

CA INTERMEDIATE ADV.ACCOUNTING



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Accounting Standards

BENCHMARK

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(15+ Years Teaching Exp.)

Founder & Director of TapovanCA



CA- Intermediate

Advanced Accounting Fast-track

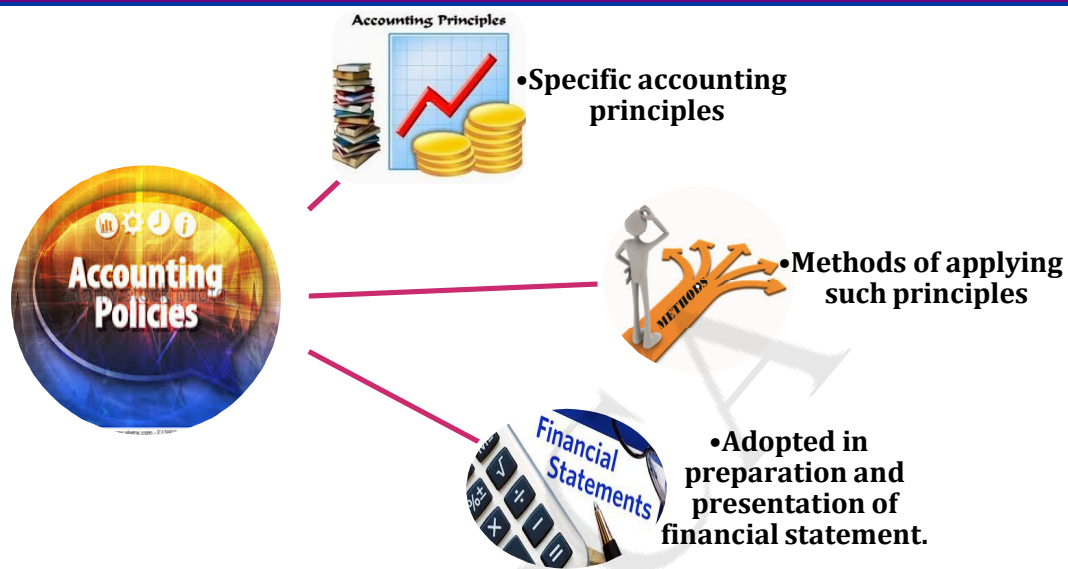
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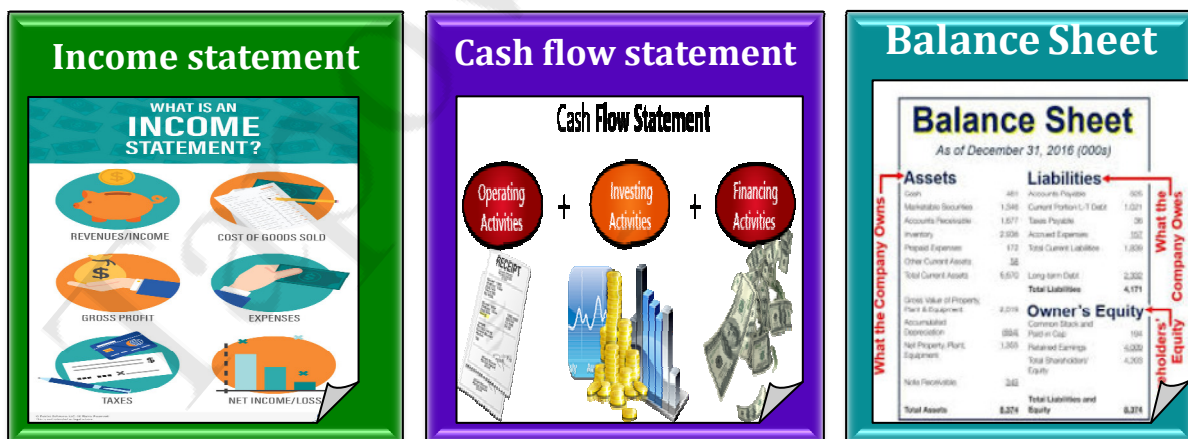
AS 1 “Disclosure of Accounting Policies”

Concept No. 1 - Accounting policies means



Definition: - Accounting Policies are Specific accounting principles & Methods of applying such principles adopted in preparation and presentation of financial statements.

Financial Statements Means



Examples of Accounting Policies

Purpose/Principle	Methods for applying Principles
Providing Depreciation	Straight Line method, Written down value method etc.
Valuation of Inventory	FIFO, Weighted Average and Standard Cost method etc.
Valuation of Fixed Assets	Cost model, Revaluation model
Treatment of Government grants	Recognising as Income or reduction from cost of asset

Concept No. 2 - Conditions to be satisfied for adopting accounting policy



"Policies selected should give true and fair view of business through Financial Statements" therefore following points becomes important for selection of accounting policies.

1. Prudence

1. Prudence means Caution and this means management should be cautious (careful) while selecting accounting policies.
2. Wrong selection of Accounting Policies may lead to excessive Profits, overvaluation or undervaluation of Assets and liabilities.
3. As per prudence / conservatism, Probable loss is to be recognised but probable income is not to be recognised unless it is virtually certain.
4. In other words, expect and record all future losses and don't expect and record future gains.
Example: Inventories are valued at cost or net realisable value whichever is lower.
Probable losses shall be provided immediately.

2. Substance Over Form

1. Reality is more important than legal form.
2. Transactions and other events should be accounted for and presented in accordance with their substance and financial reality not merely with their legal form.
3. Example: In case of hire purchase, the hire vendor is owner till the payment of last installment. Irrespective of this, Hire purchaser records the asset in his books and hire vendor records hire purchase transaction as sale as the final intention of hire purchase is to sale goods.

3. Materiality

1. Facts which are not of material nature need not be disclosed separately.
2. Material items are those items which affects decision making of users.
3. Materiality depends on Size and nature of business.

Concept No. 3 - Disclosure of Accounting Policy



All Accounting Policies shall be disclosed at one place

Accounting Policies shall be selected after complying with above conditions because just disclosure is not remedy for wrong selection of accounting Policy

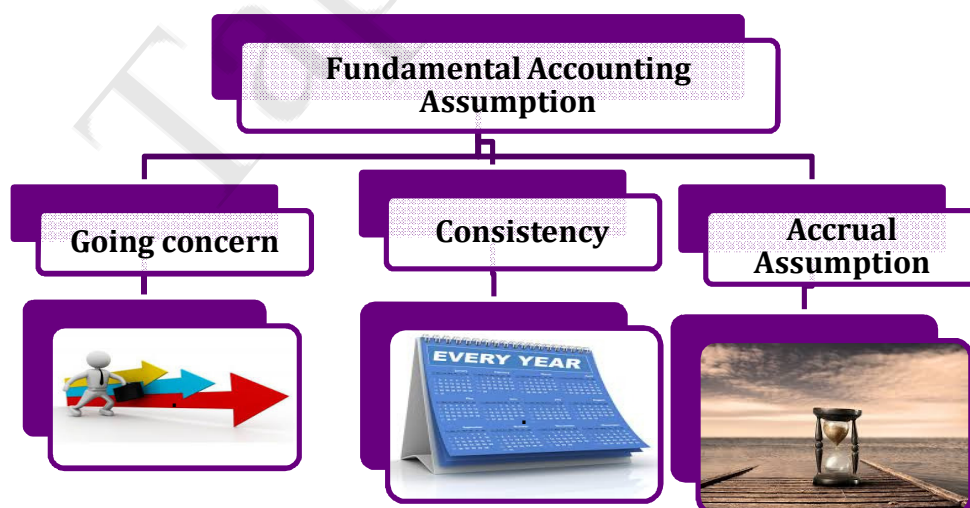
Why disclosure of Accounting Policy is required?

It helps users of accounting information:

In better understanding of financial information.

For comparison of financial statements with other entities.

Concept No. 4 Fundamental Accounting Assumptions (F.A.A.)



Explanation of Fundamental Accounting Assumption.

Going concern

- It is assumed that business would continue for foreseeable period.
- There is no necessity or decision to curtail/close down of entity.
- Entity is assumed to be a going concern unless there is clear situation of winding up of business.
- **Example** - Plant 1,00,000 life 10 years, scrap 10,000. Calculate Depreciation for first year. **Solution** - 9,000 on the assumption that business would continue for 10 year.

Consistency

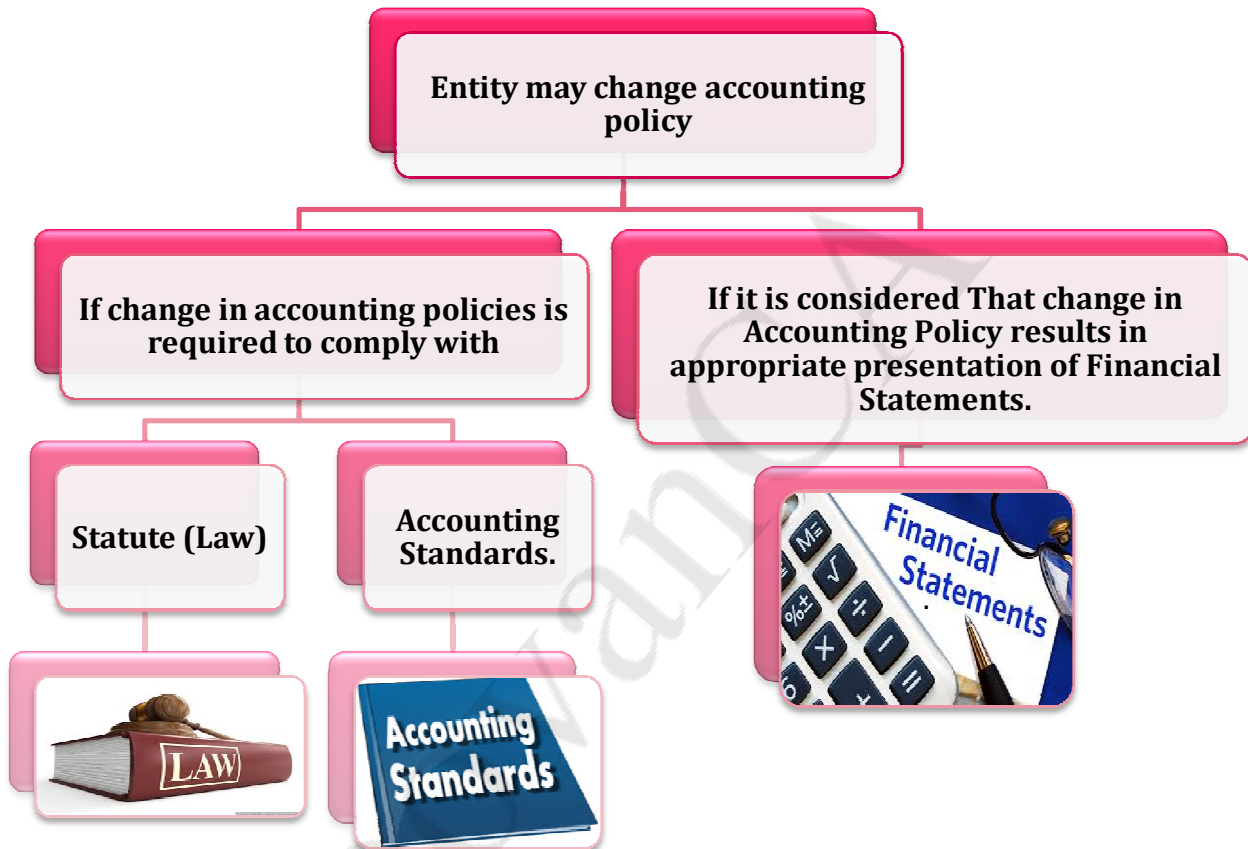
- It means it is always assumed that same accounting policies would be followed every year.
- **Example:** - plant 1,00,000 life 10 years, scrap 10,000 Calculate Depreciation for second year. **Solution:** - 9,000 every year on the assumption of going concern and consistency.

Accrual Assumption

- It is assumed that entity record all income & exp. on period basis. They are not recorded on payment basis.
- As per accrual, all expenses shall be recorded when it is incurred and all incomes shall be recorded when it is earned,
- This concept helps in calculation of true income of business for each accounting period.
- Even section 128 of Companies Act, 2013 requires that Accounts of companies shall be maintained on accrual basis,
- **In Trial Balance following balance are shown.**
- Salary 1,00,000. Outstanding salary 10,000.
- **Solution:** - In P&L salary 1,00,000 Add:- Outstanding salary (it is added because it is related to current period even though it is not paid in current year) and shown on liability side of Balance Sheet .

Concept No. 5_Change in Accounting Policy

As per consistency, entity shall follow same accounting policy year by year but entity may change accounting policy in following cases:

**Additional Points on Change in Accounting Policies:**

- Any change in accounting policy should be disclosed.
- The effect of such a change should be quantified.
- If quantification is not possible the facts should be disclosed.
- The change is to be disclosed in the year or years in which it has an impact on financial statements.

Example:

1. Change in method of depreciation.
2. Change in the method of valuation of inventories.

AS – 2 Valuation of Inventories

Concept No. 1 - Objectives of AS Valuation of Inventories

1. To formulate the method of calculation of Inventories/Stock
2. To determine the carrying amount of inventories in Financial Statements (FSs). This includes determination of cost of inventory and any amount to be written off to bring it to Net Realisable Value (NRV).

This Standard is very important as it impacts both P&L as well as Balance sheet i.e. if closing stock is overvalued/ undervalued; it impacts CY profits as well as asset value in the Balance sheet.

Concept No. 2 - Applicability of AS - Inventory Valuation

*This standard is **not applicable** to the following.*



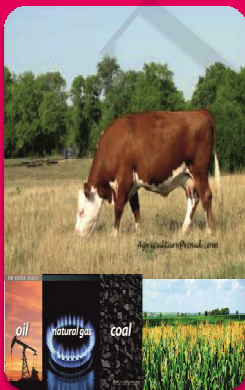
WIP of service provider



If the entity holds shares, debentures and other financial instruments as stock-in-trade ; (It is discussed in AS 13.)



Work-in-progress (WIP) arising under construction contracts; (It is discussed in AS 7)



1. Inventories of livestock,
2. Agricultural and forest products,
3. Mineral oils, ores and gases to the extent that they are measured at NRV in accordance with well established practices in those industries.

Concept No. 3 - Definitions



Finished goods (FG) -
Held for sale in the
Ordinary course of
business



Raw Material, WIP -
Used in the process of
production for such
sale



**Consumables & Loose
tools, etc..**
To be consumed in the
process of production or
in rendering the services

Chart Presentation Inventories includes

Inventories consist of

Held for sale in the Ordinary course of business i.e. Finished goods (FG).

Used in the process of production for such sale i.e. raw material, WIP etc.

To be consumed in the process of production or in rendering the services e.g. consumables and loose tools, etc.

Concept No. 4 Measurement of Inventories

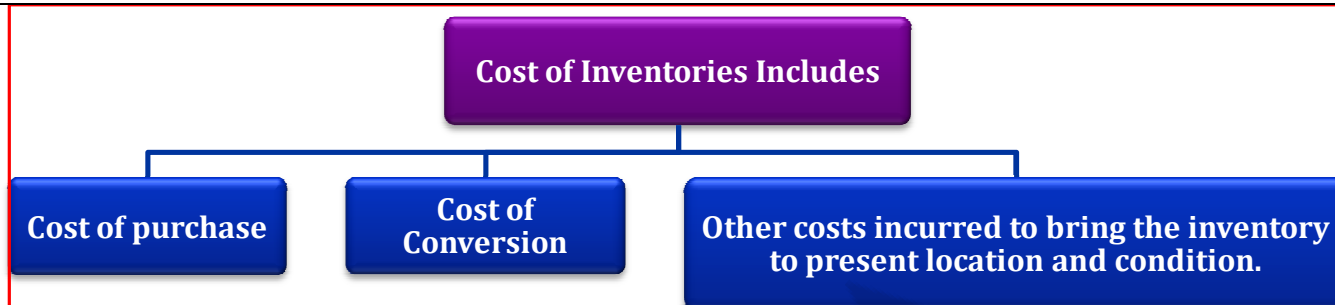
Major points for valuation of Inventories

**1. Determination
cost of Inventories**

**2. Determination
Net Realisable
Value of
Inventories**

**3. Comparison
between the Cost
and Net Realisable
Value**

Inventory is valued at COST (or) NRV Whichever is LOWER

Concept No. 5 What is Cost of Inventories**Chart Presentation Cost of Inventories includes****5. (1) Cost Of Purchase**

Cost of purchase includes all costs incurred to purchase the material.



The following items are directly related to the purchase of material.

Particulars	Amount
Purchase price i.e. Basic price of material	xxx
Add	
NON refundable taxes & duties	xxx
Carrying Cost i.e. inward freight cost	xxx
Inward Insurance cost	xxx
All other costs incurred directly related to acquisition and bringing it to warehouse.	xxx
Less	
Trade discounts Quantity discounts	xxx
Duty drawbacks & other similar items	xxx
Cost or Purchase Price	XXX

5 (2) Cost of Conversion

This includes the costs incurred to convert the raw materials into finished goods.

For example major costs like Labour, Factory rent, fuel costs, power expenses (factory overheads) and other items.

The overheads (OH) should be absorbed in the following manner:

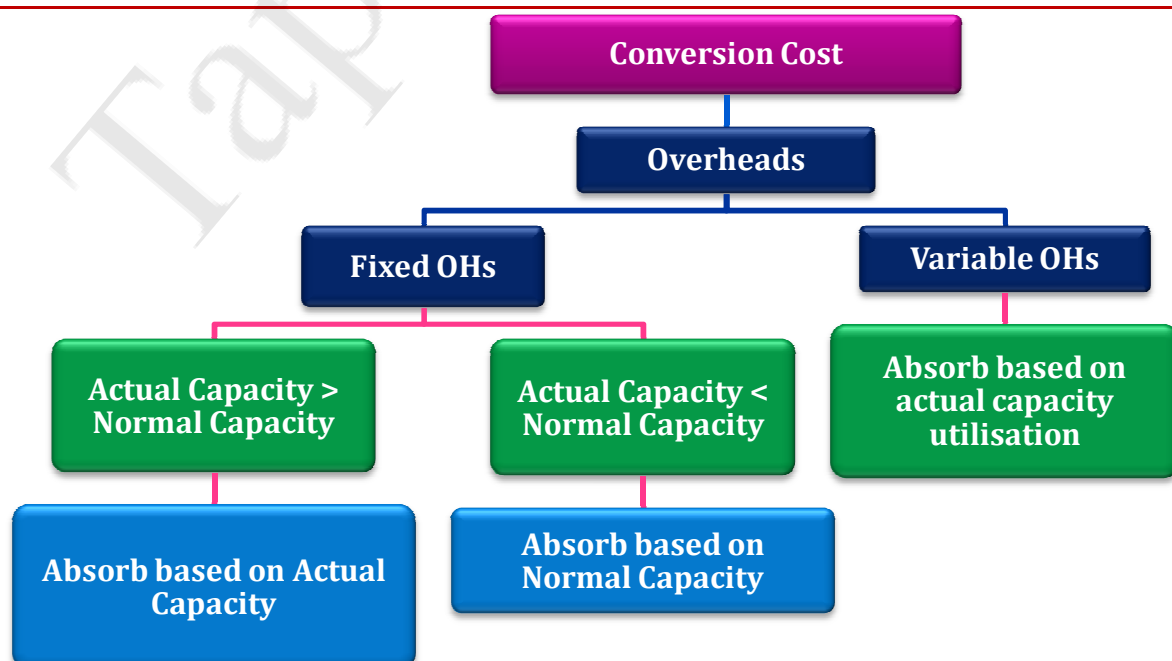
Factory overheads can be divided into two types based on its nature i.e. variable overheads and fixed OH.

Variable expenses – which vary (change) along with the volume of production;

Fixed expenses – which do not vary with volume of production.



Chart Presentation



Normal Capacity (Meaning)

Normal Capacity is the number of units of production on an average over a period under normal Circumstances after considering loss of capacity under normal circumstances.

(Normal capacity = Total capacity Less planned maintenance)

Actual capacity (Meaning)

Actual capacity is **actual production** of goods.

1. Fixed Production Overhead will be taken in actual cost on recovery basis

Overhead Recovery Rate = $\frac{\text{Production Overhead}}{\text{Normal Production}}$

Overhead Recovered = Rate X Units Produced

2. If Actual production is very high, then take the actual production as denominator.

Overhead Recovery Rate = $\frac{\text{Production Overhead}}{\text{Actual Production}}$

Overhead Recovered = Rate X Units Produced

Examples of factory cost and these should be absorbed in the calculation of per unit cost.

1. Consumable stores and spares;
2. Depreciation of plant and machinery, factory building etc...
3. Lease rent of production assets;
4. Repair and maintenance of plant and machinery, factory building etc...
5. Indirect employees cost connected with production activities;
6. Drawing and Designing department cost;
7. Insurance of plant and machinery, factory building, stock of RM & WIP etc.
8. Amortized cost of jigs, fixtures, tooling etc.
9. Service department cost such as Tool Room, Engineering & Maintenance etc.

5 (3) Other Costs




All other costs incurred to bring the inventory to the present location and condition. Examples:

1. Quality control cost - quality control employee cost and other costs of that dept;
2. R&D cost incurred for the development and improvement of the process or product;
3. Administration OHs in relation to production activities; (General admin OHs should NOT be included);
4. Packaging cost - primary and secondary package cost should be included, etc.

Concept No. 6 Following cost should be excluded From "COST"

- 1. Abnormal Loss** (Loss due to Fire, waste of materials, labour or other production costs)

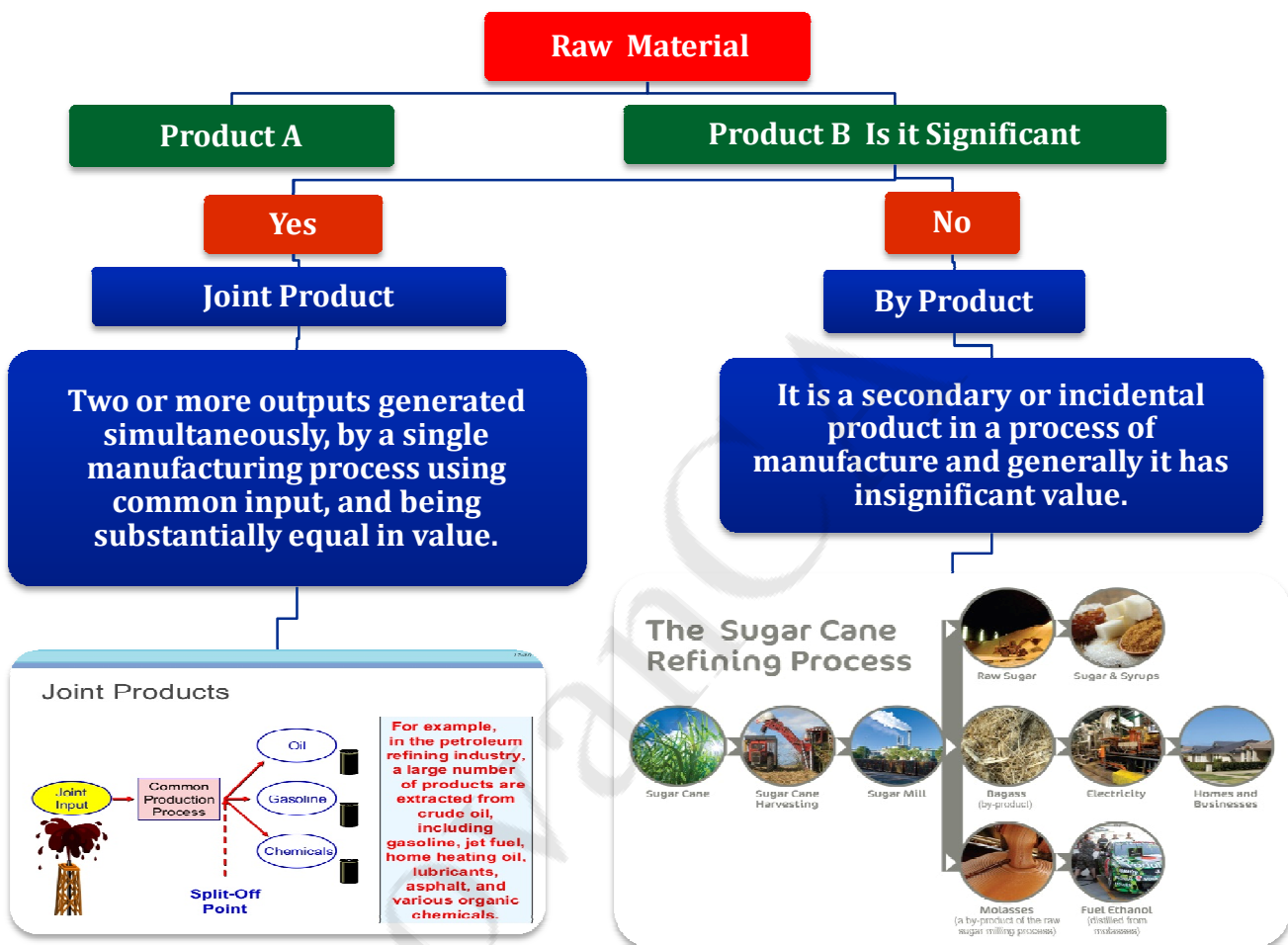


2. Storage costs , unless those costs are necessary in the production process prior to a further production stage. (E.g. Electricity used for cold storage)	
3. Administrative, Selling and Distribution costs. (Expenses such as rent, staff salary, Electricity Bill)	
4. Borrowing costs (Interest)	

Concept No. 7 Allocation of costs in special situations:

Points	Joint Products	By Products
Meaning	Two or more outputs generated simultaneously, by a single manufacturing process using common input, and being substantially equal in value.	It is a secondary or incidental product in a process of manufacture and generally it has insignificant value.
Example	(1) Butter, cheese, and cream from milk, (2) Fuel oil, gasoline, and kerosene from crude oil.	In manufacture of Sugar - Sugar is main product and molasses is by product.
Allocation of Cost	In this case, the joint costs (common costs) are allocated between the products on a rational and consistent basis. a) On the Sales value of each product when the products become separately identifiable; (b) On the sale value after completion of production;	1. Find out the joint costs of main product & by products. 2. Compute Net realisable value of by product at the time of separation. 3. Cost of main product = total joint costs of main product & by product Less NRV of by product.

What Is Joint Product & By Product



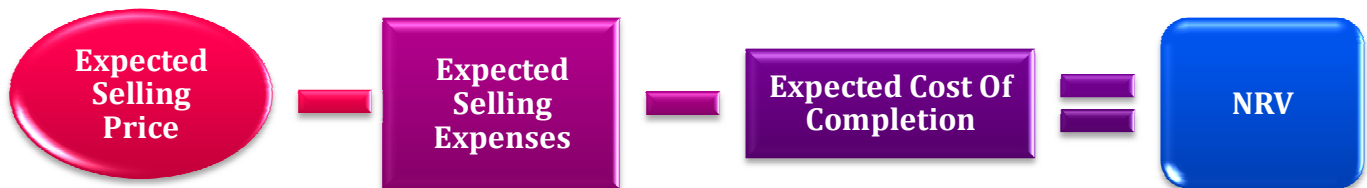
Concept No. 8 - Methods of Ascertaining of Cost of Inventories

Cost of inventory should be ascertained in following manner

1. If stock in hand is unique not similar to each other, use **Specific Identification Method**.
2. If **stock in hand is similar** to each other, then use following two methods of stock valuation
 - a) **FIFO Method**
 - b) **Weighted Average Method**

Concept No. 9 – Net Realisable Value

Calculation of NRV



Expected Selling Price in ordinary course of business	xxx
Less:- Expected Selling Expenses	xxx
Less:- Expected Cost Of Completion	xxx
Net Realisable Value	xxx

Expected means management estimated, can be made due to contract received. It can be general price also.

Diagrammatical Presentation



9.1 NRV Of Work – In - Progress

WIP is the one which is not completed or partially completed. Finding out expected selling price for WIP is not possible as nobody purchases the WIP product. It is meant to be converted into FG and to sell as FG. Hence we start computing the NRV of WIP with Expected selling price of FG and deduct the costs to be incurred to complete it as FG & Costs incurred to sell.

9.(2) Valuation of Raw Material Stock

Valuation of Raw Material is **NOT based on Cost (or) NRV whichever is less.**

Its valuation is fully based on the valuation of finished goods as the entity is purchasing raw material not to sell in the ordinary course of business as raw material BUT to use it for producing the finished goods.





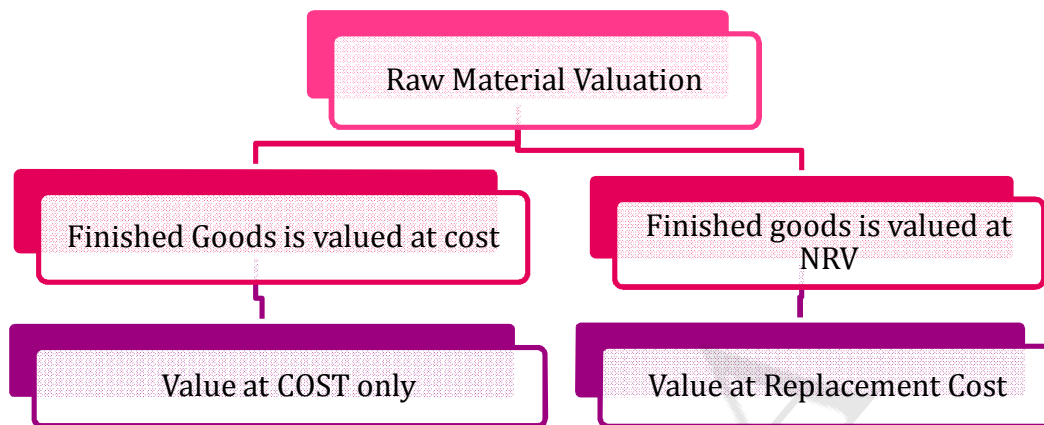
Raw Material	Finished Goods	Valuation of Raw Material
		<ol style="list-style-type: none"> 1. Stock of Raw material (wool) is valued at cost price, if finished goods(Sweater) in which such raw material used is valued at cost price. 2. Stock of Raw material (wool) is valued at Replacement Cost, if a finished goods (Sweater) is valued at NRV.
		<ol style="list-style-type: none"> 1. Stock of Raw material (Leather) is valued at cost price, if finished goods(Shoes) in which such raw material used is valued at cost price. 2. Stock of Raw material (Leather) is valued at Replacement Cost, if a finished goods (Shoes) is valued at NRV.

Chart Presentation of Raw Material Valuation



Disclosure Requirements Under AS - 2

Concept No. 10_Disclosure Requirements



The financial statement should disclosed

1. The accounting **policies adopted** in measuring inventories, including the **cost formula used**;
2. The total **carrying amount of inventories** and its **classification** appropriate to the enterprise.

CA INTERMEDIATE

ADV.ACCOUNTING

Accounting Standards -

BENCHMARK



Rohan Sir se Padhoge toh ye Guarantee hai...

AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



Rohan Nimbalkar

(15+ Years Teaching Exp.)

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AS 3 - Cash Flow Statement

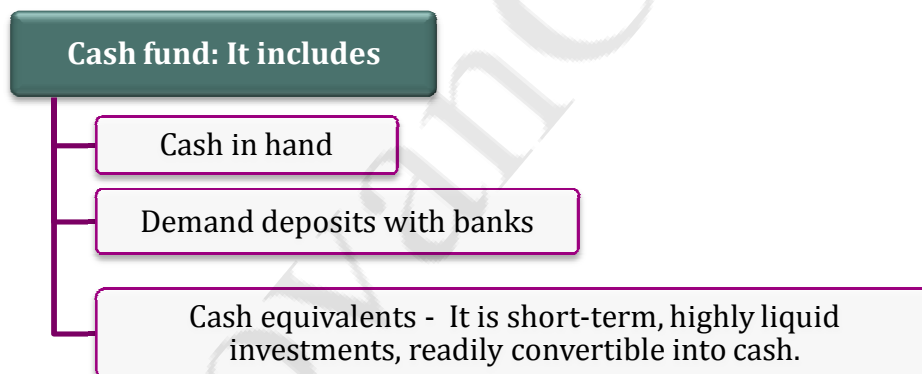
Concept No. 1 Objectives of Cash Flow statement

1. Cash flow statement aims at highlighting the **cash generated from operating activities**.
2. To help in **planning of repayment of loan** schedule and replacement of fixed assets, etc.
3. To ascertain the **liquid position** of the firm in a better manner.
4. Cash flow Statement helps in **efficient and effective management of cash**.

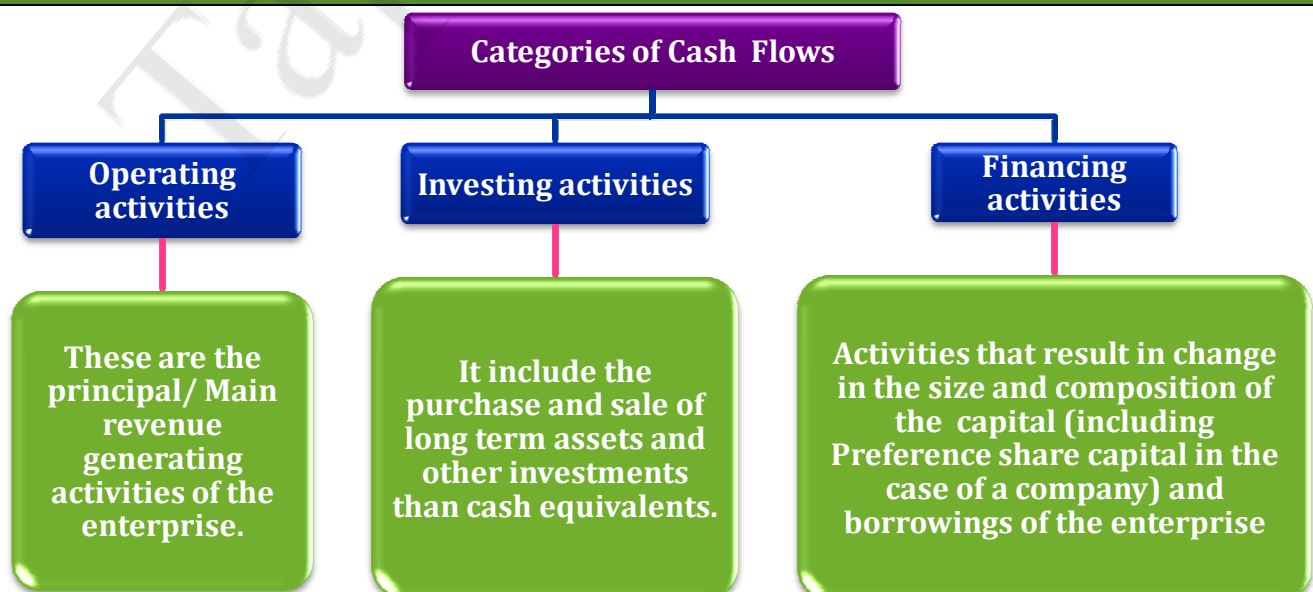
It is very useful in the evaluation of cash position of a firm.

Concept No. 2 Cash and relevant terms as per AS-3

2.1 Cash fund



2.2 The statement of cash flow



Concept No. 3 - The statement of cash flow shows

Cash Flow Statement



Concept No. 4 - Methods of calculating cash flow from Operating Activities

There are two namely Direct method and Indirect method. SEBI (Securities Exchange Board of India) Guidelines recommend for only direct method.

Concept No. 4 (1) Cash Inflow/ Outflow from Operating Activity as per AS-3 (Direct Method)

It is main revenue producing activity except investing or financing activity.

Cash Inflow

- Cash Sales
- Cash received from Debtors.
- Cash Received from Commission and Fees
- Royalty & Other revenue.

Cash Outflow

- Cash Purchases.
- Payment to creditors.
- Cash operating expenses.
- Payment of wages.
- Payment of Income Tax.

Concept No. 4 (2) Cash Inflow/ Outflow from Investing Activity as per AS-3

Helps to Estimate the future Operating cash because of current year Investing Activities

Cash Inflow

1. Sale of fixed assets
2. Sale of investment
3. Interest received
4. Dividend received

Cash Outflow

1. Purchase of fixed assets
2. Purchase of investment

Concept No.4 (3) Cash Inflow/ Outflow from Financing Activity as per AS-3

It is Useful to predict Future claims by Providers of funds

Cash Inflow

1. Issue of shares
2. Issue of debentures
3. Proceeds from long term, short term Loans/ borrowings

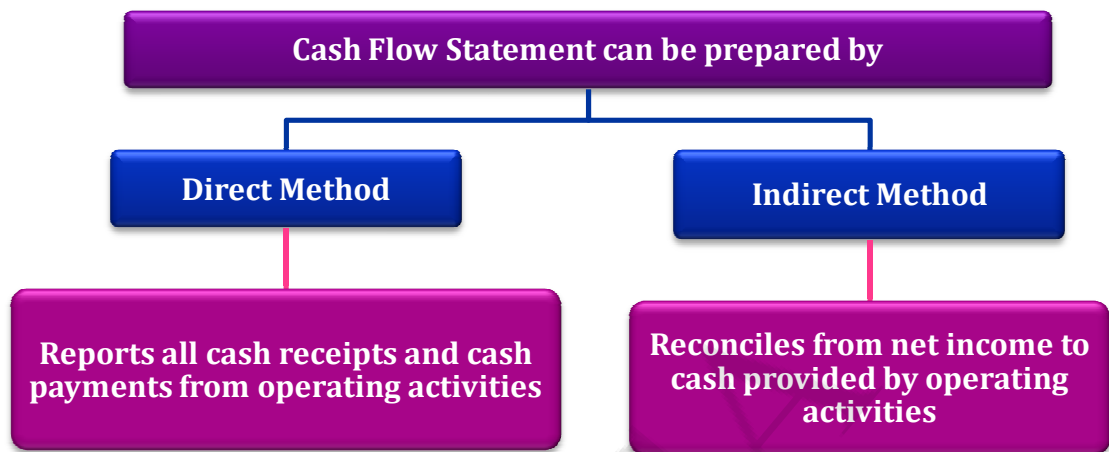
Cash Outflow

1. Cash repayments of amounts of Loan.
2. Redemption of shares & debentures.
3. Dividends paid on equity & preference share capital
4. Interest paid on loans/debentures

Points to be noted:

Period for the Cash Flow Statement is the same as P& L Account and Balance Sheet.

Concept No. 5 – Preparation of Cash Flow Statement



Picture presentation of Cash Flow Statement



Concept No. 6 Other Important Items & Disclosure

1. Income tax

Operating Activities

Income tax payment shall be separately disclosed under operating activities

(if nature of tax is not specified then it is assumed that the tax is paid on income generated from operating activity)



If it is practicable to separate the tax payments among different activities, it should be separated and presented under respective activity like operating, investing or financing activity.

2. Extraordinary/ Exceptional items

Cash flow from extraordinary items should be disclosed separately under appropriate activity based on the nature of Cash flows

Example:

Cash received against insurance claim is treated as Cash flow from operating activity whereas cash received against insurance claim for loss of asset is shown in investing activity,

Concept No.7

Format for Cash flow Statement Direct method

Particulars	Amount
(i) Cash flow from operating activities A. Operating cash receipts – Cash sales – Cash received from customers – Trading commission received – Royalties received B. Less : Operating cash payment – Cash purchase – Cash paid to the supplier – Cash paid for business expenses like office, production, selling expenses C. Cash generated from operation (A – B) D. Less Income tax paid (Net of tax refund received) E. Cash flow before extraordinary items Net cash flow from Operating activity	
(ii) Cash from investing accounting Add : – Proceeds from sale of fixed assets – Proceeds from sale of investments – Proceeds from sale of intangible assets – Interest and dividend received – Rent income Less : – Purchase of fixed assets and investment – Purchase of intangible assets like goodwill Net cash flow from investing activities	
(iii) Cash flows from financing activities Add : – Proceeds from issue of shares and debentures – Proceeds from other long term borrowings Less : – Final dividend paid – Interim dividend paid – Interest on debentures and loans paid	

<ul style="list-style-type: none"> - Repayment of loans - Redemption of debenture preference shares <p>Adjust extraordinary items (+/-)</p> <p>Net cash flow from Financing activities</p> <p>(iv) Net increase/Decrease in cash and cash equivalent (i + ii + iii)</p> <p>(v) Add : cash and cash equivalents in the beginning of the year</p> <p>(vi) cash and cash equivalents in the end of the year</p>	
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Format for Cash flow Statement Indirect Method

Particulars	Amount
<p>(i) Cash flow from operating activities</p> <p>A. Net Profit as per Profit and Loss A/c or difference between closing balance and opening balance of Profit and Loss A/c</p> <p>Add : Transfer to reserve</p> <p style="padding-left: 20px;">Proposed dividend for current year</p> <p style="padding-left: 20px;">Interim dividend paid during the year</p> <p style="padding-left: 20px;">Provision for tax made during the current year</p> <p>Net profit before taxation and Extra ordinary items</p> <p style="padding-left: 40px;">Adjustment for Non-Cash and Non-Operating Items.</p> <p>B. Add :</p> <ul style="list-style-type: none"> - Depreciation - Preliminary expenses - Interest on borrowings and debentures - Loss on sale of fixed assets - Discount on issue of shares and debentures written off <p>C. Less :</p> <ul style="list-style-type: none"> - Interest income/received - Dividend income received - Rental income received - Profit on sale of fixed asset <p>D. Operating profits before working capital changes (A + B - C)</p> <p>E. Add</p> <ul style="list-style-type: none"> - Decrease in current assets - Increase in current liabilities <p>F. Less :</p> <ul style="list-style-type: none"> - Increase in current assets - Decrease in current liabilities 	

<p>G. Cash generated from operations (D + E - F)</p> <p>H. Less : Income tax paid (Net tax refund received)</p> <p>I. Cash flow from before extraordinary items</p> <p>Adjusted extraordinary items (+/-)</p> <p>Net cash flow from Operating activity</p> <p>(ii) Cash from investing accounting Same as Direct Method</p> <p>(iii) Cash flows from financing activities Same as Direct Method</p> <p>(iv) Net increase/Decrease in cash and cash equivalent (i + ii + iii)</p> <p>(v) Add : cash and cash equivalents in the beginning of the year</p> <p>(vi) cash and cash equivalents in the end of the year</p>	
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Note: Direct and Indirect Methods are not methods of preparing Cash Flow Statement but it is method to find out Cash flow from Operating Activity.

In Other words, Cash Flow from operating activity can be calculated from Direct Method or Indirect Method and remaining calculation of Investing and financing activity is same in direct and indirect Method.

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

Concept No. 1 - Objectives of AS 4

1. Meaning & Accounting of Contingencies
2. Meaning & Accounting of Events Occurring after Balance Sheet Date but before approval of balance sheet by Board of Directors.

Concept No. 2 – Applicability of AS - 4

This AS is Not applicable to



Liabilities of life assurance and General insurance.



Obligation under retirement benefit plans.



Commitments arising from long term lease contracts.

Concept No. 3 - AS 4 deals only with

Contingencies Meaning



1. Existing condition or situation at the Balance Sheet Date

2. Whose ultimate outcome is gain (ignored) or loss

3. Which will be known after occurrence or non occurrence (happening or non happening) of one or more uncertain event.

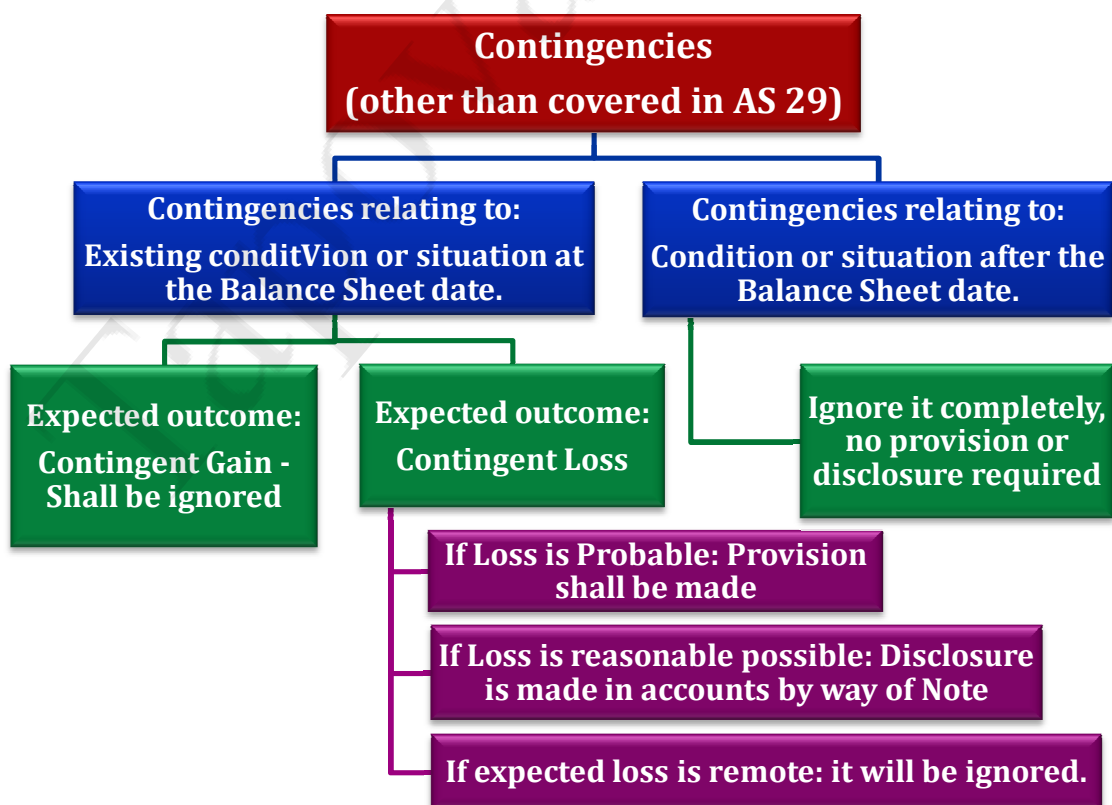
❖ **Example of Accounting Contingencies**

A Company filed case against the debtor from whom 50 lakh is receivable as on 31st March, 2017. As per opinion of expert chances of recovery is doubtful then company should make provision for bad and doubtful debts as situation of non-recovery is existing on balance sheet date.

❖ **Important Note**

This Accounting Standard covers only **Provision for Doubtful debts** other provisions like Provisions for taxation which are shown on liabilities side is covered under "AS-29 Provisions, Contingent liabilities and Contingent Assets.

ACCOUNTING STANDARD 29
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

PART 2**Concept No. 4 Events Occurring after Balance Sheet Date**

Meaning of Events Occurring after Balance Sheet Date

1. **Significant events:** - Significant events are Material (important) events, which can influence the economic decisions of the users of financial statements.
2. **Which occur between the balance sheet date and financial statements approval date?**
3. **Events can be favorable or unfavorable to the entity.**

Main Discussion under Part 2 of AS-4:

When to record Events occurring after Balance Sheet date?

1. On Balance Sheet Date, or
2. Next Year

To understand above point we will first understand the steps of company related to approval of financial statement every year:

- Step 1: End of Accounting Period i.e. Assume that it is 31st March, 2017 (it is Balance Sheet Date)
- Step 2: Management/ Board of Directors will prepare **financial statement (FS)** for the year ended 31st March, 17.
- Step 3: Audit is conducted by Auditor and Auditor will issue report on financial statements prepared.
- Step 4: Board of Directors (BOD) meeting to approve FS and for calling of Members meeting (AGM).
- Step 5: Audited financial statements are adopted/ approved by Members in AGM.

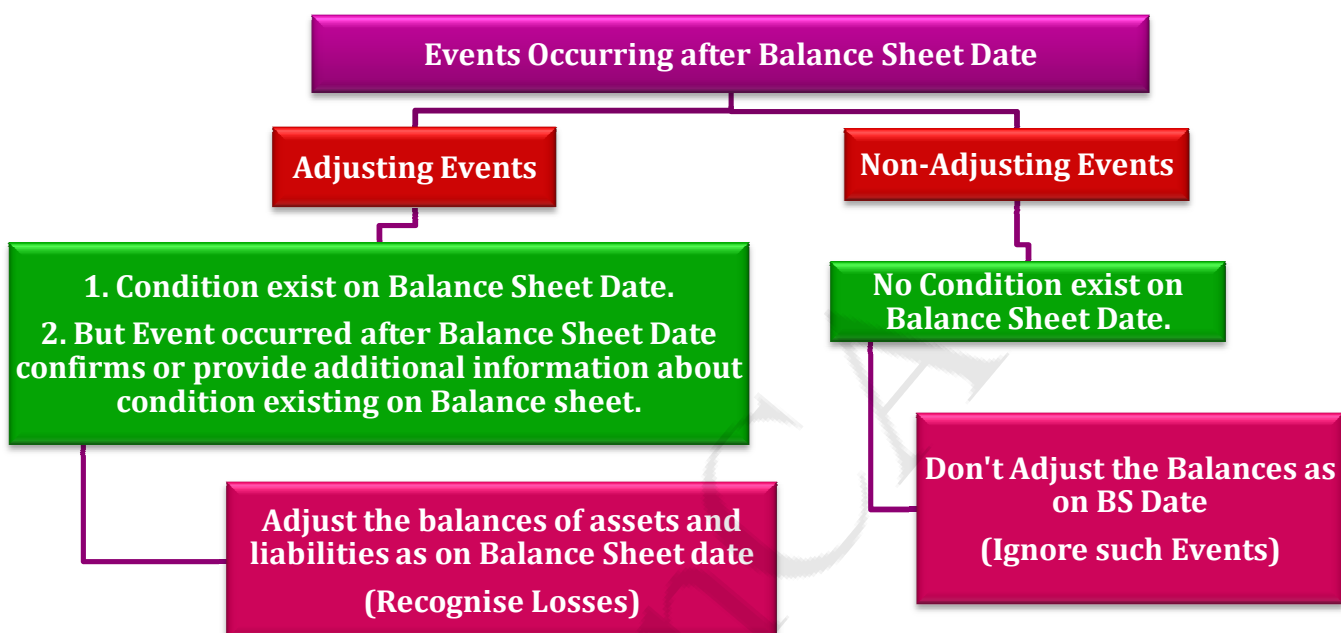


In the above diagram, we are mainly concerned with events occurring after 31-3-2015 to 15-08-2015. These events can be recorded after 31st March but before 15th August (approval of FS).

If events qualify following conditions then it shall be recorded in books of accounts and in FS and if it doesn't then such events shall be ignored while preparing Financial Statements (FS) for year ending 31st March, 2017.

Events occurring after the balance sheet date but before date of approval of FS by BOD are classified into two Categories i.e. adjusting events and non adjusting even

Chart Presentation of Events Occurring after Balance Sheet Date



Note: If Non adjusting events are SIGNIFICANT then it can be disclosed in Board of Directors report.

Concept No. 5 - Adjusting Events and Non Adjusting Events

5.1 Meaning

Adjusting Events	Non Adjusting Events
<p>1. Insolvency of customer: Conditions:</p> <ol style="list-style-type: none"> Condition of insolvency existed on balance sheet date. Customer is not yet declared Insolvent on Balance sheet date. He is declared insolvent after Balance sheet date but before Approval of FS by BOD. <p>Then Balances of Debtors shall be adjusted accordingly.</p> <p>However insolvency caused due to major fire in factory after Balance Sheet date is not adjusting event as condition of insolvency was not existing on Balance Sheet date.</p>	<ol style="list-style-type: none"> Decline in market value of investment. Major Business combination after Balance Sheet date. Announcing plan to discontinue operations. The distraction of a major production plant by a fire after reporting period. Announcing or commencing the implementation of a major restructuring. Abnormally large changes after Balance Sheet date in asset prices or foreign exchange rates. Commencing major litigation arising solely out of events that occurred after the reporting period. Changes in tax rates announced after Balance sheet date.

5.2 Exception To Non Adjusting Event

1. If it is a STATUTORY requirement OR it is of special nature; (AS cannot override Law)
2. If events occurring after the balance sheet date affects the GOING CONCERN ASSUMPTION of the entity

Means in the above two cases event should be adjusted as on balance sheet date even though event occurred after Balance Sheet date.

If Any event occurring after the Balance Sheet date affects the going concern assumption of the entity, such event should be considered and financial statement should be adjusted as on the Balance Sheet date. If the entity doesn't have going concern assumption, it should prepare financial statement on liquidation basis (i.e. at NRV).

Concept No. 6 Proposed Dividend

If an enterprise declares dividend to shareholders after the balance sheet date then enterprise should not recognise those dividend as a liability at the balance sheet date unless it is required by Act. Such dividend should be disclosed in notes.

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AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



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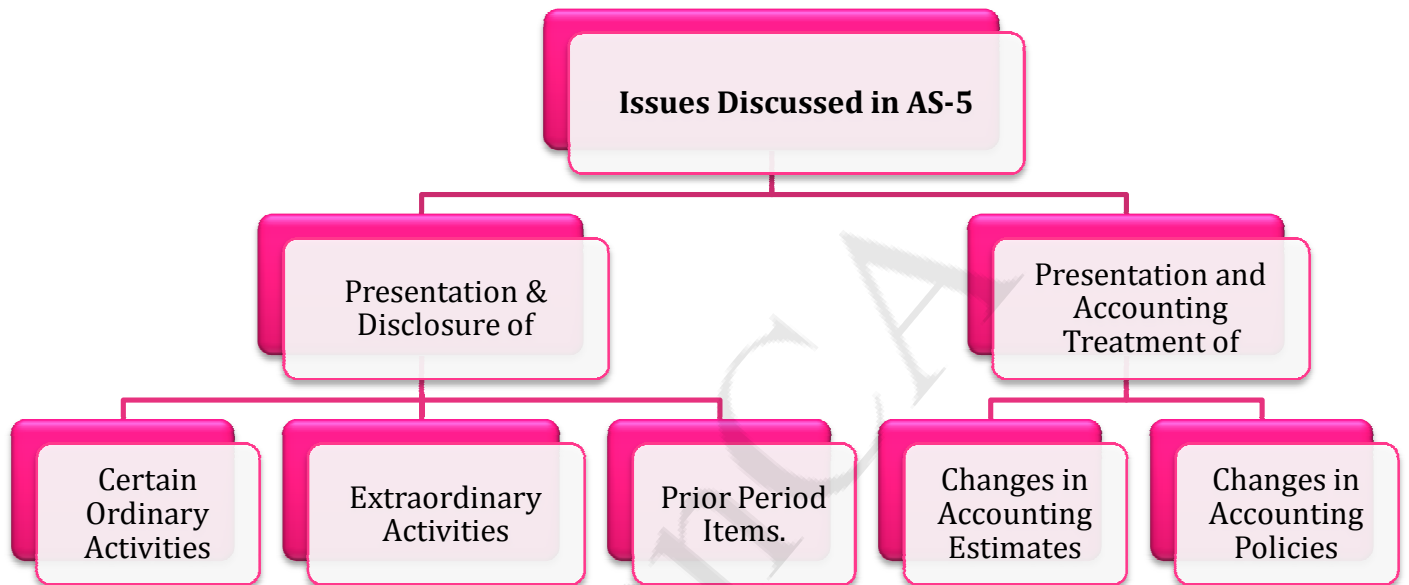
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AS – 5 Net profits or loss for the period, prior period items and changes in accounting policies

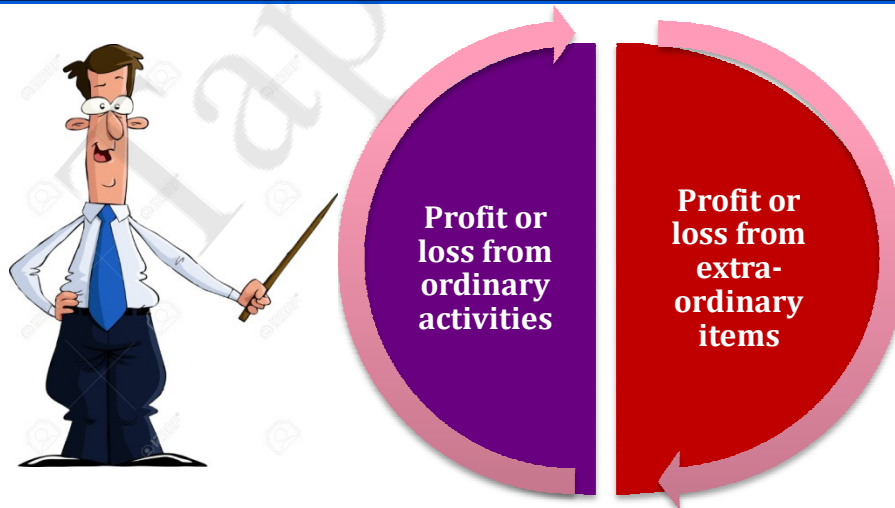
Concept No. 1 Objectives of AS – 5



This Standard doesn't deal with tax effect of the above items.

Important Concepts in AS – 5

Concept No. 2 Net profit or loss for the period includes:



These components shall be disclosed separately in statement of profit and loss.

Concept No. 3 Ordinary Activities

Activities which are Related & incidental to entity's main business activities. These activities arise in the normal course of business, so the frequency of the activities is regular.

-
1. Sale of goods, providing services,
 2. Sale of scrap, interest income/expense
 3. Salary expense, provisions.
 4. Profit or loss on sale of fixed assets, etc.

Concept No. 4.- Exceptional Items**Exceptional Items: (It Is Treated As Ordinary Items Under This AS)**

These items are expected to occur as part of a business. But due to size, nature or incidence of transactions those activities require separate disclosure.

These items are expected to occur as part of a business. But due to size, nature or incidence of transactions those activities require separate disclosure.

1. The writing down of inventories to net realisable value (NRV) as well as the reversal of the same;
2. A restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring; (Restructuring means changing the nature of business or structure of the company)
3. Profit or loss on disposal of fixed assets;
4. Profit or loss on disposal of long-term investments;
5. Legislative changes having retrospective application;
6. Litigation settlements;
7. Reversals of provisions;
8. Embezzlement (stealing) of cash, pilferage (stealing) of stock
9. voluntary retirement expense,
10. A suit for damages for breach of contract etc.

Concept No. 5 - Extraordinary Items

EXTRAORDINARY ITEMS.

Extra Ordinary Activities which are clearly distinct from the ordinary activities of the entity.

These are not expected to occur as part of business.

Generally frequency of such transactions is rare/low. frequency is not main criteria, professional judgement is required to decide whether it is ordinary or extra ordinary item.

Following are the Examples of Extra ordinary Items.

1. An earthquake and loss by flood

(Note: It is not extra ordinary item for Insurance company therefore Events may be extraordinary for one entity and may not be for another.

2. Attachment of Property.

3. Government grants becoming refundable. (as per AS-12)

4. Seizure of assets by the government, etc..

Above situations are not expected to occur as a part of business.

Note: Extraordinary activities should be separately disclosed in Profit & Loss account so as to show the impact on profit and loss as well as separate disclosure helps the users to understand the performance & position of the company.

What should be disclosed?

Disclose the **nature & amount** of the transactions separately in P&L account and relevant information in notes on accounts.

Concept No. 6 Prior Period Items

Meaning

- Prior period items are income or expense which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Disclosure

- Prior period items should be disclosed separately in the Profit and Loss a/c so as to show the impact of prior period items in the current year

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

Changes in Accounting Estimates

Concept No. 8 Changes In Accounting Estimates

Estimation means **it is judgment of the amount** on the basis of future expectations. In other words it is an approximate calculation.

Many items in accounting cannot be measured accurately or exactly then we need to **make reasonable estimates** of amount.

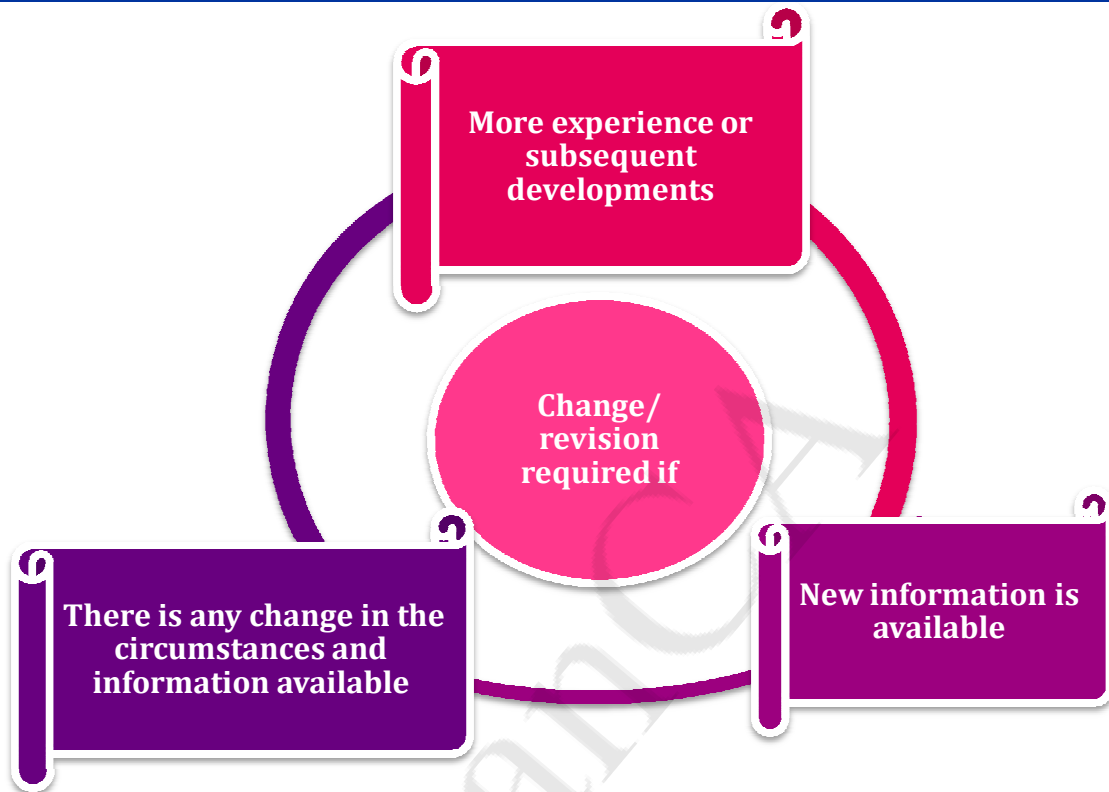
Note: Usage of estimates doesn't reduce the reliability of financial statements.



Professional judgment is required for reliable estimation.

Estimation is judgment or approximate amount therefore **actual results may be different** and in such case **we shall revise estimation** which is known as change in accounting estimates.

Change/ revision in accounting estimates may be required if:



Revision in estimation is expected to occur, hence it is an ordinary activity therefore it is **not extraordinary item**.

Estimations are revised in the above circumstances but not because of errors or omissions. Hence revision of estimation is **NOT a prior period item**.

Changes in accounting estimate should be accounted prospectively.

Disclosure of change in accounting estimates :(only if effect is significant)

- Nature of change
- Amount of change
- Any change in an accounting estimate which is expected to have a material effect in later periods should also be disclosed.

Concept No. 9 Changes In Accounting Policy

As per AS 1, Entity should follow the accounting policies consistently

The entity can change accounting policies in the following circumstances:

**Concept No. 10 Accounting for change in accounting policy:**

Meaning	Accounting policy means Principle and Methods used to prepare financial statements.
Example	Depreciation provided on SLM basis is accounting policy for company and if company changed method from SLM to WDV then it is change in accounting policy.
Accounting for change in Policy	AS 5 does not specify the accounting in case of change in policy.
Retrospective effects	<p>As per IND AS 8- change in accounting policy is accounted Retrospectively.</p> <p>Note – AS Per AS – 10, changes in depreciation method shall be treated as change in accounting estimate & Prospective effect shall be given & not retrospective effect.</p>
Change in Estimates Change in Accounting Policies	When the entity is not able to distinguish the change in estimate and change in accounting policy – It should treat the change as change in accounting estimate only.
Not Treated as change in Accounting Policies	<p>The following are NOT changes in accounting policy:</p> <p>(a) Adoption of new accounting policy; and</p> <p>(b) The adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions;</p>

Concept No. 11 – Disclosure under as - 5

1. If change in accounting policy has material effect it should be disclosed in the year of change.
2. If the impact is not ascertainable, the entity should disclose the fact in financial statements.
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 should be disclosed in the year of change in policy.
4. As part of better practice, entity should disclose the reason for change in policy.

Objective of AS - 7

1. This Standard prescribes the accounting treatment of revenue and costs related to construction contracts. Generally the construction activities take a long period and usually fall into different accounting periods.
2. The primary issue in construction contracts is - how to allocate the total contract revenue and costs among the accounting periods.
3. The Standard gives guidance on such allocation/recognition of contract revenue and contract costs in the P&L statement for the accounting periods in which construction work is performed.

Scope of AS - 7

The standard is applicable only for Contractors

This Standard does not apply to customer

Would not be applicable to construction project undertaken by enterprise on its own account as a commercial venture in the nature of production activities.

[In the books of contractee, the asset constructed will be treated as a fixed asset, inventory or investment and AS 10, AS 2 or AS 13 are applicable respectively]

Definitions & Meaning

Construction Contract

Construction Contract is a contract specifically negotiated for the construction of assets closely interrelated or interdependent

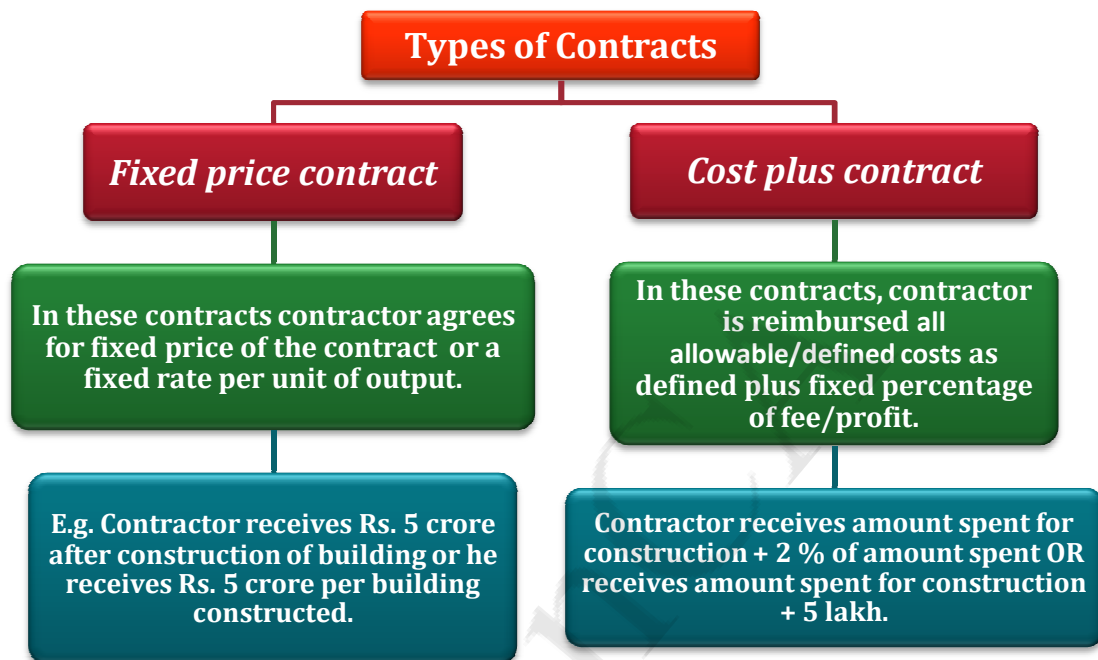
E.g. Contract for construction of bridges, building, dam, pipeline road, etc...

Construction contracts include

(a) Service contracts which are directly related to the construction of the asset; Example The services of project managers and architects; &

(b) Contracts for destruction or restoration of assets, and the restoration of the environment after the demolition of assets.

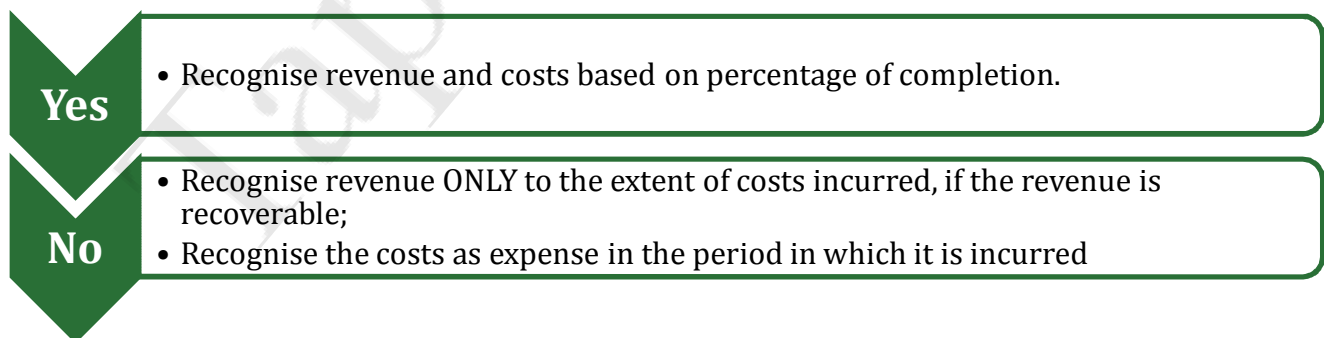
Types of Contracts



Recognition of Contract Revenue and Expenses

Recognition of revenue and costs in P&L is depending upon the reliability of estimation of outcome.

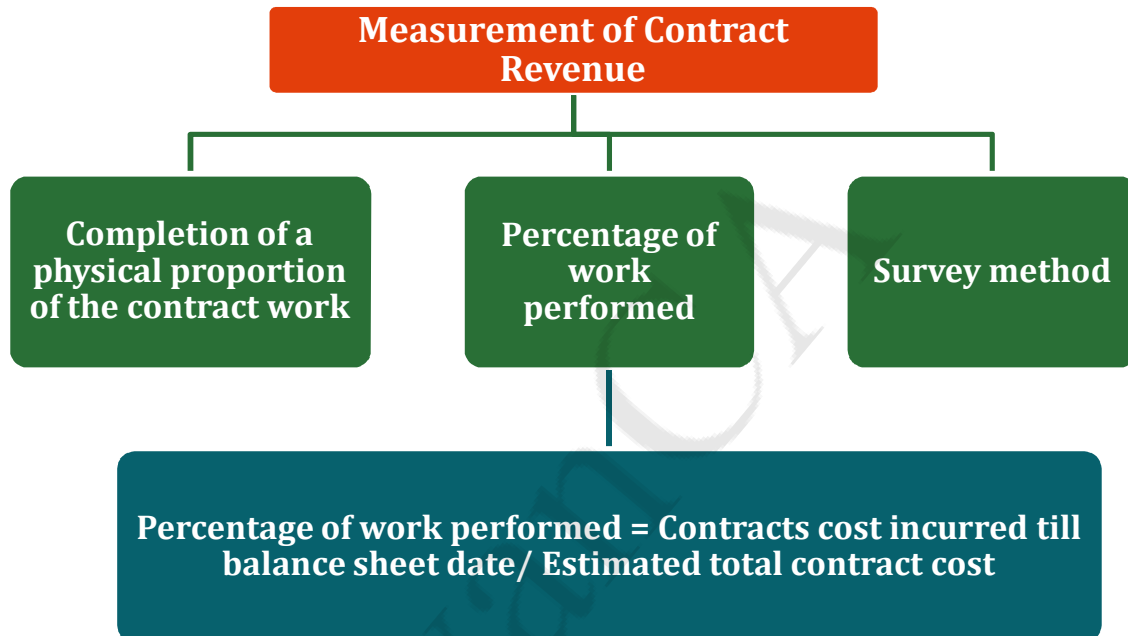
Can outcome be estimated reliably?



Measurement of Contract Revenue

It can be determined in a number of ways. The following are the methods available in the industry:

Based on the costs incurred;



Calculation of Contract Revenue:

It includes –

Initial Contract Amount	XXX
Add:- Variations in contract work	XXX
Add:- Incentives receipts received by contractor	XXX
Add/Less :- Increase/Decrease in Escalation	XXX
Add:- Claims Amount , raised on customer for delay caused, errors design, etc..	XXX
Add:- Penalties due to delay caused by contractor	XXX
Total Revenue	XXXX

Contract Cost

It includes **Direct Cost Incurred on contract + Indirect Cost Incurred.**

Specific Cost (Direct Cost)	Attributable & Allocable Cost (Indirect Cost)
1) Site labour costs, including site supervision; 2) Costs of materials used in construction; 3) Depreciation of plant and equipment used on the	1) Insurance 2) Costs of design and technical assistance that is not directly

contract;	related to a specific contract;
4) Costs of moving plant, equipment and materials to and from site;	3) Construction overheads.
5) Costs of hiring plant and equipment;	
6) Costs of design and technical assistance	
7) The estimated costs of rectification and guarantee.	
8) These costs may be reduced by any incidental income that is not included in contract revenue	

Cost Not Recognised

- 1) General administration costs for which reimbursement is not specified in the contract;
- 2) Selling costs;
- 3) Research and development costs for which reimbursement is not specified in the contract; and
- 4) Depreciation of idle plant and equipment that is not used on a particular contract

Combining & Segmenting construction contracts

Combining

If the contract satisfies ALL of the following conditions, a group of contracts (irrespective of number of customers) should be treated as a single construction contract:

- (a) All contracts are negotiated as a single package;
- (b) Contracts are so closely interrelated with an overall profit margin; and
- (c) Contracts are performed at the same time or one contract after another.

Segmenting

If the contract satisfies ALL of the following conditions, construction of each asset should be treated as separate construction contract

- (a) Separate proposals have been submitted for each asset;
- (b) Each asset is subject to separate negotiation and parties can accept or reject any contract; &
- (c) Costs and revenues of each asset can be identified;

Expected Loss:

Whenever any contract is expected to have loss then provision should be made for expected loss in future.

Provision for Loss: Total Revenue – Total Cost – Loss Recognised

Note:

When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the statement of profit and loss, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

Progress payments and advances received from customers may not necessarily reflect the work performed.

Calculation of Degree of Completion:

On Cost Basis: $\text{Cost Incurred} / \text{Total Cost} \times 100$

$\text{Total Cost} = \text{Cost Incurred} + \text{Future Cost}$

On Time Basis: $\text{Time Spent} / \text{Total Time} \times 100$

$\text{Total Time} = \text{Time spent} + \text{Future Time required for completion.}$

Disclosure Requirements in Notes to Accounts:

An entity should disclose:

- (a) The amount of contract revenue recognised in the period;
- (b) The methods used to determine the contract revenue; and
- (c) The methods used to determine 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
- (c) The amount of retention money with the contractee.

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AS 9 “Revenue Recognition”

Objective of AS “Revenue recognition”

- This standard 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 standard focuses on the **timing of recognition** i.e. when to record in the books.
- Also States the circumstances in which revenue recognition can be postpone
- Generally the amount of revenue is determined by agreement between the parties involved in the transaction.

Scope

This Standard discusses ONLY the following revenues arising in the ordinary course of business:

Revenue means gross inflow of cash and receivable from

1. Sale of goods,
2. Rendering of services,
3. Interest, dividend & royalty.

This AS does not deal with

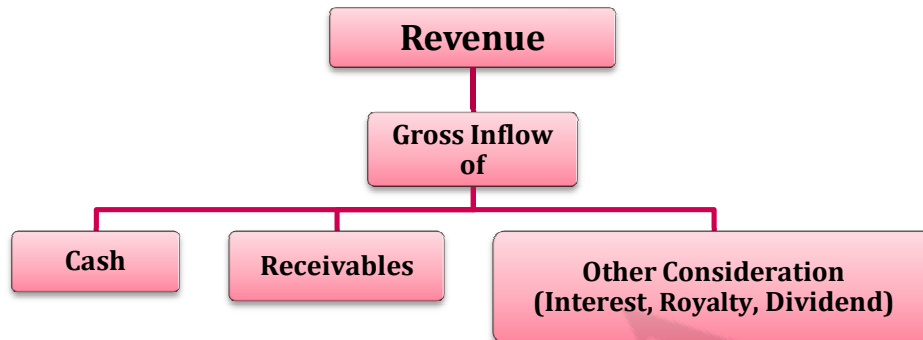
1. Revenue From Construct contract (It is Dealt in AS – 7)
2. Revenue From Government Grants (It is Dealt in AS – 12)
3. Revenue From Lease (H.P.) (It is Dealt in AS – 19)
4. Revenue From insurance contracts of insurance companies; (As per regulatory requirements)

The following revenues are also EXCLUDED from this standard

5. Profit on sale of fixed assets (Realised gains); (It is dealt in AS 10)
6. Unrealised gains of non-current assets (revaluation of fixed assets); (It is dealt in AS 10)
7. The natural increases in herds and agricultural and forest products; (accounted as per industry Standards)
8. Realised/unrealised gains arising from fluctuation of foreign currency and gain on translation of financial statements of foreign operation; (It is dealt in AS 11)
9. Gains on settlement of a liability by paying less than its carrying amount; (general principles of accounting)
10. Unrealised gains on restatement of the carrying amount of a liability. (general principles of accounting)

Meaning & Definition of Revenue

Revenue



Sale OF Goods

Condition must be fulfilled

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

The following table explains the situations and guidance on recognition of revenue under different situations.

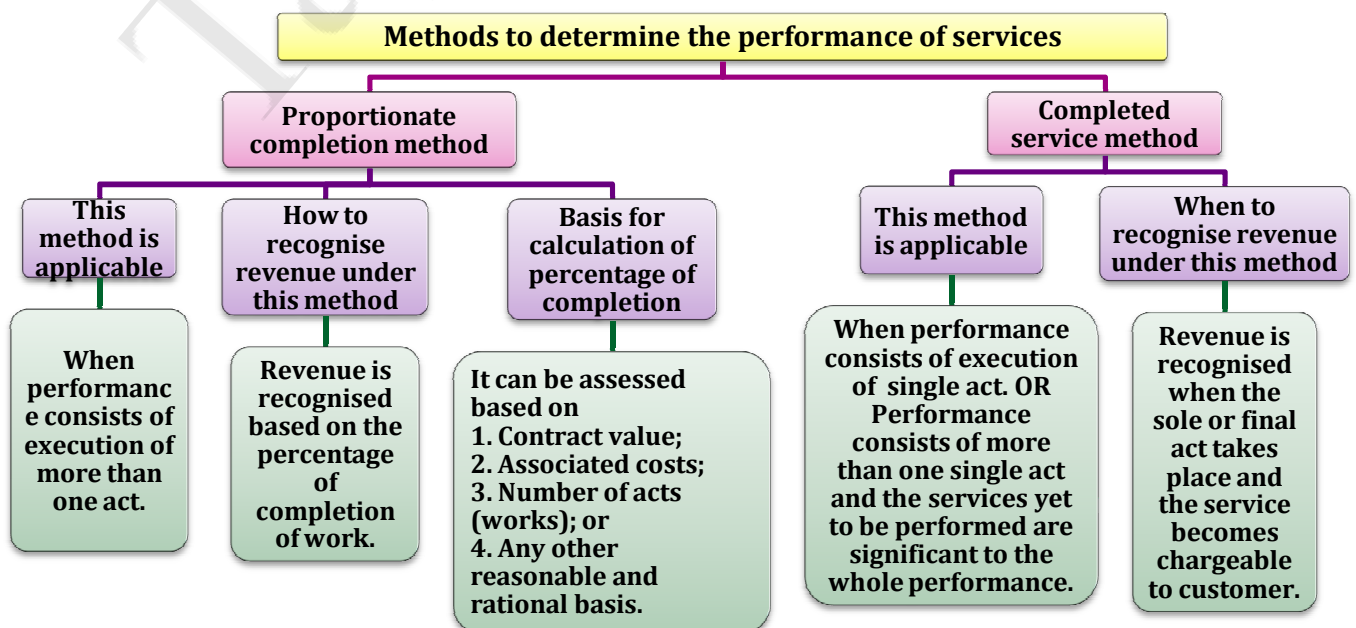
Delivery of goods is delayed at buyer's request and buyer takes title and accepts billing. (i.e. Goods are with seller)	Recognise the revenue when it is expected that delivery will be made & it should satisfy the following conditions <ol style="list-style-type: none"> 1. Goods must be in hand; 2. The buyer's goods should be identified; & 3. Goods must be ready for delivery at the time recognition. (i.e. in packed condition)
Delivered subject to conditions: Subject to installation and inspection	Recognise the revenue only when customer accepts the delivery & installation and inspection is complete. If installation is a simple process, recognise the revenue when goods are delivered.
<ul style="list-style-type: none"> ▪ Subject to approval of customer (Sale on approval) 	Recognise only when <ol style="list-style-type: none"> 1. Goods are formally accepted by the buyer; OR 2. Time period allowed is elapsed; OR 3. Reasonable time period is elapsed - in case NO specific period is mentioned;
<ul style="list-style-type: none"> ▪ Consignment sales 	Recognise revenue only when goods are sold to a third party by the consignee.
<ul style="list-style-type: none"> ▪ Cash on delivery sales 	Recognise revenue only when cash is received either by the seller or his agent.

<ul style="list-style-type: none"> Guaranteed sales i.e. goods are delivered by giving an unlimited right to return to buyer. 	<p>Depends on the substance of the agreement</p> <p>In case of retail sales, if the entity offers a guarantee of "money back if not completely satisfied" - It may be appropriate to recognise revenue for full invoice amount at the time of sale of goods & the entity can create an appropriate provision for expected goods returns based on the previous experience.</p>
<ul style="list-style-type: none"> Installment sales 	<ol style="list-style-type: none"> Recognise revenue on the date of sale to the extent attributable to sale price excluding interest amount. Interest should be recognised on time basis in proportion to receivable balance. (Interest recognition is discussed below)
<ul style="list-style-type: none"> Sale/ purchase agreements i.e. as per the agreement seller agrees to repurchase the sold goods from buyer at a later date. 	<p>Observe the transaction carefully before you come to a decision. Why do someone buy and sell the same goods at different dates. These transactions are in substance financing (a kind of loan) agreements; the resulting cash inflow is NOT revenue as defined and should NOT be recognised as revenue.</p>
<ul style="list-style-type: none"> Subscriptions for publications 	<ol style="list-style-type: none"> Advance Received should be recognised as liability (and revenue should be recognised on a straight line basis over time; If the value of the items differs from period to period, revenue should be recognised in proportion to the value of the items delivered to the total sale value of all items covered by the subscription.

Revenue from Rendering Services

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

- Service should be PERFORMED.
- NO significant uncertainty in ultimate collection at the time of recognition.



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; (Above guidance is applicable when an entity is providing installation services only and it is NOT a service along with sale of goods)
Advertisement income	Recognise the revenue when the related advertisement appears before the public.
Insurance agency commission	Insurance Commission Recognise on the effective commencement or renewal dates of the related insurance policies.
Admission fees on artistic performances, banquets or any special programs.	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Revenue recognition depends on the nature of the services being provided. Entrance fee received is generally capitalised. (It is not related to any particular year hence it is appropriate to capitalise)
Membership fees	<ul style="list-style-type: none"> If the membership fee permits only membership to the member, recognise when it is received. If the membership fee entitles the membership and other services or publications during the year, it should be recognised on a systematic and rational basis by considering the timing and nature of all services provided.
Financial service commissions	<ul style="list-style-type: none"> Recognition of Revenue depends upon: <ol style="list-style-type: none"> Whether the service has been provided "once for all" or on a "continuing" basis; The incidence of costs relating to service; When the payment for the service will be received. If commission is related to 'granting/arranging loan or other facilities' recognise the revenue - when loan is granted or the other facilities are provided. If such commitment or facilities fees relates to continuing obligations or services- then revenue should be recognised over the life of such loan or facility in a systematic and rational basis to match with the related costs incurred. (Matching concept)

Other Consideration

1. Interest

Meaning

- Interest is income received by the entity as its cash resources are used by other entities.

Recognition

- Interest is recognised on time proportion basis based on the outstanding amount and rate applicable; &
- 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.

2. Royalty Income

Meaning

- Royalty income is received as the intangible assets like know-how, patents, trade-marks and copy rights of the entity are used by the other entity.

Recognition

- Royalty is recognised on accrual basis in accordance with the terms of agreement.
- There should NOT be any significant uncertainty in ultimate collection at the time of recognition.
- If any uncertainty exists, recognition should be postponed.

3. Dividend Income

Meaning

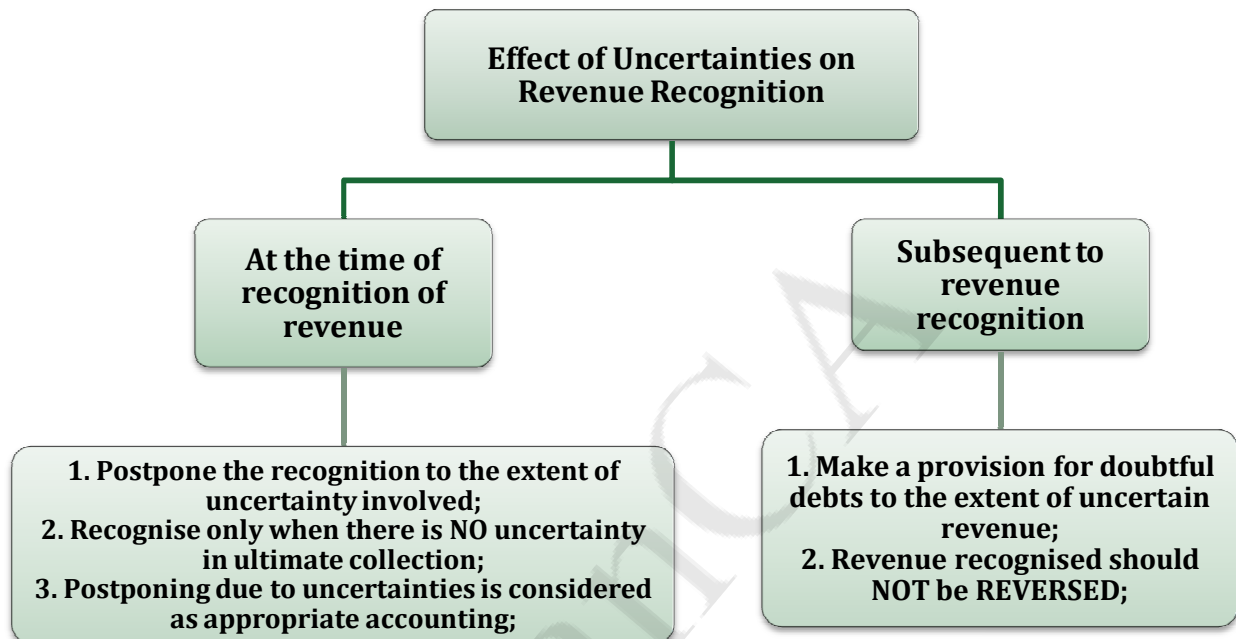
- Dividend is a reward from holding of investments in shares.

Recognition

- Dividend income is recognised only when a right to receive dividend is established irrespective of the year it is relating to.
- The investor gets the right to receive dividend only when the dividend is declared by the members in the General Meeting. Hence it should be recognised only on the date of declaration by General Meeting.
- There should NOT be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed.

Effect of Uncertainties on Revenue Recognition

The uncertainties in revenue recognition will be considered depending on the time it arises.



Disclosure Requirements

1. Revenue reorganisation policy should be disclosed.
2. Revenue should be disclosed

Concept No. 1 Objectives of AS –(PPE)

This standard discusses

1. Whether expenditure incurred should be capitalised as PPE or charged to P&L statement,
2. Depreciation
3. Retirement of PPE and
4. Disposal accounting.

Concept No. 2 Applicability Of AS - 10

PPE is not Applicable to

1. **Biological Assets:** - It means living animal or plant and man income producing asset of agricultural activity. **This standard applies to bearer plants but it does not apply to the produce on bearer plants**

Bearer Plant is a plant that:

1. is used in the production / supply of agricultural produce;
2. is expected to bear produce for more than a period of twelve months (in a way the life of the plant is more than 12 months); and
3. Has a remote likelihood of selling the bearer plant as an agricultural produce, except for incidental scrap sales. E.g.



Bearer Plant - Mango Tree



Agricultural Produce - Mango

2. **Wasting Assets:** - It Means Mine, (All Natural Recourses)

Wasting assets including mineral rights, expenditure on exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources.

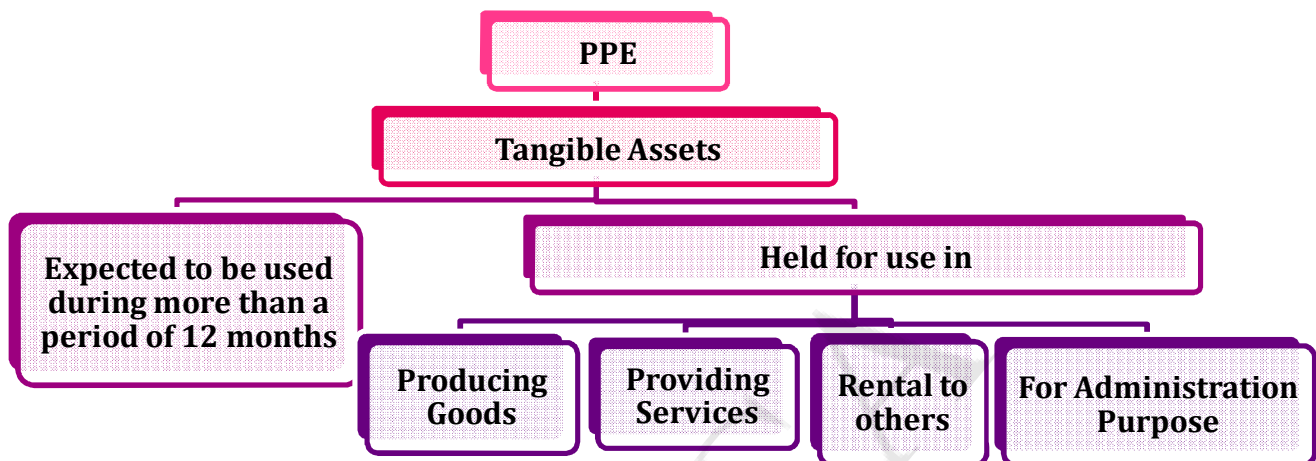


Mine



3. **Investment Property:** Investment property is not PPE and it should be **accounted** for only in accordance with the **cost model prescribed in this standard.**

Concept No. 3 – Meaning and Definition of PPE



E.g.

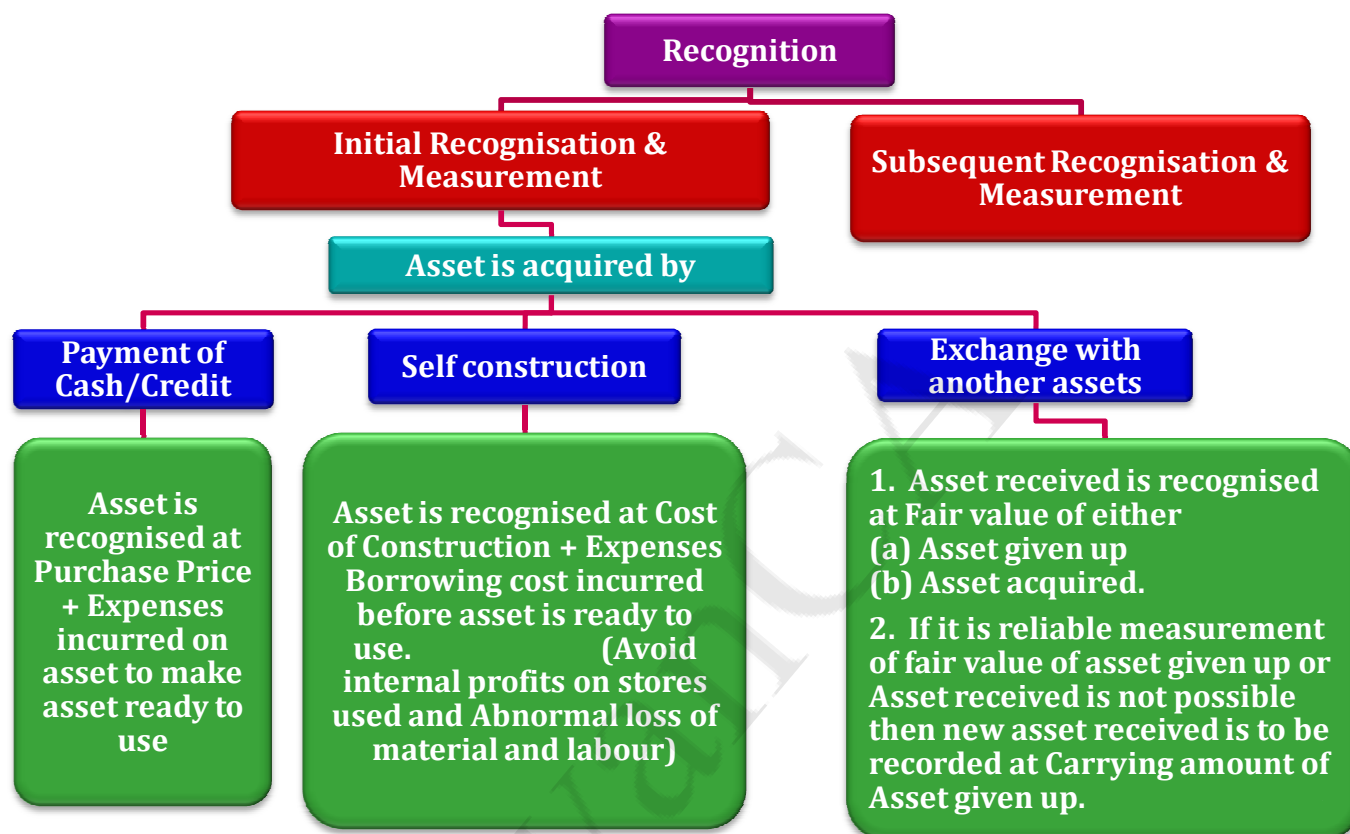
Asset	Tangible	Held for use in abovementioned Activity	Life more than 1 year	Conclusion
Machine, computer, camera	Yes	Yes	Yes	PPE
Land, Building, Furniture	Yes	Yes	Yes	PPE
Computer Software	No	Yes	Yes	Not PPE
Stock	Yes	No	Yes /No	Not PPE

Concept No. 4 Recognition and Measurement of PPE

PPE Should recognised (recorded in the books of account) in financial statements if following conditions are satisfied.

1. Future economic benefits should flow to entity.
2. Cost can be reliably measured.

Chart Presentation of Recognition and Measurement of PPE



(A) ASSET IS ACQUIRED BY PAYMENT OF CASH /FOR CREDIT

Cost of Assets Includes following:-

Particulars	Rs.
Net Purchase price (Basic price after deduction of discount)	XXX
(+) Non refundable taxes & duties	XXX
(+) Delivery and handling costs	XXX
(+) Site preparation cost & Installation costs & Trial Run Cost.	XXX
(+) Professional fees (e.g. fees of architects and engineers)	XXX
(+) PRESENT VALUE of Decommissioning, restoration costs.	XXX
(+) Any directly attributable cost to bring the asset to the location & condition necessary to operate for its intended purpose	XXX
(-) Trade discounts and rebates (if included in above items)	XXX
(-) Government grants (As per AS 12)	
Cost of PPE to be capitalised	

Note:

1. General administration and other overhead expenses are usually excluded from the cost as of asset.
2. **Subsequent Addition or increase is to be recognised in same way as above.**

Cost of Decommissioning.

The elements of cost to be incorporated in the initial recognition of an asset are to include the estimated costs of its eventual dismantlement.

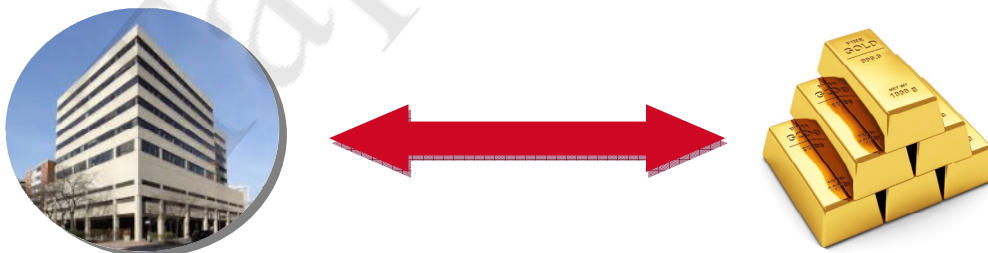
This is, the cost of the asset is grossed up for these estimated costs, with the offsetting credit being posted to a liability account.



C. PPE IS ACQUIRED BY EXCHANGE OF ASSETS:

Rules are given in above Diagram. Please refer recognition Tree Diagram.

Example of PPE acquired by exchange of assets



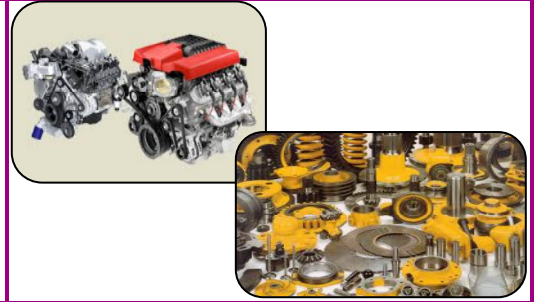
Concept No. 5 Other Important Terms

Deferred credit period

- PPE should be recognised at **CASH PRICE equivalent on the date of recognition** (Present value).
- Deferred credit period means excess period than the normal credit period.
- The difference between the cash price and the total payment should be recognised as interest..
- **In general, the interest should be charged to P&L as an expense.**
- **But if the asset is a qualifying asset as per AS 16 where asset takes substantial period of time to get ready for intended use then interest should be capitalised with the PPE.**

Machinery spares

1. If such spares do not satisfy the PPE definition, it should be classified as inventory and charged to P&L statement when it is issued for usage;
2. If these are recognised as PPE, the total cost incurred should be depreciated in a systematic basis over the useful life;
3. When the principal PPE is either discarded or sold, the net carrying amount of spares should be written off to P&L.



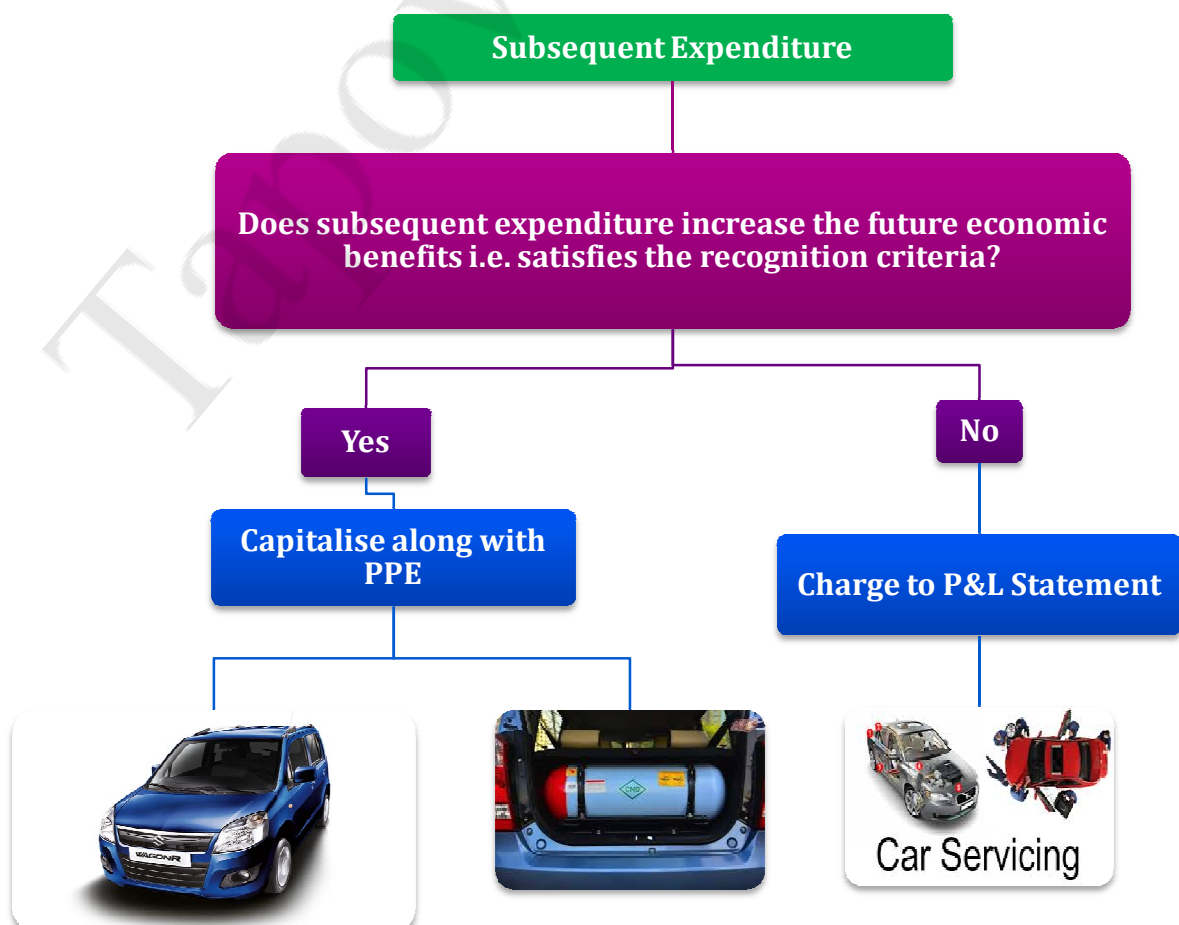
Concept No. 6 Subsequent expenditure on PPE.

IMP Point: Subsequent recognised in the same way as initial recognition.

Subsequent expenditure is the expenditure, which is incurred after the initial recognition i.e. after the asset is ready to use or being used.

If the subsequent expenditure increases the future economic benefits i.e. it satisfies the recognition criteria of an asset and PPE - such expenditure should be recognised as a separate component and depreciated over its useful life.

Here Future economic benefits includes :- increase in number of goods produced, reduction in cost, improvement efficiency of PPE



Replacement of some parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

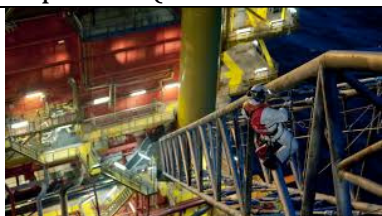
Under the recognition criteria given in the Standard, an entity should capitalise the cost of replacement as a component of PPE and depreciate such cost over its useful life.

The carrying amount of those parts that are replaced (old component) should be derecognised.

Major inspections parts of the PPE(Not for minor inspections)

A condition of continuing to operate an item of PPE (For example, an aircraft or a ship) may be performing regular major inspections for faults regardless of whether parts of the item are replaced.

When each major inspection is performed, its cost is capitalised as a part of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.



Accounting treatment for Major Component of Assets

If assets consists of

- Two or more significant components,
- With major difference in useful life of each components.

Then such components are to be recognised separately and Depreciation is charged on component basis.

IF any component is replaced then old component is removed from books of accounts making its value Nil and cost of new components is to be capitalised.



Concept No. 7 Subsequent expenditure on PPE.

An entity may select anyone of the two models and follow the same consistently.

Accounting Models

Cost Model

If this model is chosen - PPE should be measured every year at

Cost	xxx
(-) Accumulated depreciation	xx
(-) Accumulated Impaired loss	xx
Net carrying amount	xxx

Revaluation Model

If this model is chosen by this model should be chosen to the PPE, where FAIR VALUE can be measured reliably.

PPE should be measured at Fair Value of PPE	xxx
(-) Subsequent accumulated depreciation	xx
(-) Subsequent accumulated impairment loss	xx
Net carrying amount	xxx

Concept No. 8 Revaluation of PPE

Revaluation Model of Accounting policy is an option given to the entity (NOT mandatory).

It is the management who takes decision about model to be adopted for measurement.

1. Frequency of Revaluation

Revaluation should be performed whenever there is a material difference between

- (a) The carrying amount and
- (b) Its fair value as on the balance sheet date.

It should be checked regularly & shall be performed by a professionally qualified valuer. If there is no material difference in carrying amount and fair value on balance sheet date, then fair value calculation is to be ignored.

2. Method of Revaluation

Usually fair value is determined from **market-based evidence** by appraisal method.

If market based evidence for fair value is not available, an entity may need to estimate fair value using:

1. An income approach e.g. based on discounted cash flow projections Or
2. A depreciated replacement cost approach i.e. If the same potential PPE is acquired/constructed what would be the cost i.e. replacement cost.

3. Revaluation model for ALL or only SELECTED PPE?

It is not compulsory to revalue all PPE's at one time but if revaluation of any class of PPE is adopted then revaluation shall be done for ENTIRE CLASS of PPE. i.e. if the entity is willing to revalue its Machinery then it should revalue ALL machinery of the entity.

In other words Revaluation of selective assets within same class is NOT permitted.

Conclusion: Entity can follow revaluation model for selective CLASS of PPE and for remaining PPE, it can follow cost model.

4. Limit on revalued amount

The revalued amount should not be more than recoverable amount i.e. recoverable from sale or its usage over the life.

Concept No. 9 Revaluation Accounting**A. First Time Revaluation:**

1. Upward revaluation is transferred to Revaluation Reserve

PPE A/CDr. To Revaluation Profit/ Reserve (Being asset Revalued)

2. Downward revaluation is charged to P&L

P&L A/cDr. To PPE Asset A/c (Being asset downward Revalued)

B. Subsequent revaluation of existing PPE

The following accounting treatment is based on the first time revaluation (upward/downward):

1. If first time is upward revaluation

- Next time also upward revaluation - Further increase should be transferred to revaluation surplus. Journal Entry is same as upward revaluation.
- Next time downward revaluation - Utilise the revaluation surplus to the extent available in the balance sheet and the remaining balance should be charged to P&L a/c.

Revaluation surplus a/c..... Dr P&L a/cDr (balancing fig) To PPE a/c

2. If first time is downward revaluation

- Next time also downward revaluation- Further decrease should be transferred to P&L statement. JE is same as downward revaluation.
- Next time upward revaluation- Credit the P&L statement to the extent it was charged to P&L in earlier revaluation and remaining balance should be credited to revaluation surplus.

PPE a/cDr

To P&L a/c (to the extent charged earlier)

To Revaluation surplus (balancing figure)

Concept No. 10 Retirement of PPE

PPE is retired from active use and it is held for disposal - such PPE should be stated in balance sheet at

Carrying amount (Net book value); or Net realisable value (NRV)

Whichever is LOWER

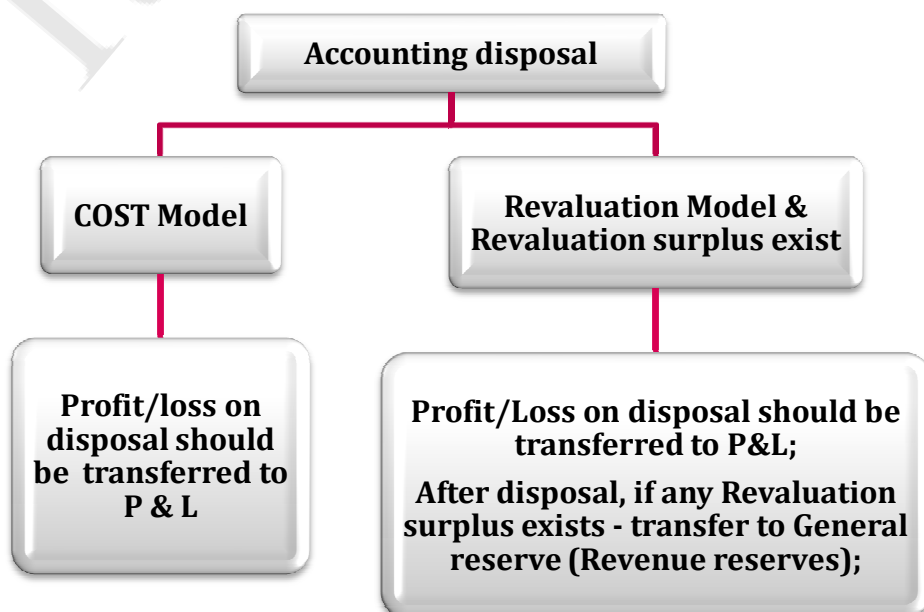
Disclose such items separately in the financial statements. Any expected loss should be recognised immediately in the profit and loss statement.



Concept no. 11 (Disposal) of PPE

The following diagram helps to understand the accounting treatment of disposal of PPE.

Profit /Loss on disposal should be transferred to P&L



In case of Revaluation Model, Transfers from revaluation surplus to the general reserves should not be made through the statement of P&L. It means, the entity can record the following entry only

Revaluation surplus a/c Dr	To General
reserves a/c	

After disposal of a PPE, it should be completely eliminated from the financial statements i.e. gross value and accumulated depreciation related to the asset:



Depreciation on PPE

Meaning

- Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount

- | | | |
|--------------------------------------|-----------|--|
| • Historical cost OR revalued amount | XXX | |
| Less: Estimated residual value- | <u>XX</u> | |
| Depreciable amount | XXX | |

Useful life of the asset

- The period over which a depreciable asset is expected to be used by the entity i.e. time/number of years; or
- The number of unit's production or similar units expected to be obtained from its use.
- Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar types of assets.

Depreciation of an addition/ extension to an existing asset

- If the addition/extension is an integral part of the existing asset - Depreciate the cost of integral part over the remaining life of existing asset.

Methods of Depreciation

- It Should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the entity
- It Should be reviewed at least at each financial year-end
- AS - 10 Does not prescribe any specific method of depreciation to be followed by organisation.
- If there is change in future consumption or future benefit pattern then method should be changed and such change in method shall be accounted as change in Accounting estimates. (Prospective effect)
- If depreciable asset is immaterial then such assets shall be debited to P & L Account (Means it can be fully depreciated at once).

Estimated residual value

- It is an estimated amount, which can be recovered from the asset at the end of its useful life .
- Initially, the estimation is made by the entity's management at the time of acquisition/installation;
- If estimated residual value is insignificant (immaterial) - Normally considered as NIL.

Concept No. 12 Disclosure Requirements

1. PPE Should Disclosed
 - Gross Book Value cost
 - Accumulated Depreciation
 - Addition of PPE
 - Deletion of PPE
2. Depreciation Method
3. Useful life of asset should be disclosed.
4. If company is following revaluation model, fact should be disclosed.

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Rohan Sir se Padhoge toh ye Guarantee hai...

AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



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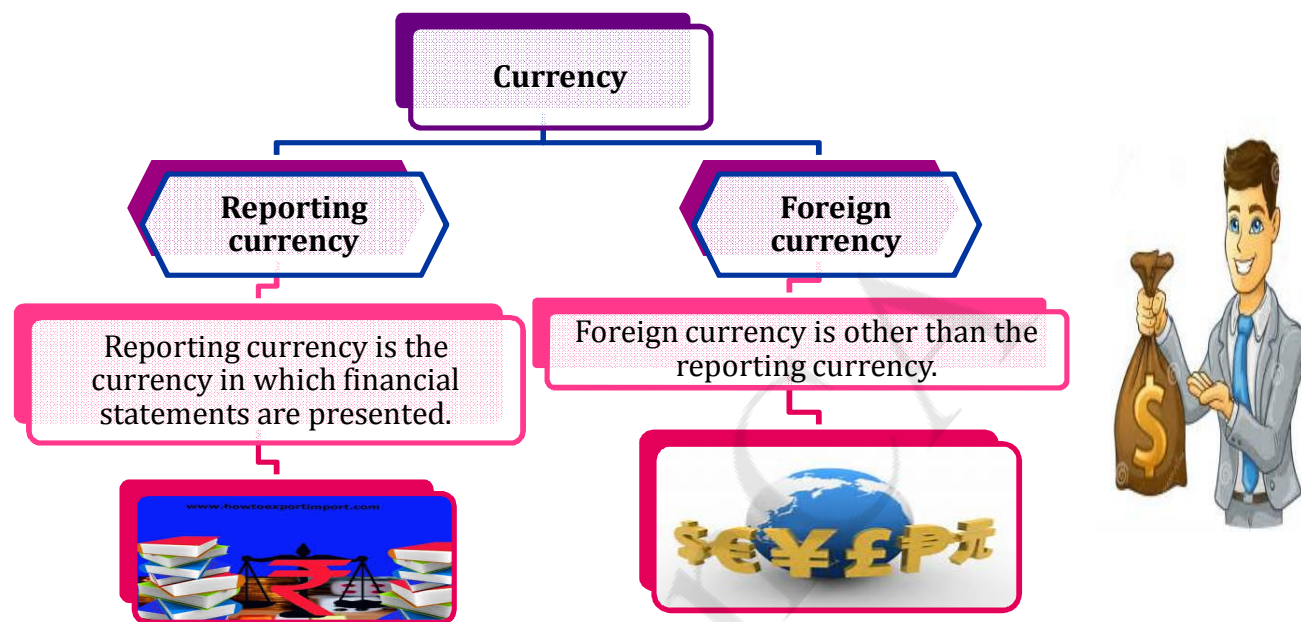


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AS - 11 - The Effects of Changes in Foreign Exchange Rates

Concept No. 1 Important Terms:

Currency



Note:

Normally an entity uses the currency of the country in which it is registered i.e. Indian entities present the financial statements in rupees. If entity is not using rupees as reporting currency, it has to disclose the reason.

Monetary items and Non Monetary Items

Monetary items

Monetary items are money held assets and liabilities to be received or paid in determinable amounts of money.

Therefore following items are monetary items:

- 1. Money held (i.e. cash and cash equivalents held by the entity).
- 2. Assets which are receivable in terms of money.
- 3. Liabilities which are payable in terms of money.



Non monetary items

Non monetary items are those items in which benefit is receivable in Kinds, Goods or services.

Example :Prepaid expenses, Advances given to suppliers.

In above examples, we will receive either service or goods in return.

PRE-PAID EXPENSE

Concept No. 2 Need of this standard

Suppose, one entity is running its business in India then such entity shall prepare its financial statement in Indian currency.

Due to export, import or other reason, entity may have the transactions in other currency also i.e. US \$. In such cases, entity shall convert amount of transaction in foreign currency to Indian currency to record it in financial statements prepared in Indian Currency.

When transactions are taking place in foreign currency, these are to be converted into rupees as Indian entity's reporting currency is Rupees.

This standard discusses how to convert the foreign currency transaction into reporting currency i.e. which exchange rate should be used to convert it into Rupees and how to account for the changes in foreign currency (Forex) rates in financial statements.

An entity may have foreign currency transactions in two ways:

1. Direct Transactions by entity: Imports, exports, foreign currency loans etc. by entity.



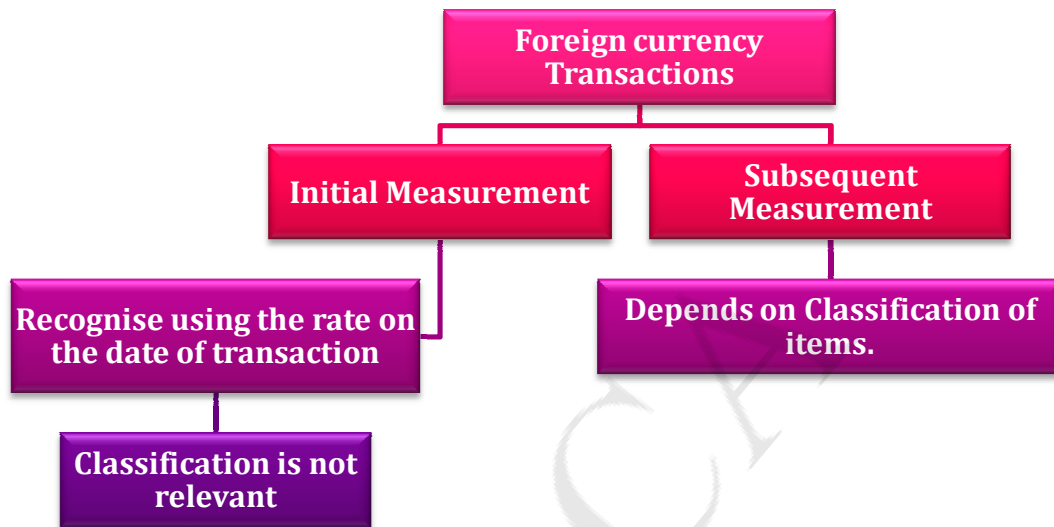
2. Indirect Transactions by entity: Transactions by its foreign branch or subsidiary or associate, etc.

**Concept No. 3 Scope & Applicability**

This standard is applicable to:

1. Transactions entered by the entity in Foreign currency;
2. Translation of financial statements of foreign operations, and
3. Accounting for forward exchange contracts.

Concept No. 4 RECOGNITION AND MEASUREMENT

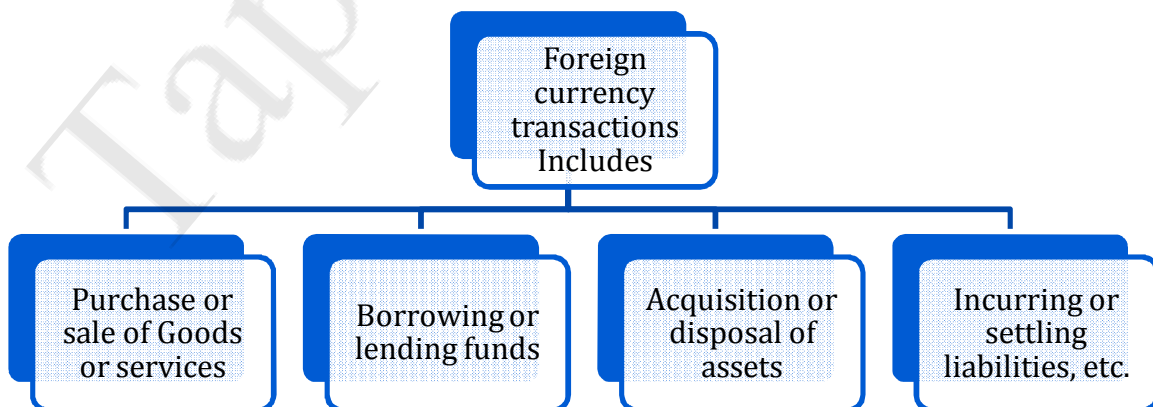


1. What is foreign currency transaction?

It is a transaction which is denominated in or requires settlement in a foreign currency.

Concept No. 5 Initial Recognition & Measurement:

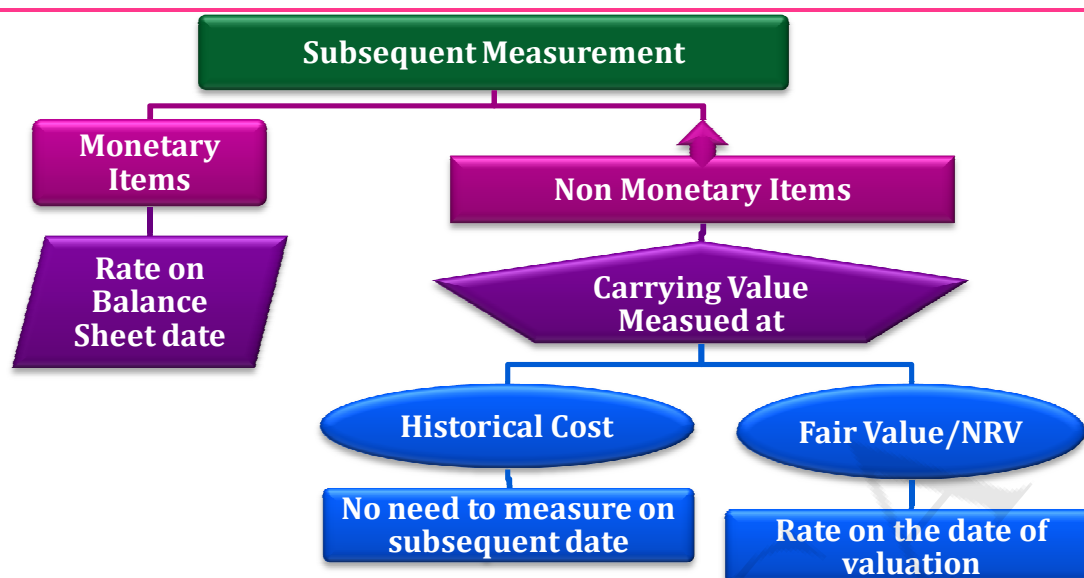
All foreign currency transactions should be recognised **using the rate on the date of transaction.**



Subsequent measurement:

After initial recognition of the transaction, if any **asset or liability** (which is created out of initial recognition) **continues till the balance sheet date**, the **entity should remeasure its value on the balance sheet date** i.e. subsequent measurement.

Subsequent measurement depends on the classification of monetary and non monetary.



Foreign currency contingent liabilities should be measured using the **closing rate**. (Rate on the date of Balance sheet)

Non-monetary items which are measured at historical cost	Non-monetary items which can be measured at fair value or NRV	
1. Fixed assets, 2. Long term investments, 3. Prepaid expenses, 4. Advances given to suppliers, etc.- Re-measurement of these items are not required on balance sheet date therefore initially recognised amount will continue.	If Inventory is valued at cost Consider the rate on the date of transaction; If it is measured at NRV – Rate on the date of valuation. i.e. closing rate.	If a Current Investment is valued at cost Consider the rate on the date of transaction; If it is measured at Fair value – Rate on the date of valuation i.e. closing rate.

Concept No. 6 - Treatment of Foreign exchange rate difference

Exchange rate difference arises because of:

- Transaction is initially **recorded at one rate and it is settled at another rate.** (Settlement means payment or receipt of consideration)
- Transaction is initially **recorded at one rate & its subsequent measurement rate is another rate.** (as it is not settled till the balance sheet date)
- Transaction is **subsequently measured at one rate and later settled at another rate.**

All types of foreign exchange difference (gain or loss) **shall be charged to Profit and Loss** as **exchange gain or loss** in the year in which it occurs.

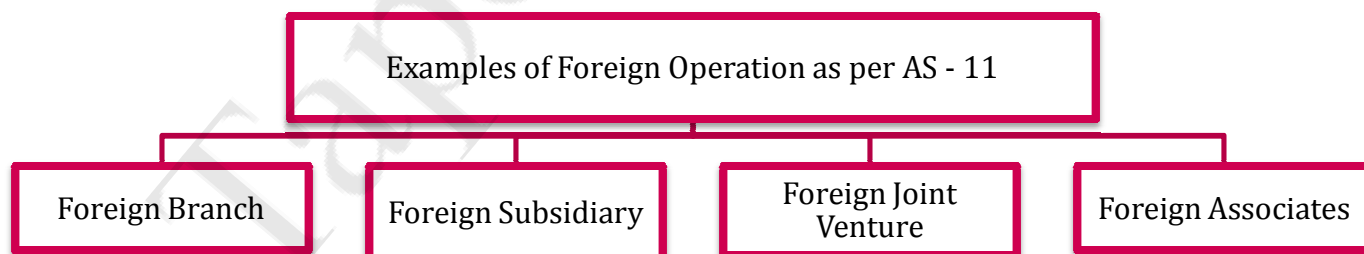
Exception to charging exchange difference to P&L Account

1. Where an entity has a **foreign branch** and the operation of foreign branch is treated as **non-integral** foreign operation the exchange differences should be **accumulated in foreign currency translation reserve** till disposal of net investment in non-integral foreign operation. (Non – integral foreign operation discussed further)
2. This reserve is **to be shown in Reserves and Surplus**
In case of partial disposal, only the proportionate share of related accumulated “Foreign Currency Translation Reserve A/c”
3. If the entity has exercised the option to capitalise the exchange difference on long term foreign currency monetary items.

Note: **Any foreign currency loan taken for acquisition of fixed assets and the foreign exchange difference arising from such loan should be charged to Profit and Loss Alc.** Loan taken is a monetary item and it requires to be restated on the balance sheet date using the closing rate. Reason for taking loan does not change the recognition manner.

Concept 7: Translation of Financial Statements of Foreign Operations (F.O)

What is a foreign operation?



Foreign Branch: it is also Discussed in Branch Accounting chapter of CA Intermediate syllabus.

Foreign operations are classified into two, i.e. 1. Integral foreign operation; 2. Non integral foreign operation;

Classification of Foreign Operations

It requires professional judgment for classification between Integral and Non integral foreign operations.

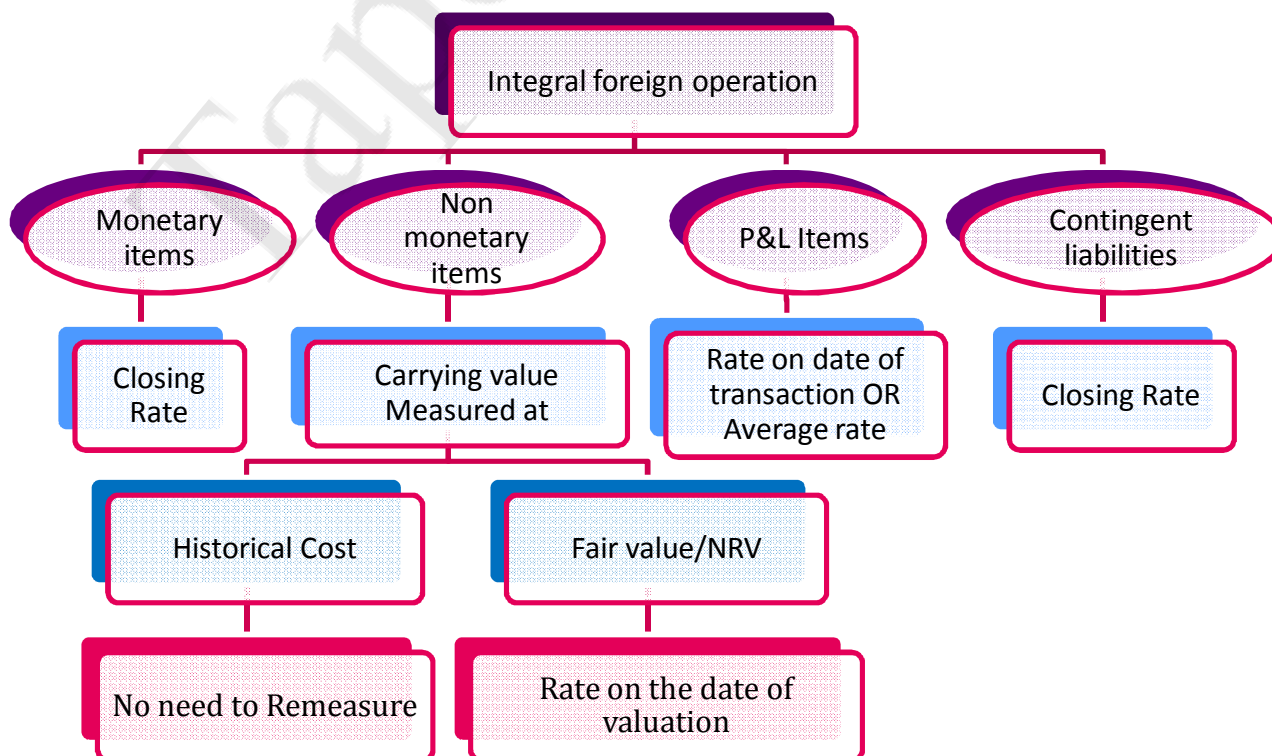
Classification must be based on substance over form (by considering reality).

Following explanation will help you in judgment.

Integral Foreign Operation	Non - Integral Foreign Operation
<ol style="list-style-type: none"> 1. A foreign operation does its business outside India as if an extension to the business. 	<ol style="list-style-type: none"> 1. A foreign operation does business independently and accumulates cash and other monetary items and remits foreign currency occasionally. 2. As there are NO frequent cash flows, changes in forex rates will have little or NO direct effect on the operating cash flows of the reporting entity.
<p>Example:</p> <ol style="list-style-type: none"> 1. If a foreign branch is importing the goods from India, sell the goods in foreign country and remit the foreign currency collected from customer to Head Office in India. 2. If foreign branch duty is to find customer in that country and forward the order or Head Office. 	<p>Example:</p> <ol style="list-style-type: none"> 1. If a foreign branch procures the raw material & pays in its local currency, 2. Cost of material, labour and other expenses are settled in foreign currency. 3. Sales are mainly in foreign currency. 4. Activities are funded either from profit from its own operations or from local borrowing but not from reporting entity

Concept No. 8 Conversion/ Translation of financial statement of An Integral Foreign Operation

As it is an extension to the Reporting entity's business, we need to convert all the items of financial statements as they are of the reporting entity;



Conversion/ Translation of financial statement of A Non - Integral Foreign Operation**NON Integral foreign operation****Monetary & Non Monetary items****P&L Items****Contingent liabilities****At Closing Rate****Rate on date of transaction
OR Average rate****At Closing Rate****Concept No. 9 Change in Classification of foreign Operation**

Re-Classification foreign operation may be as follows:

1. From integral to Non-Integral or,
2. From Non - Integral to Integral

Classification change	Accounting treatment
Integral to Non integral	Exchange gain or loss from the date of reclassification should be transferred to Foreign Currency Translation Reserve A/c.
Non integral to Integral	Exchange gain or loss from the date of reclassification should be transferred to P&L A/c & The balance in Foreign Currency Translation Reserve A/c will continue in the balance sheet till the date of sale of foreign operation.

Concept 10 - Forward Exchange

It is an agreement to exchange different currencies at a specified future date at a predetermined rate i.e. rate is determined on the contract date.

Need of forward contracts:

1. For managing or minimizing the foreign exchange fluctuation risks;
2. For trading or speculation purposes.

Premium or Discount on forward exchange contract:

Exchange rate on the date of Contract (known as Spot Rate)	XXXX
Less: Forward Rate	XXXX
Premium or Discount	XXXX

Accounting Treatment of Forward Exchange Contracts

Forward Contract entered for its own purpose

Premium or discount arising at the inception of the contract should be amortised as an expense or income over the life of the contract.

Exchange difference on such contract should be recognised in P&L.

Any profit or loss arising on cancellation or renewal of such forward contract should be recognised as income or expense for the period.

Forward Contract entered for Trading/ Speculation

Premium or Discount on such contracts need not be recognised.

As the forward contract is held for trading or speculation purpose it should be valued at the balance sheet rate .

Gain or loss as on the Balance sheet date should be recognised in P&L for the period.

Gain or loss = Forward rate available on the reporting date for the remaining maturity of the contract LESS Forward rate fixed at the inception.

Concept No. 11- Disclosures

- (a) The amount of exchange differences included in the net profit or loss for the period;
- (b) Net exchange differences accumulated in Foreign Currency Translation Reserve should be shown separately in Reserves and Surplus.
- (c) When the reporting currency is other than Rupees, the reason for using a different currency should be disclosed.

Concept No. 12 Notification issued by Ministry of Corporate Affairs (MCA)

- Company shall follow given option (not mandatory) with prospective effect.
- It should be exercised by the company in FY 2011-12. Once exercised, should continue with the same and it cannot discontinue the same.

Long term foreign currency monetary item:

These are assets or liabilities which are expressed in foreign currency and that have a term of 12 months or more from the starting date of such asset or liability. (Not from the balance sheet date)

As per the notification - All long term foreign currency monetary items (LTFCMI) (Monetary assets or monetary liabilities) are **divided into two parts.**

Directly related to acquisition of depreciable asset. (Any Loan)

Difference arising from such monetary item should be added to or deducted from the cost of depreciable asset.

(But in general it should be recognised in P&L A/c)

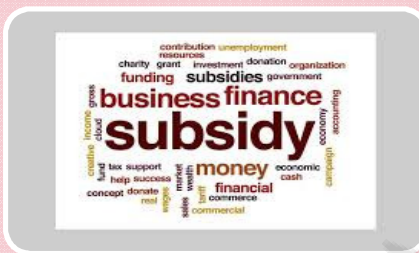
All other LTFCMI (Asset or liability), other than those related to acquisition of depreciable asset.

Foreign exchange fluctuation gain or loss from such items should be transferred to "Foreign currency monetary item translation difference account" (FCMITD A/c).

•FCMITD A/c balance should be amortised over the balance period of the asset or liability.

•Amortised amount should be recognised as income or expenditure in P&L.

Concept No. 1 - Meaning of Government grants



Government grants are assistance by the Government in the form of cash or kind to an enterprise in return for past or future compliance with certain conditions.

Government grants are also called subsidies, cash incentives, duty drawbacks, etc.

Government means local, national or international government, government agencies and similar bodies.

Any government assistance, which cannot be reasonably valued, is excluded from this Standard.

Concept No. 2 - Scope of AS - 12

This standard is NOT applicable for the following:

- (a) Government assistance other than in the form of government grants;
- (b) Government participation in the ownership of the entity; (means Government is also the owner of entity)

Concept No. 3 - Criteria for Recognition of Grant :

Two conditions must be satisfied for recognition of Government Grant :

1. There is reasonable assurance that the entity will comply with the conditions

2. Ultimate collection is reasonably certain.

Mere receipt of grant money is NOT the conclusive evidence

Situation A: Money is received + Reasonable assurance on compliance of conditions.

Entity should recognise grant and it should transfer it to P&L A/c or Capital reserve depending criteria for recognition given below.

Bank A/c Dr.
 To Capital Reserve A/c
 (If capital Approach is Adopted)
 Or,
 To Grant Income A/c
 (If Income Approach is Adopted)

(Capital Approach and Income Approach is explained in Next Discussion.)

Situation B: Money is received + No reasonable assurance on compliance of conditions

Entity should NOT recognise grant but it should record the receipt as payable to government

1. Bank A/c Dr.
 To Payable to Government A/c
 (Shown as Liability)
2. If Entity fulfils all conditions -Recognise it as Grant Payable to Government A/c..... Dr.
 To Grant Income A/c
 (If treated as Income)
3. If Entity could not fulfill conditions and Grant is repaid:
 Payable to Government A/c..... Dr.
 To Bank A/c

Concept No. 4 - Recognition & Accounting treatment

The accounting treatment should be based on the nature of the government grant.

Two Approaches for Accounting Government Grants

Capital approach

Transferred to capital reserve

When Grant is received or Becomes receivable
Cash / Bank A/c Dr.
Grant Receivable A/c.....Dr.
To Capital Reserve A/c

If the grant is in the nature of the promoter's contribution

If Government makes contribution towards the capital requirements of the entity
Generally received at the beginning stage of the business.

Repayment is NOT expected in general and NO related costs to get these grants.

These are NOT earned by the entity and received without relating costs, hence transferred to "capital reserve"

Income approach

Recognise in P&L statement over suitable period of time.

(such items when received or becomes receivable shall be credited to Deferred Income A/c then it shall be Credited to P&L A/c over suitable period of time and remaining amount in Deferred Income account shall be disclosed separately in Reserves & Surplus A/c)

When Grant is received or Becomes receivable

Cash / Bank A/c Dr.
Grant Receivable A/c.....Dr.
To Deferred Income A/c

When Portion of grant transferred to P&L A/c on suitable basis

Deferred Income A/c Dr.
To Grant Income / P&L A/c

1. If the grant is not in the nature of the promoter's contribution

2. These are received during the running stage and these grants are received only after compliance of conditions .

3. Entity generally incurs expenditure to get these grants .

4. It is logical to recognise as income in P&L A/c to match it with expenditure.

5. The income tax Act or other Acts treat these grants as 'income' in general.

Concept No. 5

As per AS 5, Grant received should be presented as **EXTRAORDINARY ITEM** in the **P&L statement** in following two situations


Immediate financial support to only one entity in the industry

- It is not received for any specific expenditure;
- It is received only by one entity but not by the whole Industry, and
- The entity recorded such grant as income in P&L based on the circumstances existing at that time.

Received for previous year expense or losses

- Grant is received in the current year as compensation for the previous year expenses or losses; &
- It is recognised as income in Current Year P&L statement.

These two items shall be separately disclosed as extraordinary to make the financial statements comparable with other.

Concept No. 6 Non-monetary Government Grants

Grants may be received in the form of land, buildings or other resources (Known as non-monetary assets,)


Non-Monetary Asset received at Discounted / Concessional rate

In this case, such assets are recorded Acquisition Cost (Concessional price at which asset is acquired)

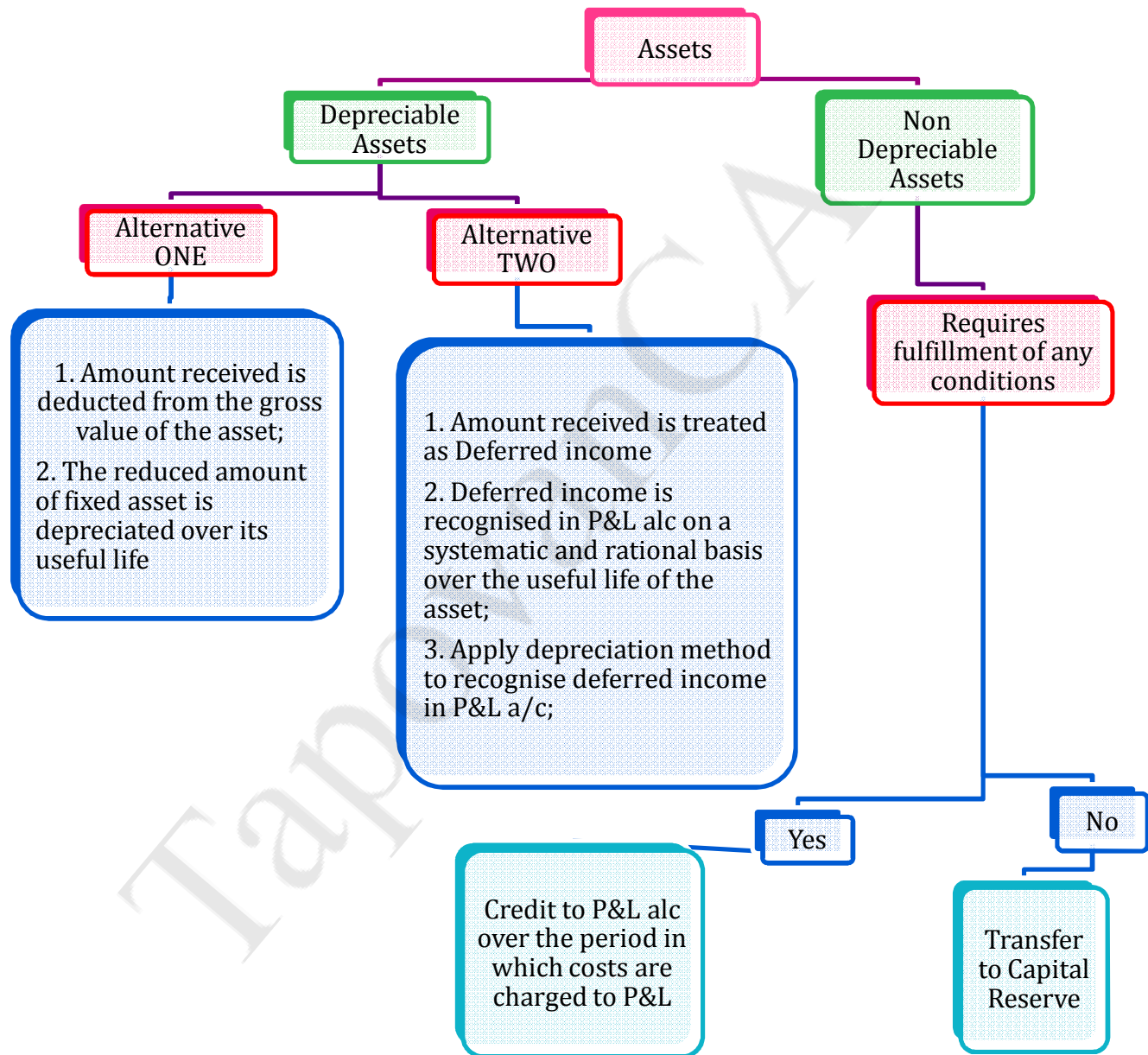
Non-Monetary Asset received Free of Cost

In this case, such assets are recorded Nominal Value (at negligible or immaterial value)

Concept No. 7 Grants Related to Specific Fixed Assets

Government may issue grant if entity purchases or constructs the asset as per the specifications made by government.

Accounting Treatment



If the asset is depreciable, two options are available. The entity can select anyone method and can apply the same consistently.

Concept No. 8 - Revenue grants presentation in P&L

1 st Method	2 nd Method
Present as income in the profit and loss statement as OTHER INCOME .	Grant received can be deducted from the related expense in P&L.

Concept No. 9 Refund of Government grant

- Government grants are generally refundable when the entity does not fulfil certain conditions.
- Refund of grant is treated as an **extraordinary item** as per AS 5.
- Accounting for refund of grant is based on the initial recognition of government grant because the **previous treatments need to be REVERSED** at the time of refund.
- **To understand this point, REMEMBER THIS WORDS THAT "PREVIOUS TREATMENT NEED TO BE REVERSED".**

Grants	Initial Accounting	Refund Accounting Treatment
1. Revenue Grant	On receipt of grant, if it is initially transferred to Deferred government grant account and subsequently transferred to P&L in a systematic and rational basis over a period of time. (Matching concept)	<p>If balance is available in deferred government grant A/c :</p> <ul style="list-style-type: none"> • First reverse the existing balance in deferred government grant A/c. • Remaining amount should be charged to P&L. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Deferred Govt. Grant A/c.....Dr (to the extent of balance in A/c) P&L A/c..... Dr (balancing fig.) To Cash / Bank (Refunded amount) </div> <p>If balance is not available in deferred government grant (i.e.it is fully transferred to P&L):</p> <p>Charge total refunded amount to P&L alc.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> P&L A/cDr (Refunded amount) To Cash / Bank (Refunded amount) </div>
2. Capital grant (Capital approach):	Initially it is transferred to capital reserve A/c	<p>Capital reserve balance should be reversed.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Capital reserve A/c..... Dr To Cash /Bank A/c (Refunded Amt.) </div>

Concept No. 10 - Refund of Grant related to specific fixed asset.**A. In case of Depreciable Assets****Method 1****Initial Accounting**

- Deducted from the gross value

Accounting at the time of Refund:

- Add the refunded amount to fixed asset carrying amount; and
- Depreciate the increased carrying amount over the remaining useful life of the asset **prospectively**.

Journal Entry

- Machinery A/c Dr.
To Cash / Bank A/c (Refunded amount)

Method 2**Initial Accounting**

- Grant received is credited to deferred Government Grant A/c and transferred to P&L A/c in systematic and rational basis over the useful life of asset

Accounting at the time of Refund:

- First utilise the balance existing in deferred government grant A/c and if any balance charge to P&L A/c.

Journal Entry

- Deferred Govt. Grant A/c..... Dr
(Balance in BS)
P&L A/c..... Dr
(Balancing fig.)
To Cash / Bank A/c (Refunded amount)

B. In case of Non-Depreciable Assets

A. If previously credited to capital reserve if no conditions need to be satisfied.

Reverse the capital reserve with refunded amount.

Capital reserve A/c..... Dr To Cash / Bank A/c (Refunded amount)
--

B. If conditions need to be satisfied, initially recognised as deferred govt. grant and transferred to P&L in systematic and rational basis so as to match the revenue with expenditure.

Same as Revenue grant refund as discussed above

Concept No. 11 - Disclosure under AS - 12

1. The accounting policy adopted for government grants
2. The nature and extent of government grants recognised in the financial statements

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AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



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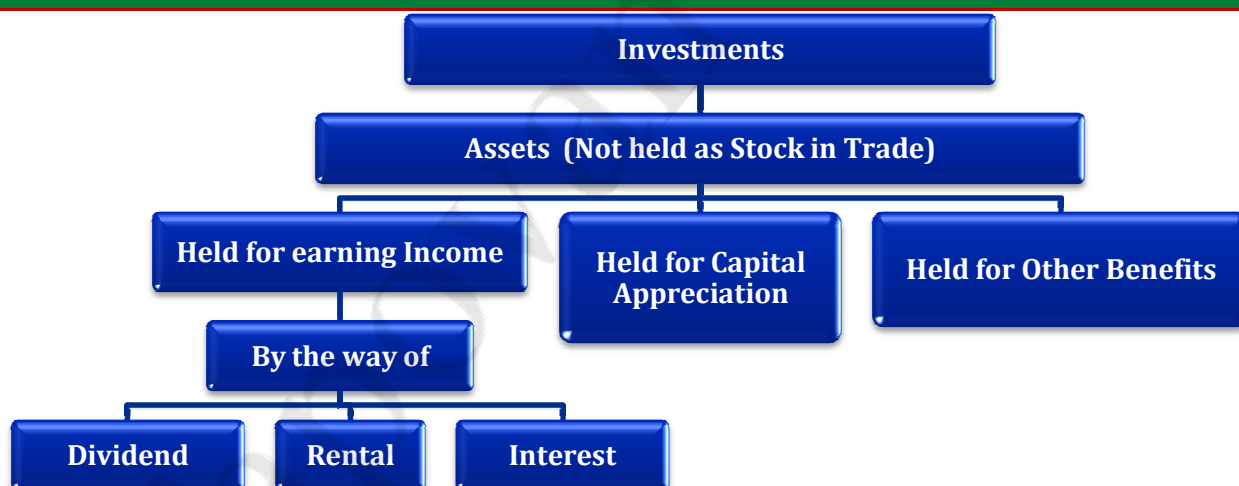
Concept No. 1 Introduction & Meaning

Investments are **assets held** by an enterprise for **earning income** by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise. Investment Accounting is done as per AS-13 which deals with all kind of investments **except**:

1. Interest, dividends and rentals earned on investments.
2. Operating or financial leases
3. Investment of retirement benefit plans and life insurance enterprises
4. Mutual funds
5. Assets held as Stock-in-trade are not 'Investments'



(I) Meaning of Investments



(II) Forms of Investment

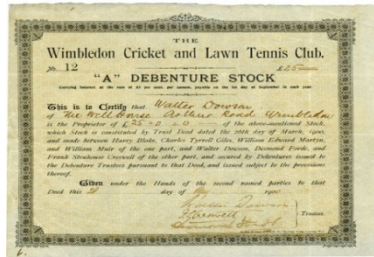
Investments with physical form.

Investments with physical form - E.g. Land & building, gold, silver, etc.



Investments without physical form.

Investments without physical form (rights) and in the form of mere certificates or similar documents-
E.g. Shares, debentures, etc.



Concept No. 2 Market of Investment

Investments may or may not have an active market



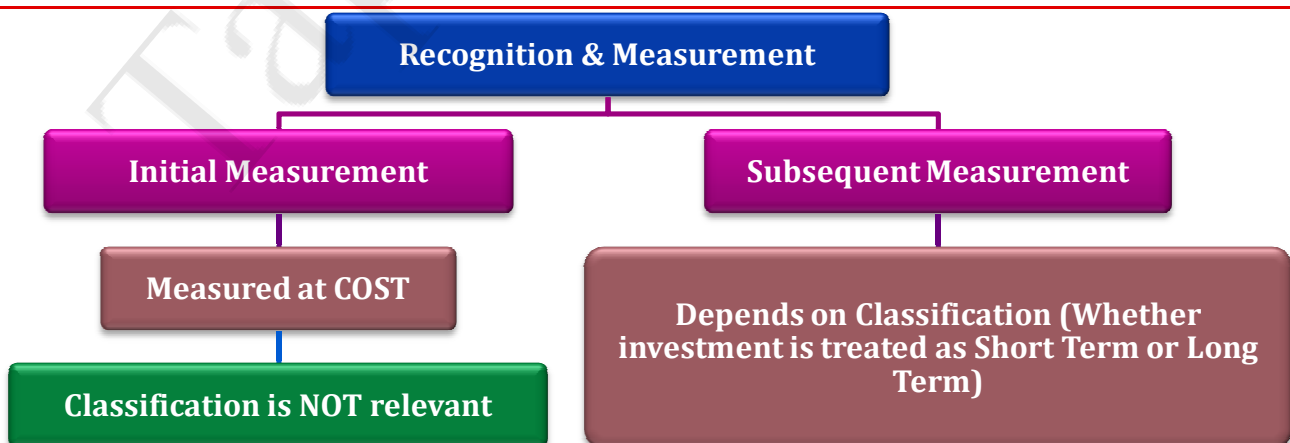
Shares in listed companies
have active market;

For shares in private limited
companies, active market doesn't
exist.



Concept No. 3. Recognition & Measurement

It is classified into two



1. Initial Measurement of investment

Initial recognition means recognising the investment **at the time of acquisition**. **All investments whether current or long term should be initially recognised at COST**. Cost of investments include

Basic cost of investment + All direct costs incurred for acquisition.

(Direct Cost on investment Includes brokerage, fees, registration fees and duties, etc.)

Concept No. 4 Classification of Investments & Subsequent Measurement

Current Investment

Two conditions to be satisfied

1. It is readily realisable
2. Intention to hold for NOT more than one year from date of investment

Measures at Cost OR Fair value
Whichever is lower (on Individual Investment Basis)

Any reduction to fair value and any reversals of such reductions are transferred to P&L a/c

**Long term investment
(Example: Investment Property)**

Which is NOT current investment

Always valued at COST
Exception: Reduce carrying amount if permanent diminution in value

Any reduction to Cost and any reversals of such reductions are transferred to P&L a/c

Concept No. 5 Investment can be acquired

By Payment of cash/credit

Cost of investment =

**Amount Paid/
payable including
incidental expenses**
like Brokerage.**By issue of shares or other securities**

Cost of investment =

**Fair value (FV) of
shares / other
securities on the
date of acquisition****By exchange of another
asset of the entity
(Barter)**

Cost of investment =

1. FV of asset given up Or
 2. FV of Investment acquired
- Whichever is clearly evident**



Fair value is an arm's length price agreed between knowledgeable, willing parties in an open market.
Generally market value can be taken as fair value with some adjustments.

Concept No. 6 Income from Investments

Interest, dividends and rent receivable in connection with an investment are generally regarded as income, as it is a return on the investment.

Classification of Income from Investments as follows

PRE Acquisition Income

1. Income Accrued during the PRE acquisition period.
2. But received by the investor after the acquisition.
3. It shall be treated as recovery of cost of investment as it is assumed that Price paid for investment includes pre acquisition income.

Deduct the pre-acquisition income from the cost of investment.

POST Acquisition Income

Income earned and accrued AFTER the acquisition and received after the acquisition.

Recognise the income and credited to P & L A/c



But in case of equity shares it is difficult to make allocation in Pre and post Acquisition Income.

Bonus shares

Bonus Shares represents shares issued by the company to the **existing equity share holders at free of cost by capitalising reserves.**

Cost of investment of bonus shares is always Nil but it increases number of shares.

Therefore there is **no need to pass any journal entry & only number of bonus shares received will be added** to the existing number of shares.



Right Issue and Rights shares



These are shares issued to existing shareholders of a company for consideration.



Existing shareholders are given the "right" to purchase new shares generally at a lesser price.



If existing shareholder is not interested in "rights" then they can sell the rights to anybody.



If the existing share holders exercise the option

Investment A/c Dr.
To Cash/Bank A/c

Rule: If the rights are sold, then amount received is an income and it should be taken to P&L A/c.

Exception to the above rule

when the following two conditions are satisfied, the accounting treatment differs:

1. The investments must be acquired on cum-right basis; and
2. Market value of such investments came down below the cost of investment immediately after the issue of right shares;

(Under above 2 situations, income received by sale of rights is credited to investment account in cost column to bring the carrying amount to the market price.)

Concept No. 7 - Sale of Investments

Profit or Loss on sale of investments should be recognised in the P&L alc.

Profit / (Loss) = Sale proceeds (Net of selling expenses) - Carrying amount (book value).

If a part of an individual investment is disposed, the carrying amount is to be determined on the basis of the average carrying amount of the total holding of the investment and accordingly profit or loss on such disposal is to be determined. (NOT FIFO or LIFO or any other basis)

Concept No. 8 - Reclassification of Investments

Classification of investments can be changed by the entity at any point of time i.e. either from Long term to current OR current to long term.

The following points explain how to determine the carrying amount after reclassification.

Reclassification from Long term to Current

Carrying amount of current investments is lower of cost and carrying amount on the date of reclassification.

Reclassification from Current to Long term

Carrying amount of long term investments is lower of cost and fair value on the date of reclassification.

Concept No. 9 - Disclosure

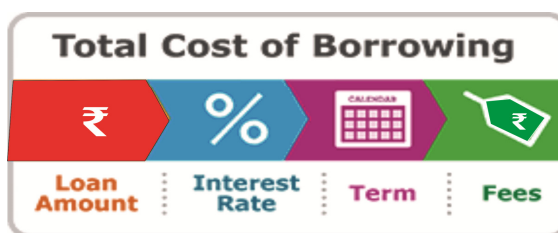
Disclosure

1. A/c policies of the entity
2. Classification of investent into current & long term
3. Total amount of Quoted & Unquoted investment
4. Total market value of quoted investment
5. Profit or loss on the sale of current and long term investments and adjustment of carrying amount in investment a/c.
6. Other Disclosures etc.,



Concept No. 1 Meaning of Borrowing cost

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds.



It includes the following cost and charges



Interest and commitment charges on any borrowing



Amortisation of discounts or premiums relating to borrowings

eg: 1. Premium payable on redemption of debentures or Preference shares, 2. Discount on issue of debentures.



Amortisation of ancillary costs incurred for arrangement of borrowings



Finance charges when the assets under finance leases.



Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Note: Cost or charges paid for pre closure / prepayment of loan shall not be treated as Borrowing cost. As per opinion of Expert Advisory committee of ICAI prepayment fee paid for liquidating high cost debt and availing low cost debt in substitution of the high cost debt cannot be capitalised, as it is not borrowing cost as defined in AS – 16.

Concept No. 2 Objectives of this Standards:

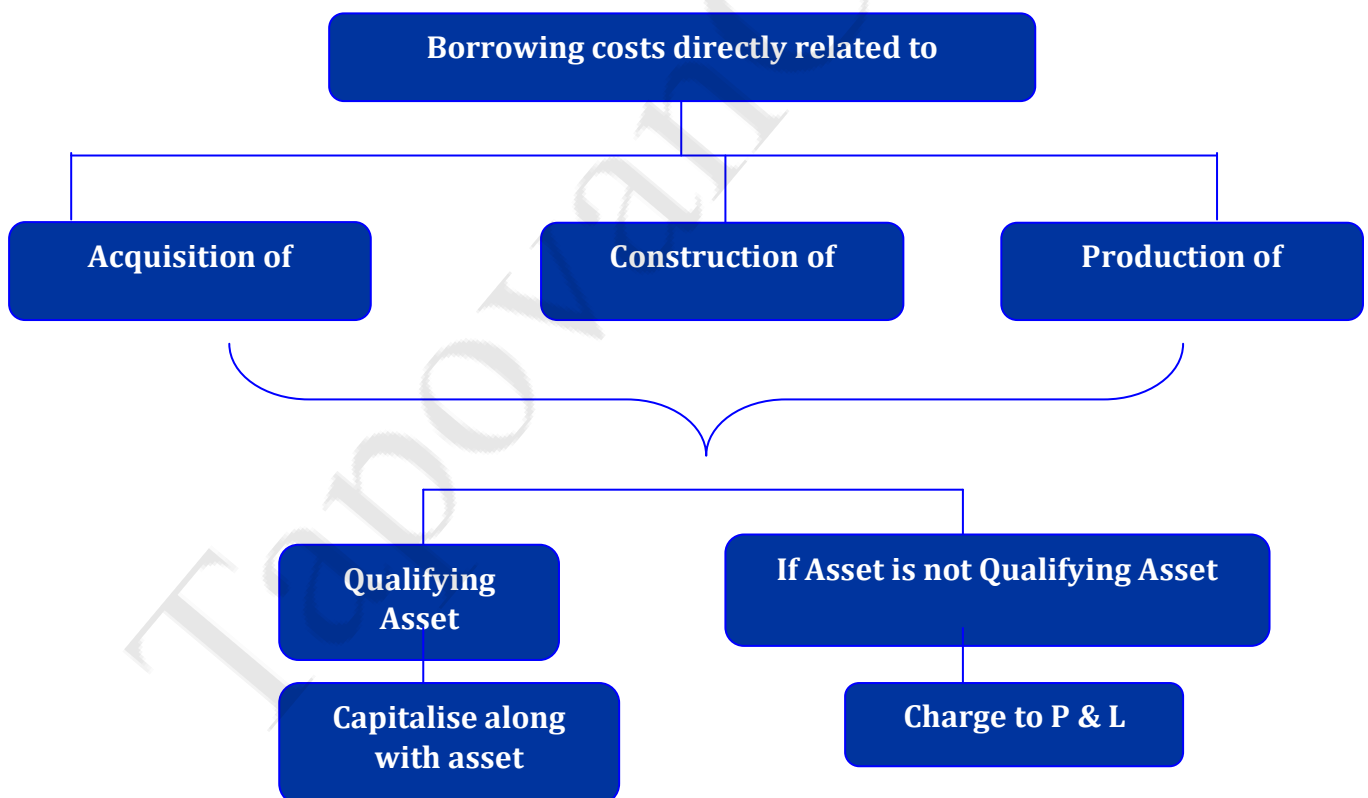
This standard prescribes rules for accounting treatment for borrowing costs

1. Whether the borrowing costs should be capitalised along with the assets OR charged to profit and loss statement.

In other words,

Whether the cost of borrowings should be included in cost of asset or to be charged to P&L A/c.

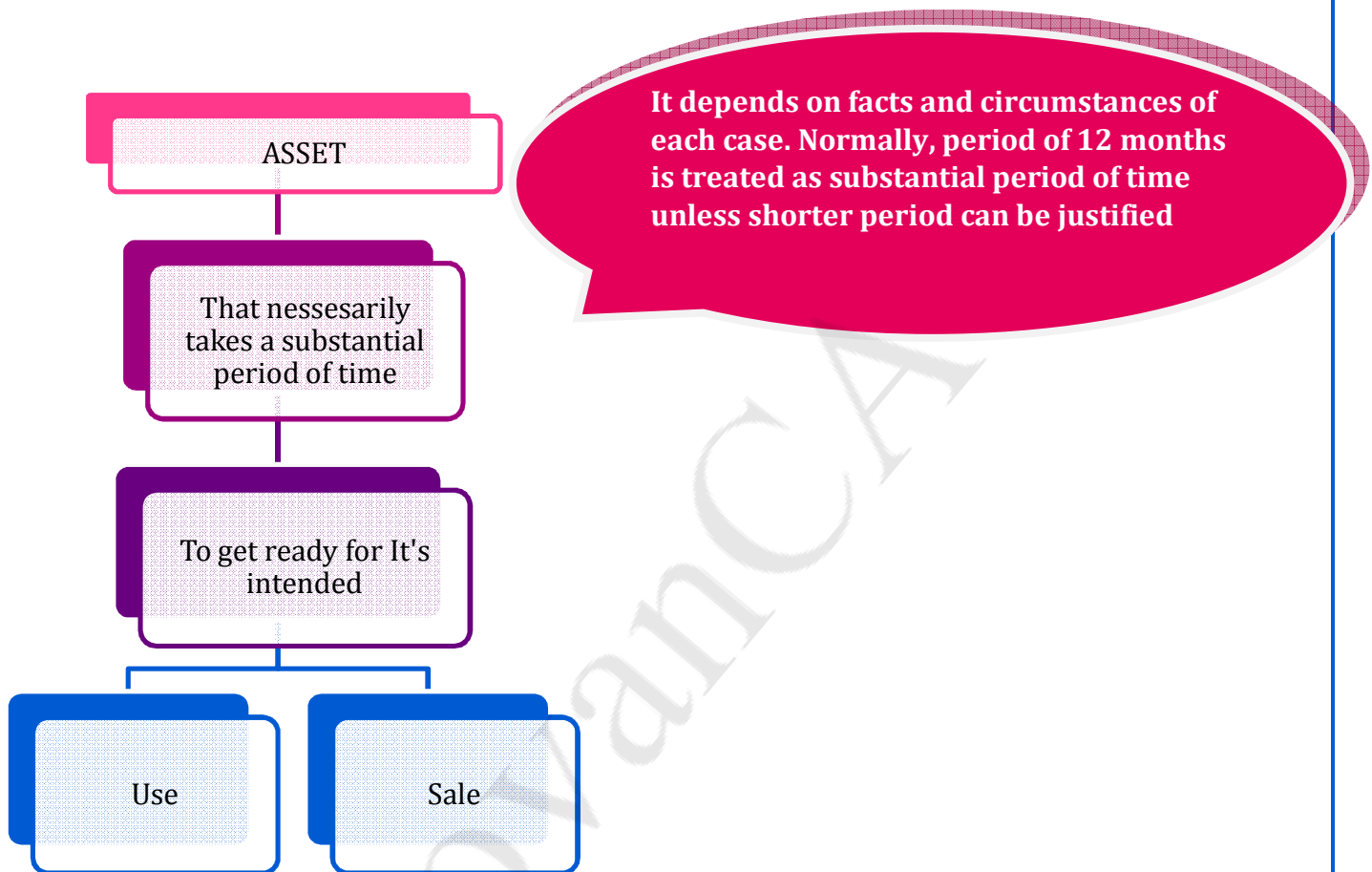
This standard deals with only borrowing costs and does **not deal with cost of owner's equity including preference capital** i.e. Dividend because it is not cost but it is just distribution of profit.

Concept No. 3 - Recognition

Borrowing Cost can be capitalised only when:

1. Those borrowing costs, which are directly attributable to the acquisition, construction and production of qualifying asset. (Directly attributable cost means which would have been avoided if asset would not have acquired, purchased or constructed.)
2. There are **probable** future economic benefit inflow,
3. Borrowing cost **can be measured reliably**.

Concept No. 4 - What is Qualifying Asset:



Examples of Qualifying Assets:

1. Any tangible or intangible fixed assets, which are in construction/ development process or tangible or intangible asset acquired but not ready for use or resale.
Such as:

A. Tangible - plant and machinery, Building

B. Intangible Assets: Patent

2. Investment Property.



3. Inventories that require a substantial period. (Normally more than one accounting period) to bring them in saleable condition.



Concept No. 5 Commencement of capitalisation of borrowing Cost

Conditions for Capitalisation of borrowing costs



Asset preparation and development activities shall be in process.



Expenditure on qualifying asset being incurred;



Borrowing cost is incurred;



Asset preparation and development activities shall be in process.

Activities includes taking approval from government for construction or purchase, Designing, Physical construction of asset, technical work prior to commencement of physical asset

When necessary activities are not in progress, the interest incurred during that period should be charged to P&L statement.

Concept No. 6 - Suspension / Cessation of capitalisation

If the period of suspension of capitalisation and after cessation of capitalisation, borrowing cost shall be debited to P&L A/c

Suspension of Capitalisation

Capitalisation of borrowing cost to be stopped for **temporary** period.

Capitalisation of borrowing costs should be suspended during extended period in which **active development is interrupted**.

If there is any **temporary delay** during construction or production for making the asset ready for its intended use or sale - interest incurred in that period **should not be suspended**.

Capitalisation process will start once the interrupted work is resumed.

Cessation of Capitalisation

Capitalisation of borrowing cost to be stopped for **permanently**.

Capitalisation of borrowing costs should be stopped **when substantially all necessary activities are complete** i.e. the asset is ready for its intended use or sale.

If **minor modifications**, like the decoration etc. are **pending**, it can be considered as **substantially completed**.

When a qualifying asset is completed in parts / phases - Capitalisation of borrowing costs should be stopped / ceased when any completed part is capable of being used.

1. How much amount should be capitalised?

1. If amount is specifically borrowed for obtaining a qualifying asset

In this case an entity should capitalise the following amount:

Actual borrowing costs incurred on borrowing during the period	XXX
Less: Any income on the temporary investments of the borrowed amount	
	XXX
Amount to be capitalised	XXX

If funds are borrowed but not immediately required then such amount may be invested temporarily

and income from such investments should be deducted from the borrowing costs incurred.

2. If amount is generally borrowed and used for the purpose of obtaining qualifying Asset.

Company may borrow amount through debentures, Bank Loan or other sources. This amount was borrowed for general business purpose and not borrowed specifically for construction or acquisition of assets.

Afterwards entity uses this amount for purchase or construction of qualifying asset.

In this case it is difficult to identify exact source of borrowing used for purchase or construction of asset.

Therefore **Amount of borrowing cost should be determined by applying weighted average of borrowing cost which is also known as capitalisation rate.**

In other words, capitalisation rate is weighted average rate of only general borrowings outstanding during the period.

Capitalisation Rate

$$\frac{\text{Borrowing cost incurred during the year}}{\text{Aggregate outstanding borrowings}} \times 100$$

Aggregate outstanding borrowings

$$\frac{\text{Amount of borrowings} \times \text{Number of months loan outstanding}}{12 \text{ Months}}$$

Interest to be capitalised

$$\text{Expenditure incurred on the asset} \times \text{capitalisation rate} \times \frac{\text{Period of utilisation}}{12 \text{ months}}$$

Note: Total amount of capitalised borrowing cost shall not exceed the actual borrowing cost incurred during the period.

Concept No. 7 - Disclosures

The entity should disclose the following in its financial statements:

- (a) The accounting policy adopted for borrowing costs; &
- (b) The amount of borrowing costs capitalised during the period.

Concept No. 8 Exchange differences arising on foreign currency borrowings**(Read AS 11 to understand this concept)**

Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

This provision is applicable only if there is loss due to exchange difference from foreign currency borrowings & such loss is debited to P&L A/c.

Out of such fluctuation charge, some portion will be treated as borrowing costs as per this Standard subject to conditions.

Translate amount of loan in Indian Currency at closing rate x actual rate of interest on borrowing.

In Other words, (Loan outstanding in foreign currency x Closing rate) x actual rate of interest on borrowing.

Compute Interest that would have been paid if loan was taken in India (at interest rate applicable if loan is taken in India.)

Calculate increase in liability towards the principal amount due to increase in foreign currency rate.

Difference in loan amount to the extent of difference in interest rate (step 2 – step 1) shall be treated as borrowing cost in addition to actual borrowing cost paid under step 1.

CA INTERMEDIATE

ADV.ACCOUNTING

Accounting Standards -

BENCHMARK



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AS 17 SEGMENT REPORTING

Concept No. 1 Important Concepts

Questions	Answer
What is Segment Reporting 	<p>Disclosure/Reporting of Information of product and Location of Entity based on Sales, Profit, Assets, and liabilities is known as Segment Reporting.</p>
Core Element of AS – 17 	<p>Core Element of this standard is reporting more than Accounting</p>
By Whom 	<p>Reporting by Entity</p>
For Whom 	<p>For Stakeholders</p>
Why 	<p>To gives very good understanding of the company to the stake holders, so that stake holders can take informed decisions.</p> <ol style="list-style-type: none"> 1. Better understanding of the performance of the company; 2. Better assessment of risks and returns; 3. Make more informed judgments about the entity. <p>Segment information is relevant to assess the risks and returns of a diversified or multi-Vocational entity.</p>

Mandatory or Not?

This Standard makes it mandatory for entities to provide information by dividing / classifying it on product or location basis.

Concept No. 2 - Scope of AS - 17

- This standard is applicable to Level – I entity and non SME entity.
- This standard is applicable to the entities presenting
 - (a) General purpose financial statements
 - (b) Consolidated financial statements.
- Compliance of this standard is mandatory.

Concept No. 3 - Important Terms / Definitions**A. Types of Segment****Business Segment****Geographical Segment****Business Segment**

Meaning	Segment is made on the basis of Products / Services with different risk and returns.
It is the segment which satisfies following conditions	<ol style="list-style-type: none"> 1. It is a different (distinguishable) component compared to other components of an enterprise/organisation 2. It is subject to risk and returns that are different from those of other business segments. 3. It is engaged in providing an individual product or service or group of related products or services.

Factors to be considered in determining whether it is business segment or not:	<p>(a) Nature of the products or services; E.g. Software, hardware, Steel, Jewellery, etc.</p> <p>(b) Nature of the production processes; e.g. Automated, Manual.</p> <p>(c) Type or class of customers for the products or services; E.g. Institutional or Retail</p> <p>(d) Methods used to distribute the products or provide the services; and E.g. Direct distribution to customers or through dealers;</p> <p>(e) Nature of the regulatory environment, E.g. banking, insurance, or public utilities.</p>
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Geographical Segment

Meaning	Segment is made on the basis of its operation in different geographical areas , which are exposed to different risk and returns .
It is segment which satisfies the following conditions	<ul style="list-style-type: none"> • Basically it is a different/ distinguishable component considering the location of operations or its customers. • Risk & returns are influenced by the geographical location.
To identify a geographical segment, we should consider the following factors	<p>(a) Similarity of economic and political conditions; e.g. Democracy, Feudalism</p> <p>(b) Relationships between operations indifferent geographical areas;</p> <p>(c) Proximity (closeness) of operations;</p> <p>(d) Special risks associated with operations in a particular area; e.g. Terrorism, Backward areas.</p> <p>(e) Exchange control regulations; and e.g. partial or fully convertible currency.</p> <p>(t) The underlying currency risks. e.g. Euro V s. Dollar</p>

A. Reportable Segment

It is a business or a geographical segment for which segment information is required to be disclosed separately in the financial statements.

A segment is treated as reporting segment only when it satisfies the conditions given in the Standard.

Therefore A company may have many segments but all of them need not be reportable segments as per the Standard.

A Reportable segment needs to disclose segment revenue, expenses, assets & liabilities etc. as per the Standard.

B. Enterprise revenue

It is revenue from sales to **external customers** as reported in P&L A/c.

C. Segment Revenue

Segment revenue includes:

1. Revenue directly attributable to a segment;
2. Reasonable portion of enterprise revenue that can be allocated to segment.
3. Inter segment revenue transactions.

Segment revenue Excludes:

- | | |
|---|-----------|
| (a) Extraordinary items, | |
| (b) Interest or dividend income including interest on loans given to other segments;
on sales of investments or on extinguishment of debt. | (c) Gains |

(If segment is primarily of financial nature then point (b) & (c) shall be treated as part of segment revenue.)

D. Segment expense

Segment expense includes:

1. Expenses Directly Attributable to segment,
2. Reasonably portion of enterprise revenue that can be allocated to segment.
3. Cost incurred at enterprise level on behalf of segment.

Segment expense EXCLUDES:

- | |
|--|
| (a) Extraordinary items, |
| (b) Interest expense including interest from loans and advances from other segments; if segment is primarily of financial nature then this interest expenses shall be treated as part of segment expenses. |
| (c) Losses on sales of investments or on extinguishment of debt; |

(d) Income Tax;

(e) General administrative expenses, head-office expenses and other expenses which are incurred at the entity level and relate to the entity as a whole.

E. Segment result (Profit or Loss)

Segment revenue - Segment expense = **Segment result**

F. SEGMENT ASSET

Segment assets are the assets:

- Used in its operating activities of the segment,
- Which are **directly attributable to the segment**;
- Which can be allocated to the segment on reasonable basis; (Includes tangible or intangible fixed assets and current assets)

Note:

1. If a single asset is used by both the segments - it should be allocated between the two on a reasonable basis;
2. Goodwill that is directly attributable to a segment or that can be allocated to segment on the reasonable basis.
3. If a particular item of depreciation or amortisation is included in segment expense then related asset is also included in segment assets.
4. Segment assets are determined after deducting related depreciation of fixed assets and provisions from current assets like trade receivables.

Segment Assets not includes:

- (a) Income-tax assets like deferred tax asset, Advance tax etc.
- (b) Asset used for general entity or head office purposes.
- (c) Loans, investments or other interest/dividend generating assets; these assets will be included only when the segment is primarily of financial nature.

G. SEGMENT LIABILITIES

Segment liabilities are :

- a. liabilities generated from the operating activities of the segment
- b. Which are **directly attributable to the segment**; and
- c. Which can be allocated to the segment on reasonable basis;

Examples:

Trade payables, outstanding liabilities, advances received from customers, provision for warranty or employee benefits like provident fund, gratuity of employees working with the segment.

Segment liabilities not includes

- (a) Loans and other interest-bearing liabilities; these liabilities will be included

only when the segment is primarily of financial nature.

(b) Income-tax liabilities like deferred tax liability, provision for tax etc.

H. Reportable Segments

Segment is treated as reportable segment when it satisfies **any One of following conditions:**



Criteria 1	Segment Revenue Criteria
	<p>Segment revenue = External + Inter segment transfers.</p> <p>Segment Revenue is 10 % or more of Total Revenue of ALL SEGMENTS (not Enterprise revenue - as it includes only external sales)</p>
Criteria 2	Segment Results Criteria: (on the basis of profit or loss)
	<p>Segment result is 10% or more of</p> <ul style="list-style-type: none"> a. Total of segments profits only. b. Total of segments losses only. <p>(whichever is Higher)</p>
Criteria 3	Segment Assets Criteria:
	Segment assets is 10 % or more of Total assets of all segments

Management can designate a business or geographical segment as reportable segment even if it does NOT satisfy the above conditions.

Criteria 4	OVERALL external Revenue Criteria:
	<p>all segments the above three criteria must be applied first and-</p> <ol style="list-style-type: none"> 1. Further, Management may at its discretion choose any segment as reportable segment even if such segment does not fulfill the criteria stated above. 2. Ensure whether at least 75% of total external revenue should be in the reportable segments. 3. If 75% of total external revenue is not in the reportable segments, then additional reportable segments should be identified ignoring 10% threshold limits until at least 75% of total external revenue is included in reportable segments.

If any segment is not designated as a reportable segment under any of the above conditions, it should be included as an unallocated segments reconciling item.

Any segment, which was reportable segment in the previous year on fulfillment of 10% threshold limit, should be reportable segment during current year even if 10% threshold limit is not fulfilled in current year.

Concept No. 4 - Basis of classification

Conditions	Primary Reportable Segment	Secondary Reportable Segment
If risk and returns of a company is mainly affected by difference in product/ service.	Business Segment	Geographic Segment based on location of customers.
<p>If risk and returns of a company is mainly affected by its operations in different geographical area</p> <ol style="list-style-type: none"> 1. Based on location of assets and location of customers. 	Geographic Segment	Business Segment
<ol style="list-style-type: none"> 2. Based on location of assets only and if location of its customers is different from the location of its assets. 	Geographic Segment (based on location of assets)	Business Segment + Customer based geographic segment sales
<ol style="list-style-type: none"> 3. Based on location of customers and if the assets of the enterprise are located in different geographical area from its customers. 	Geographic Segment (based on location of customers)	Business Segment + Assets based geographic segment - revenue, segment assets

If risk and returns of a company is mainly affected both by difference in product/ service it produces and its operations in different geographical area.	Business Segment	Geographic Segment
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Concept No. 5 - Disclosures



Revenue from external customers



Revenue from transactions with other segments (Inter segment transfers)



Segment results



Carrying amount of segment assets



Segment liabilities



Depreciation and amortisation expense during the period.



Non-cash expenses other than depreciation and amortisation.



Reconciliation of revenue, result, assets and liabilities.

AS 18 – Related Party Disclosures

Objective:

The objective of this Standard Related Party Disclosures is to establish requirements for disclosure of:

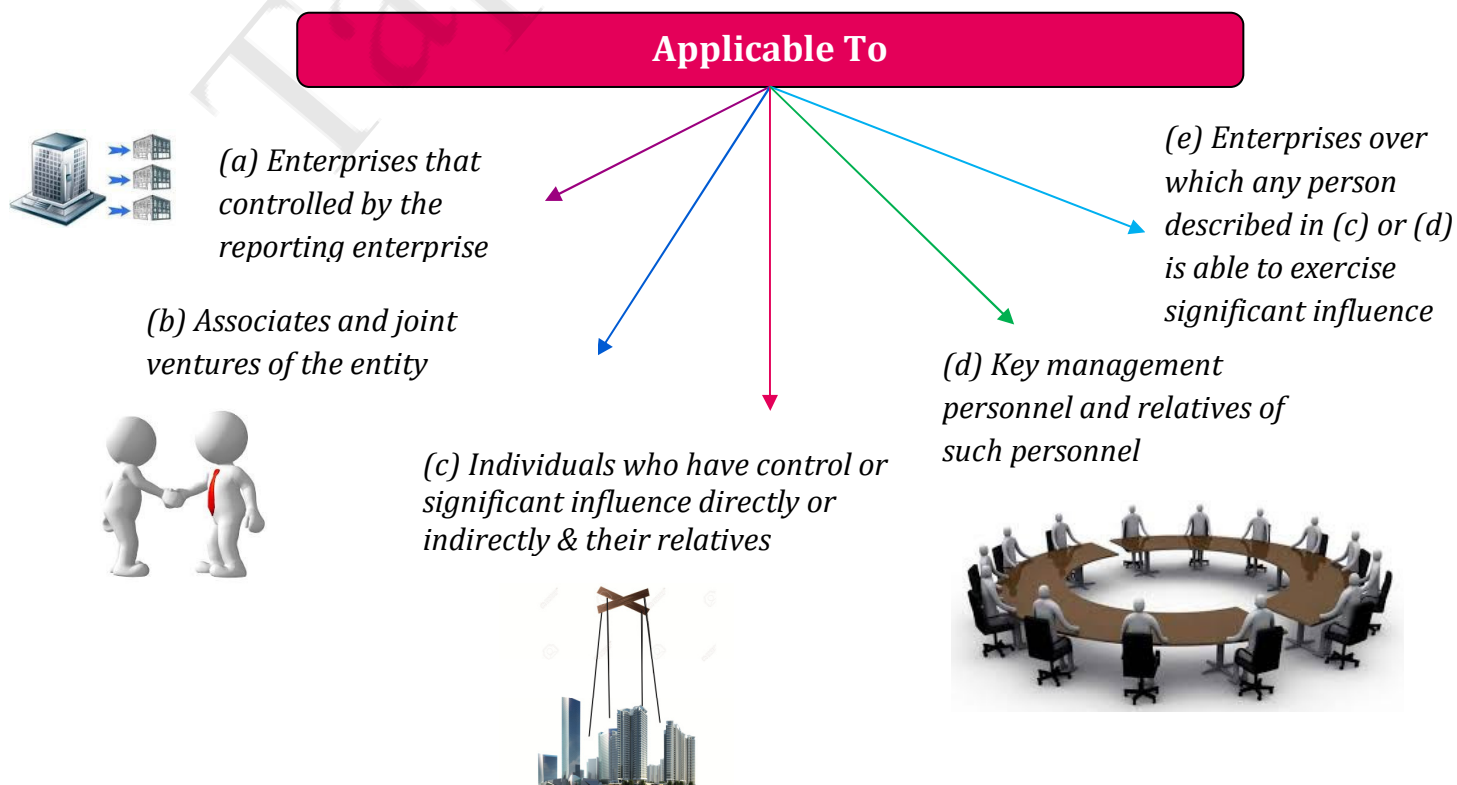
Related party relationships; and

Transactions between a reporting enterprise and its related parties.

Scope:




This Standard deals only with related party relationships described in (a) to (e) below:

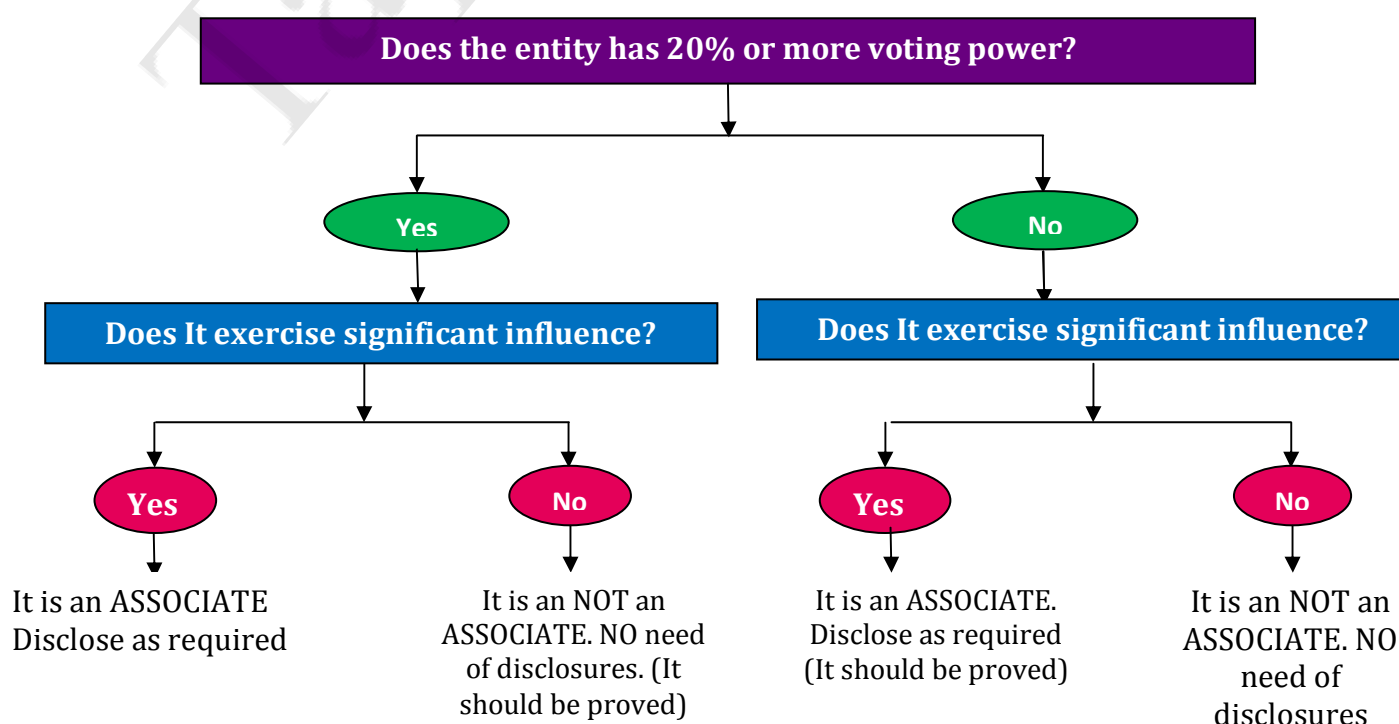
- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venture;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- (d) Key management personnel and relatives of such personnel; and
- (e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.



Definitions/Meaning

For the purpose of this Standard, the following terms are used with the meanings specified:

1) Related Party – Parties are considered to be related if at any time 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.	
2) Related party transaction – a transfer of resources or obligations between related parties regardless of whether or not a price is charged.	
3) 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.	
4) Significant influence – participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.	



Examples of exercising significant influence:

Having investor's representative in the board of associate; (Representative can participate in BOD's discussions)
 Participation in the policy-making process;
 Material transactions between investor and associate
 Interchange of managerial personnel;
 Technical assistance required by associate is provided by the investor; (Technical dependence) etc.
 In the above examples, investor can influence the company even though it does not control it.

5) A Joint venture –

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

6) 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, and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

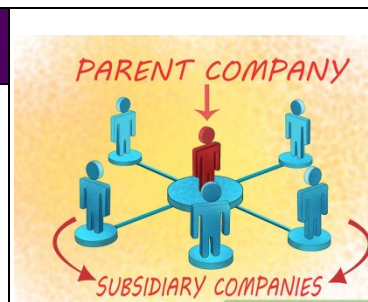
**7) Relative**

– in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

**8) Holding company – a company having one or more subsidiaries.****9) Subsidiary – a company:**

In which another company (the holding company) holds, either by itself and/or through one or more subsidiaries, more than one-half in nominal value of its equity share capital; or

Of which another company (the holding company) controls, either by itself and/or through one or more subsidiaries, the composition of its board of directors.



Disclosure

- 1) The statutes governing an enterprise often require disclosure in financial statements of transactions with certain categories of related parties. In particular, attention is focused on transactions with the directors or similar key management personnel of an enterprise, especially their remuneration and borrowings, because of the fiduciary nature of their relationship with the enterprise.
- 2) Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.
- 3) If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

The name of the transacting related party;

- A description of the relationship between the parties;
- A description of the nature of transactions;
- Volume of the transactions either as an amount or as an appropriate proportion;
- Any other elements of the related party transactions necessary for an understanding of the financial statements;
- The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
- Amounts written off or written back in the period in respect of debts due from or to related parties.

4) **Items of a similar nature** may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

5) The following are 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.

CA INTERMEDIATE

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Accounting Standards -

BENCHMARK



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AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



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AS – 19 Leases

This standard is the best example of 'substance over form'.

Objective of AS - 19

To Prescribe

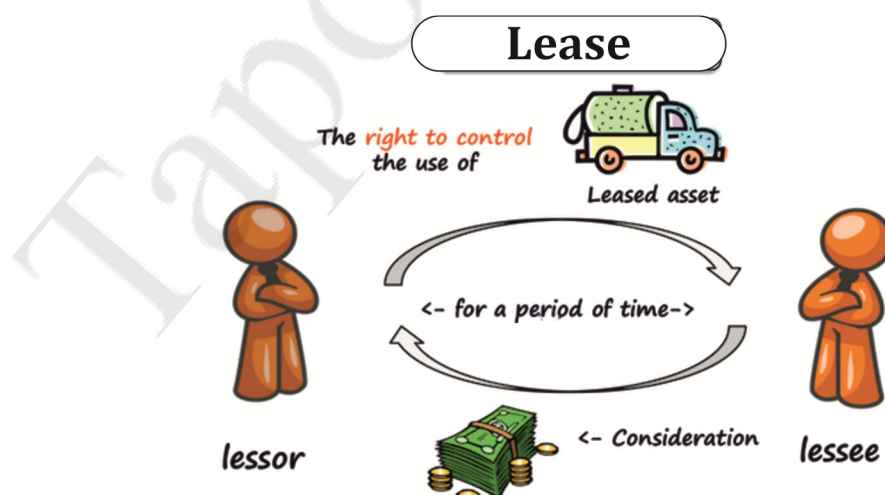
1. The accounting treatment for leases in the books of lessee & lessor and
2. Accounting policies and disclosures.

Scope of AS - 19

This Standard is applicable to ALL leases other than

- (a) Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights; (No AS exists and industry rules are followed)
- (b) Licensing agreements for such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and (All these are intangible assets - AS 26 is applicable)
- (c) Lease agreements to use lands.
- (d) This standard is also not applicable to cancellable lease (Where lessee has a right to cancel the lease)

Important concepts and definitions



Lease means

Lease is an agreement WHICH GIVES RIGHT TO USE AN ASSET to for lessee an agreed period of time BY single payment or series of payments

Non-Cancellable Lease

A non-cancellable lease is a lease that is not cancellable during the lease term.

Even though the lease is cancellable, under the following situations - it is treated as non-cancellable

lease:

Even if cancellable-

- (a) Upon the occurrence of some remote (rare) contingencies (like earthquakes, floods, etc.); or (b) With the permission of the lessor; or
- (c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- (d) Upon huge payment of penalty by the lessee (because it is huge payment, it is certain at the inception that lease will be continued till the end of the lease term).

Lease term

Lease term is the non-cancellable period agreed upon + any further period (renewal term):

Renewal period can be included in the lease term only when it satisfies the following conditions -

- (a) Option to renew must be given in the lease agreement (with OR without further payment); and (b) Renewal of the lease should be reasonably certain at the inception of the lease agreement.

Inception of the lease

Lease agreement date or Date of commitment by the parties on important terms whichever is earlier

Classification of Leases

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 Lessee - it is called as

Finance lease

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

Operating lease

(Risks include the losses from changes in income, technological obsolescence, idle capacity etc.)

Rewards include gain from appreciation in the value of the asset, increase in residual value, an increase in the economic life of the asset etc.)

Operating Lease:

It is a lease which does not transfer substantially all the risk and reward incidental to ownership

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.

Finance Lease

It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the Lessor but not the legal ownership.

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 of constant periodic return on the 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. PV of minimum lease payment from the lessee's point of view.

2. Apportionment of lease payment:

- a. Principal Amount: is reduced from the outstanding liability.
- b. Finance charges: is allocated over lease term in such a manner that it would produce a constant rate of return on the remaining principal balance.

3. Charge depreciation on finance lease assets

Other Terms used in Lease

Guaranteed residual value:

In respect of lessee: residual value which is guaranteed by or on behalf of lessee.

In respect of Lessor: residual value which is guaranteed by or on behalf of lessee or by an independent third party.

Unguaranteed residual value

The difference between residual value of assets and its guaranteed residual value is unguaranteed residual value.

Minimum Lease payment:

1. For Lessor:

Total lease rent to be paid by lessee over the lease terms

- +Any guaranteed residual value
- Contingent rent
- Cost for service and tax to be paid
- +Residual value guaranteed by the third party

2. For Lessee:

Total lease rent to be paid by lessee over the lease terms

- +Any guaranteed residual value
- Contingent rent
- Cost for service and tax to be paid by and reimbursed to lessor

Contingent Rent

Lease rent fixed on the basis of percentage of sales, amount of uses, price indices, market rate of interest is called contingent rent.

PV of leased assets

PV of minimum lease payment + unguaranteed residual value

❖ When a manufacturer or dealer of the asset gives the asset on lease

- They offer their customers an option of either buying the asset or taking it on lease.
- If customers go for lease, such lease may be a finance lease or an operating lease.
- Accounting treatment.

Finance lease

Manufacturer will have two kinds of income

1. Profit on sale from an outright sale at normal selling price; and
2. Finance Income over the lease term;

Sales Recognition

- Sales revenue should be recognised at Fair value of the asset or Present value of MLPs Whichever IS LOWER
- When Manufacturers quote artificially low rate of interest to attract the customers - In such a case - the entity should apply a market rate of interest.
- Cost of sale = Cost of the leased asset Less present value of unguaranteed residual value.
- The difference between the sales revenue and cost of sales should be recognised as profit at the inception of the lease.
- Initial direct costs (brokerage, etc.) are recognised as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or dealer's selling profit. (Should not be deferred)

Operating Lease

Manufacturer's Income

The lease rentals (MLP's) received by the manufacturer/dealer should be recognised as income. (Whatever treatment is applicable for an operating lease should be followed)

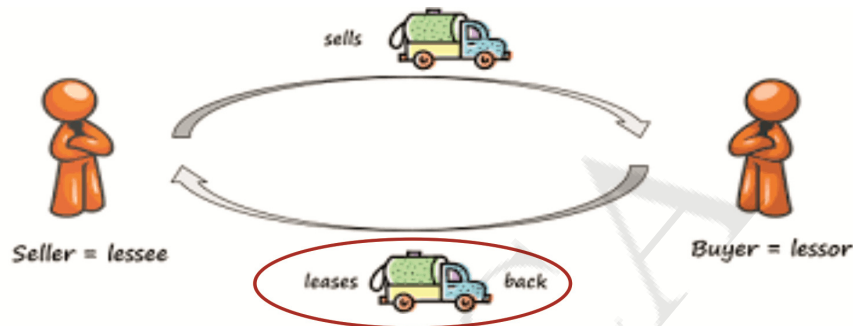
Sales Recognition

When the lease is an operating lease, the Lessor should recognise the leased asset as fixed asset at cost of manufacturing as per AS 10 (in case of self generated asset - Internal profit should not be recognised).

❖ Sale and Lease back transactions

In this transaction one party sells an asset to another party and the buyer of the asset leases it back to the seller immediately by entering into another agreement.

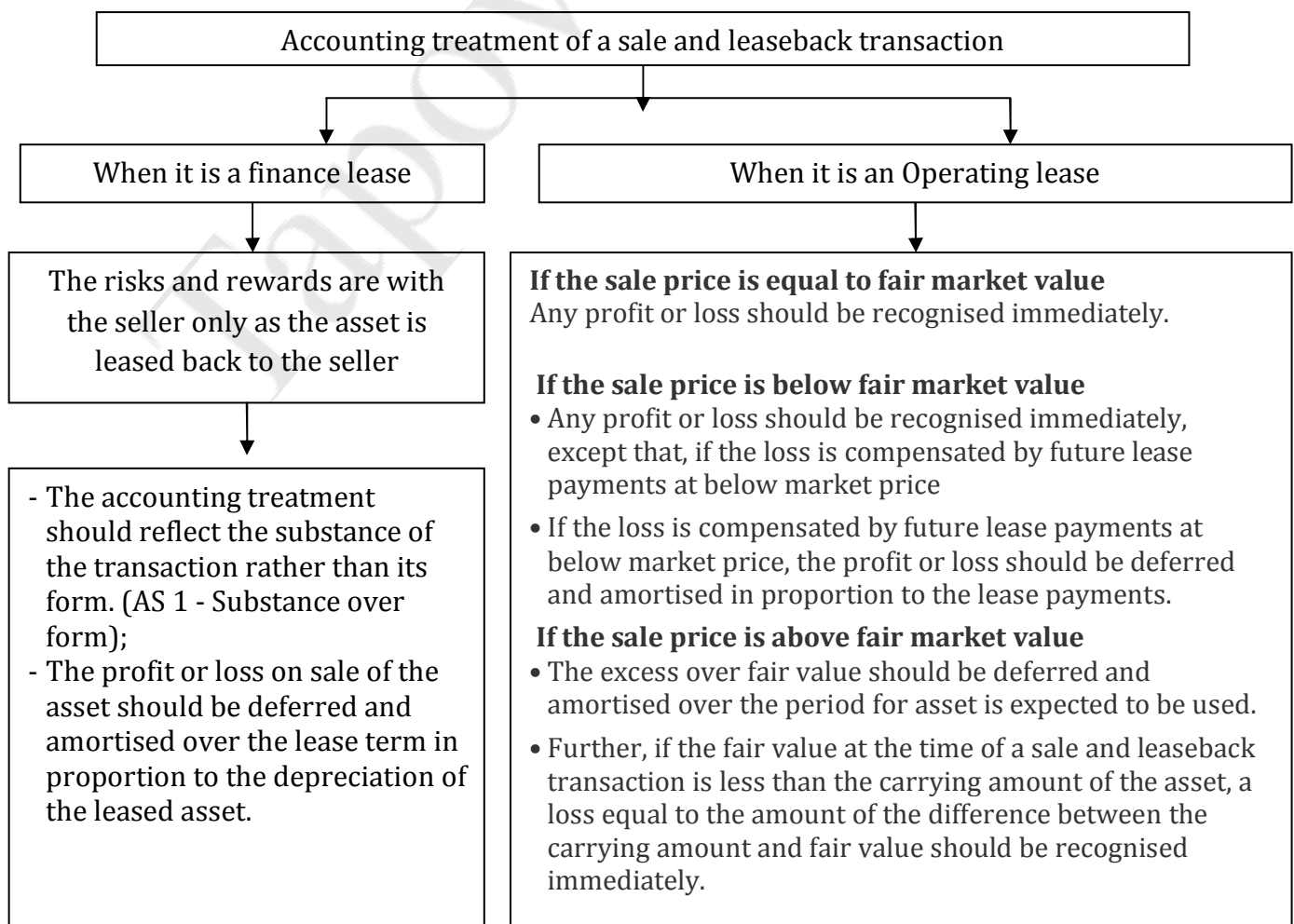
There is no movement in the place of the asset



There are two agreements







1. For sale of the asset; 2. Lease agreement.

The lease payments and the sale price are usually interdependent as they are negotiated as a package by both the parties.









Disclosure Requirements

In case of financial lease:

In the books of lessee	In the books of Lessor
<p>a) Assets acquired under finance lease</p> <p>b) Reconciliation between the total of minimum lease payments and their present value as at the balance sheet date with following segregation</p> <ul style="list-style-type: none">  Not later than one year  Later than one year and not later than five years  Later than five years <p>c) Contingent rents recognised as an expense.</p> <p>d) Future minimum sublease payments expected to be received under non-cancellable subleases</p> <p>e) General description of the leasing arrangements</p>	<p>a) General description of the significant leasing arrangement</p> <p>b) Accounting policy for initial direct cost</p> <p>c) Reconciliation of total gross investment in lease and present value of minimum lease payment (MLP) receivable at the balance sheet date.</p> <p>d) MLP receivable in following categories</p> <ul style="list-style-type: none">  Not later than one year  Later than one year and not later than five years  Later than five years

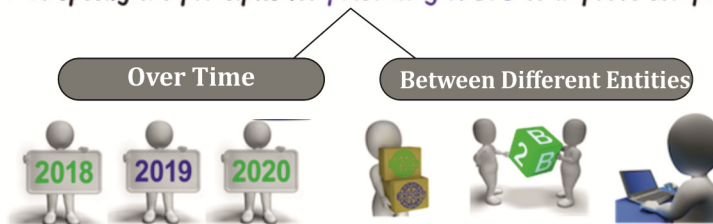
In case of operating lease

In the books of lessee	<u>In the books of Lessor</u>
<p>(a) General description of the significant leasing arrangement</p> <p>b) Total of future minimum lease payments in the following period</p> <ul style="list-style-type: none">  Not later than one year later than one year and not later than five years  Later than one year and not later than five years  Later than five years <p>c) Lease payments recognised in profit & loss account for the period.</p>	<p>a) General description of the significant leasing arrangement</p> <p>b) Accounting policy for the initial direct payment</p> <p>c) Future lease payments in aggregate classified as:</p> <ul style="list-style-type: none">  Not later than one year  Later than one year and not later than five years later than five years  Later than five years

AS – 20 Earnings Per Share

Objective of AS - 20

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



Objective

- 1 To Prescribes the principles for computation of **Earnings Per Share** (EPS)
2. To give presentation guidance of **Earnings Per Share** (EPS) which helps user to compare the performance among different entities and performance

Scope of AS – 20

Applicable to an entity

1. Whose equity shares or potential equity shares are listed on a recognised stock exchange in India
2. Any entity (listed or not listed) who wants to disclose EPS voluntarily; or
3. If EPS disclosure is required by any statute.
4. If the entity is presenting consolidated financial statements, then EPS should be calculated based on the consolidated earnings.

Definitions

1. Potential Equity Share (PES)

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

- (a) Convertible debentures or convertible preference shares;
- (b) Share warrants;
- (c) Employee stock option plans;
- (d) Loan agreement, if the borrower has to issue equity shares in case of default of conditions.

2. Share warrants or Options

These are financial instruments which give the holder a right to acquire equity shares of the entity.

Presentation of Earning Per Share

An entity should present Basic EPS and **Diluted** EPS on the face of P&L alc.

Basic & Diluted EPS should be presented separately for each class of equity shares that has a different right in sharing the net profit.

$$\text{Basic EPS} = \frac{\text{Net Profit or Loss for the period attributable to Equity share holders}}{\text{Weighted average number of equity shares outstanding during the period}}$$

Let us see how to get following the amounts

1. Net profit or Loss for the period attributable to Equity share holders

In calculation of profit/loss available to Equity shareholders the entity should consider (add/less) the following:

Income Tax expense;

Profit/loss from exceptional items;

Profit/loss from extraordinary items (Refer AS 5 for detailed discussion)

Profit/loss from prior period items;

Preference dividend

(a) In case of non cumulative preference dividend, it should be deducted only if it is declared/ provided by the entity during the period.

(b) In case of cumulative preference dividend, it should be deducted every year whether or not declared/provided by the entity.

All items of income & expenditure which are recognised in P&L;

2. Weighted average number of equity shares outstanding during the period

It should be computed in the following manner-

Number of equity shares outstanding at the beginning of the period	xx
Add/ Less: No. of equity shares issued/ bought back during the period time weight factor	(xx)
Weighted average number of shares	xx

Generally shares are included in the calculation of weighted average number of shares only from the date the consideration is receivable.

The standard's guidance on the time of inclusion in calculation of weighted average number of shares

	Included when?
For cash	Cash is receivable
On conversion of debentures	From the date of conversion
In lieu of interest or principal of financial instrument	The date from where interest stops to accrue (as per the agreement)
For the settlement of a liability	Date of settlement or as agreed upon
For other than cash consideration	The asset received is recognised in the books
For rendering services	When services are rendered
Amalgamation in the nature of purchase	From the date of acquisition
Amalgamation in the nature of merger	From the beginning of the period as if combined entity had existed from the beginning of the reporting period.

Other important Concepts

Partly paid up equity shares

If the entity has partly paid up equity shares, then those are converted to equivalent shares based on its entitlement to participate in dividends compared to fully paid up equity shares.

Different nominal values/class of shares

Where an entity has equity shares of different nominal values but with the same dividend rights, the number of equity shares is calculated by converting all such equity shares into equivalent number of shares of the same nominal value.

Calculation of basic EPS in case of Bonus issue / Share split & Share consolidation

In case of **bonus issue**, shares are issued to existing shareholders for no additional consideration. Share capital increases without an increase in the resources.

Share split means dividing the face value of share into small values. Because of this, number of shares increase but total share capital does not change. No consideration is received from the share holders.

Share consolidation (Reverse split) is exactly opposite to share split i.e. two or more shares with smaller face value are combined to make it one share of higher face value. No consideration is received from the share holders.

Calculation of Basic EPS in case of Rights issue

In case of bonus issue, as there is increase in number of shares without increase in resources, we have restated the PY basic EPS.

Right shares are generally issued at less than fair value it means that there is bonus element in rights issue also.

Whenever bonus element is involved, the treatment remains same i.e. we should restate (adjust) previous year basic EPS. The previous year's number of shares should be multiplied with the bonus factor. The entity needs to perform the following calculations.

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

Theoretical ex - rights FV per share=

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

Diluted Earnings Per Share

Diluted EPS is computed in the following manner

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

In computing the diluted EPS, the entity should assume that.

1. Profits available to equity share holders after issue of equity shares to Potential Equity Shareholders
2. How many number of equity shares would be there after such issue
3. It issued equity shares to all potential equity share holders at fair value; If the shares are issued at less than the fair value, the difference between the number of shares issuable at fair value and shares issued at actual price should be treated as an issue of equity shares for no consideration. Such issue dilutes the EPS

Determination of whether a potential equity share is Dilutive or Anti-dilutive

A potential equity share is said to be dilutive only when earnings per share decrease after conversion into equity shares.

If the earnings per share increase, such potential equity shares are called anti-dilutive and not considered for the calculation of diluted EPS.

The standard gives the following guidance on the sequence of usage of PES:

Step 1: Identify the potential equity shares;

Step 2: Determine the increase in earnings after conversion;

Step 3: Determine the increase in number of shares to be issued on conversion;

Step 4: Calculate earnings per Incremental potential equity share i.e.
$$\frac{\text{Increase in earnings (Step 2)}}{\text{Increase in no. of shares (Step 3)}}$$

Step 5: Give ranks based on incremental PES, least incremental share gets first rank as it is considered most dilutive.

Step 6: Based on the ranks, start calculating dilutive EPS step by step. If the EPS is decreased from one step to another, such PES is treated as dilutive and if EPS is increased at any level such PES are treated as anti-dilutive and stop calculating diluted EPS.

Disclosures

Entity should disclose

1. Basic & Diluted EPS with and without extraordinary items (Refer AS 5 for the meaning of extraordinary items);
2. Face/Nominal value of shares
3. Details about the weighted average number of shares

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AS 22 Accounting For Taxes on Income

Concept No. 1 - Introduction & Objective

Due to provisions of Income tax Act, **accounting income differs from taxable income** & due to this, **sometimes current year incomes and expenses are recognised in the next year.**

This standard is mainly based on Accrual & Matching concept.

According to this standard, current years income should be taxed in the current year & income tax is considered to be an expense incurred by the entity in earning income and are accrued/recognised in the same period irrespective of actual payment of Tax.

Concept No. 2 - Scope:

Taxes on income include **all domestic and foreign taxes**, which are **based on taxable income.**



+



Taxes in income **exclude** tax payable on distribution of dividend and other distribution made by enterprise.

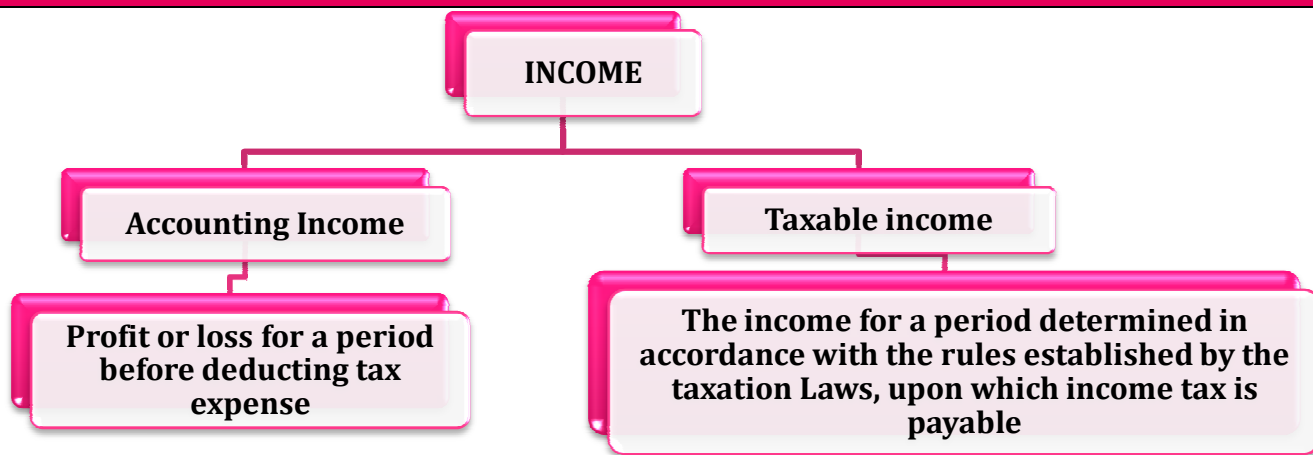


Concept No. 3 - Meaning and Definitions:

1. Current tax:

Current Tax is the amount of income tax payable or recoverable in respect of the taxable income / loss for a period.

2. Accounting income & taxable income



3. Reasons for differences between accounting income and taxable income

1. 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.

2. Permanent difference

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

In other words, Reversal of such item is permanently disallowed.

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 difference do not result in deferred tax asset or deferred tax liability.

5. Deferred Tax Asset

It is recognised when taxes of initial years are higher and subsequent years are lower.

In other words, Deferred Tax Asset should be recognised **when expenses are deductible in future years as per Income Tax Act & the entity is going to receive income tax benefit in the future years.**



Example:

If expenses are provided in the P&L A/c of current year but it is not allowed as a deduction u/s 43B of the Income-tax Act, 1961

Then company need to pay higher tax in current year but this expenditure is allowed to be deducted in future

Due to this situation there will be excess payment of income tax in current year which will result in lesser tax payment in future.

In above case **extra tax payment in current year resulted in tax saving in future tax** therefore payment made can be treated as asset.

Deferred Tax Asset should be **recognised** and carried forward **only to the extent that there is a reasonable certainty** that company will get sufficient future taxable income to set-off disallowed expenses of current year.

Reasonable certainty can be deemed to exist if chances of having future taxable income are greater than 50%.



Technically speaking, If accounting profit is lower than taxable profit then Deferred Tax Asset shall be recognised subject to condition of reasonable certainty.

In case there is no sufficient future income to recover

journal entry for creation of Deferred Tax Asset:

Deferred Tax Asset A/c..... Dr. To Profit and Loss A/c (Deferred tax income)

6. UNABSORBED DEPRECIATION OR CARRY FORWARD OF LOSSES :**Unabsorbed depreciation**

As per Income Tax Act, Any unabsorbed depreciation and Losses can be set off against future profits within eight years' time limit.

If the entity has unabsorbed depreciation or losses (carried forward) as per the tax laws, it can set-off it against future taxable income and pay less tax in the future.

Therefore this Unabsorbed depreciation or losses as per the tax laws will generate a future economic benefit for entity by reducing the future income tax payments and due to this reason entity shall create (recognise) a deferred tax asset.

Once again remember the rule that entity shall recognise Deferred tax asset only if there is reasonable certainty of future taxable income.

The entity should disclose the convincing evidence based on which it created Deferred Tax Asset in notes on accounts.

Concept No. 4 - Re-assessment of Unrecognised Deferred Tax Assets

On every balance sheet date, an entity should reassess unrecognised Deferred Tax Asset.

If it becomes reasonably certain that such unrecognised deferred tax asset will be realised then such unrecognised Deferred Tax Asset shall be recognised immediately.

Concept No. 5 - Recognition of deferred tax liability

Technically speaking, If accounting profit is higher than taxable profit then Deferred Tax Liability shall be recognised.

For recognition of Deferred tax liability there is no need to analyse any certainty level.

Concept No. 6 - Review of Deferred Tax Asset:

If it is evident that any portion of deferred tax asset already recognised is **not recoverable** then **Deferred Tax Assets** shall be **written down** to that extent.



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Concept No. 7- Measurement of Deferred Tax Asset and Liability:

It should be measured **using the applicable tax rates** and tax laws that have been enacted OR substantively enacted as on the balance sheet date.

When different tax rate is applicable for two different level of taxable income then average rate should be used.

**Concept No. 8 - Minimum Alternate Tax**

The concept of Minimum Alternate Tax (MAT) was introduced under Income Tax Act to tax companies making high profits and declare dividends to their shareholders but have no significant taxable income because of exemptions, deductions and incentives



The payment of tax under section 115JB of the Income-tax Act, 1961 is a current tax for the period.

Even though the company pays tax U/S 115JB, Deferred Tax Asset or Liability should be recognised and measured using the regular tax rates and not using MAT rate.

Regular tax rates should be used even if the company expects the reversal of deferred taxes during MAT period because it is an expectation and cannot be known with a reasonable degree of certainty.

This is to bring the uniformity between pre and post MAT period.

Mat Credit

MAT credit is the excess amount of MAT paid over and above normal income tax for the assessment year

MAT credit can be carried forward for set off in 7 years in which the company is liable to pay tax

It should be recognised as an asset only when the entity has reasonable certainty that it can get the benefit of set off.



Concept No. 9 - Tax Holidays:

Meaning

Period under which a government gives incentive to applicable entities not to pay tax for certain activities.

Treatment under AS-22

- The deferred tax in respect of timing differences arising and reversing during tax holiday period should not be recognised to the extent the gross total income of the enterprise is subject to such deduction.
- The deferred tax in respect of timing difference which will reversed after tax holiday period should be recognised in the year in which it is originated subject to condition of certainty.
- Timing differences which originate first should be reversed first.



AS 24 - Discontinuing Operation

Objective Of AS - 24

The objective of this Statement is –

To establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position **by segregating information about discontinuing operations from information about continuing operations.**

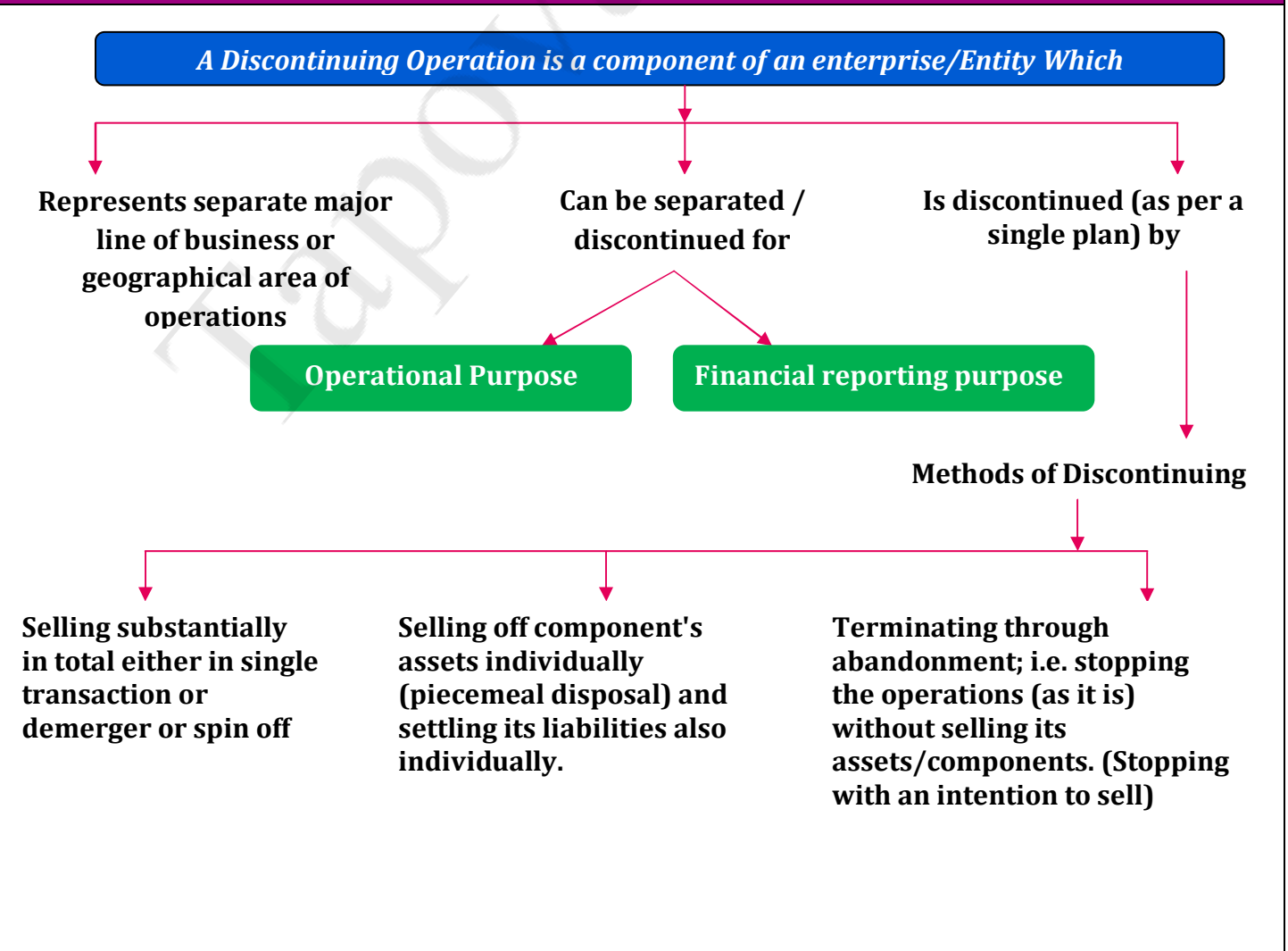
E.g. RN Company is engaged in business like Electronics and Two Wheeler Manufacturing is planning to sell (discontinuing operation) its Two wheeler division.

As per this AS the company should disclose the revenue, profit, assets, liabilities and other information of that discontinuing operation (Component – Two wheeler division) in the financial statements

Scope of AS - 24

This Statement applies to all discontinuing operations of an enterprise. The requirements related to cash flow statement contained in this Statement are applicable where an enterprise prepares and presents a cash flow statement.

Discontinuing of operation - Explanation with Chart



Definition

A **discontinuing operation** is a component of an enterprise:

- a. That the enterprise, pursuant to a single plan, is:
 - Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
 - Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
 - Terminating through abandonment; and
- b. That represents a separate major line of business or geographical area of operations; and
- c. That can be distinguished operationally and for financial reporting purposes.

Initial Disclosure Event

With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- a. The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- b. The enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

Recognition and Measurement

An enterprise should apply the principles of recognition and measurement that are set out in other Accounting Standards for the purpose of deciding as to when and how to recognise and measure the changes in assets and liabilities and the revenue, expenses, gains, losses and cash flows relating to a discontinuing operation.

This Statement does not establish any recognition and measurement principles. Rather, it requires that an enterprise follow recognition and measurement principles established in other Accounting Standards.

Presentation and Disclosure**Initial Disclosure**

An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

1. A description of the discontinuing operation(s);
2. The business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;

3. The date and nature of the initial disclosure event;
4. The date or period in which the discontinuance is expected to be completed if known or determinable;
5. The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;
6. The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
7. The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, & the income tax expense related thereto; and
8. The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

Other Disclosures

When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:

- a. For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss; and
- b. The net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

Updating the Disclosures

An enterprise should include, in its financial statements, for periods subsequent to the one in which the initial disclosure event occurs, a description of any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled and the events causing those changes.

The disclosures required above should continue in financial statements for periods up to and including the period in which the discontinuance is completed. Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received.

If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefore and its effect should be disclosed. For this purpose, disclosure of the effect includes reversal of any prior impairment loss or provision that was recognised with respect to the discontinuing operation.

Separate Disclosure for Each Discontinuing Operation

Any disclosures required by this Statement should be presented separately for each discontinuing operation

Restatement of Prior Periods

Comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event should be restated to segregate assets, liabilities, revenue, expenses, and cash flows of continuing and discontinuing operations

Disclosure in Interim Financial Reports

Disclosures in an interim financial report in respect of a discontinuing operation should be made in accordance with AS 25, Interim Financial Reporting, including:

- a. Any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation; and
- b. Any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled.

CA INTERMEDIATE

ADV.ACCOUNTING

Accounting Standards -

BENCHMARK



Rohan Sir se Padhoge toh ye Guarantee hai...

AS *sirf samjenge nahi*
Yaad Hoo Jayenge !!



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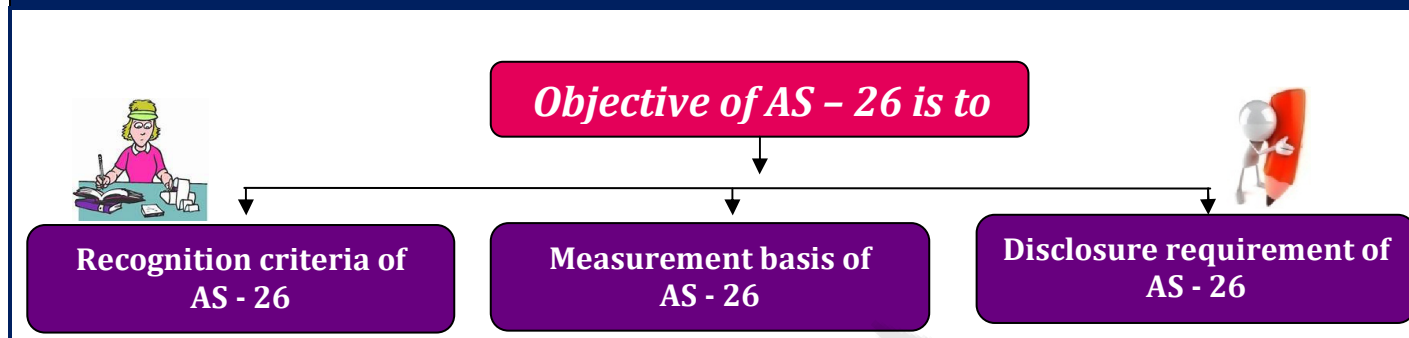
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Accounting Standard 26: Intangible Assets

Objective of AS - 26



Scope

The following intangibles are NOT covered by this Standard:

(a) Intangible assets that are covered by another Accounting Standard;

1. Goodwill arising on amalgamation - dealt by AS 14;
2. Goodwill arising on consolidation - dealt by AS 21;
3. Intangible assets held for sale in the ordinary course of business - dealt by AS 2; etc.
- 4.

When any intangible asset is specifically dealt by any other Accounting Standard, entities should follow that standard only.

(b) **Financial asset**; (Dealt by AS 109, 32 & 107)

(c) **Mineral rights and expenditure** on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources; (Dealt by Industry standards)

(d) **Intangible assets** arising in insurance enterprises from contracts with policyholders; and

(e) **Expenditure in respect of employee termination benefits**; (Dealt by AS 15)

(f) **Voluntary retirement benefits (VRS)** are specifically excluded; (Dealt by general principles of accounting)

This AS is mandatory in nature and all companies and non-companies should be applying this standard.

Meaning of Intangible Assets

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

NOTE:

- Identifiable means capable of sales
- Without physical substance means non-substance of its own. They can have storage device
- Such assets is not held for sale as stock
- Such assets is non-monetary means its realisation is not fixed.

These are not considered as Intangible Assets and written off

- Preliminary Expenses
- Advertisement Expenses
- Underwriting Expenses
- Pre-Operative Expenses
- Voluntary Expansion Expenses
- Discount on issue of shares
- Relocation/Shifting Expenses

Intangible assets with or without physical substance

- A compact disk (in the case of computer software);
- Legal documentation (in the case of a licence or patent); or
- Film (in the case of motion pictures).

The container value is usually immaterial. Even though the container has physical substance, its value is commonly treated as a part of the intangible asset (included in the cost of intangible asset).

In case of some assets, an asset may have both intangible and tangible elements and these are practically not separable. In that case, professional judgement is required to assess which element is predominant. If intangible element is important to the asset, the entire asset is treated as intangible asset and accounted as per this Standard. If tangible element is important to the asset it is treated as tangible asset and accounted as per AS 10 (subject to fixed asset definition).

Intangible Assets can be recognised

- (a) By purchasing/Acquisition
- (b) By Government grants
- (c) By exchange with other assets
- (d) By self generating such assets

Purchased intangible assets

It means intangible assets have been purchased from market.

In such cases cost of such intangible should be

Purchase Price	xxx
Add:- Taxes on Purchase,	xxx
Less:- Refundable Taxes on Purchase,	xxx
Add:- Expenses on Valuation,	xxx
Add:- Expenses on obtaining Title,	xxx
Cost of Intangible Asset	xxx

Intangible Assets by way of Government grant

Wherever intangible assets are obtained through Government grant, then such assets should be recorded at actual concessional price paid to Government or at nominal value if obtained free of Government.

Intangible assets obtained on Exchanges

If intangible assets are obtained through exchange of assets, then value of such intangible should be

- (i) Fair value of assets given or
- (ii) Fair value of assets obtained, whichever is more clearly evident.

For Exam Purpose, consider lower value as more evident.

Self Generated Intangible Assets

It means, where intangible assets are generated by contract or own Labour.

- Goodwill, Brands, Masthead, Title, Publishing Titles should NOT be recorded Intangible Assets, since actual cost cannot be determined.
- Other intangible assets should be recorded at actual cost incurred.

Research Phase

Expenses incurred in research should be written off in P&L. It means planned investigation for gaining knowledge.

Development Phase

Expenses incurred on Development should be capitalized. It means application of gained knowledge.

NOTE: Development phase begins if following conditions are satisfied:

- (i) Technical feasibility has been established
- (ii) Resources for development of it.
- (iii) Market research shows future economic benefits
- (iv) Management has approved its development.

Value of intangible assets should not exceed expected future economic benefits.

Amortisation of Intangible Assets

Intangible assets should be amortised in ratio of expected future benefits. Such ratio should be latest and best estimate.

If ratio of future benefits cannot be identified, then assume such ratio to be equal. It means apply Straight Line Method basis for amortisation.

- Life of Intangible Assets (under SLM) for website and software : 3-5 years
- Life of Intangible Assets (under SLM) for others : 10 years

Always assume scrap value to be zero.

Disclosure Requirement

1. Intangible Assets, cost, Amortisation, life should be disclosed.
2. Additions / Deletion in Intangible Assets should also be disclosed.

AS – 29 Provisions, Contingent Liabilities and Contingent Assets

Objective of AS - 29

Objective of AS – 29 is to

Recognition criteria of

Measurement basis of

Disclosure requirement of



Provisions

Contingent
liabilities

Contingent
Asset

Applicability of AS - 29

Not applicable to Provisions arising from/In

1. financial instruments which are carried at fair value
2. Executory contracts (A contract where both the parties to the contract have not performed any obligations (or) performed equally)
3. Insurance enterprises from contracts with policyholders
4. Covered by another accounting standard E.g. For the provisions required as per AS 7, AS 22, AS 19, etc.

Important Concepts



Provision

Provision is a liability which can be measured only by using a substantial degree of estimation



Liability

It is a present obligation arising from past events, the settlement of which is expected to result in an outflow of future economy benefits from the entity.



Present

Which is in existence as on the balance sheet date & it is 'probable' based on the evidence available on the balance sheet date.

**Probable**

- It means "more likely than not" i.e. the probability of occurrence is greater than non occurrence. In other words, there are more than 50% chances to get an obligation.

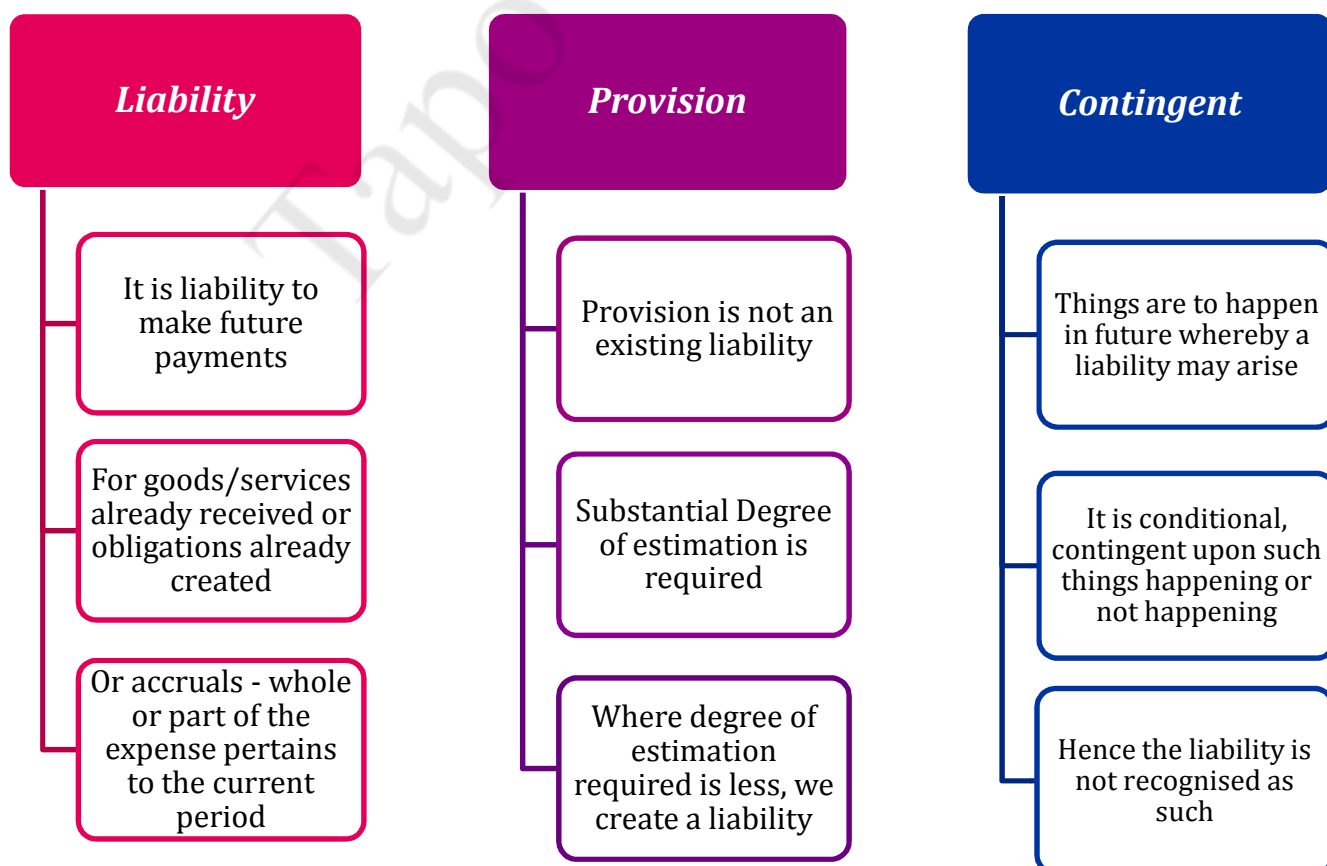
**Obligation**

- Obligation is a duty or responsibility to act in a certain way arising from binding contracts Statutes Business practice/ customs to maintain good relationship.

**Past Events**

- Past activities are obligating events, where the entity doesn't have an alternative to skip such an obligation.
- All past events are not obligating events. A past event which leads to a present obligation is called obligating event.

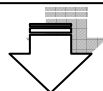
Difference between liabilities, provisions and contingent liability



1. Provision

Recognition of Provision

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



1. The entity should have a present obligation arising from **past events**.
2. Outflow of **future economic benefits** should be probable; and
3. Provision should be measured reliably by using a substantial degree of **estimation**.

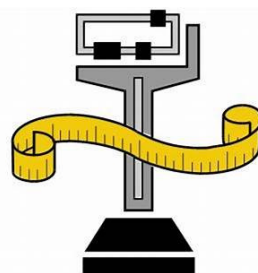


Estimation: Measurement of the provision requires a substantial degree of estimation. Estimation involves professional judgment.

Measurement of the provision

The estimation should be based on the best estimation available on the balance sheet date and the entity should consider the following while estimating:

- Sufficiency of evidence available;
- Events occurring after the balance sheet date (AS 4);
- Experiences of the management on similar transactions;
- Independent expert's opinion; (Lawyer, Engineer, etc.)
- Risks and uncertainties of the items;



Changes in Provisions

1. Provisions should be **reviewed** at each balance sheet date
2. Should be **Adjusted based** on the best evidence /estimate available as on that date.
3. If there is no outflow of future economic benefits as on the subsequent balance sheet date, the provision **should be reversed**.



Provision Specific Situation



Provision - Specific Situation



Future operating losses

Discounting of a provision

No Liability

No provision

**Assets of the operation
may be impaired.**

Amount of a provision should not be discounted to its present value, except decommissioning, restoration and similar liabilities recognised as cost of PPE

- Use before tax borrowing rate as discount rate.
- The rate used should be based on risks involved in the liability.
- Periodic unwinding of discount should be recognised in the statement of profit and loss.

2. A Contingent Liability



Contingent Liability

Present Existence

Possible Existence

But cannot recognise provision because of

Existence confirmed by

**Future Economic
Benefits out flow is
not probable**

**Amount cannot be
measured reliably**

**Occurrence OR Non
Occurrence of One or More**

Not controlled by entity

Meaning of contingent liability

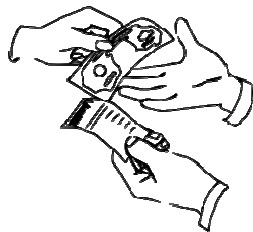
A Contingent liability is

(a) A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, which are not fully within the control of the entity; OR

(b) A present obligation arising from past events but it is not recognised as a provision because:

- (i) Outflow of future economic benefits are not probable; or
- (ii) A reliable estimate of the obligation cannot be made.

Examples: - Bills Discounted, Guarantees Given, Tax disputes pending, and other legal cases pending before the court.

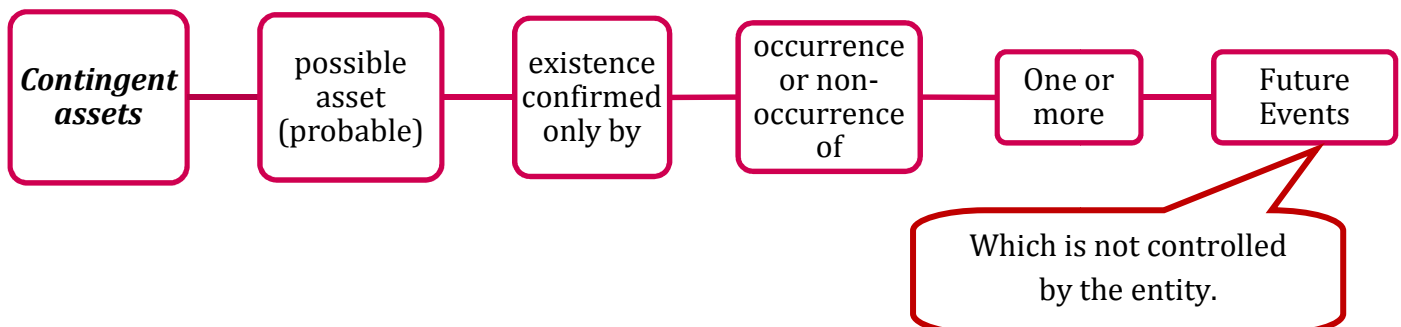


Recognition of contingent liability

It should be disclosed in financial statements in notes to accounts, if outflow of future economic benefits is not remote (rare).

3. Contingent Asset

Meaning of Contingent Assets



Contingent asset usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise.

Recognised Contingent Asset only when it satisfies all of the following conditions



1. Inflow of **future economic benefits** is probable; and

2. Cost or value can be measured reliably



A claim that an entity is going through legal processes, where the outcome is uncertain.



Reimbursements of Expenses

In some cases an entity may receive the reimbursement of expenses from another party, if it settles the obligation (for which provision is already created).

The reimbursement should be recognised as an asset only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

Example :

- An insurance contract arranged to cover a risk;
- An indemnity clause in a contract; or
- A warranty provided by a supplier.

Restructuring Provision

Restructuring is a Programme Planned Controlled by Management which materially changes The scope of business OR The manner in which that business is conducted

1. Sale or termination of a line of business
2. The closure of business locations in a country or region or the relocation of business activities from one country or region to another
3. Changes in management structure, for example, eliminating a layer of management
4. Fundamental re-organisations that have a material effect on the nature and focus of the enterprise's operations

A restructuring provision should include only the direct expenditures arising from the restructuring:

- (a) Obligation is arising as a consequence of the restructuring; and
- (b) Which is not associated with the ongoing activities of the enterprise.



<i>Disclosure related Provision</i>	<i>Disclosure related Contingent liability</i>
<ul style="list-style-type: none"> 1) Brief description of the nature of the provision and timing of Future Economic Benefits outflow; 2) Assumptions made and uncertainties involved. 3) Opening balance of the provision; 4) Additions made during the year; 5) Amount used (i.e. Amount incurred or charged against) during the period; 6) Unused amounts reversed during the period. 7) Closing balance of the provision; 	<p>An entity should disclose the following for each class of contingent liability at the balance sheet date</p> <ul style="list-style-type: none"> 1) A brief description of the nature; 2) An estimation of its financial effect; 3) An indication of the uncertainties relating to any outflow; and 4) Any possibility of reimbursement.

About the Author



CMA CS Rohan Nimbalkar (15+ Years Teaching Exp.)

- Rohan Sir is among few CS in India who have completed CS just at the age of 21.
- Rohan Sir is known for Introducing India's First Accounts Marathon back in 2017 & also India's First Coloured Notes with Graphics for Accounts.
- Rohan Sir is one of the most Experienced Faculty with a immense teaching experience of 15+ years to CA students. In his entire career he has taught more than 25000+ CA & CMA Students till date.
- Easily understandable language, Bulleted Points, Picture Graphics, Charts, Images for Conceptual Clarity, of his notes makes the student's task easy. His notes are designed as per ICAI Guidelines with Exam Oriented Approach.
- During the course Rohan Sir also guides students regarding Meditation & Spirituality which helps students to Focus on their studies, Avoids distraction, Lowers Stress etc.
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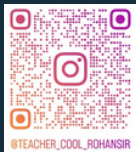
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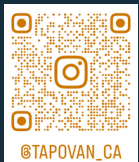
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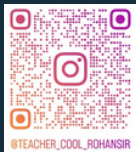
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