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C4 - CASH FLOW STATEMENT [CA SANDESH C.H]

① MEANING

(a) It is a Statement which shows Inflows & outflows of cash & cash Equivalents

(b) Cash Equivalents are highly liquid Investments with Maturity of 3 months or less & has Insignificant value change Risk.

(c) It is covered by AS 3

(d) Inflows & outflows are shown under Operating, Investing & Financing Activities.

(e) Operating cash flows can be found using Direct Method or Indirect Method.

② PROFIT & LOSS A/c

PBIT	xxx
(–) Interest	(xxx)
PBT	xxx
(–) Tax	(xxx)
PAT	
(–) Appropriations:	
→ Transfer to Reserves	(xxx)
→ Preference Dividend	(xxx)
→ Equity Dividend	(xxx)
Profit After All Adjustments to B/s	xxx

③ OPERATING CASH FLOW INDIRECT METHOD

Profit After All Adjustments	xxx
+ Non Cash Expense: Depreciation, Amortization, Transfer to Reserves, Preliminary Expense written off, Discount on issue of Debentures	xxx
+ Non Operating Expense: Interest paid, Loss on sale of PPE/ Investment, Proposed Dividend, Premium on Redemption of Preference shares/ Debentures	xxx
− Non Operating Income: Interest/ Dividend Received, Profit on sale of PPE/ Investment, Discount on Redemption of Debentures	
± Working Capital [WC] Changes:	
↑/↓ in current Asset = (−)/+	
↑/↓ in current Liability = +/(−)	
↑/↓ in WC = (−)/+	
(−) Tax Paid	(xxx)
Net Cash Flow From / [used in] Operating Activities	xxx

④ PROVISION FOR DEPRECIATION

(a) When Provision for Dep'n A/c is maintained. PPE Ledger will always be shown at original cost.

(b) When PPE is DeRecognised [sold / Donated / written off] then cancel Provision for Depreciation for that Asset.

(c) Format of Provision for Depreciation A/c

To PPE [sold / written off]	xxx	By Balance b/d	xxx
		By P&L [Depreciation]	xxx
To Balance c/d	xxx		
	xxx		xxx

⑤ DIVIDEND

(a) If Dividend payment in current year is not given in the problem & just Opening & closing balance of Proposed Dividend / Dividend payable is mentioned.

(b) Then Assume Last year Dividend [Opening balance of proposed Dividend] is paid in current year. [Same Assumption is made for provision for Taxation also]

(c) Format of Proposed Dividend A/c

To Bank [Dividend Paid]	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P&L [current year dividend proposed]	xxx
	xxx		xxx

⑥ PROVISION FOR TAX

FORMAT

To Bank [Tax paid]	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P&L A/c	xxx
	xxx		xxx

⑦ OTHERS

(a) If Adjustments like bad debts, Discount to Dr's, Discount from Cr's is given, then Ignore such Adjustments for Indirect Method.

(b) Consider Interest on Debentures / Loan in Operating Activity [+] & Financing Activity [−]

INTRODUCTION & OVERVIEW OF ACCOUNTING STANDARDS

① MEANING

a) Accounting Standards [AS] are written policy documents issued by Government.

b) **AS Covers :**

i] Recognition
ii] Measurement
iii] Presentation
iv] Disclosure

of Accounting Transaction in Financial statements [FS]

② BENEFITS OF AS

[i] Standardized Accounting Treatments
[ii] Additional Disclosure Requirements
[iii] Comparability of FS.

③ LEVEL I ENTITIES

Non Corporate Entities which are :-

[i] Listed / process of Listing in Stock Exchanges of India / outside India.
[ii] a Bank / Financial Institution / Insurance Company.
[iii] TurnOver > 250 cr in previous year
[iv] Borrowings > 50 cr.

[CA SANDESH C.H]

INTRODUCTION & OVERVIEW OF ACCOUNTING STANDARDS

(4) LEVEL II ENTITIES

Non Corporate Entities whose:

a) Turnover > 50cr but does not Exceed 250cr.

b) Borrowings > 10cr but does not Exceed 50cr.

(5) LEVEL III ENTITIES

Non Corporate Entities whose:

(a) Turnover > 10cr but does not Exceed 50cr.

(b) Borrowings > 2cr but does not Exceed 10cr.

(6) LEVEL IV ENTITIES

Entities other than Level I, II & III

(7) SMALL & MEDIUM SIZED COMPANY [SMC]

It is a company.

(a) Not Listed / Nor in the process of Listing in India / outside India

(b) Not a bank / Financial Institution / Insurance Company.

(c) Turnover ≤ 250 cr

(d) Borrowings ≤ 50 cr.

- AS 3, AS 17, AS 21, AS 23, AS 27 ⇒ NOT APPLICABLE FOR LEVEL II, III IV & SMC
- AS 18 → LEVEL I & II APPLICABLE
- AS 18 → LEVEL III & IV NOT APPLICABLE

AS 2 — VALUATION OF INVENTORY [CA SANDESH C.H]

① EXCEPTIONS

→ Construction Contracts

→ Produce Inventory of Agri products, Mineral Ores, Forest Produce.

[Valued at NRV]

② BASIS OF VALUATION

COST

(a) Purchase Cost

(b) Conversion Cost

(c) Present Location & condition.

(d) Fixed O/H's on Normal capacity or Actual capacity whichEver is Higher

(e) Link Raw Material valuation to FG

* If FG at cost, Raw material at cost

* If FG at NRV, Raw material at Replacement cost.

NRV

NRV = Expected S.P
(−)
Expected Selling cost
(−)
Further production cost if any.

③ JOINT PRODUCTS

COST ALLOCATION

(a) Total Sales Value

OR

(b) Total Sale value at Relative Split off point OR

(c) Units produced

Agri = Agriculture

NRV = Net Realizable value

SP = Selling price

AS 2 - VALUATION OF INVENTORY [CASANDESH C.H]

④ BY PRODUCT

(a) Find Realizable value [RV]

(b) Deduct RV from main Product cost.

⑤ EXCLUSIONS

(a) Abnormal Loss

(b) Storage Cost

(c) Admin & Selling O/H's.

(d) Refundable Taxes.

⑥ COST FORMULA

(a) Specific Identification Method.

(b) FIFO / Weighted Average

(c) Standard Costing.

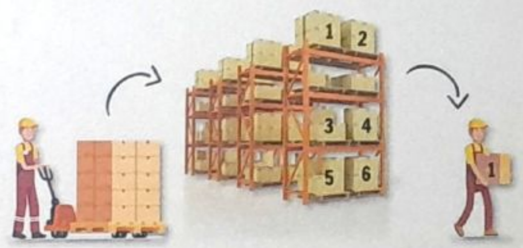
(d) Retail Method.

⑦ DISCLOSURE

(a) Cost Formula

(b) Components of Inventory Value.

First In, First Out (FIFO) Method



AS 12 - ACCOUNTING FOR GOVERNMENT GRANTS [CA SANDESH C.H]

① MEANING

Incentives, Subsidies Received from Government

② ACCOUNTING APPROACH

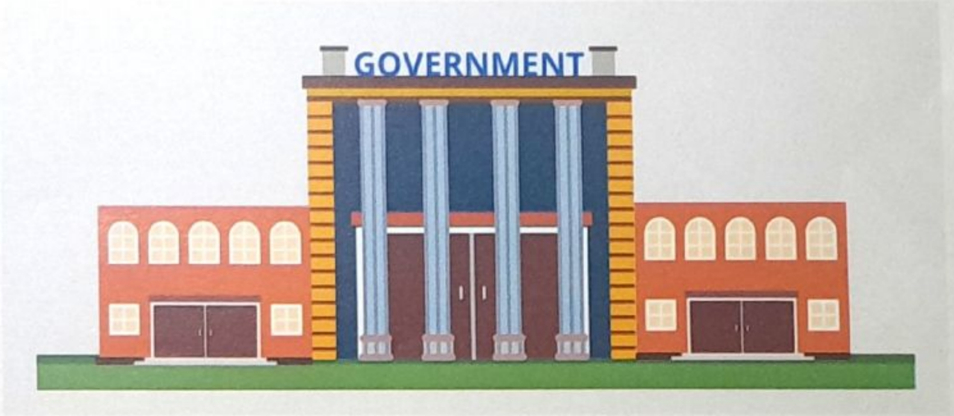
CAPITAL APPROACH

Grants which are received in nature of promoter's contribution

Shown as Capital Reserve.

INCOME APPROACH

Grants Received are shown in P&L A/c under other Income OR it can be deducted from Related Expense.



③ RECOGNITION CRITERIA

Reasonable Assurance of:

i] Fulfillment of conditions.

ii] Receipt of Grant

④ NON MONETARY GRANT RECEIVED

- At Free of cost → Grants shown at Nominal value [Ex : Rs 100]
- At Concessional Value → Record Grant at Concessional Value itself.

AS 12 – ACCOUNTING FOR GOVERNMENT GRANTS [CASANDESH C.H]

5. MONETARY GRANT RECEIVED FOR SPECIFIC FIXED ASSET [PPE]

Asset cost Reduction Method

(a) Cost of Asset will ↓

(b) Depreciation of Asset will ↓

(c) On Refund of Grant:

i] cost of Asset will ↑

ii] Depreciation of Asset will ↑

Deferred Govt Grant Income Method

(a) Cost & Depreciation on Asset is **NOT** affected

(b) Grant Income Amortised to P&L over useful life of Asset

(c) On Refund:

i] Cost & Dep'n will not change

ii] close Deferred Govt Grant A/c & for Balance Amount use P&L A/c

[Deferred Govt Grant A/c Dr
P&L A/c Dr (B/f)
To Bank A/c]

6. DISCLOSURE

(a) Nature of Grant Received.

(b) Amount of Grant Received.

(c) Accounting Method Adopted for Govt Grant.

AS 16 - BORROWING COST [CA SANDESH C.H]

① MEANING

Borrowing cost is Interest, processing charges incurred on Borrowings.

② QUALIFYING ASSET [QA]

(a) QA are those Assets which takes substantial period of time to get for its Intended Use.

(b) Normally substantial period = 12 Months

(c) QA includes PPE, Intangible Assets & Inventory.

③ ACCOUNTING TREATMENT OF BORROWING COST

- Related to QA → Capitalize to QA
- Others → Transfer to P&L A/c

AS 16 - BORROWING COST [CA SANDESH C.H]

④ TYPES OF BORROWING

General Borrowings → Use weighted Average cost of Borrowing

Specific Borrowings → Use Specific Rate Given.

⑤ COMMENCEMENT OF CAPITALISATION

(a) Borrowing cost is being incurred. &

(b) Expense on QA is being incurred. &

(c) Activities on QA have begun [Including planning Activities].

AS 16 – BORROWING COST [CA SANDESH C.H]

⑥ SUSPENSION OF CAPITALISATION

(a) When Active development of QA is interrupted.

(b) Dont Suspend if delay is Temporary.

(c) Suspended period Interest is Transferred to P&L A/c

⑦ CESSATION OF CAPITALISATION

When Substantially all activities on QA is completed.

⑧ DISCLOSURE

(a) Accounting policy Adopted for Borrowing cost.

(b) Amount of Borrowing cost capitalized during the year.

AS 11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

[CA SANDESH C.H]

1. SCOPE

AS 11 covers all transactions done in currency other than INR.

2. DEFINITION

- **Monetary Items [MI]** → Expressable in Fixed Amount of Money.
- **Non-Monetary Items [NMI]** → other than Monetary items.
- **Foreign Operations [FO]** → Branch, Subsidiary / Joint Venture whose operations are done outside India
- **Integral Foreign Operation [IFO]** → FO Activities are Integral part of Indian Entity.
- **Non Integral Foreign Operations. [NIFO]** → Other than IFO

AS 11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

[CA SANDESH C.H]

③ RECOGNITION

- Ⓐ Initial Recognition
  - Use transaction date Exchange Rate
- Ⓑ SETTLEMENT
  - Use Settlement date Exchange Rate
- Ⓒ BALANCE
  - [i] MI
    - Closing Rate
  - [ii] NMI
    - Valued at
      - Cost
        - Transaction Date Exchange Rate [ER]
      - Other Value [Fair Value / NRV]
        - Use ER on the date Fair Value / NRV is determined.

AS-11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

[CA SANDESH C.H]

(4) EXCHANGE GAIN / LOSS

- **IFO Transactions**
  - Transferred to P&L A/c
- **NIFO**
  - Transferred to Foreign Currency Translation Reserve [FCTR]
    - Transfer from FCTR to P&L A/c when NIFO is sold.
- **LONG TERM FOREIGN CURRENCY LOANS**
  - Used for Depreciable Assets
    - Exchange Loss = Add to Cost Of Asset
    - Exchange Gain = Deducted from Cost of Asset
  - Others
    - Transfer Exchange Gain / Loss to Foreign Currency Monetary Item Translation Difference [FCMITD]
- **Others**
  - Exchange Gain / Loss to P&L A/c

5. CONVERSION OF FOREIGN BRANCH

PARTICULARS	IFO	NIFO
[i] MI	closing Rate	Closing Rate
[ii] NMI	Same as 3©[ii]	Closing Rate
[iii] Income & Expense	Average Rate	Transaction date Rate
[iv] Exchange Gain/Loss	To P&L A/c	FCTR

AS 10 – PROPERTY, PLANT & EQUIPMENT [PPE] [CA SANDESH C.H]

① EXCEPTIONS

AS 10 not applicable to:

[i] Biolgical Assets
[Except Bearer plant]

[ii] wasting Assets
[Mines, Mineral Rights]

② PPE MEANING

(a) Tangible Assets.

(b) Held for use in:

[i] Production of goods

[ii] Supply of service

[iii] Administrative purpose

[iv] Rental purpose.

(c) Used for more than 12 months.

③ BIOLOGICAL ASSETS

(a) Plant

(b) Living Animal.

AS 10 – PROPERTY, PLANT & EQUIPMENT [PPE] [CA SANDESH C.H]

(4) BEARER PLANT

(a) should satisfy all 3 conditions:

(i) used in production/ supply of Agricultural produce.

(ii) Bears produce > 12 M

(iii) Not sold as agricultural produce [Except Scrap Sales]

(iv) AS 10 applies to Bearer plants.

(5) RECOGNITION CRITERIA [RC] of PPE

(a) Probable Future Economic Benefit [FEB] to Entity &

(b) Cost is measured reliably.

(6) SPARE PARTS & STAND BY EQUIPMENTS

PPE Definition & RC of PPE MET

- YES → PPE
- NO → Inventory

Property, Plant, And Equipment (PP&E)

AS 10 – PROPERTY, PLANT & EQUIPMENT [PPE] [CA SANDESH C.H]

7. REPLACEMENT OF PARTS & MAJOR INSPECTION

(a) Recognise as PPE if RC is met.

(b) Reduce carrying amount of old parts / Old inspection charge.

(c) Routine Repairs Charges to P&L A/c.

8. INITIAL RECOGNITION OF PPE

AT COST

- **Purchase cost**
  - \+ Import Duty
  - \+ Non Refundable Taxes
  - − Trade Discount
- **Directly Attributable cost [DAC]**
  - To Bring PPE to present Location & management intended condition.
- **Decommissioning & site Restoration cost [DSR]**
  - Add present value of DSR cost to PPE
- **Exclusions**
  - (i) Refundable Taxes
  - (ii) Relocating & Reorganising cost
  - (iii) Inaguration cost.
  - (iv) Operating Expense
  - (v) General Administrative & Selling & Distribution Expense.

Property, Plant Equipment

AS 10 – PROPERTY, PLANT & EQUIPMENT [PPE] [CA SANDESH C.H]

9 SUBSEQUENT RECOGNITION

Cost Model

Disclose PPE in B/s at cost less Depreciation for Each year.

Revaluation Model

(a) Show PPE at Fair value [FV]

(b) To be applied on Entire class of PPE

(c) class = Group of PPE with similar nature & use for Entity.

(d) volatile PPE = Annual Revaluation

(e) other PPE = Revaluation in 3 or 5 years

(f) Revaluation to be done by Qualified Valuers.

10 PPE ACQUIRED ON DEFERRED CREDIT

(a) Recognise PPE at cash price

(b) Total price (–) cash price = Interest

(c) Recognise Interest in P&L A/c over credit period.

11. PPE ACQUIRED ON EXCHANGE

(a) Record PPE Acquired at FV

(b) Record new PPE at Book Value of PPE given up when:

i] Transaction Lacks Commercial Substance

- Asset wise Cash Flow is same & Entity wise cash flow also same

ii] FV is not determinable

12. DEPRECIATION

(a) Depreciable Amount should be Allocated on Systematic Basis Over useful life of PPE.

(b) Depreciable Amount = Carrying Amount (–) Residual Value.

(c) Depreciation Starts from the date PPE is ready to use.

(d) Depreciation Method should be based on Pattern of Economic Benefits derived from PPE.

(e) Pattern of Benefit changes = Change Depreciation Method also

(f) Dep'n Based on Revenue is **NOT** correct.

(g) Annually Review useful life & Residual value of PPE & any change in them is A/c'g Estimate Change & Accounted Prospectively & Depreciation also ↑/↓

(h) Separate Land value from Building & depreciate Only Building.

(i) Depreciation Stops when **PPE** is sold, Donated, Retired from Active Use or **FEB** stops.

13 RETIREMENT OF PPE

(a) Retirement = Active use of PPE stopped.

(b) Such PPE valued at Lower of :

i] Carrying Amount and

ii] Net Realizable Value.

14 DISCLOSURE

(a) Depreciation Method Used

(b) Revaluation information like date, Independent valuer & his assumptions.

(C) Reconciliation of opening Balance of PPE with closing Balance.

(d) PPE Retired from Active use & held for Disposal.

Property, Plant, and Equipment

AS 13 AND INVESTMENT ACCOUNTS [CA SANDESH C.H]

① MEANING

(a) Investments are Assets held to Earn Interest, dividend & Capital Appreciation.

(b) Acquisition charges like Brokerage, Stamp Duty should be added to cost of Investment.

(c) If Investment is Acquired through Exchange of Non-Monetary Asset then use Fair Value of Asset given up/acquired whichever is more clearly Evident.

② TYPES OF INVESTMENT

Short Term/Trading/Current Investments

(a) Intention to hold is Less than 12 m from date of Investment.

(b) Valued at Lower of cost or market value.

(c) Can be valued on Individual Basis or Category Basis [Overall/Global basis valuation not allowed]

Long Term/Non current Investments

(a) Intention to hold is more than 12 M from date of Investment.

(b) Valued at Cost.

(c) Temporary Decline in value of Investment is ignored.

(d) Permanent Decline in value is accounted.

[Indicators: Fall in market price of share, Cash Flow ↓, Results, Loss of substantial Market share etc]

(e) Valued on Individual Basis

3) RECLASSIFICATION OF INVESTMENTS

Particulars	Transfer is Accounted at
Long Term To current Investments	Lower of Cost or Carrying Amount on date of Transfer
Current Investments to Long Term Investments	Lower of Cost or Fair Value on date of Transfer.

i] Purchaser will get Right shares & Dividend [Even if such Dividend relates to last y.r. but declared in current year]

4) OTHERS

(a) Ex Interest Price:

i] Purchase / Selling price of Investment. Excludes interest.

ii] Interest is paid /received but same is **NOT** included in purchase / selling price

(b) CUM Interest price:

i] Purchase / Selling Price of Investment. Includes Interest.

ii] Find out Interest & **Deduct** it from purchase / selling Price of Investment

(c) Accrued Interest A/c

i] This A/c will have opening balance & closing balance [For 3 Months] only if Interest due date on Investment & Accounting year is NOT Same.

Interest due date	A/c'g year
30/6 & 31/12	1/4 - 31/3
31/3 & 30/9	1/1 - 31/12

(d) Equity shares on CUM Right or CUM Dividend Basis:

ii] This is Pre Acquisition Dividend & should be Reduced from cost of Investment.

iii] Bank A/c Dr

To Investment A/c

AS 1 – DISCLOSURE OF ACCOUNTING POLICY [CA SANDESH C.H]

① ACCOUNTING POLICY [AP]

a) AP are principles & Methods used in preparing Financial Statements [FS]

b) AP should be Disclosed in oneplace.

c) Disclosure of AP is not remedy for Incorrect Treatment.

② REASON FOR DISCLOSURE OF AP

a) Better understanding of FS.

b) For comparision of FS.

c) Required by Law.

d) Required by AS-1

③ FUNDAMENTAL ACCOUNTING ASSUMPTION

a) Going Concern:
Entity is Expected to continue its operation for Foreseeable Future.

b) Consistency:
AP should be consistency followed Every year.

c) Accrual:
Expense & Income should be Recognised as & when they occur irrespective of cash paid / Received.

Fundamental A/c'g Assumptions:

Followed : No Disclosure Required.

Not Followed : Disclose this fact.

AS 1 – DISCLOSURE OF ACCOUNTING POLICY [CA SANDESH C.H]

④ CONSIDERATION FOR SELECTING AP

a) Prudence:
Anticipated Loss is Accounted & Anticipated future profit is NOT Accounted.

b) Substance over Form:
Transaction should be Accounted based on their substance & not on their Legal Form.

c) Materiality:
FS should Disclose all Material Items.

⑤ CHANGE IN AP

Has material Effect in current year or Future year.

- YES → Disclose fact of Change in AP & its effect on FS.
- NO → NO Disclosure Required.

Has material Effect in Future year but amount Cannot be Found out / Quantified.
→ Disclose the fact of change in AP & that amount cannot be Quantified.

(a) Adoption of New AP is NOT change in AP.

(b) Adoption of AP for New Transaction / For a Transaction which significantly differs from previous occuring Events is NOT change in AP.

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCH

① JOURNAL ENTRIES FOR INDEPENDENT BRANCH

CASE	HO BOOKS	BRANCH BOOKS
i] Goods sent to Branch By H.O.	Branch A/c Dr To Goods sent to Branch A/c	Goods Received from H.O A/c Dr To Head office [HO] A/c
ii] Goods Returned by Branch.	Goods Sent to Branch A/c Dr To Branch A/c.	HO A/c Dr To Goods Received from HO A/c
iii] Branch Expense paid by HO	Branch A/c Dr To Bank A/c	Expense A/c Dr To HO A/c
iv] collections from Dr's of branch received by HO	cash / Bank A/c Dr To Branch A/c	HO A/c Dr To Debtors A/c
v] Remittance of funds by HO to branch	Branch A/c Dr To Bank A/c	Bank A/c Dr To HO A/c
vi] Remittance of funds by Branch to HO	Bank A/c Dr To Branch A/c	HO A/c Dr To Bank A/c

② CLOSING STOCK

Opening Stock	xxx
+ Purchases	xxx
+ Goods from HO	xxx
− Cost of Goods Sold	(xxx)
− Cost of Goods Lost	(xxx)
Closing Stock of Branch	xxx

* NP ⇒ Net Profit
* NL ⇒ Net Loss

③ BRANCH A/c

To Balance b/d [Of All assets]	xxx	By Balance b/d [All Liabilities]	xxx
To Goods sent to Branch A/c [Goods sent]	xxx	By Goods sent to Branch [Goods Returned]	xxx
To Bank A/c [Branch Expense paid by HO]	xxx	By Bank A/c [Remittance by Branch to HO]	xxx
To Bank A/c [Remittance by HO to Branch]	xxx	By Stock Reserve [On opening stock]	xxx
To Creditors A/c [Direct purchases made by Branch]	xxx	By Goods sent to Branch A/c [Profit Element on goods sent to Branch]	xxx
To Goods sent to Branch A/c [Profit Element on goods returned by branch to HO]	xxx	By Balance c/d [of All assets]	xxx
To Stock Reserve [on closing stock]	xxx	By P&L A/c B/f (NL of Branch)	xxx
To Balance c/d [on all liabilities]	xxx		
To P&L A/c B/f (NP of Branch)	xxx		

④ STOCK & DEBTORS METHOD

(a) Branch Stock A/c

To Balance b/d [Opening Stock]	xxx	By Branch Cash A/c [Cash Sales]	xxx
To Goods Sent to Branch A/c	xxx	By Branch Debtors A/c [Credit Sales]	xxx
To Branch Adjustment A/c [B/f]	xxx	By Balance c/d [Closing Stock]	xxx
	xxx		xxx

• MANAGER COMMISSION

i] Before Charging Commission $= \frac{\text{Net profit} \times \text{Rate}}{100}$

ii] After Charging Commission $= \frac{\text{Net profit} \times \text{Rate}}{100 + \text{Rate}}$

(b) Branch Debtors A/c

To Balance b/d	xxx	By Branch Stock [Sale Return]	xxx
To Branch Stock [Credit Sales]	xxx	By Discount	xxx
		By Bad debts	xxx
		By Branch Cash A/c	xxx
		By Balance c/d	xxx
	xxx		xxx

(c) Goods Sent to Branch A/c

To Purchases A/c [Cost Price]	xxx	By Branch Stock A/c	xxx
To Branch Adjustment A/c	xxx		
	xxx		xxx

4 STOCK & DEBTORS METHOD [CONTD...]

(d) Branch Adjustment A/c

To Stock Reserve A/c [on closing Stock]	xxx	By Stock Reserve A/c [on opening Stock]	xxx
To Branch P&L A/c	xxx	By Goods Sent to Branch A/c	xxx
	xxx		xxx

(e) Branch P&L A/c

To Branch Expense A/c	xxx	By Branch Adjustment A/c	xxx
To Net profit [B/f]	xxx		
	xxx		xxx

5 FOREIGN BRANCH

ITEMS	INTEGRAL FOREIGN OPERATIONS [IFO]	NON INTEGRAL FOREIGN OPERATIONS [NIFO]
a) Monetary items	Closing Rate	Closing Rate
b) Non Monetary items	Date of Transaction / FV or NRV rate	Closing Rate
c) P&L items	Average Rate	Date of Transaction / rate Average Rate
d) Exchange Difference	P&L A/c	Foreign currency Translation Reserve [FCTR]

PREPERATION OF FINANCIAL STATEMENTS [FS] [CA SANDESH C.H]

(1) CHARACTERISTICS OF FS

a) Understandability
b) Relevance
c) Reliability.
d) Comparision.

(2) STATUTORY BOOKS

a) Register of members.
b) Register of Debenture Holders
c) Register of Charges.
d) Register of Contracts.
e) Minute books.

(3) MANAGERIAL REMUNERATION

Based on Profits.

• Any one MD/ whole Time Director [WTD] / Manager	5% of Net profit [NP] as per Section 198
• More than 1 MD/ WTD / Manager.	10% of NP
• Other Directors	1% of NP if there is MD / WTD / Manager 3% of NP if there is no MD / WTD / manager.
• Overall Ceiling Limit	11% of NP.

Co in General Meeting with Central Government approval may pay more than 11% of NP as Managerial Remuneration.

④ INADEQUATE / NO PROFITS

Remuneration as per Schedule V

Effective Capital	Remuneration per annum
a) Negative or Less than 5 crores.	60 Lacs
b) 5 crores & above but less than 100 crores	84 Lacs
c) 100 crores & above but less than 250 cr	120 Lacs
d) 250 crores & above	120 Lacs + 0.01% of Effective capital in Excess of 250 crores.

⑤ EFFECTIVE CAPITAL

Paid up Preference share Capital	xxx
+ paid up Equity share Capital [Excluding share application money pending allotment]	xxx
+ Reserves & Surplus [Excluding Revaluation Reserve]	xxx
+ Long Term Loans & Advance Taken	xxx
− Investment [Dont deduct Investment if its Investment Company]	(xxx)
− Accumulated Losses	(xxx)
− Preliminary Expenses not written off	(xxx)
EFFECTIVE CAPITAL	xxx

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⑥ DIVIDEND OUT OF RESERVES

(a) Rate of Dividend ≤ Average Rate of Dividend for Last 3 years.

(b) Amount to be withdrawn from Reserves ≤ 10% of [paid up capital + Free Reserves as per Latest Audited FS]

(c) Balance in Reserve after withdrawal should NOT fall below 15% of paid up share capital as per Latest Audited FS.

⑦ DISCLOSURE IN NOTES TO ACCOUNTS

(a) Authorised share capital

(b) No of shares issued for consideration other than cash.

(c) Dividend declared after B/s date will NOT be accounted but only Disclosed in notes to Accounts.

(d) Calls in Arrears is deducted to get paid up capital.

(e) Loan Taken → From Bank / Related parties / Others. } Secured & unsecured portion to be Disclosed

(f) Interest on Loan Accrued but not due is deducted from Loan Amount & shown under other current Liabilities & Balance amount of Loan is shown under Long Term Borrowings.

(g) Bank Balance → Balance with Scheduled Bank / Other Banks.

PREPERATION OF FS

[CA SANDESH C.H]

8 OTHERS

(a) Cost of Material consumed = Opening Stock of Raw Material + Purchase of Raw Material (−) Closing Stock of Raw Material

(b) Changes in Inventory = Opening Stock of WIP + Opening Stock of Finished Goods [FG] (−) Closing Stock of WIP (−) Closing Stock of FG

(c) Adjusted Purchases [AP] = Opening Stock + Purchases (−) Closing Stock

(d) When AP is given, closing stock appears in Trial Balance [TB]. In Normal cases, only opening stock appears in TB.

9 CURRENT ASSETS [CA]

(a) Cash or Cash Equivalent

(b) Expected to be Realized or consumed within Entity's operating cycle [OC].

(c) Held for Trading purpose.

(d) Expected to Realize within 12 M from End of B/s date.

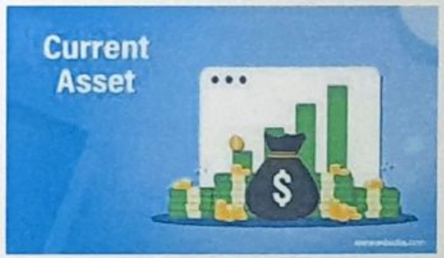
10 CURRENT LIABILITIES [CL]

(a) Expected to be paid within Entity's OC.

(b) Held for Trading purpose.

(c) Expected to be paid within 12 M from B/s date or

(d) Co does not have unconditional right to defer the payment beyond 12 M from B/s date.



C1 - INTERNAL RECONSTRUCTION [CA SANDESH C.H]

① MEANING

(a) Showing Assets & Liabilities at its True value.

(b) Stake holders sacrifies a portion of their claim.

(c) Entries done through Reconstruction A/c or capital Reduction A/c.

② ENTRIES

CASE	ENTRIES
(a) FV of Eq. Shares reduced.	ESC A/c Dr (Old FV) To ESC (New FV) To Reconstruction A/c
(b) Assets Reduced.	Reconstruction A/c Dr To Assets A/c
(c) P&L [Dr] Written off.	Reconstruction A/c Dr To P&L A/c

③ OTHERS

(a) Write off P&L (Dr), Preliminary Expense, Deferred Revenue Expense if Reconstruction A/c has Balance.

(b) If any reserve like General Reserve or Capital Reserve is available then Transfer it to Reconstruction A/c.

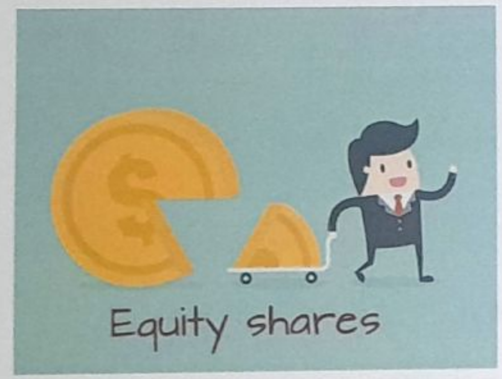
(c) If Dividend is Sacrifised then No Journal Entry is Required.

(d) Final Balance remaining is Reconstruction A/c is transferred to "**CAPITAL RESERVE**"

C2 - BUYBACK OF SECURITIES & EQUITY SHARES WITH DIFFERENTIAL RIGHTS [CA SANDESH C.H]

(1) MEANING

Buyback of Eq. shares means cancellation of Equity share capital.



(2) BUYBACK PROVISIONS

(a) Only fully paid up Eq. shares can be bought back.

(b) Board resolution for Buyback = Upto 10% paid up capital + Free Reserves [FR] + Securities premium [SP]

(c) Special Resolution

[More than 10% upto 25%]

(d) Buyback is authorised by Articles of Association [AOA]

(e) Buyback to be completed within 12 months from Date of Resolution.

(f) Destroy shares bought back within 7 days of completion of buyback.

C2 - BUYBACK OF SECURITIES & EQUITY SHARES WITH DIFFERENTIAL RIGHTS [CA SANDESH C.H]

③ MAXIMUM BUYBACK & CRR

Ⓐ Maximum BuyBack:

(a) 25% of No of Eq. shares.

(b) 25% of [Paid up capital + Free Reserves + SP]

(c) $\frac{\text{Debt [Long term + Short term]}}{\text{Equity [ESC + FR + SP]}} \leq 2$

Lower of these three

Ⓑ Capital Redemption Reserve:

(a) CRR is created to fill capital gap.

(b) Create CRR to Extent of FR utilized.

(c) Ignore premium on Buyback & premium on new shares / Debentures for CRR purpose.

④ BUYBACK METHODS

- Free Reserves
- Securities Premium
- New Shares / Securities

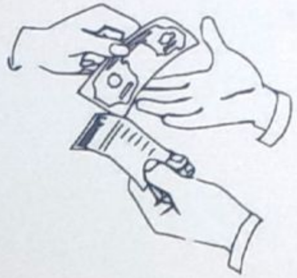
⑤ BUYBACK ENTRIES

(a) ESC A/c Dr
Premium on Buyback A/c Dr
To Eq. Shares Buyback A/c

(b) SP A/c Dr
General Reserve [GR] / P&L A/c Dr
To Premium on Buyback A/c

(c) GR / P&L A/c Dr
To CRR A/c

(d) Eq. shares Buyback A/c Dr
To Bank A/c.



⑥ EQUITY SHARES WITH DIFFERENTIAL RIGHTS

Eq. shares with differential Rights towards Dividend, voting Rights Can be issued if:

(i) Authorized by AOA.
(ii) such shares do not Exceed 26% of Post issue paid up capital.
(iii) company has distributable profits for Last 3 years.
(iv) company has not defaulted in filing Financial statements & Annual Returns Last 3 years.
(v) company has not defaulted in paying Dividend / Interest / Repayment of Loan / Redemption of Preference Shares or debentures.

C4 - AMALGAMATION OF COMPANIES [CA SANDESH C.H]

① MEANING

(a) Amalgamation as per AS 14 is one company taking over Another company or Two or more companies coming together to form a New company.

(b) Types of Amalgamation:

(i) Purchase Method

(ii) Merger or Pooling of Interest Method.

② PURCHASE METHOD

(a) Calculate Net Assets [NA]

NA = Total Assets taken over by New Co at Agreed value (−) Outside Liabilities taken over by New Co at Agreed value

(b) Calculate Purchase Consideration

→ PC = Amount payable by new company to owners of Selling company.

[Equity share holders + Pref shareholders = Owners]

→ If nothing is mentioned in problems about PC then NA = PC

(c) If PC > NA = Goodwill

If PC < NA = Capital Reserve

(d) Under this method, only Assets & Outside Liabilities of Selling company is taken Over by New Company.

C4 - AMALGAMATION OF COMPANIES [CA SANDESH C.H]

③ MERGER METHOD

(a) Calculate PC

(b) Find out paid up capital

[Eq. share capital + Preference share capital]

(c) PC > Paid up capital = Adjust in Reserves

PC < Paid up capital = Capital Reserve

(d) Under Merger method, Assets, Outside Liabilities and Reserves & Surplus of Selling company is taken over by new company.

④ MUTUAL OWINGS

(a) Transaction between purchasing company & Selling company is known as Mutual Owings [Dr/Cr, BR/BP etc]

(b) While calculating NA of companies, Ignore Mutual Owings [Take Agreed value / Book value of Assets / Liabilities & dont do anything for Mutual Owings]

(c) Cancel Mutual Owings in book of New Company.

Cr's / BP / Loan Taken A/c Dr

To Dr's / BR / Loan Given A/c

⑤ STOCK RESERVE

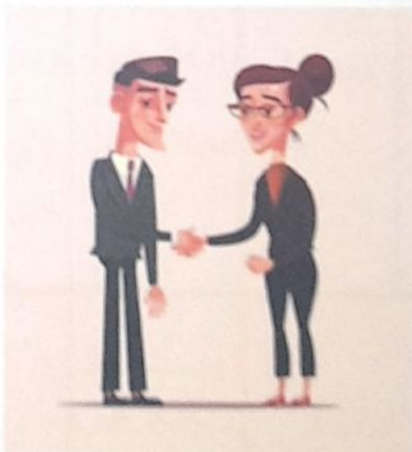
(a) Find out value of goods sold by Purchasing company → Selling company ←

(b) Find out how much portion of above Goods is there in closing Stock.

(c) Since above Transaction would have happened at cost + Profit, Remove Stock Reserve | Unrealized profit on above Goods remaining as closing Stock.

(d) Journal Entry:

Case	Purchase Method	Merger Method
i] Profit	Capital Reserve A/c Dr To closing stock/ Stock Reserve A/c	⇒ Same Entry
ii] Loss	Goodwill A/c Dr To closing Stock / Stock Reserve A/c	General Reserve/ P&L A/c Dr To closing stock / Stock Reserve A/c



⑥ AMALGAMATION EXPENSE

Entry in the books of purchasing company / New company.

Case	Purchase Method	Merger Method
(a) Profit	Capital Reserve A/c Dr To Bank A/c	Capital Reserve A/c Dr To Bank A/c
(b) Loss	Goodwill A/c Dr To Bank A/c	General Reserve / P&L A/c Dr To Bank A/c

⑦ STATUTORY RESERVES

Case	Purchase Method	Merger Method
Statutory Reserves to be maintained by new company for few years.	Amalgamation Adjustment Reserve A/c Dr To Statutory Reserve A/c	No Entry Required.

(B) REALIZATION A/c

Particulars	Amount	Particulars	Amount
To Sundry Assets Book value [BV]	xxx	By Sundry Liabilities A/c [BV]	xxx
To Bank [Liquidation Expense & Liabilities not taken over Settled]	xxx	By Purchasing company [PC]	xxx
To Preference Shareholder A/c Dr [Amount paid in Excess of Preference share capital]	xxx	By Bank [Liquidation Expense Reimbursement & Assets not taken over by New Co realised]	xxx
To Equity shareholders A/c Dr [Realization Profit]	xxx	By Equity Shareholders A/c [Realization Loss]	xxx
	xxx		xxx

(9) EQUITY SHAREHOLDERS A/c

Particulars	Amt	Particulars	Amt
To Misc Exp / Preliminary Expense A/c	xxx	By Equity Sharecapital A/c	xxx
To Realization A/c [Realization Loss]	xxx	By All Reserves & Surplus A/c	xxx
To cash / Bank A/c (PC)	xxx	By Realization A/c [Realization Profit]	xxx
To Equity Shares of New Co A/c (PC)	xxx		
	xxx		xxx

(10) OTHERS

(a) $\text{Intrinsic Value per Equity Share} = \dfrac{\text{Net Assets}}{\text{Total no of Equity shares}}$

(b) $\text{Capitalized Average Profit} = \dfrac{\text{Profits After All Adjustments}}{\text{Capitalization Rate}} \times 100$

(c) Capital Employed = Shareholders Funds = Net Assets

C6 — CONSOLIDATED FINANCIAL STATEMENTS [CA SANDESH C.H]

① MEANING

(a) Adding 2 or more Financial Statements [FS]

(b) Control should be present to prepare CFS.

(c) Control Exists when One company Owns more than 50% shares of another Company.

② CONSOLIDATED BALANCE SHEET [CBS]

(a) Only share Capital & Reserves & Surplus of Holding company will come in CBS.

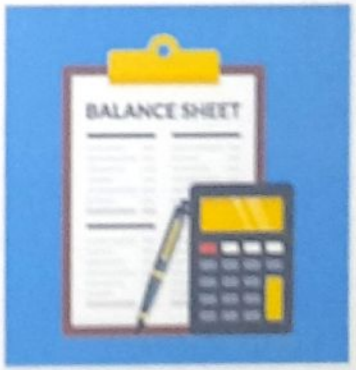
(b) If Subsidiary company has preference share capital then add it to Minority Interest [MI]

(c) Show MI as separate category in CBS.

(d) If MI balance is Negative (Debit balance) then such Excess amount will be borne by Holding company. (Consolidated P&L ↓)

(e) Deduct Mutual Debts from Current Liability & Current Assets.

(f) Reduce Stock Reserve / Unrealized Profits from Inventory.



③ UNREALISED PROFITS

Particulars	Down Stream Sales [H → S]	Upstream Sales [S → H]
Reduce Unrealised Profit from	P&L of Holding [H] company / Consolidated P&L A/c working Note.	Analysis of Profits of Subsidiary [S] company working Note under Post Acquisition Profits Category

④ REVALUATION OF FIXED ASSETS / PPE

CASE	IMPACT
(a) Revaluation ↑	Take ↑ in Pre Acquisition Profit & Calculate Additional Depreciation on such ↑ under Post Acquisition Profits.
(b) Revaluation ↓	Take ↓ under Pre Acquisition profit Section as (−)ve & Reverse Excess depreciation under Post-Acquisition profits.

⑤ DIVIDEND DECLARED BY SUBSIDIARY COMPANY

(a) Subsidiary company:

[i] P&L Balance will ↓

(b) Holding Company:

Pre Acquisition Dividend

i] Reduce from

WN3: P&L of subsidiary co.

WN4: Analysis of Profits of Subsidiary co.

WN6: cost of control/ Capital Reserve from cost of Investment [AS13]

WN7: Consolidated P&L A/c

Others

(a) Bank A/c Dr
To Dividend Income.

(b) Dividend Income A/c Dr
To P&L A/c.

⑥ OTHERS

(a) Eliminate Inter Company Transactions like Purchase | Sale etc while preparing consolidated P&L A/c.

(b) If Subsidiary company has issued Bonus shares then find out Bonus shares Received by Holding company & then find out share holding %.

SUMMARY CHART OF AS4 [CA SANDESH C.H]

CONTINGENCIES & EVENTS OCCURING AFTER THE BALANCE SHEET DATE

(1) Event

Favourable or Unfavourable Event Occuring b/w Balance Sheet date & Financial Statement Approval Date.

(2) TYPES OF EVENT

Adjusting Event

(a) They provide further Evidence of conditions that Existed at B/s date.

(b) Adjust Financial Statements & give Disclosure in notes to Accounts.

Non Adjusting Event

(a) They are Indicative of conditions that arose Subsequent to B/s Date.

(b) Disclosure :

(i) Nature of Event.

(ii) Its financial Effect on Financial Statements [FS].

SUMMARY CHART OF AS 4

③ OTHERS

(a) If Going Concern Assumption is NOT VALID then All Events will be ADJUSTING EVENTS & FS will be prepared on liquidation basis.

(b) All Errors are Adjusting Events. [But it should be detected before Approval of FS].

(c) Investments / Business Purchased / Fixed Assets / Intangible Assets Negotiated before B/s date & purchased after B/s date is Non Adjusting Event.

C8 – AS5 NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

[CA SANDESH C.H]

① EXTRA ORDINARY ITEMS

(a) Those Income & Expense which are clearly distinct from Ordinary items.

(b) **Example:**

→ Loss due to Flood / Earthquake

→ Company's property Attached.

(c) Should be separately disclosed in P&L A/c

② EXCEPTIONAL ITEMS

(a) They are those Income & Expense from Ordinary Activities whose Nature & Amount is such that separate disclosure of them is relevant to Explain performance of Enterprise.

(b) **Example:**

→ Write down of Inventory.

→ Sale of Long Term Investments / PPE

→ Litigation settlements.

(c) Should be separately disclosed in P&L A/c.

③ PRIOR PERIOD ITEMS

(a) They are Income & Expense which arise in Current year due to Error or Omission in preparation of Financial Statements [FS] of Previous periods.

(b) Should be separately disclosed

④ CHANGES IN ACCOUNTING POLICIES [AP]

(a) AP are principles & methods used in Preparing FS

(b) AP can be changed only if :-

(i) Required by Statue / Law or

(ii) Required by Accounting standard or

(iii) Better Presentation of FS.

(c) Change in AP should be done retrospectively.

(d) Adoption of new AP or Adoption of AP which significantly differs from previous AP is NOT a change in AP.

(e) Disclosure of Change in AP = same as change in AE

⑤ CHANGES IN ACCOUNTING ESTIMATE [AE]

(a) AE is judgements used in finding value of Some Components of FS
(b) AE is necessary because many items in FS value cannot be found with Precision [Useful life of PPE / Intangible Asset]
(C) AE are based on circumstance Existing when FS are prepared.
(d) If those circumstance change / new developments / new information is found then Earlier AE should be changed.
(e) Change in AE is applied prospectively.
(f) Disclosure of change in AE.

- Has material Effect in current year or Future Year.
  - YES → Disclose fact of change in AE & its effect on FS.
  - NO → NO Disclosure Necessary.
- Has Material Effect in future year but amount cannot be found out / Quantified. → Disclose the fact of change in AE.

AS 7 – CONSTRUCTION CONTRACTS [CA SANDESH C.H]

(1) APPLICABILITY

To all constructed Assets by Contractors.

(2) TYPES OF CONTRACTS

Fixed price Contracts.

Contract value is fixed

Cost plus Contracts

Contract value = Cost + Profit Margin

(3) SEGMENTING

Contracts are Accounted Separately if :-

(a) Separate proposal submitted &

(b) Separately Negotiated &

(c) Cost & Revenue of Each contract is Identifiable.

Else Contracts are combined.

AS 7 – CONSTRUCTION CONTRACTS [CA SANDESH C.H]

(4) ADDITIONAL ASSET [AA]

AA is treated on Separate contract if:-

(a) AA differs significantly in Design, Technology OR Function from Original Asset **or**

(b) Price of AA Negotiated Separately

(5) INCENTIVE PAYMENT [IP]

Recognise IP only if:-

(a) Contract is sufficiently Advanced **and**

(b) IP value can be measured reliably.

(6) CONTRACT COST

(a) Direct Cost

[Labour cost, Material cost etc]

(b) Allocated Cost

[Insurance cost, Borrowing cost]

(c) Specifically chargeable cost to customer.

[Customisation charges]

(d) Cost Excludes:

Admin | Selling & Distribution Overheads.

AS 7 – CONSTRUCTION CONTRACTS [CA SANDESH C.H]

7 ACCOUNTING OF CONTRACTS

Percentage of Completion Method

(a) When contract outcome can be measured reliably:

- Revenue measured reliably &
- Cost measured reliably &
- Stage of completion measured reliably &
- Benefits will flow to Entity

(b) Recognise:

Revenue = Contract Price x % of Completion

Cost = Cost Incurred till year End.

Completed Contract Method

Recognise Revenue to the Extent of cost Incurred till year End.

8 OTHERS

(a) % of Completion = $\frac{\text{Cost incurred till date}}{\text{Total Estimated cost}} \times 100$

(b) Amount due from/(To) customers = Cost incurred till date + Recognised profits (–) Recognised Loss (–) Progress Billings.

(c) Cost Incurred till date = Work certified + Work Uncertified.

(d) Progress Billings = Progress payment Received + Progress payment to be Received.

(e) Expected Loss on contract to be Recognised Immediately. [Even if contract is just signed].

AS 9 — REVENUE RECOGNITION [RR] [CA SANDESH C.H]

(1) MEANING

Revenue is Gross Inflow of Cash, Receivables or other consideration arising in normal course of Business from ordinary Activities.

(2) RR ON SALE OF GOODS

Performance obligation should be Satisfied.

(a) Goods Transferred to Buyer &

(b) Risk & Rewards Transferred to Buyer &

(c) Seller has **NO** Effective control over goods transferred &

(d) Sale Consideration is fixed &

(e) No Uncertainity Exists on collection of Sale Consideration.

(3) RR ON SERVICE RENDERED

(a) Service is performed &

(b) Service consideration is Fixed &

(c) No Uncertainity in collection Exists

(d) Methods

- Proportionate completion Method → contract has more than one Act
- Completed Service Method → Single Act

AS 9 – REVENUE RECOGNITION [CA SANDESH C.H]

4 RR ON OTHERS

(a) Interest = RR on Time Basis

(b) Royalty = RR on Basis of Agreement

(c) Dividend = RR when Right to Receive Dividend gets Established.

5 UNCERTAININTY IN COLLECTION

(a) At Time of sale = Dont Recognise Revenue

(b) Arises After Sale = Make provision

6 OTHERS

Case	Revenue Recognition
a) Major delivery/ Inspection by customer	After delivery / Inspection is completed.
b) consignment Sales	when goods are sold by consignee
c) Goods on Approval Basis	i] Time Lapsed ii] On Buyer Acceptance iii] Any Act of Buyer Amounting to Sale
d) Cash on Delivery Sale	cash is collected by company or its Agent.
e) Delivery delayed at Buyers Request	RR on sale
f) Insurance claims	RR when Certainity in collection of claim Exists.

AS 17 - SEGMENT REPORTING [CA SANDESH C.H]

1. MEANING

Disclosing Financial information about different products & Services of Co. & different Location in which it Operates

2. TYPES OF SEGMENTS

Business Segments
Risk & Return influenced by products & Services.

Geographical Segments
Risk & Return influenced by Economic Environment [Location]

3. REPORTABLE SEGMENTS [RS]

(a) 10% Threshold Test:

i] Revenue Test [Internal + External] OR

ii] Result Test OR
[Profit / Loss whichever is higher in Absolute Number]

iii] Asset Test OR

(b) External Revenue of **RS** < 75% of Total Revenue of the company, then Additional Segments should be Reported at Management Discretion.

(c) If Segment is **RS** in current year then previous year data should be given for comparitive purpose.

(d) If Segment is **RS** in previous year then current year also such Segment is **RS**.
[Even if it fails 10% Test]

AS 17 - SEGMENT REPORTING [CA SANDESH C.H]

Particulars	Segment Revenue	Segment Expense	Segment Assets	Segment Liabilities
Includes	a) External Revenue b) Internal Revenue from other Segments. c) Allocated Revenue	a) Operating Expense b) Expense related to Inter Segment Transactions. c) Allocated Expense	a) Operational Assets. b) Allocated Assets	a) Operational Liabilities b) Allocated Liabilities
Excludes	a) Extraordinary Items b) Interest Income c) Dividend Income d) Profit on sale of Investment	a) Extraordinary Items b) Interest Expense c) Loss on sale of Investment d) Income Tax Expense.	a) Deferred Tax Asset [DTA] b) General Assets [HO Assets]	a) Deferred Tax Liabilities [DTL] b) General Liability

AS 18 – RELATED PARTY DISCLOSURE [CA SANDESH C.H]

① RELATED PARTIES [RP]

(a) Two parties [Individual / Co] are RP if one party can CONTROL or Exercise Significant Influence [SI] over another party.

(b) CONTROL Exists when:

i] Party Owns > 50% voting power.

ii] Party controls compositions of Board of Directors of Another company.

(c) SI Exists one party owns ≥ 20% voting power of another company.

(d) Key Managerial Persons [KMP] & relatives of KMP are RP for company.

(e) Enterprise over which KMP have control or SI are RP.

② RP DISCLOSURE

(a) Control Exists then Disclose:

i] Name of RP & nature of Relationship [Even if no transaction is done with RP]

(b) Else disclose only if Transaction occurs with RP:

i] Name of RP

ii] Nature of Relationship

iii] Description of Transaction

iv] Amount of Transaction

v] Amounts written off or written back related to Debts of RP.

* Two Co's having common Director ≠ RP
* Providers of Finance, Major customer, Supplier, Franchiser, Distributor, Agent, Trade Unions, Govt Department ≠ RP [Even if volume of Transaction is HIGH]

AS 19 – LEASES [CA SANDESH C.H]

① MEANING

a) Lease is contract between Lessor [Owner] & Lessee [User of Asset] whereby Lessor gives right to use the Asset for certain duration [Lease Term] in return for a payment [Lease Rentals]

② DEFINITION

(a) Minimum Lease payment [MLP] = Lease Rentals [LR] + Guaranteed Residual value [GRV]

(b) GRV = Guarantee given by Lessee OR Guarantee given by Third party on Lessee's behalf.

(c) Gross Investment = MLP + Unguaranteed Residual Value [UGV]

$\boxed{\text{or}}$

GI = LR + GRV + UGRV

(d) Net Investment [NI] = Present Value of GI

(e) Unearned Finance Income = GI − NI

(f) Contingent Rent
- Variable Amount
- Not based on passage of Time

(g) Non Cancellable Lease : Cancellable When:

i] Happening of Remote Contingency.

ii] with LESSOR's [L'r] permission.

iii] L'r & LESSEE [L'e] have Entered into new Lease Agreement for same / Equivalent asset.

iv] Penalty Amount is significantly high.

(h) Implicit Rate of Return [IRR]

A rate at which:

PV of LR + PV of GRV + PV of UGRV = Fair value of Asset

(i) LR p.a = $\dfrac{\text{PV of LR}}{\text{Annuity Factor for Lease Term.}}$

(j) IRR always from L'r perspective.

(k) UGRV
- → Always considered for L'r
- → Never Considered for L'e

AS 19 – LEASES

[CA SANDESH C.H]

③ TYPES OF LEASE

Finance Lease [FL]

Indicators

i] PV of MLP approximates FV of asset.

ii] Lease Term approximates useful life of Asset

iii] Asset is of Specialized nature that only L'e can use it without major modification.

iv] Asset is transferred to L'e at End of Lease Term.

v] L'e has option to purchase Asset at a value significantly lower than FV.

Operating Lease [OL]

Other than FL.

AS 19 - LEASES [CA SANDESH C.H]

④ ACCOUNTING TREATMENT

Operating Lease [OL]

Lessor

a) Record asset given on Lease.
b) Charge depreciation on it if required
c) Lease Rental recorded as Income on Straight line Basis or any other Systematic basis over Lease Term.

Lessee

LR recorded as Expense on SLM or any other systematic basis over Lease Term.

Finance Lease [FL]

L'r

(a) De Recognise Asset
(b) Record receivable for NI.
(c) Record Finance Income [Interest] on periodic basis.

L'e

(a) Recognise Asset at Lower of
→ PV of MLP &
→ FV of Asset
(b) charge depreciation on Above Asset
(C) Record Finance charges [Interest] on periodic basis.

⑤ SALE & LEASE BACK

Results in

FL

Profit / Loss is deferred over Lease Term in proportion of Depreciation of Leased Asset.

OL

(a) Sale = FV ⇒ Profit / Loss recognised immediately

(b) Sale < FV ⇒ P/L recognised immediately.
[Loss should not be compensated in Future Lease Rentals]

(c) Sale > FV ⇒ Profit upto FV recognised immediately & remaining profit Deferred & Recognised in proportion of Lease payment over period asset is Expected to be used.

(d) Recognise Impairment Loss if Book Value > FV

AS 20 – EARNINGS PER SHARE [EPS] [CA SANDESH C.H]

① BASIC EARNINGS PERSHARE [BEPS]

(a) BEPS $= \dfrac{\text{Earnings Attributable to Equity shareholders [EAESH]}}{\text{Weighted Average Number of Equity shares [WANES]}}$

(b) EAESH = Profit After Tax [PAT] (–) Preference Dividend (–) Dividend Tax on Preference Dividend

(c) WANES = Assign weights in months.

② BONUS SHARE & SHARE SPLIT

[i] Date of Bonus shares is not required as we assign full weights $\left[\frac{12}{12}\right]$ or No weights to Bonus issue.

[ii] Restate previous year BEPS also by adding Bonus shares to Existing shares of last year.

[iii] Apply above steps for share Split as well.

AS 20 – EARNINGS PER SHARE [CA SANDESH C.H]

③ RIGHT SHARES

[i] It also has Bonus Element

[ii] Theoretical Ex Right price per share

$$= \frac{\text{Fair value of shares before Rights issue} + \text{value of Right shares}}{\text{No of shares before Rights issue} + \text{No of Right shares}}$$

[iii] Adjustment Factor [AF]

$$= \frac{\text{Fair value per share before Rights issue}}{\text{Theoretical Ex Right price Per share}}$$

[iv] AF > 1

[v] Multiply AF to Existing shares before Right shares & Existing shares of Last year to get WANES of current year & Last year.

④ DILUTED EPS [DEPS]

(a) Calculate DEPS when potential Equity shares like convertible Preference shares / Debentures, share warrants etc Exists.

(b) Potential Equity share are those which Eventually may get converted into Equity shares.

(c) Add back preference dividend, Dividend Tax on preference shares, After Tax Interest of convertible Debentures to get EAESH for DEPS purpose.

(d) Add No of Equity shares that will be issued due to potential Equity shares to get WANES for DEPS purpose.

AS 22 – ACCOUNTING FOR TAXES ON INCOME [CA SANDESH C.H]

① OBJECTIVE

(a) Accounting profit ≠ Taxable profit

(b) To fill this Gap AS 22 was introduced.

② TYPES OF DIFFERENCES

Timing / Temporary Differences

Those Differences which occur in One year & gets reversed in subsequent years.

Create DTA / DTL

Permanent Differences

Those Differences which Do not get reversed Subsequently.

DTA / DTL Not Required.

AS 22 - ACCOUNTING FOR TAXES ON INCOME [CA SANDESH C·H]

(a) Expense as per Tax is More ⇒ Taxable profit is Less ⇒ Tax in current year is Less ⇒ Tax in Future year will be More ⇒ Deferred Tax Liability [DTL]

(b) Expense as per Tax is Less ⇒ Taxable profit is More ⇒ Tax in current year is More ⇒ Tax in Future year will be Less ⇒ Deferred Tax Asset

(c) Income as per Tax is More ⇒ Taxable profit is More ⇒ Tax in current year is More ⇒ Tax in Future year will be Less ⇒ DTA

(d) Income as per Tax is less ⇒ Taxable profit is Less ⇒ Tax in current year is Less ⇒ Tax in Future year will be More ⇒ DTL

(e) Carried Forward Loss ⇒ DTA

(f) Current Tax = Tax Rate × Taxable Profits.

(g) Tax Expense = Current Tax + Deferred Tax

(h) Amount to be Debited to P&L A/c = Current Tax + Deferred Tax + Excess of MAT over current Tax

④ OTHERS

(a) DTL Entry ⇒ P&L A/c Dr
To DTL.

(b) DTA Entry ⇒ DTA A/c Dr
To P&L A/c

(c) Minimum Alternate Tax [MAT] can be carried for 15 Assessment years.

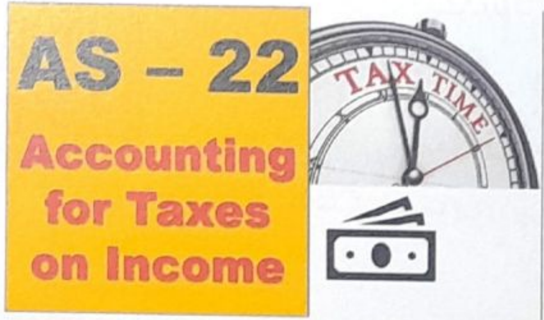
(d) MAT credit paid ⇒ MAT credit A/c Dr
To Bank A/c

(e) MAT credit Utilized ⇒ Provision for Taxation A/c Dr
To MAT Credit A/c

(f) MAT credit shown under Non current Assets under Long Term Loans & Advances

(g) Record DTA only if company is Expecting Taxable profits in future & DTA can be set off from it.

(h) NO DTA / DTL required for reversals happening during Tax Holiday period.



AS 24 — DISCONTINUING OPERATIONS [CA SANDESH C.H]

① DISCONTINUING OPERATIONS [DO]

(a) **DO** is component of Enterprise that company through single plan is :

i] Disposing off in Entirety **OR**

ii] Disposing by Selling Components Assets & Settling Liabilities individually **OR**

iii] Terminating by Abandonment

(b) **DO** represents Major Line of Business or Geographical Area of operations.

(c) **DO** can be operationally & Financially Distinguished.

[Assets, Liabilities, Revenue & Expense can be Attributed]

② ACTIVITIES THAT MAY NOT BE DISCONTINUING OPERATION.

(a) Gradually phasing out product line / Service

(b) Shifting of production from one Location to Another.

(c) Closing of Facility to achieve productivity Improvements or Cost Savings.

Accounting Standards Discontinuing Operations (AS-24)

③ INITIAL DISCLOSURE EVENT [IDE]

When one of the following Event Occurs.

i] Binding Sale Agreement to DO is Entered **OR**

ii] Formal Detailed plan to Discontinue is made and Announced.

④ DISCLOSURE

(a) IDE

(b) Description of DO

(c) Business or Geographical Area planning to be Discontinued.

(d) DO completion date.

(e) Total Assets to be Disposed & Total Liabilities to be Settled.

(f) Profit Before Tax & Tax Expense of DO.

AS 26 - INTANGIBLE ASSETS [IA] [CA SANDESH C.H]

① MEANING

(a) Identifiable [Separable & Sell/Rent]

(b) Non Monetary Asset

(c) Without physical Substance

(d) Held for use for Either

- Production of goods
- Rendering of Service
- Administrative purpose
- Rental Purpose

② PHYSICAL SUBSTANCE IN IA

(a) Value of physical Substance is not significant in IA

(b) If Asset has both tangible & Intangible Element then check Dominent Element [DE]

(c) If DE is a Tangible Item ⇒ Book as PPE

(d) Else ⇒ Book as IA

③ RECOGNITION CRITERIA [RC] of IA

(a) Future Economic Benefits [FEB] will flow to entity &

(b) cost can be reliably measured.

intangible assets

AS 26 - INTANGIBLE ASSETS [IA] [CA SANDESH C.H]

(4) IA ACQUIRED THOUGH EXCHANGE OF NON MONETARY ASSET

Use Fair value [FV] of Asset given up or Acquired whichever is more clearly Evident.

Unless:-

i] Transaction Lacks commercial Substance.

- Asset wise configuration of cash flow is same **AND** Entity wise configuration of cash flow is also same.

ii] FV of both Asset given up & Acquired cannot be determined.

Record IA Acquired at Book value of Asset given up.

(5) COST OF IA

Purchase Cost
+ Import Duty
− Trade Discount
+ Non Refundable Taxes.

Directly Attributable cost [DAC] incurred to make IA ready for its Intended use.

COST EXCLUSIONS

i] Administrative, Selling & Distribution Overheads.

ii] Initial Operating Losses.

iii] Relocation/ Reorganisation cost.

iv] Training Cost of Staff to operate Asset.

v] Advertisement & Marketing Expenses.

6 IA ACQUIRED THROUGH GOVERNMENT GRANT

(a) AT Free of cost ⇒ Record IA at Nominal value.

(b) AT Concession ⇒ Record IA at Concessional price

7 INTERNALLY GENERATED IA

- Goodwill → Not Recognised
- Others
  - Research Phase Expense → Transferred to P&L A/c because we cannot demonstrate Existence of IA / FEB
  - Development phase Expense → Recognised as IA if all the below conditions are satisfied:
    - T = Technical Feasibility Exists.
    - I = Intention to complete IA Exists.
    - A = Entity has ability to use IA.
    - F = FEB Exists.
    - R = Technical, Financial & other Resources Exist.
    - C = Cost is measurable.

(a) Anyone condition fails then Expense goes to P&L A/c

(b) Expense once Transferred to P&L A/c cannot be Reversed & Recognised as IA in the Later years.

AS 26 - INTANGIBLE ASSETS [CA SANDESH C·H]

(8) AMORTISATION

(a) Only if Depreciable Amount [DA] is positive & IA has Limited useful life.

(b) DA = Carrying Amount − Residual value

(c) DA should be Allocated on Systematic Basis over useful life [UL] of IA.

(d) Presumptive Life of IA = 10 years.
[Higher Life can be used for Amortisation if Justifiable]

(e) Amortisation Method Based on Pattern of Economic Benefits from IA.

(f) Review Amortisation Method, UL, Residual value Annually.

(g) Change in above is treated as Accounting Estimate change as per AS 5 and applied prospectively.

(9) RESIDUAL VALUE [RV]

(a) Usually RV of IA is assumed to be zero

(b) Take RV only if:-

[i] 3rd Party Guarantee to purchase IA at End of UL Exists or

[ii] Active market for IA is available & such market will Exist at End of UL of IA.

(10) DERECOGNITION OF IA

(a) IA Disposed or

(b) FEB on IA Stops

(11) DISCLOSURE

(a) UL

(b) Amortisation Method used

(c) Reconciliation from opening Balance of IA to closing Balance.

AS 29 - PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS [CASANDESH C.H]

① DEFINITIONS

(a) Executory Contracts:

i] Neither party has performed their obligation or they have performed to Equal Extent.

ii] AS 29 does not apply.

(b) Obligation:

i] Entity has no alternative but to settle that obligation [No Escape]

ii] Legal obligation arises as part of Contract / Law.

iii] Constructive obligation arises due to past trade practises / customs.

iv] CL, provision are Recognised only if obligation Exists.

② PROVISION

[i] Present Obligation.

[ii] Arising Due to Past Events &

[iii] Results in **PROBABLE** Outflow of Economic Resources &

[iv] Reliable Estimate of outflow can be made.

③ CONTINGENT LIABILITIES [CL]

(a) Possible obligation which depends on Uncertain Future Event not within Entities Control.

(b) Probable obligation not Recognised as provision because:

[i] No outflow of Economic Resource **OR**

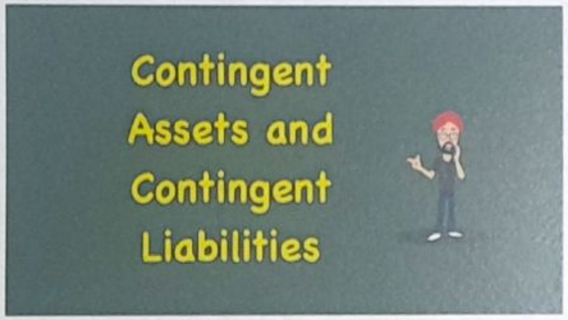
[ii] Outflow cannot be Estimated

(c) CL is not Accounted but only Disclosed in Notes to Accounts.

④ CONTINGENT ASSET [CA]

(a) Probable Asset which depends on Uncertain Future Event not within Entities Control.

(b) CA are **NOT** Recognised but only disclosed in Notes to Accounts.



⑤ RECOGNITION

CASE	LIABILITY	ASSET
(a) Virtually Certain (>95%)	Recognise Liability	Recognise Asset
(b) Probable (>50%)	Recognise Provision	Disclose CA
(c) Possible (5% - 50%)	Disclose CL	IGNORE
(d) Remote (Less than 5%)	IGNORE	IGNORE

AS 29 [CONTINUED] [CA SANDESH C.H]

⑥ ONEROUS CONTRACT [OC]

(a) They are Loss making contracts.

(b) Recognise provision on OC at lower of:

[i] Contract Exit Penalty &

[ii] Cost (–) Benefit from contract

⑦ REIMBURSEMENTS

(a) Record Reimbursement as separate Asset if it is Virtually Certain.

(b) Do not Net off Reimbursement from provision.

⑧ RESTRUCTURING

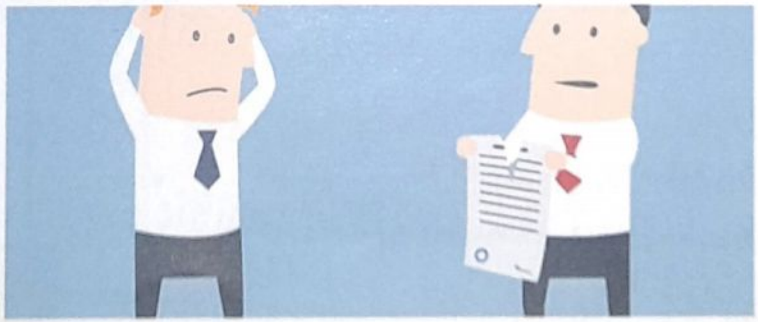
[i] Recognise provision for committed cost of Restructuring

[Binding sale Agreement is Entered]

[ii] Examples: sale / Termination of a Division, Change in Management structure etc

[iii] No provision is made for

- Relocation cost of staff
- Marketing cost
- Future Investment
- Future Operating Losses.



AS 23: ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS [CFS]

[CA. SANDESH C.H]

① ASSOCIATE COMPANY

(a) They are those Enterprise over which Investor has significant Influence. [SI]

(b) SI Exists if investor owns 20% or more voting power directly or indirectly.

(c) SI is power to participate in Financial & operating policy decisions of Associate company.

(d) Investor can Exercise influence through:

- Voting power
- Representation on Board of Directors.
- Sharing Technical Knowledge [Tangible/Intangible Assets]
- Exchange of Managerial Personnel

② ACCOUNTING

(a) Investment in Associates in CFS are Accounted using "EQUITY METHOD"

(b) Investment in Associates in Separate Financial Statements. [SFS] are accounted as per AS 13.

③ EQUITY METHOD

(a) Initial Recognition:

- Investment Recorded at cost.
- Goodwill / capital Reserve is Identified & disclosed Separately but included in carrying amount of investment.

(b) Subsequent Recognition:

i) Match Investment value with Associate company performance.

ii] Associate Makes profit ⇒ Investment value ↑

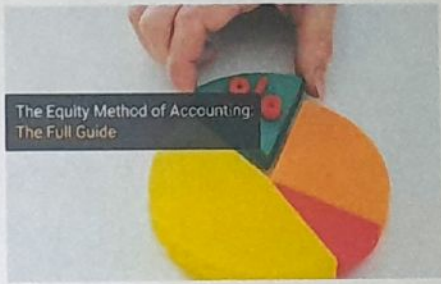
iii] Associate makes loss ⇒ Investment value ↓

iv] Associate pays Dividend ⇒ Investment value ↓

(4) CARRYING AMOUNT [CA] OF INVESTMENT

Share of Net Assets on date of Acquisition [DOA]	XXX
+ Goodwill	XXX
− Capital Reserve	(XXX)
CA of Investment on DOA	XXX
Profit share of Associate	XXX
Loss share of Associate	(XXX)
Dividend Share	(XXX)
Carrying Amount of Investment at year End	XXX

(5) OTHERS



a) Equity Method is not followed:

- If investment in Associate is held for Sale
- Long term Restrictions Exists to Transfer funds to Investor.
- SI Cost

In above cases Investment valued as per AS 13 [CA = Cost for AS 13 purpose]

b) Associate share > CA of Investment of Loss:

- Investment shown at NIL value.
- Subsequently if Associate reports profits then adjust Loss not recorded Earlier & then consider remaining profit share.

⑥ OTHERS [continued..]

(c) Reporting date of Financial Statements [FS] of Investor & Associate company to be same, if different then maximum difference is 6 months.

(d) Accounting policies of Investor & Associate company to be same, if different then adjustments to be made.

(e) Investment in Associate as per EM is classified as "Long Term Investment" in Balance sheet.

(f) If Associate declares dividend for current year after Reporting period ~~then~~ it is ignored for CFS period.

AS 25 : INTERIM FINANCIAL REPORTING [IFR]

① SCOPE

a) AS 25 is not mandatory.

b) AS 25 does not specify which Company & how frequently IFR should be prepared.

c) This standards guides on how IFR should be prepared if at all it is opted by the company.

② DEFINITION

a) Interim period:
It is a Financial reporting period Shorter than full Financial year.

b) IFR:
It is a Financial Report containing Either complete Set of Financial Statements [FS] or condensed Set of FS for Interim Period.

c) FS for less than 12M prepared by company in its first year of operation is NOT IFR.

③ FORMS & CONTENT OF IFR

a) If Entity publishes complete Set of FS then it should comply with requirements applicable to Annual FS.

b) If Entity publishes condensed FS then Heading & Sub heading should be as per latest Annual FS.

c) Additional line items should be included only if their ommission makes Interim Financial Statements [IFS] misleading.

d) BEPS & DEPS should be presented for IFR.

AS – 25
Interim Financial Reporting

AS 25 : IFR [Continues..]

(4) DISCLOSURE

a) Statement that A/c'g policy [AP] in IFR is same as Annual FS, if changed then disclose nature & Effect of change.

b) Exceptional Items.

c) Issue, Buyback, Repayments of Debt, Equity & potential Equity shares.

d) Dividend on Equity shares & preference shares.

(5) PERIOD OF IFR

If IFR period is July 2025 - Sep 2025 then present

a) B/s on 30/9/2025 & 31/3/2025

b) P&L:

July 2025 - Sept 2025 [3M]

April 2025 - Sept 2025 [6M]

July 2024 - Sept 2024 [3M of PY]

April 2024 - Sept 2024 [6M of PY]

c) Cash flow Statements:

April 2025 - Sept 2025 [6M]

April 2024 - Sept 2024 [6M of PY]

(6) OTHERS

a) Revenue Received seasonally / ocassionally should not be anticipated / deferred in IFR if their Anticipation / Deferment is NOT appropriate in Annual FS.

b) Cost incurred unevenly can be Anticipated / Deferred in IFR if their Anticipation / Deferment is appropriate in Annual FS.

c) Tax Expense in IFR is based on weighted Average Annual Tax Rate [WAATR]

$$WAATR = \frac{\text{Expected Tax Expense in Current year}}{\text{Expected A/c'g Income in CY}} \times 100$$

d) In first IFR, comparative P&L & cash flow statement information need not be presented.

e) Financial Results presented as per listing agreement is not IFR.

AS 27 : FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

① JOINT VENTURE [JV]

a) JV is a contractual Arrangement where two or more parties undertake Economic activity which has Joint control.

b) Contract mentions Activity, Duration. capital contributions & sharing of Income, Exps, P&L of JV.

c) Forms of JV :

→ Jointly controlled operations.

→ Jointly controlled Assets.

→ Jointly controlled Entities

② JOINTLY CONTROLLED OPERATIONS [JCO]

(a) No Separate Entity is created.

(b) Ventures use their Assets for JV Business.

(C) Ventures Settle Liabilities & meet Expense incurred by them.

(d) Revenue Generated & Income Earned is shared by ventures as per the Contract.

③ JOINTLY CONTROLLED ASSETS [JCA]

(a) No Separate Entity is created.

(b) Ventures Jointly own the Assets.

(C) Ventures show only their share of Assets, Income & Expense in Financial statements.

4 JOINTLY CONTROLLED ENTITIES [JCE]

(a) New Entity is Formed.

(b) New Entity purchases its own Assets, Incurres Expenses & Settles the Liabilities.

(c) Profit | Loss of New Entity is shared by venturers in the ratio mentioned in the agreement.

(d) Venturers.

- Separate Financial Statements [SFS] → Value Investment in JV as per AS 13.
- Consolidated Financial Statements. [CFS] → Proportionate consolidation method is followed.

5 PROPORTIONATE CONSOLIDATION METHOD [PCM]

(a) Each Venturer records their share of Assets, Liabilities, Income & Expense of JV.

(b) PCM is not required :

- Investment in JV is held for Sale
- There is Long term Restrictions on JV to Transfer funds to venturers.
- If PCM is not followed then investment in JV is valued as per AS 13.

(c) Reporting date is Financial statements [FS] of JV & Venturers to be Same, if different then maximum difference is 6 months.

(d) A/c'g policies of JV & Venturers to be same, if different then adjustments to be made.

AS 15 – EMPLOYEE BENEFITS [CA SANDESH C.H]

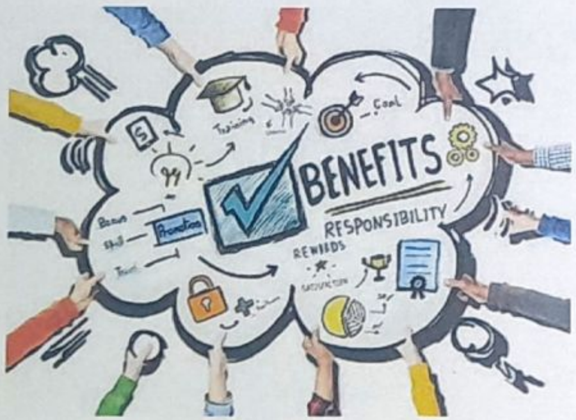
① TYPES

(a) Short term Employee Benefits. [STEB]

(b) Retirement Benefits [Post Employment Benefits]

(c) Termination Benefits.

(d) Other long term Benefits.



② EMPLOYEE BENEFITS

Provided to

(a) Employees or

(b) Their dependants

or

(c) Their beneficiaries.

③ EMPLOYEE INCLUDES:

(a) Full time Employees.

(b) Part time Employees.

(c) Casual.

(d) Temporary.

(e) All directors & Management personnel.

④ STEB

(a) Wages, Salaries, profit sharing plan, bonus, Paid leaves etc payable within 12 months from End of Annual Reporting period in which service is rendered.

(b) Discounting not required. [As time value affect immaterial]

(c) Recognised as Expense & Liability.

(d) Expense to P or L or added to Asset if DAC [PPE | Inventory]

(e) Paid Leaves.

AS 15 - EMPLOYEE BENEFITS [CA SANDESH C.H]

(4) STEB [CONTD...]

(e) Paid Leaves

- **Non-Accumulating**
  - Gets Lapsed if Employee does not utilise.
- **Accumulating.**
  - **Vesting** (Encashable)
    - EBE A/c Dr
      To provision for Leave Enacashment A/c
  - **Nonvesting.** (NonEncashable)
    - EBE A/c Dr
      To Provision
      [To the Extent Employee is Expected to utilise Leave in Future years]

(5) POST EMPLOYMENT BENEFITS

Defined Contribution plan [DCP]

(a) Employer Obligation = Amount of Contribution

(b) No Acturial Risk.
[Liability value ↑ Risk]

(c) No Investment Risk.
[Investment value ↓ Risk]

(d) No Discounting Required.
[Except when time value affect is material]

(e) Expense & Liability A/c'g like STEB.

Defined benefit plan [DBP]

(a) Employer Obligation = Amount of Benefit to Employee

(b) Employer has acturial & investment risk.

(c) Projected unit credit method A/c'g [PUCM]

AS 15 : EMPLOYEE BENEFITS [CA. SANDESH C.H]

⑥ ACTURIAL ASSUMPTIONS

(a) Demographic Assumptions :
- Mortality Rate
- Employee Turn over/ Disability / Early Retirement.

(b) Financial Assumptions:
- Discount Rate
- Future Salary & other Benefits
- Expected Return on Plan Assets.

(c) Actual Gain / Loss to P&L immediately.

⑦ ACTUAL RETURN ON PLAN ASSETS [PA]

Fair Value [FV] of PA at year End	xxx
+ Benefits paid	xxx
– Contribution Received	(xxx)
– FV of PA at year Begining	(xxx)
Actual Return on PA	xxx

⑧ PRESENTAION

P&L

Following are Recognised in P&L:
- Current Service Cost
- Interest cost
- Expected Return on PA
- Actual Gain / Loss
- Past Service Cost [only Amortised portion]
- Curtailment Gain / Loss

In B/S

Present Value of Defined Benefit Obligation [DBO]	xxx
(–) Unamortised PSC	(xxx)
(–) FV of PA at year End	(xxx)
Net DBO in B/S	xxx

AS 15: EMPLOYEE BENEFITS [CA. SANDESH C.H]

(9) OTHER LONGTERM EMPLOYEE BENEFITS

(a) Jubilee Bonus

(b) Sabbatical Leave

(c) Long Term Disability Benefits.

(10) TERMINATION BENEFITS [TB]

(a) Could be voluntary or Forced Termination

(b) TB recognised as Expense & liability when:

- Detailed formal plan for Termination is Duly Approved &
- Reliable Estimate of obligation can be made.

(c) If TB is settled within 12 months from B/s.

- YES → A/c like STEB
- NO → A/c like post Employment Benefits

AS 28 : IMPAIRMENT OF ASSETS [CA SANDESH C.H]

① SCOPE

Ⓐ AS 28 applies to all Assets Except :

i] Inventories (AS 2)

ii] Construction Contract Assets. (AS 7)

iii] Financial Assets including investments (AS 13)

iv] DTA (AS 22)

Ⓑ Conduct Impairment test only if Indicators Exists.

Ⓒ Impairment Loss (IL) arises when:

Carrying Amount (CA) > Recoverable Amount (RA)

② IMPAIRMENT INDICATORS

Ⓐ **External Indicators :**

a) ↓ in Assets Market value

b) Adverse changes in Technology / Law / Market conditions.

c) ↑ in Market Interest rate. (RA will ↓)

Ⓑ **Internal Indicators :**

a) Physical damage of Asset.

b) Change in usage pattern of Asset.

③ RECOGNITION

a) IL is transferred to P&L

b) If Asset was revalued & revaluation Reserve (RR) Exists then IL is adjusted against RR.

AS 28 : IMPAIRMENT OF ASSETS [CA SANDESH .C.H]

④ RECOVERABLE AMOUNT [RA]

Higher of

a) Net Selling Price [NSP]

(i) NSP is amount receivable on sale of Asset in an Arms Length transaction b/w knowledgeable, willing parties Less cost of disposal.

(ii) Cost of Disposal Excludes finance cost & Income tax Expense

(iii) Preference of NSP

- Binding Sale Agreement.
- Active Market price
- value based on best information available

b) Value in Use [VIU]

(i) VIU is present value of future cash flows Expected from continious usage & sale of Asset.

(ii) Factors for VIU

Future cash flows

- Use Management Best Estimates
- Maximum period of 5 yrs unless longer period is Justifiable
- Ignore
  - Income tax receipts & payments
  - Restructuring cash inflows & outflows
  - Asset capacity Enhancing cost & its related cash inflows
  - Foreign Currency cash flows:
    - Estimate Cash flows in Foreign currency [FC]
    - Use discount rate for FC
    - convert to INR using AS 11 Exchange rates.

Discount Rate [DR]

a) Use Asset Specific Pre tax rate.

b) If missing use Co's incremental borrowing rate.

AS 28: IMPAIRMENT OF ASSETS [CA SANDESH.C.H]

⑤ CASH GENERATING UNIT

a) CGU is the Smallest Group of Identifiable Assets that can generate Independent cash flows.

b) Goodwill & Corporate Assets.

- Can be allocated on a Reasonable & consistent basis to CGU → Perform Bottom up test only.
- Else → Perform bottom up & Top down test.

⑥ IL FOR CGU

a) First allocated to Goodwill

b) Then to other assets of CGU in CA ratio.

c) After allocation of IL, CA of Asset should not fall below Highest of:

- → NSP } If determinable
- → VIU } If determinable
- → Zero

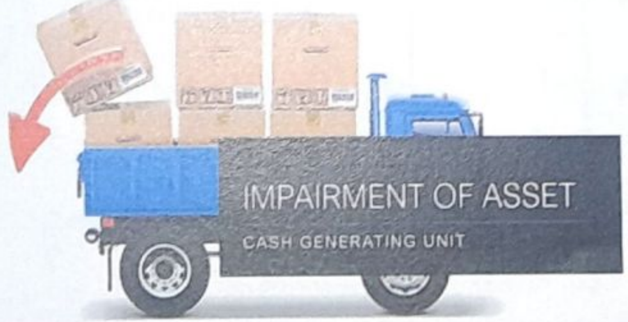
⑦ OTHERS

a) Reversal of Impairment loss on Goodwill is not allowed unless:

↳ IL was due to Exceptional External Event.

↳ Subsequent Events have occurred which Reverses previous Event Effects.

b) Approval & Announcement of discontinuing operations is an Impairment Indicators.



AS 28 : IMPAIRMENT OF ASSETS [CA SANDESH.C.H]

(8) REVERSAL OF IL

a) Permissable if Indicator based on which IL was Earlier A/c'd no longer Exists or has ↓

b) Reversal

For Individual Asset

(i) If IL was Earlier adjusted with RR then Reversal also through RR.

(ii) Else Reversal through P&L

(iii) After Reversal, CA of Asset should not Exceed CA if IL was not charged at all.

For CGU

(a) Reversal first adjusted with other assets in CA ratio.

(b) Then to Goodwill of CGU.

(c) After Reversal CA of Assets of CGU should not Exceed lower of :

→ RA

→ CA if IL was not charged at all.

(9) DISCLOSURE

a) IL recognised in P&L

b) IL adjusted with RR.

c) IL Reversal through P&L

d) IL Reversal through RR.