contingent liabilities and contingent Assets

1\.

Objective of AS – 29 is to

Recognition criteria of | **Measurement basis of** | **Disclosure requirement of**

Provisions

- Provision is not an existing liability
- Substantial Degree of estimation is required

Contingent liabilities

- Things are to happen in future whereby a liability may arise
- It is conditional, contingent upon such things happening or not happening
- Hence the liability is not recognised as such

Contingent Asset

Meaning of Contingent Asset

Contingent Asset → Possible Asset → Existence confirmed by occurrence /Non occurrenc → of future event → which is not controlled by entity

2. *Recognised Provision only when it satisfies all of the following conditions*

1. The entity should have a present (Existing on Balance Sheet Date) obligation arising from past events (Which cannot be avoided).

2. Outflow of future economic benefits should be probable (more than 50% chances); and

3. Provision should be measured reliably by using a substantial degree of estimation.

If all conditions satisfied → *Create Provision*

If only one or two conditions satisfied → *Show it as contingent liability*

Example

3. *Contingent Liability*

Present Existence

But cannot recognise provision because of

- Future Economic Benefits out flow is not probable
- Amount cannot be measured reliably

Possible Existence

Existence confirmed by

Occurrence OR Non Occurrence of One or More

Not controlled by entity

Points to remember

- **The amount of provision should not be expected in case of decommissioning, restoration and similar liabilities that are recognised as cost of property, plant & equipment.**

- **Future operating losses of a business do not meet definition of liability therefore no provision required for future operating losses.**

- **Provision should be received at each balance sheet date & provision shall be adjusted /reversed accordingly.**

- **Reimbursement:-**
  If entity will be receiving the reimbursement & expenses from another party the such reimbursement amount should be treated as asset and if should not be adjusted from provision made.

- **Provision for restructuring may be created if it satisfies all conditions of provision.**