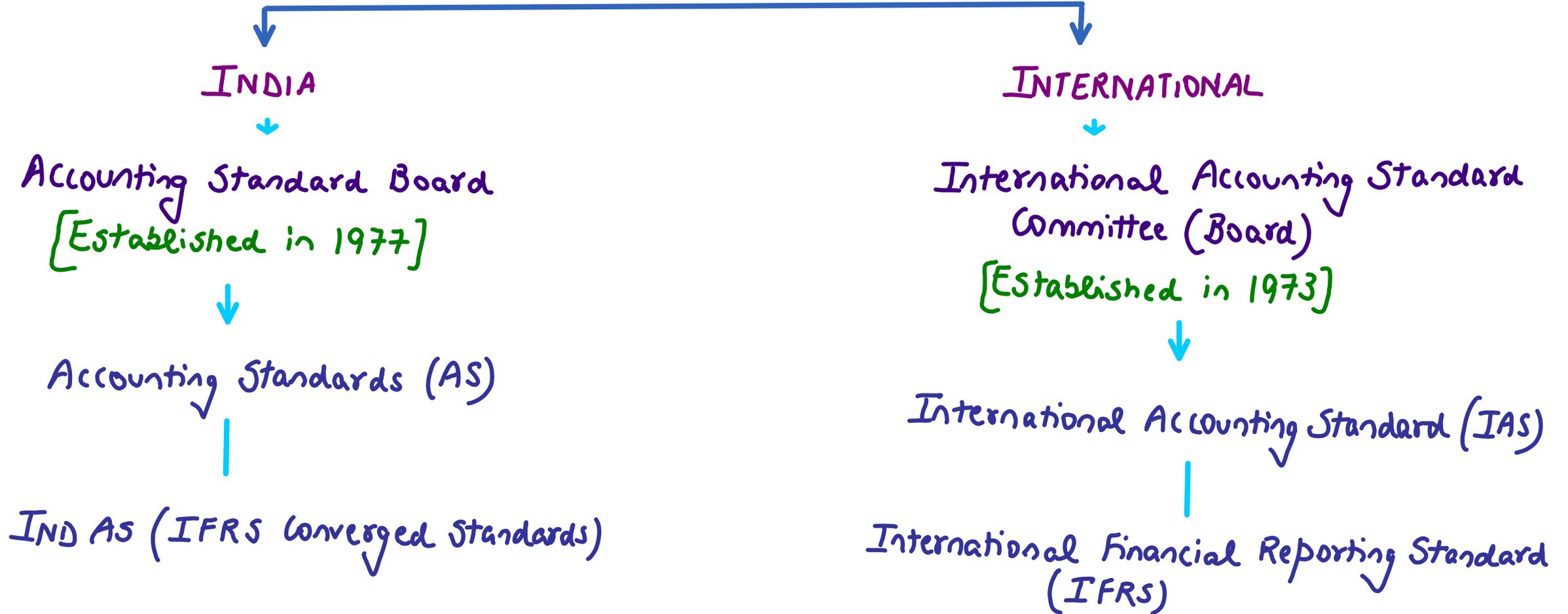


ACCOUNTING STANDARDS



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Brief History:

1929: Great Depression: Misleading Accounting & Reporting

↓
Inflated Stock Prices → Stock Market Crashes → Great Depression

1933 & 1934: Securities Act & Securities Exchange Act: To Restore Investor Confidence

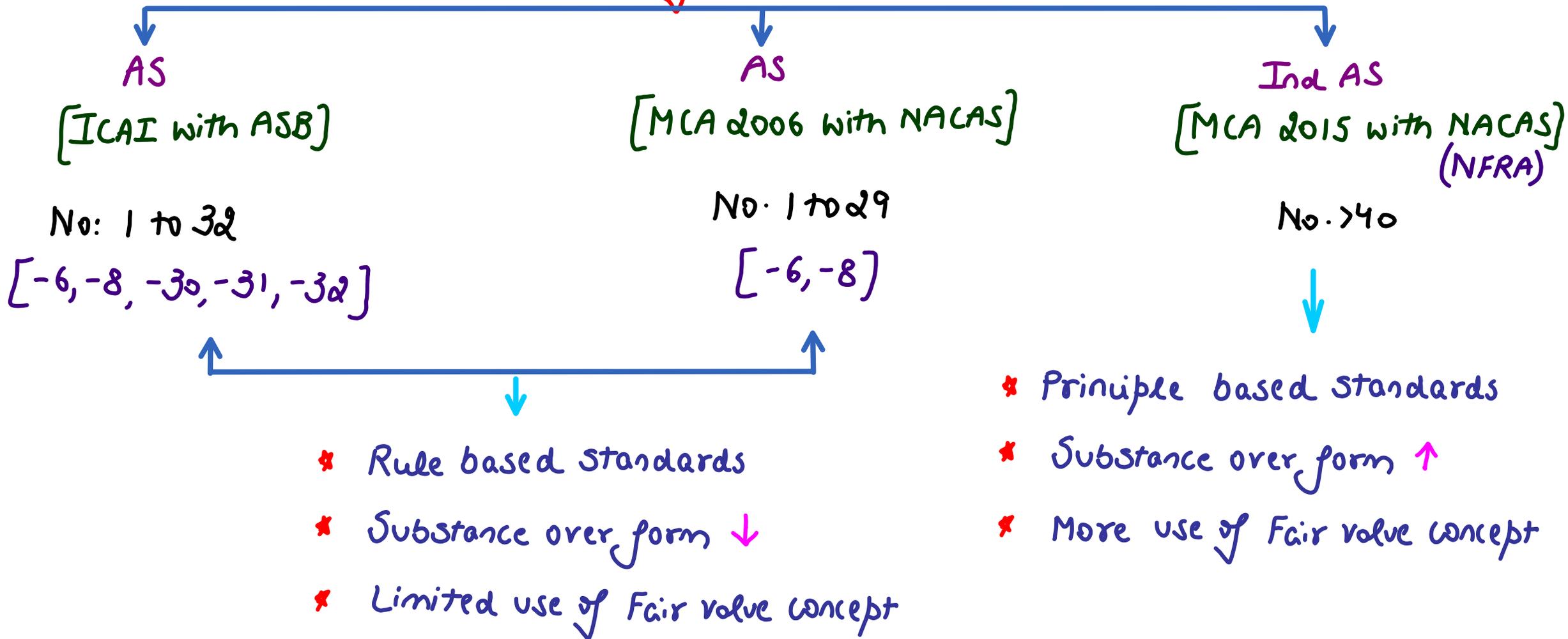
1938 to 1959: Committee on Accounting Procedure (CAP) which is a committee of American Institute of Accountants
1st private sector standard setting body
Issued 51 Accounting Research Bulletins

1959 to 1973: CAP Replaced by Accounting Principles Board (APB):
Issued 31 Accounting Principles Board Opinions.

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Accounting Standards



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Companies (Indian Accounting Standard) Rules, 2015

[Notification issued by MCA dated 16/2/2015]

Voluntary Basis
(From 1/4/2015)

* Companies not required to follow Ind AS shall comply with AS as specified to Companies (Accounting Standard) Rules, 2006

Mandatory Basis
(From 1/4/2016)

Phasewise Roadmap for Applicability of Ind AS for companies other than Banking, Insurance & NBFC's

Phase 1 (1/4/2016)

- * Listed Co's - Net worth \geq 500 crores
- * Unlisted Co's - Net worth \geq 500 crores
- * Holding, Subsidiary of Above

Phase 2 (1/4/2017)

- * Listed Co's - Net worth $<$ 500 crores
- * Unlisted Co's - Net worth \geq 250 $<$ 500 Crores
- * Holding Subsidiary of Above

Ind AS converged with IFRS

- ★ Government of India in consultation with ICAI decide to converge & not to adopt IFRS issued by IASB.
- ★ This decision was taken after detailed analysis of IFRS requirements & extensive discussion with various stakeholders.
- ★ Efforts made to keep these standards in line with corresponding IFRS as far as possible & departures / variations have been made where considered essential

Global Standards

- ★ Facilitates cross border flow of money & comparability of financial statements
- ★ Improves investors ability to compare investments on global basis & lowers their risk of error of judgement.

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Classification criteria for Accounting Standards

Non Company Entities

Company Entities

Level I

- * Entities whose securities listed or in process of listing
- * Banks, Financial Institutions, Insurance business
- * T/o (incl. other Income) > 250 crores
- * Borrowings > 50 crores
- * Holding & subsidiary of above

Level II

- * T/o > 50 cr. \leq 250 cr.
- * Borrowings > 10 cr. \leq 50 cr
- * Holding & subsidiary of above

Level III

- * T/o > 10 cr. \leq 50 cr.
- * Borrowings > 2 cr. \leq 10 cr.
- * Holding & subsidiary of above

Level IV

- * Other

Small & Medium Sized company (SMC)

Level II, III & IV (Other than Level I)

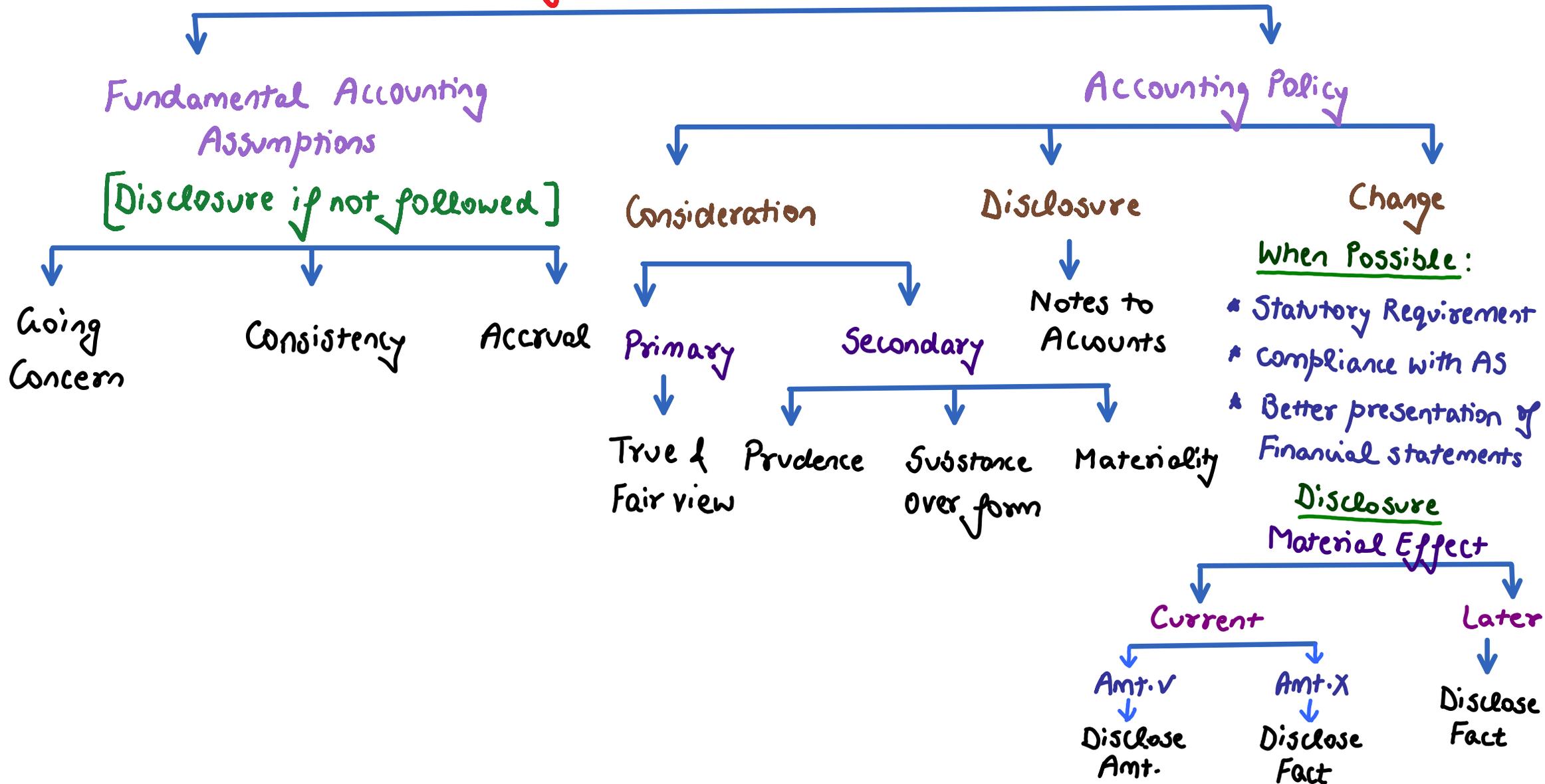
Non SMC

Level I

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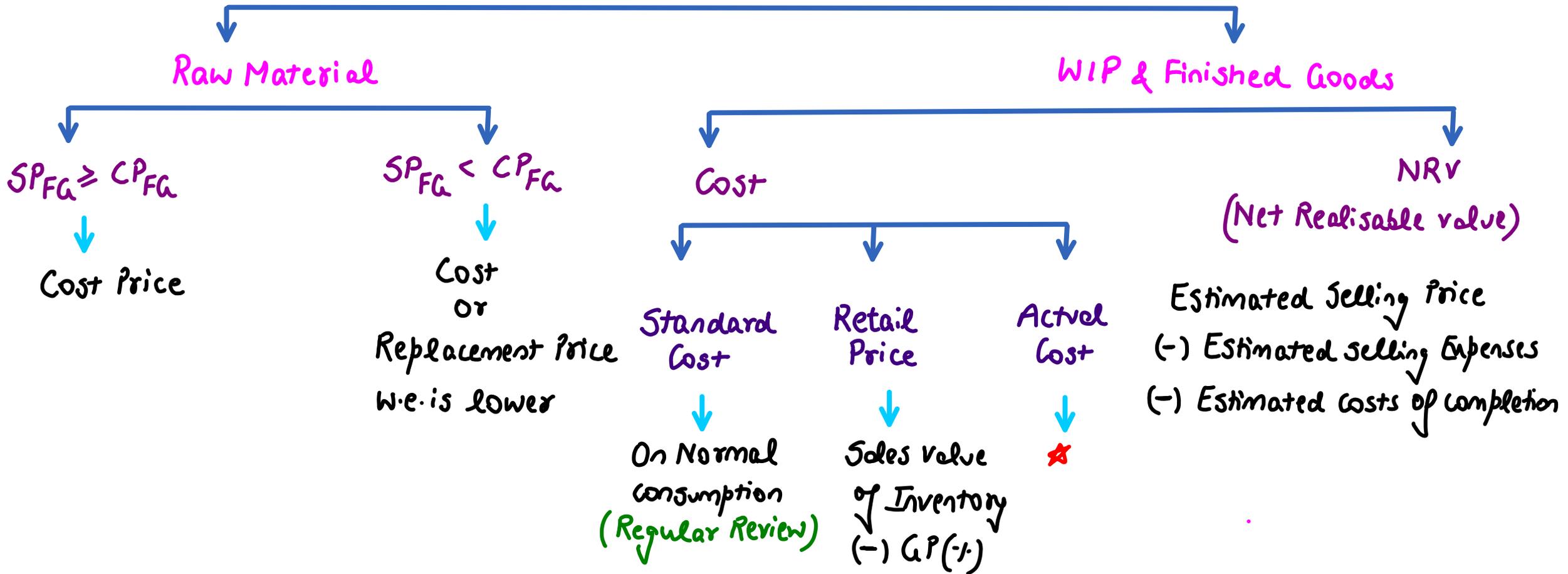
Disclosure of Accounting Policies (AS-1)



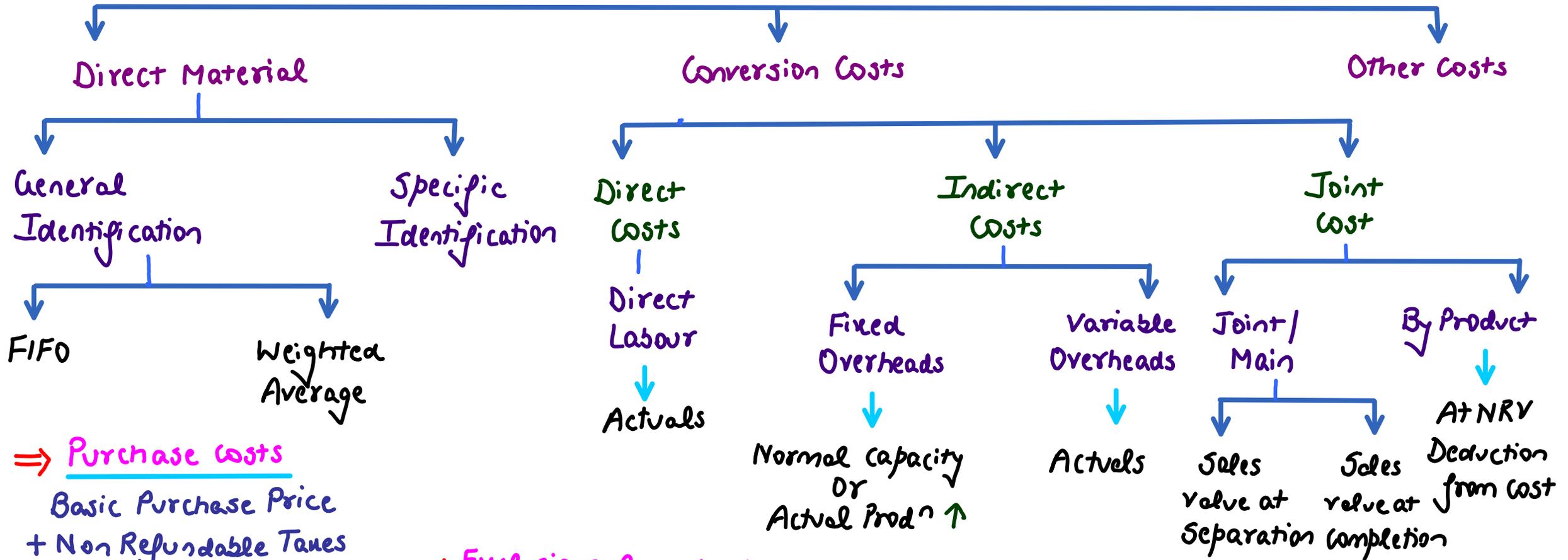
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Valuation of Inventories (AS-2)



* Actual Cost



⇒ Purchase Costs

- Basic Purchase Price
- + Non Refundable Taxes
- + Freight Inwards
- + Directly Attributable Exp.

⇒ Exclusions from Cost

Storage costs, selling & Distribution costs, Abnormal Loss, Administrative o/m's, Interest & other Borrowing costs

Property, Plant & Equipment (AS-10)

Meaning

Tangible items that are

- * held for use in prodⁿ/supply/ rental / administrative purposes
- * & expected use > 1 Year

Non Applicability

Biological assets
(living animal/plant)
Other than Bearer plant*

Wasting Assets

- * used in prodⁿ/supply of agricultural produce
- Expected > 12 Months
- Remote chances of being sold as agricultural produce

Recognition criteria

Cost to be recognised as asset if

- * Future Economic benefits will flow
- * Cost can be reliably measured

Note: May be appropriate to aggregate individually insignificant items.

Spare Parts/Standby Eq./Servicing Eq.
[Whether definition of PPE met]

Yes

Apply AS10

No

Apply AS2

Subsequent costs

- * Day to Day Servicing
Described as Rep. & Maint.
Exp. Recognised in P&L A/c

- * Replacement of Parts

Old Part

DeRecognise

New Part

Recognise if
Criteria met

- * Regular Major Inspections

Previous Insp.

DeRecognise

New Insp.

Recognise if
Criteria met

Measurement of PPE

Initial Recognition (Cost Model)

Direct Purchase

- Incl.
- Purchase Price
 - + Non Refundable Taxes
 - + Directly Attributable costs
(Site Prep., Installation, Prof. fees)
 - + Decommissioning, Restoration & Liab.

Excl.

- * Cost of opening New Facility
- * Cost of Introducing New Prod./Service
- * Cost of Staff Training
- * Cost of Relocating

Self Constructed

Internal Profits eliminated

Special cases

1) Deferred credit

Total Payment - Cash Price
Recognised as interest

2) Exchange

Measured at Fair value unless

- * F.V. not measurable
 - * Transⁿ lacks commercial substance
- Measured at carrying Amt. of Asset given

3) Consolidated Price

Apportioned on Fair value basis

Subsequent Recognition

Choose Either

Cost Model

Revaluation Model

Apply to Entire class of PPE
(Assets of similar nature & use)

Revaluation Frequency

Significant & volatile changes
in Fair value

Annual

Insignificant

Interval
of 3-5 years

Revaluation : Accounting Treatment

First Revaluation

Upward

Use

Revaluation surplus (R/S)

Downward

Use

P&L A/c

Method 1:

Proportionate Increase in both cost & Acc. Dep.

PPE A/c - Dr.

To Acc. Dep. A/c

To Rev. surplus A/c

Method 2:

Acc. Dep. is eliminated & balance through cost

Acc. Dep. A/c - Dr

PPE A/c - Dr

To Rev. surplus A/c

Subsequent Revaluation

Ist

Use

Ind

Use

↑

R/S

↑

R/S

↓

P&L

↓

P&L

↑

R/S

↓

R/S & then P&L

↓

P&L

↑

P&L & then R/S

Transfer of Rev. surplus to Revenue Reserve

During use of Asset

Some may be trfd. as

Dep. (on Revolved Amt.)

(-) Dep. (on original cost)

When asset is derecognised

Whole surplus is transferred

Depreciation

Meaning: Systematic allocation of depreciable amount of asset over its useful life.

Component Method: Each part of PPE that is significant in relation to total cost of item should be depreciated separately. *E.g.:* Airframe & Engine of Aircraft

Depreciable Amount: $\text{Cost} / \text{Revalued Amount} - \text{Residual value}$

Useful life:
On the basis of Period: Period over which asset is expected to be used
On the basis of units: No. of units expected to be obtained.

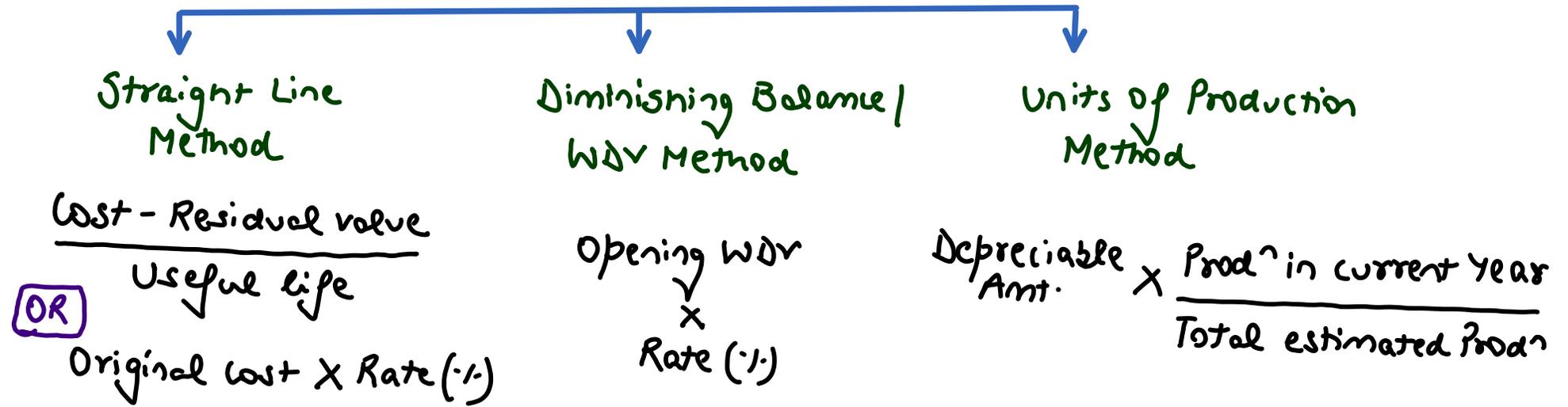
Commencement: When asset is available for use.

Cessation of Dep.:

- ① Asset's Residual value \geq Carrying Amount
- ② Earlier of
 - * Asset retired from active use & held for disposal
 - * Asset is derecognised

Depreciation Method

Method should reflect pattern in which future economic benefits are expected to be consumed by the enterprise.



Review of Depreciation Method: Change in Accounting Estimate (Prospective Effect)

Review of Residual value & useful life: Change in Accounting Estimate (Prospective Effect)

Change in Historical cost: Cost may undergo subsequent changes due to exchange rate fluctuations, Price Adjustments, Change in Duties, etc.
(Included in cost of Asset - Prospective Effect)

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Land & Buildings : separable assets & accounted separately even when acquired together

Land: Whether Depreciable

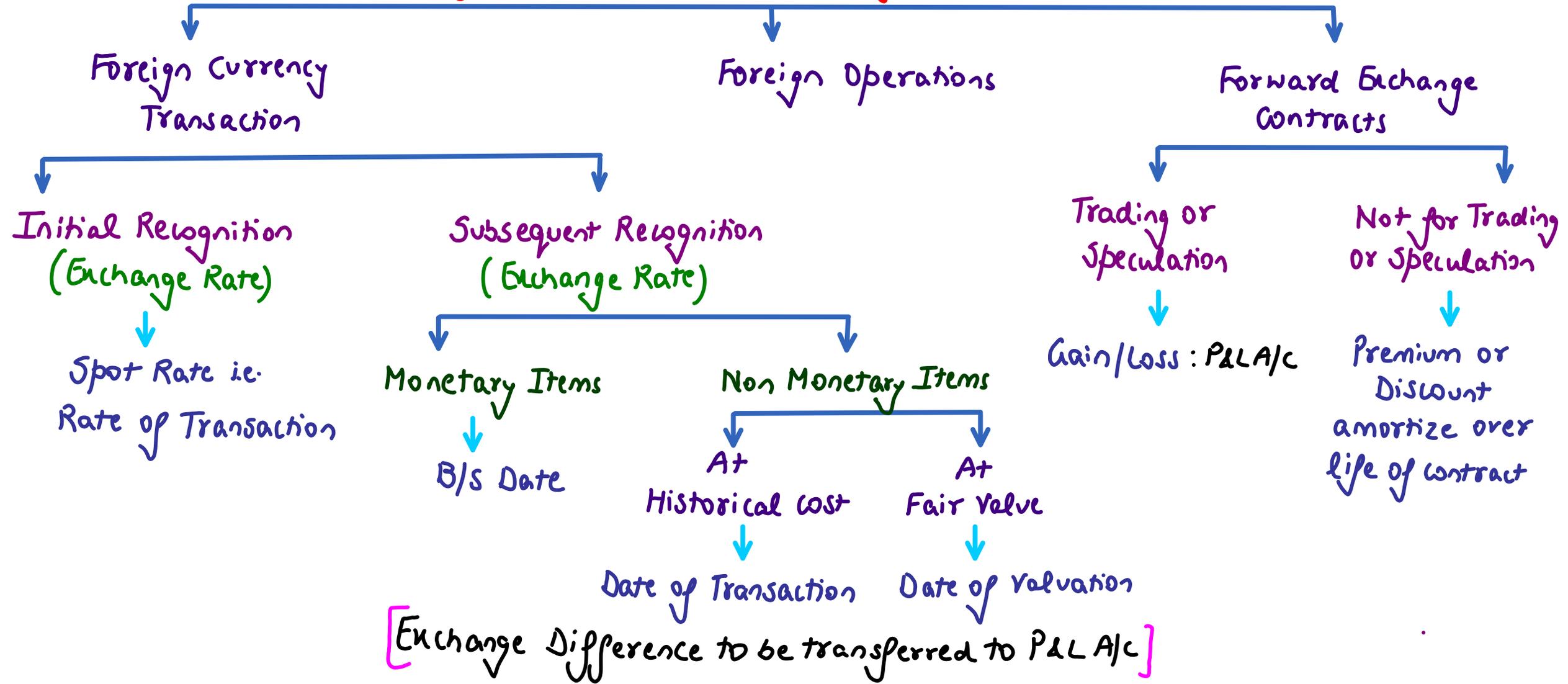
No since unlimited useful life.

Exception: If Land has limited useful life.

Retirement : Asset retired from active use & held for disposal
Recorded at Lower of Carrying Amt. or NRV.
Expected loss to be immediately recognised

Derecognition : On Disposal by sale / donation **OR** When no future benefits expected
Profit / Loss on it to be transferred to P&L A/c

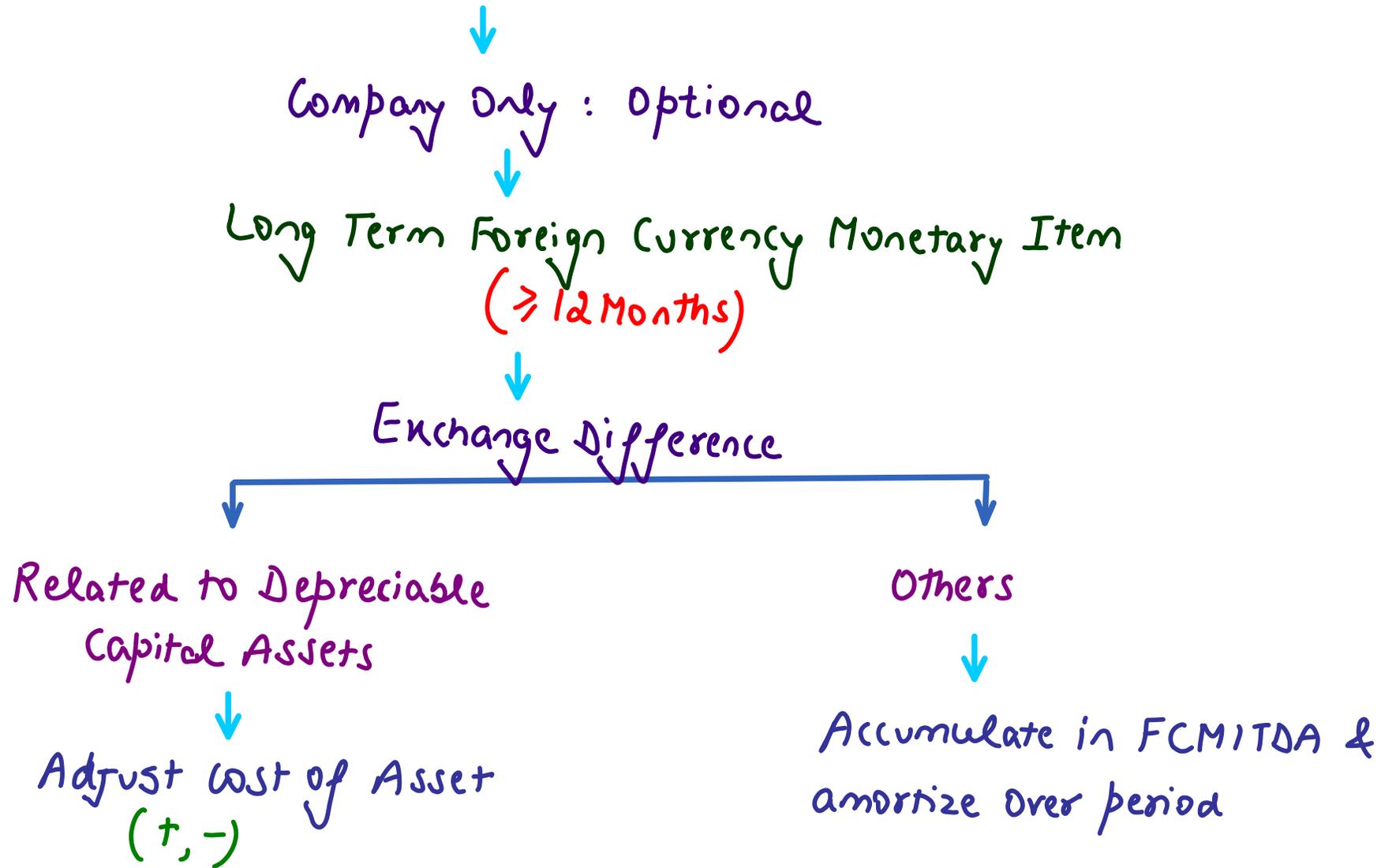
The Effects of Changes in Foreign Exchange Rates (AS-11)



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PARA 46A : Special Case



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Foreign Operations

- 1) Expense / Income
- 2) Opening Stock
- 3) Closing Stock
- 4) Fixed Assets
- 5) Monetary Items
(Debtors, B/R, Creditors, etc.)
- 6) Goods sent to HO / HO Balance
- 7) Exchange Difference

Integral Foreign Operation

Actual Rate
(If not, then Average Rate)

Opening Rate
Actual Rate
(If not, then Closing Rate)

Actual Rate

Closing Rate

Actual

P&L A/c

Non Integral Foreign Operation

Actual Rate
(If not, then Average Rate)

Opening Rate

Closing Rate

Closing Rate

Closing Rate

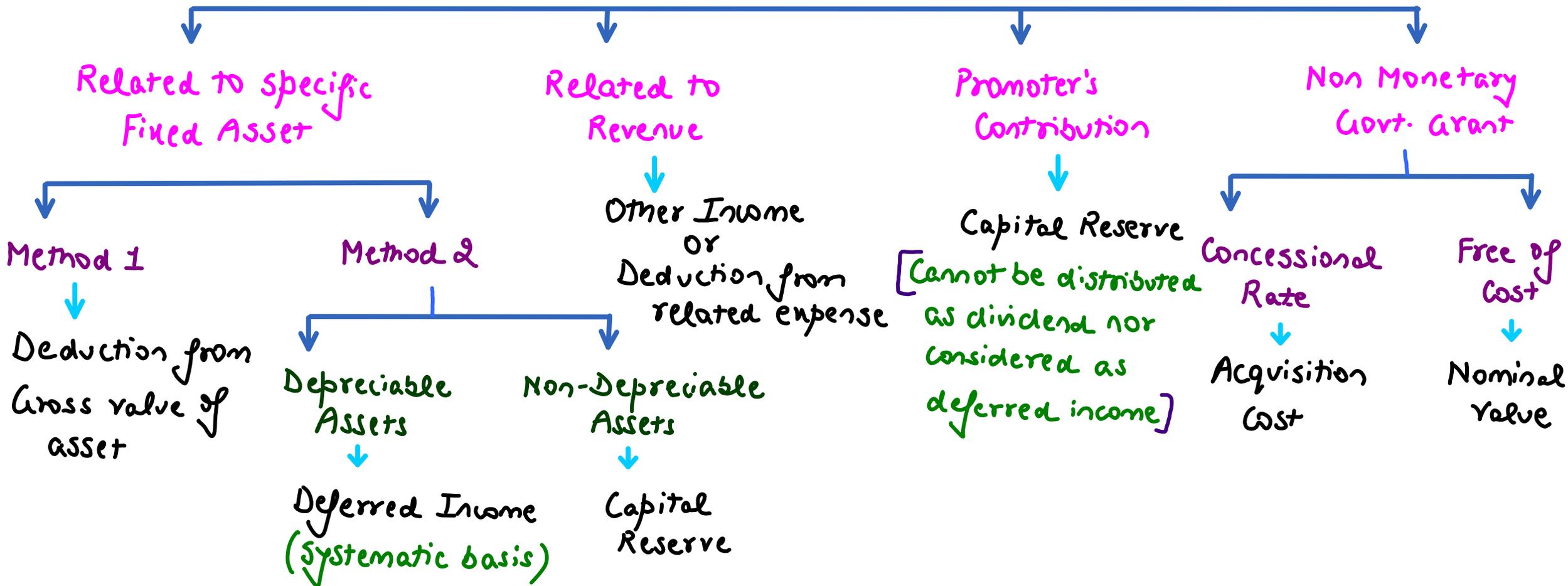
Actual

Foreign Currency Translation Reserve

[Until disposal of Net Investment in NIFO → Recognised as income or expense in period of disposal]

Accounting for Government Grant (AS-12)

[Assistance by Government in cash/kind to enterprise for compliance with certain conditions]



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Refund of Grant

[To be treated as Extraordinary Item as per AS-5]

Related to Specific Fixed Asset

Related to Revenue

Promoter's Contribution

If Method 1

If Method 2

First utilize unamortize deferred credit.
Excess tpd. to P&L A/c

Reduce Capital Reserve

- * Increase Book value of Asset
- * Provide Depreciation on Revised Book value prospectively

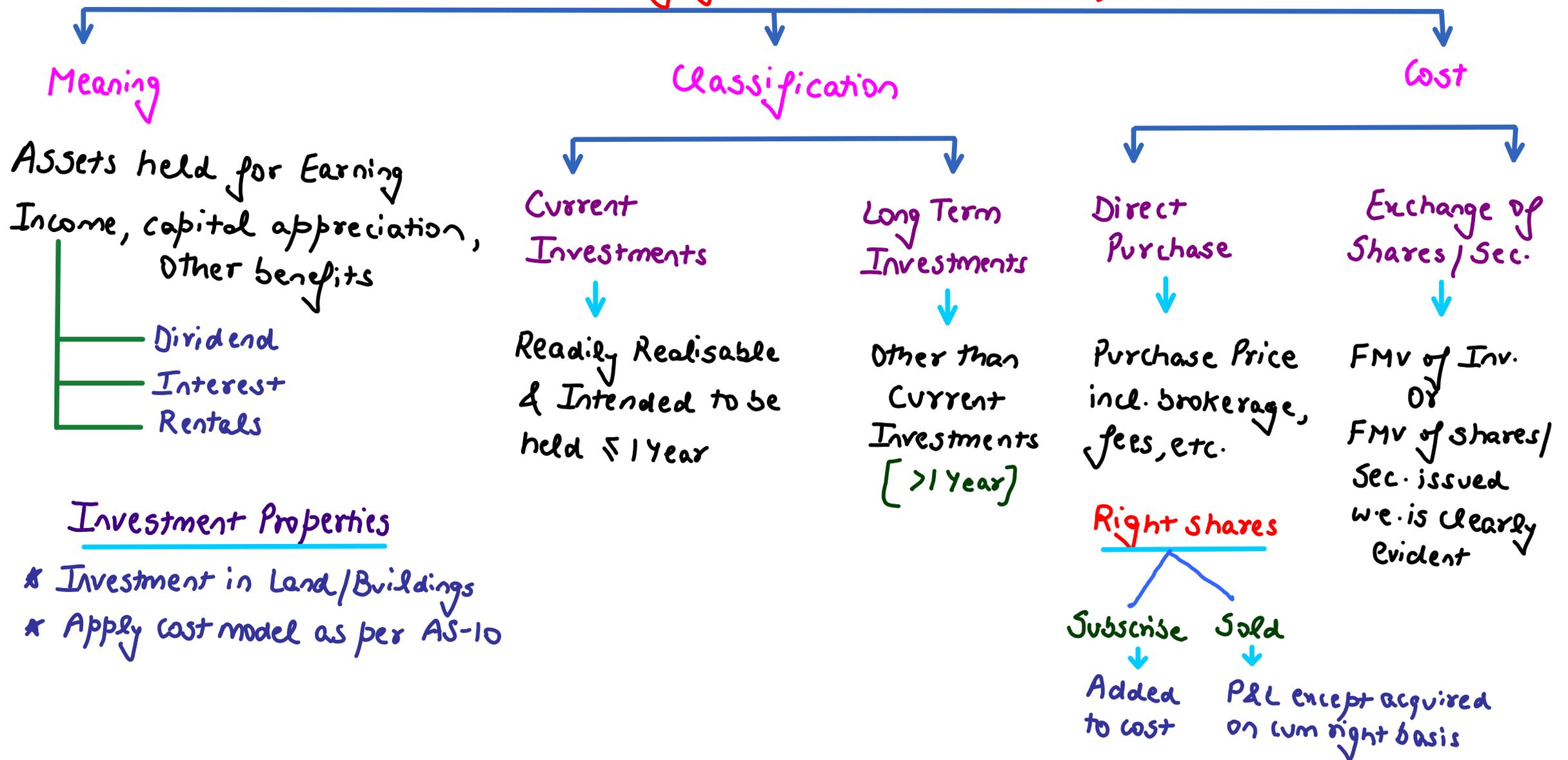
Depreciable Assets

Non-Depreciable Assets

First utilize unamortize deferred credit.
Excess tpd. to P&L A/c

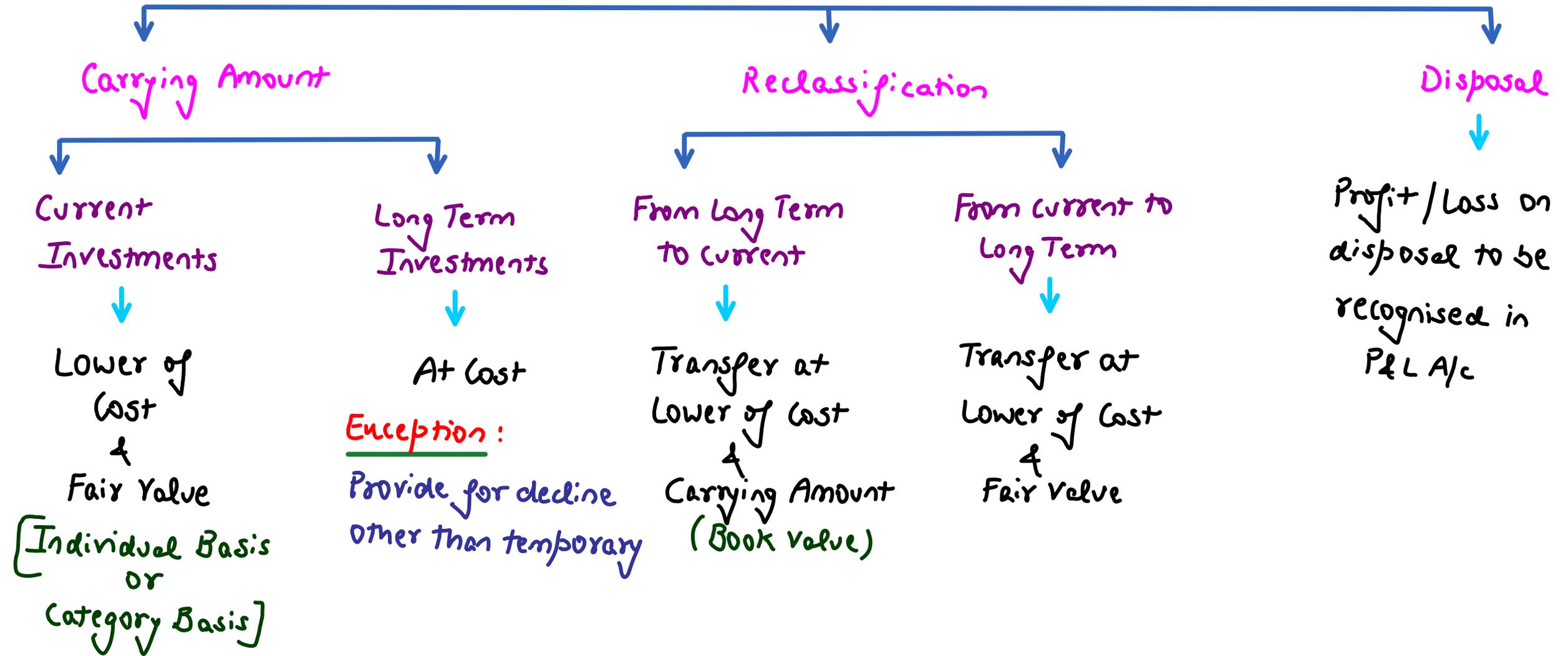
Reduce Capital Reserve

Accounting for Investments (AS-13)



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Borrowing Costs (AS-16)

Meaning

- * Interest costs
- * Amortisation of premium or discount related to borrowing
- * Amortisation of Ancillary costs
- * Exchange Differences
 - Interest on Local Borrowings
 - (-) Interest on Foreign Borrowings

Recognition

Qualifying Asset

Substantial period of time to get ready for use/sale
[>12M]

Capitalise

Others

Ready for intended use when acquired (w/ off in period in which incurred)

P&L A/c

Commencement of Capitalisation

Expenditure Incurred
[Acquisition, construction or Production of Qualifying Asset]

+
Borrowing costs Incurred
+
Activities in Progress

Borrowing Costs eligible for capitalisation

Specific Borrowing

General Borrowing

Actual Borrowing Costs

(-) Income from temporary Inv.

Steps for capitalisation:

1) Weighted Average Expenditure
 $\text{Expenditure} \times \text{Period}$

2) Capitalisation Amount

a) Use specific borrowing first

b) Use general borrowing for balance

$\text{Amount} = \text{Expenditure} \times \text{Capitalisation Rate}$

Suspension of Capitalisation

When active development
Interrupted

Exception:

Substantial technical/admin

work carried out,

Temporary delay part of process,

Unavoidable reasons, etc.

Notes:

- * Amount capitalised cannot exceed borrowing costs
- * Different rates for all specific borrowings
- * Single rate for general borrowings

Cessation of Capitalisation

When substantially all
the activities are complete