Contents

Introduction to Accounting Standards

Standards are of two types

1. Accounting standards
2. Indian accounting standards.

Accounting standards:

(these are applicable to intermediate students of ICAI examination)

Following points are relevant.

1. these are issued by ICAI for companies on which the accounting standards applies any foreign approved accounting standards .
2. till now accounting standard 1 to 29 are issued except accounting standard six and eight which have been withdrawn. So effectively only 27 accounting standard exists.

Benefits of Accounting Standards

1. it increases standardisation of financial statements their by increasing consistency and transparency.
2. it provides additional disclosures which are better for understanding.
3. accounting standard makes financial statements comparable.

Objectives of Accounting Standards

1. to harmonise accounting policies of entities.
2. to make financial statements more reliable
3. to make financial statements, more understandable, comparable and relevant

Issues dealt by accounting standards deals are

1. recognition,
2. measurement,
3. presentation,
4. disclosures,

Process of issue of accounting standards is as follows.

1. accounting standards board of ICAI prepares a draft of accounting standards in area where it is needed.
2. Such a draft is put out for public comments. It is called exposure draft.
3. After comments have received, final changes are made to draft based on such comments.
4. Accounting standard is approved by ICAI council and a new Accounting standard is born.
5. such accounting standard is approved by NFRA and applied to companies as well.

Indian accounting standards.

Indian accounting standards are based on global standards.

Global standards are referred to standards issued by international accounting board IASB which are called International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). About 40 IFRS and IAS are existing on which Ind AS have been drafted.

India had promised the world in 2006 that it will apply global standards.

In 2015, India applied India’s on selected companies. At the time companies whose net worth was more than or equal to 500 crore is were required to apply Ind AS.

Now companies which are listed or whose net worth is more than or equal to 250 crore is required to apply Ind AS.

How much are Ind AS and Global Standards different?

Ind AS and global standards are more or less same but there are few differences. Whenever the additional clarification or inputs were made to Ind AS these were called CARVE IN.

Wherever some deviation was required, such changes were made. These changes are called carve out. Only around 9 to 10 deviations exist as on date. Hence we can say India’s or more or less same as global standards.

Reasons or significance of global standards.

1. Due to increase the cross-border capital, it is getting important to have global standards.
2. It reduces cost to apply standards on entities.
3. These days global listing of shares is generally done which have made important for companies to apply global standards.

Chapter 2

Framework for preparation and presentation of financial statements

① following are users of financial statements

- Investors - (shareholder)
- Employees
- Lenders
- Suppliers
- Customers
- Govt
- Public

② following are underlying Assumptions

- Going Concern → It means entity will continue its operations for foreseeable future. Entity has no intention to Liquidate or curtail (कम करना) its operations.

  This Assumption if followed, should not be disclosed. If going concern assumption is not followed, then disclosure is required.

  If Going Concern assumption is not followed, then entity should make financial statements assuming Assets and Liabilities will be settled soon.

- Accrual Assumption, It means all expenses and incomes should be on period basis / time basis.

- Consistency Assumption → It means Entity should consistently apply its policies and should not change them frequently.

③ Qualitative Characteristics of financial statements (गुणवत्ता)

- **Understandable**
  ↓
  Means simple for understanding.
- **Relevance**
  ↓
  financial statement should contain material items. It should not focus on immaterial item.
- **Reliable**
  ↓
  financial statement should be reliable. To make them reliable, such statements should be
  - **Completeness**
    ↓
    Should be complete.
  - **True and Fair.**
  - **Follow substance over form.**
  - **Neutral from bias**
    ↓
    All facts should be disclosed with equal prominence.
  - **Prudent**
    ↓
    Conservatism.
- **Comparable.**
  ↓
  At least 1 year data except for newly formed Entities.

④ Components of financial statements

- Balance sheet
- Profit and Loss Statement.

- Cash flow statement is not considered Component. It is a Report.
- Segment Report " " " " " " "
- Statement of changes in Equity is Component पर 2nd AS का, Not in your Course.

5 Elements of financial Statements

Assets	Liability	Equity (Capital)	Income	Expense
• Economic Resources (संसाधन) • In Control of Entity (नियंत्रण) • having future Benefits (फायदे होंगे)	• It is present obligation arising from Past Event (आज का जिम्मा) • Which will be settled by outflow of Resources • Which can be measured	Assets Less Liabilities It is Residual Interest. It change due to – Transactions with shareholders: Fresh Issue, Redemption, BuyBack, Dividend/Drawings – Profit/Loss	Increase in Resources without increase in Liabilities	Decline in Resources without increase in Assets.

Note: If Entity has any machine which has no Economic Benefit to it, it is Not Asset.

6 Measurement Bases in financial Statements

Historical Cost (विचार-1)	Current Cost (विचार-2)	Realisable value settlement value	Present value
Assets are recorded at fair value of consideration given (दिया)	Asset Value is fair value of Similar Asset (आज खरीदने का भाव)	Asset Value is fair Value of Asset if sold आज बेचने का भाव	Asset value is Present value of inflows
Liabilities are recorded at fair value of Consideration Received (लिया)	Liability is fair value of Similar Liability.	Liability is fair value of Liability if settled.	Liab. is Present value of outflows. Fmt पढ़ो।

(7) Accounting Equation

Assets − Liabilities = Equity

(8) Capital maintainance Concept

Under Capital maintainance concept, entity calculates its maximum drawings that can be made without disturb. opening capital.

Financial Capital Concept

- Based on Historical Cost

Closing Capital	xxx
Less opening capital	xxx
Maximum drawings	xxx

- Based on Current Purchasing Price i.e. Index (Inflation)

Closing Capital	xxx
Less	
Indexed opening capital	xxx
	xxx

Indexed opening Capital

$$= \text{Opening Capital} \times \frac{\text{Closing Price Index}}{\text{Opening Price Index}}$$

Here Index is of General Inflation Rate

Physical Capital

Closing

Less

Indexed opening capital

Indexed capital

=openin

opening index

Here Index is

Inflation in goods in which Entity deals.

Application of Accounting Standards and Ind AS as on 1.7.2023

COMPANIES

BIG Companies	Companies other than applying Ind AS	
Application of Ind AS Ind AS are applying on following companies (i) Companies which are listed or in process of listing in India or outside India for any shares, Bonds etc OR (ii) whose Net worth ≥ 250 cr at End of previous year Net worth means Shareholders funds.	Non SMC non small and medium companies These companies will apply all AS from 1 to 29 Except 6 & 8 NO Exemption or Relaxation	Small and medium Companies It applies all A.S but has option to avail exemption and relaxation of following full Exemption AS, 3, 17, 20 Partial Exemption AS-15 Disclosure Exemption 19, 28, 29 Also Exemption is available from AS 21, 23, 27 and 25 if Company is not preparing Consolidated and Interim Reports.
* Ind AS are not applicable to Bank and Insurance Companies even if it qualifies above	following are Non SMC • Banking Companies • Insurance Companies • Certain financial Institutions • Companies whose Turnover > 250 cr in immediately previous year • Companies whose Borrowings > 50 cr at any time in previous year	Balance Residual Companies

Non Corporate Entities

Partnership, LLP, Society, Trust, etc,

Level I	Level II	Level - III	
It will apply all A.S 1 to 29 except 6 and 8 No Exemption or Relaxation	It applies all A.s but has option to avail exemption and relaxation of following Full Exemption AS, 3,17,20 Partial Exemption AS-15 Disclosure Exemption 19,28,29 Also Exemption is available from AS 21,23,27 and 25 if Company is not preparing Consolidated and Interim Reports.	It applies all A.s but has option to avail exemption and relaxation of following Full Exemption AS, 3,17,20,18,24 Partial Exemption AS-15 Disclosure Exemption 19,28,29,10,11 Also Exemption is available from AS 21,23,27 and 25 if Company is not preparing Consolidated and Interim Reports.	It applies all A.s but has option to avail exemption and relaxation of following Full Exemption AS, 3,17,20,18,24,28 Partial Exemption AS-15,22 Disclosure Exemption 19,29,10,11,13,26 Also Exemption is available from AS 21,23,27 and 25 Accounting Standard 14 if Company is not preparing Consolidated and Interim Reports.
Level I Entities Banks Listed or In Process of Listing Entities Entities whose turnover > 250 cr in previous year Entities whose Borrowing > 50 cr in any time in previous year	Entities whose turnover > 50 cr upto 250 cr in previous year Entities whose Borrowing > 10 cr upto 50 cr in any time in previous year	Entities whose turnover > 10 cr upto 50 cr in previous year Entities whose Borrowing > 2 cr upto 10 cr in any time in previous year	Balance Entities

Accounting Standard-1 : Disclosure of Accounting Policies

(1) This Accounting Standard is applicable to ALL entities on which Accounting Standards are applied.

(2) Accounting Policies means
"Specific Accounting principles and methods applied in preparation and presentation of financial Statements"

* These are rules applied in preparation of financial Statements like
  - Entity values stock at Cost or NRV, whichever lower
* methods of Preparation of financial statements can be

FIFO method or weighted Avg Method.

<u>NOTE</u> : from 2016 Depreciation methods are not Called Accounting Policy. These are now called Estimates.

NOTE : Similarly any method applied to calculate Provision Amount is not Accounting Policy. These are considered as Accounting estimates.

(3) Examples of Accounting Policies

- Stock valuation Policy (Stock is valued at Cost or NRV, whichever lower)
- Stock valuation method (FIFO method or weighted Avg Method)
- Valuation of Investment Policy (Investment are valued at Cost or fair value, whichever lower)

- Goodwill Amortisation Policy (life)
- Treatment of Borrowing Cost (when it is capitalised or written off)
- Treatment of Foreign Exchange Policy (Treatment of changes in Exchange Rates)
- Valuation of Property Plant + Equipment (PPE are valued at Cost less Dep or Revalued)

(4) Main Principles of AS-1

- Disclosure Requirements (A)
- How to Select Accounting Policies (B)
- Treatment of changes in Accounting Policies (C)
- Fundamental Accounting Assumptions (D)

4A

Disclosure Requirements

- Disclosure of Accounting Policies
  - ALL Significant Accounting Policies should be disclosed at one place in financial Statements
- Disclosure of fundamental A/c Assumptions
  - FAA followed
    - No Disclosure
  - FAA Not followed
    - Disclosure is given for NOT following FAA

4B How to select Accounting policies

- **Primary Considerations**
  - Financial Statements should reflect True and fair with such A/C Policies
- **Secondary Considerations**
  - **Prudence**
    - Policies should be drafted so that financial Statements are more Prudent i.e. Recognise Expense more conservatively but not Incomes
  - **Substance over form**
    - Give more importance to facts than Law
    - Example H.P Machine not legally owned it recorded.
  - **Materiality**
    - Draft Policies for material items only
    - Immaterial Policies not to be disclosed.

4C Change in Accounting Policy

Reasons for Change

(i) Better Presentation

(ii) Compliance with Law

(iii) Compliance with AS

Treatment for Change

Disclosure should be given for following

(i) Old Policy

(ii) New Policy

(iii) Reasons of changing Policy

(iv) Effect of change of Policy on current and future Years.

* If such effect cannot be calculated, then disclose that its effect cannot be calculated.

4D

Fundamental Accounting Assumptions (FAA)

Going Concern	Accrual	Consistency
It means it is always assumed that business will continue forever. No need to cease or curtail operations. If Entity is not in position to continue in forseeable future, disclosure is required. Here Prepare financial Statement on Non Going Concern Basis.	Means recording Income and expenses on Period Basis, not Payment Basis. If Entity does not follow accrual Basis, disclosure is Required.	Means it is assumed that same policies will be followed consistently each year. If any Policy is temporary disclosure is Required.

Accounting Standard-2 Valuation of Inventories

① This standard applies to all forms of inventories except

- Work in progress for Construction Contracts
- " " " for Service Providers
- Inventory of Shares, Debentures and Bonds
- Producers Inventory for agriculture, livestocks and similar assets. (These are valued at Net Realisable Value, since these are produced biologically. These are having assured sale and hence valuing them at NRV is consistent)

② Inventories are assets

- Held for Sale in ordinary course of business

- In process of Production for Subsequent Sale in ordinary course of business
- Material + Supplies, held for Consumption in production of goods or rendering of services.

(3) Inventory classification can be

- Finished goods or Stock in trade
- Work in Process
- Raw Material

(4) Valuation of Inventories - Rules

(A) Finished goods, stock in trade, work in process are valued at Cost Price or Net Realisable Value, whichever is lower

(B) Raw Material is valued at Cost Price only. However if finished goods in which such raw material is expected to be incorporated is to be sold at lower than Cost Price, then value of Raw Material is taken at Replacement Price.

* Valuation of Inventory is taken lower, selected on item by item basis (not Global basis)

③ Calculation of Net Realisable Value

NRV is NOT Sale Price or market Price. It is Calculated as follows

↓

NRV for finished Goods or Stock in trade

Estimated Selling Price	XXX
(-) " " Expence	XXX
	NRV

NRV for work in Process

Estimated Selling Price	XXX
Less " Selling Expence	XXX
Less " Cost of Completing WIP	XXX
NRV for WIP	XXX

Example of Selling Expenses = Commission on sale or
delivery Expenses.

⑥ Calculation of Cost Price

Cost price Can be calculated by applying various cost techniques like

Actual Cost technique or
Standard Cost " or
Retail Price " .

Generally Actual cost technique is applied.

⑦ Calculation of Cost based on Actual Cost Techique

(i) Cost of material

	Material Purchase Price after discount (if any) (including GST)	xxx
Less	Tax credit / Input tax credit	xxx
Add	Loading / Unloading cost	xxx
Add	Freight and insurance cost	xxx
Add	Other cost to bring Material to present location & condition	xxx
	Total material cost	xxx
÷	No. of units Purchased less Normal Loss Units	xxx
	Cost of material per unit	xxx

(ii) Cost of Conversion

	Direct Labour Cost per unit	xxx
+	" Cost " "	xxx
+	Production/Factory overhead (Variable) per unit	xxx
+	" " " (fixed) "	xxx
	Total cost per unit	xxx

Note: Fixed Production Overheads per unit

$$\frac{\text{Total fixed Production overheads}}{\text{(Actual or Budgeted Production overheads) whichever is higher}}$$

Note: If any by product is sold, then its sale Proceeds are deducted

Note: Following are not included in Costs

- Administration overheads
- Selling and distribution overheads
- Abnormal loss
- Storage Costs

Note: Export incentives are not adjusted in Value of Inventory. These are treated as Income when earned/accrued.

Note: For calculating Material purchase Price Entity may apply cost formula like FIFO or Weighted Average or other methods

Note: Abnormal Loss is written off in P&L A/c

Cost of Abnormal Loss = Unit lost abnormally × Cost per unit of material

Normal Loss gets adjusted in cost per unit automatically. Hence it is not written off in P&L A/c.

(8) Retail Price technique

Under this technique cost is calculated using

Retail price	xxx
Less G.P. Ratio	xxx
	Cost

This technique is applied when entity has similar gross profit Ratio for all product.
Sometimes Trading A/c is prepared as simple way of calculation.

(9) Under Standard Cost technique, cost is calculated by costing department where standard costing is applied. Cost calculated by that department is considered Cost of Product.

(10) Disclosure requirements

- Entity should disclose Policy for Inventory Valuation along with method of cost formula

- Disclose Inventory classification with Amounts.

Example

A ltd has following data

Purchase	1	10000 units	@ 20	with GST
	2	15000 "	@ 22	" "
	3	12000 "	@ 23	" "

Entity can claim input tax credit for 2/- per unit.

Entity applies average cost formula. following expenses are incurred

Freight and Insurance ₹ 10000

Loading/unloading ₹ 50000

Normal loss 4000 units and Abnormal loss 1000 units.

Units produced 32000, whereas Budgeted units were 50000

It incurred Variable factory overheads @ 2 per unit. Fixed production overhead ₹50000. Labour cost per unit 6/-

Direct Expense ₹ 3/- Per unit.

Administration overhead ₹ 90000. Entity had
closing stock of 3500 finished goods
Calculate Cost of Stock.

Accounting standard - 3 Cash flow Statement

All concepts of this standard covered in chapter Cash flow statement

Accounting Standard-4 Contingencies and Events occurring after Balance sheet date

① This standard deals with

(i) Contingencies and

(ii) Events occurring after Balance sheet date

* After introduction of AS 29, this Accounting Standard-4 will deal with contingencies related to debtors (Provision for Doubtful debtors). All other contingencies are dealt by AS-29

② Contingency means

- condition or situation
- whose ultimate outcome may be gain/loss
- will be determined upon occurrence or non occurrence of
- uncertain future events.

Here this contingency is limited to provision for doubtful debts

Note: Contingent Gains are not Recognised.

③ Contingent losses on doubtful debts can be

- Remote possibility of loss → No Treatment
- High probability of loss that can be measured reliably → Make provision for doubtful debts
- Other cases i.e. low probability or whose amount cannot be measured → Give disclosure in notes

④ Events occurring after Balance Sheet date

If any significant event occurs after Balance sheet date but before approval of Accounts, then such event may be

Adjusting or

Non Adjusting Event

(5) Adjusting Event mean Events whose condition were existing as Balance sheet date. These should be adjusted in net assets of Entity while preparing final Accounts on reporting date

(6) Non Adjusting Events mean, which occur after Balance sheet date but before approval of Accounts.

and

its condition for occurrence were NOT existing on Balance sheet date

Note: If such events have material effect, then these should be disclosed in notes to Accounts. (Earlier it was director Report or Approving authority Report. ICAI still uses Director Report or Approving authority Report). for Exams use Notes to Accounts.

Note: If such events have effect on Going Concern assumption of Entity then financial statements should be

- Redrafted on Non Going Concern basis assumption

and

- Give disclosures for it

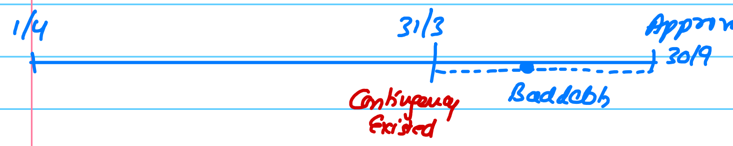
(7) Treatment of Proposed Dividend

It is non adjusting event, having material effect. Hence it should be disclosed.

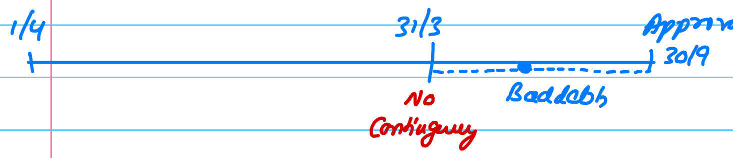
If dividend has been declared by End of Reporting date, then it should be adjusted in financial Statements.

(8) Treatment of Baddebts

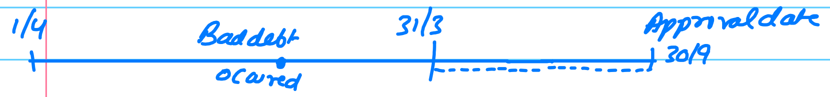
Treatment



Adjusting Event



Non Adjusting Event



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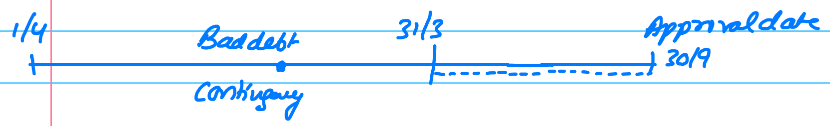

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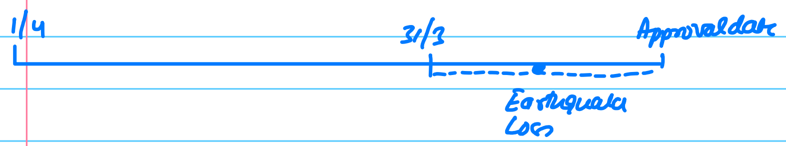
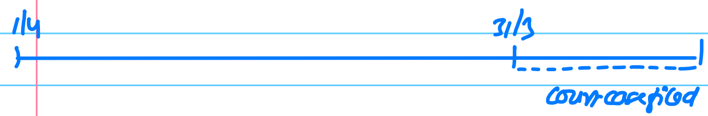
(9) Loss by fire/Earthquake etc



Non Adjusting

(10) Court Cases filed and its Judgements

Adjusting



Not Event

(11) Sale of Assets/Business or Purchase of Assets/Business

Sale Agreement signed — court Approval — Adjusting

Sale proposal — Sale Agreement — Non Adjusting (its negotiation)

(12) Salary/wages Revision

dispute on salary — Agreement on salary — Adjusting

wages increased, No dispute — Non Adjusting

(13) Theft

theft — discovered — Adjusting

Theft — Non Adjusting

(14) Proposed Dividend

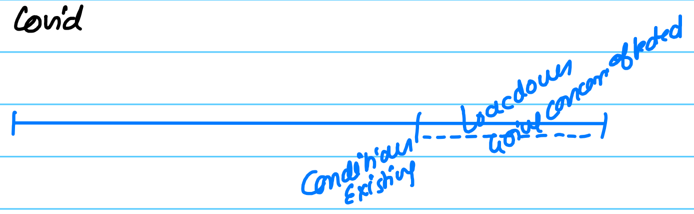
Proposed — Approved — Always Non Adjusting, give disclosure

(15) Cheques collected from Customers

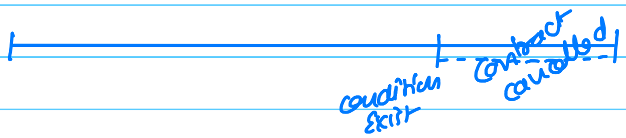
cheques collected by staff — cheque Received by Accountant — Adjusting

cheque collected — non Adjusting

(16) Covid



Adjusting Event
Redraft FS



Adjusting Event

CRUX

Step 1 On 31/3 check doubt/contingency/conditions should exist for AS 4 or AS 29

Step 2 Make Provision for such doubt/condition/contingency on 31/3 as per AS 4/29

Step 3 If Event occurs, which is significant, Before Approval date, after BS date

- Check Condition Existing on BS date
  - ↓ Remove Provision for doubt/condition/contingency
  - ↓ Create Provision for Event
- No Condition Existing on BS date
  - Material Effect ↓ disclosure need
  - Material effect ↓ Going Concern affected ↓ Disclose & Redraft FS
  - Other ↓ No Treatment

Accounting Standard-5 : Net Profit/loss from ordinary items, Prior Period Items and changes in Accounting policies.

(1) This Standard deals with

Net Profit/loss from ordinary Activities
Prior Period items
Changes in Accounting policies
Change in Accounting Estimates
Extraordinary items

(2) Net Profit/Loss from ordinary Activities

Meaning : These are items of Income and expense which arise from ordinary Activities. These are principal Revenue Generating items.

Examples : Sale, Purchase, Expenses etc

Treatment : Present them in as per S-III
* Items which are of such nature or size, which is material should be disclosed separately.
Examples of Such items
- Decline in value of Inventory
- Litigation settlement Expense
- Gain/loss on sale of Investment/PPE
- Reversal of Provisions for Restructuring
- legislative changes having Retrospective effects.

(3) Prior Period Items

Meaning : These are rectification effects of Errors/Omissions of Entity for earlier years. These are due to errors of nature or classification or mathematical Calculations.

Example : Wrong calculation of stock
" classification of Assets
" " " Leases
" nature of Expense (Capital or Revenue)

Treatment These rectification should be separately disclosed in P/L A/C
* Insurance claims of Earlier year, recorded in current year may be due to Error or not error (as it's recognition in Earlier year was not Allowed).
If it is not error, it is treated as ordinary item.

(4) Change in Accounting Policies

Meaning of Accounting Policies : These are specific Accounting principles and methods applied in preparation and presentation of financial statements.

Examples of Policies
(i) Stock Valuation Policy
(ii) Cost formula Policy (Weighted Avg or FIFO)
(iii) Depreciation method IS NOT POLICY
(iv) Goodwill Treatment policy
(v) Foreign Exchange Treatment policy
(vi) Revaluation of PPE / Cost model of PPE Policy

Whenever policy changes, Reasons of change can be
- Better presentation
- Compliance with law
- Compliance with A.S

Treatment : whenever policy is changed, following disclosures are required
- old policy
- new policy
- Reasons of change in policy
- Effect of change in policy

Note: If new policy is introduced for new event or event which is materially different from events taking place earlier, does not mean change in policy. It is called Introduction of new policy.

Example : Policy of Treatment of Retirement Benefits, which earlier had not been paid and Entity had no policy of payment of Retirement Benefits.

(5) Change in Accounting Estimate

Meaning : Accounting estimates mean estimates made by Entity regarding life of asset, Rate of Interest, Discounting Rate, fair value of Assets or provision. These are Best estimate at year End.

These estimates may undergo change in later years. These changes are called change in Accounting estimates.

Example
- Provision for Bad & doubtful debts can be different from Actual Bad debts.
- Provision for Doubtful debts may change later
- other provision may change due to change in Actual Expense
- change in useful life of assets
- change in Depreciation method

Treatment : These are NOT disclosed in P/L, if immaterial. But if material, its disclosure is required.

(6) Extraordinary items

Meaning : These are items of Income or Expense, which are not ordinary in nature. These are infrequent and Abnormal in nature.

Example : Loss by fire / Earthquake
Substantial gain on sale of Assets
Winning from Games etc

Treatment : These are disclosed separately in P/L A/c so that users can understand implication.
Do not set off Gains with losses or any other item.

Accounting Standard-7 : Construction Contracts

① Construction Contracts means specifically negotiated contracts to construct any asset or group of assets which are interrelated in terms of design etc. These include contracts of service related to construction.

Example of Construction Contracts

Contract to Construct Building / Dam / Road / Airport etc

② Contracts can be of two types
(i) fixed price contract in which price is fixed initially. This price may change subsequently.
(ii) Cost plus contracts, where price is not fixed, but a % on cost is fixed

③ How to Calculate Revenue & Profit in Cost plus Contracts

Contract Revenue Recognised = Approved Cost + % margin on it

Calculation of Profit/loss on Contract

Contract Revenue Recognised	xxx
Less Contract Cost Incurred (Approved or not)	xxx
Less cost still to be incurred which is not expected to be approved	xxx
Contract Profit/loss	xxx

④ How to Calculate Revenue & profit in case of fixed Price Contracts?

Apply percentage of Completion method. following Steps are applied

Step 1 Identify Elements of Contract at year End

(a) Contract Revenue

Initial Contract Price	xxx
+ Variation/Claim/Escalation/Incentives	xxx
Contract Revenue	xxx

Note: Variation/Claim/Escalation/Incentive should be recognised if
- these can be measured reliably and
- its realisation is certain (i.e. Approved by other party)

Note: Incentives are recognised, if they are in sufficient advanced stage of progress, which makes probable that standard of performance will be met or exceed targets

(b) Contract Cost

Direct Cost on Contract	
• Material Consumed (op. Stock + Purchases - closing stock)	xxx
• Labour Expenses Incurred (Paid or not)	xxx
• Other direct Expenses (Design etc)	xxx
Indirect Cost on Contract	
Supervisor Cost	xxx
Depreciation of Machine on site	xxx
Sub Contract Costs	xxx
Hire charges of machine used at site	xxx
Allocated Cost on Contract	
Insurance Allocated to Contract	xxx
Admin overheads allocated to Contract	xxx
Contract Cost Incurred/Work in Progress	xxx

(c) Estimate future Cost to be incurred xxx
(It will be estimated by management)
* Do not adjust escalation, since this Cost is already estimated after Considering escalations

Step 2 Calculate Degree of Completion/Stage of Completion

$$= \frac{\text{Cost Incurred on Cumulative basis}}{\text{Cost Incurred on Cumulative basis + future Estimated Cost}} \times 100$$

Cumulative means Cost Incurred from Beginning of Contract till this date

Note: Concept of work certified and uncertified are not relevant for calculation of Profit/loss
But if cost incurred is missing, ICAI generally assumes that work certified and work uncertified as cost incurred.

Step 3 Calculate Profit/loss

Contract Revenue x Degree of Completion (cumulative)	xxx
Less contract Revenue Recognised in Earlier years	xxx
Contract Revenue Recognised in current year	xxx
Less Contract cost incurred during year	xxx
Contract Profit/loss	xxx

Step 4 check Provision for foreseeable loss

Total Contract Cost (Incurred + future cost)	xxx
Less Contract Revenue (Total)	xxx
Total Provision for foreseeable loss	xxx
Less loss already Recognised	xxx
Provision to be created in current year	xxx

Note: Provision created in Earlier years will be cancelled.

⑤ Segmenting of Contract
A contract should be segmented and separately treated, if it satisfies ALL of following conditions
a) separate proposals have been submitted for each part
b) Separate negotiation between parties for each part, where customer can accept/Reject any part
c) Cost and Revenue can be calculated separately.

Here contract should be separated and profit/loss calculated separately.

6) Formats

Profit Loss Account

Contract Revenue Recognised	XXX
(A)	XXX
Cost incurred	XXX
Provision for loss in contract	XXX
(B)	XXX
Profit/loss A-B	XXX

Balance sheet

Current Assets		
Debtor / Trade Receivable	XXX	
(-) Provision for loss on Contract	XXX	XXX

Here Debtor are Amt due from billed invoice and unbilled Revenue if any.

Debtor A/C

To Revenue or Progress Billing	XXX	By Bank	XXX
		By Balance c/d	XXX
	XXX		XXX

7) Disclosure Requirements

(i) Contract Revenue
(ii) Contract Cost
(iii) Contract Profit/loss
(iv) Degree of Completion
(v) Progress Billing, Advance Received, Retention Money
(vi) Gross Debtor or Gross Creditors

* Gross Debtor or Gross Creditors means

Contract Revenue Recognised	XXX
Less Progress Billing	XXX
Unbilled Revenue	XXX
Less Provision for loss on contract	XXX
Gross Debtor / Gross Creditor (+ve) (-ve)	XXX

Accounting Standard- 9 : Revenue Recognition

① This AS is Not applicable on revenue arising from sale of PPE, Sale of Investments, Sale of Intangible Assets or Revaluation of Non current Assets or Revaluation of Current assets or Revaluation of foreign Exchange

② Revenue means gross inflow of cash and Receivable arising out of Sale of goods or rendering of services or Interest or Dividend/Royalty in ordinary course of business. Hence This AS deals with

- Revenue from Sale of goods
- " " Rendering of services
- " " Interest/Dividend and Royalty.

③ Revenue from Sale of goods should be recorded, if both of following conditions are satisfied

(i) No uncertainty regarding consideration or its ultimate collection
and
(ii) Goods have been transferred to buyer

Note: Goods transferred to buyer can be as follows

(i) By Transfer of ownership
(ii) By delivery of goods to customer along with Risk + Reward
(iii) By delayed delivery to customer at his request but risk + Reward transferred to customer.

Note: Sale is recorded after deduction of Trade discount or volume discount. Do not deduct cash discount.

Note: Sale in special Cases

(A) Consignment/Agency
- Record Sale when goods are actually sold by agent

(B) Goods sold on approval basis
- Record Sale when approval received from customer or Period of Rejection expires.

Note: Sale return is recorded separately from Sale.

Note: In case of claims arising due to
(A) Interest on delayed Payments or
(B) Increase in Price with Retrospective effect
Record it as Revenue when Certainity of collection Exist

(4) Revenue from Services

Revenue from services can be recorded, if both of following conditions are satisfied
(i) No uncertainity regarding consideration and its ultimate collection
and
(ii) Services have been rendered on percentage of completion method or completed Service method

Note: If services require substantial time, then apply percentage of completion method to recognise revenue. In all other cases, revenue should be recorded on completed service method.
Example of percentage of Completion Method
- Tution fee
- Insurance Income for Insurance Companies
Example of Completed service method
- Advertisement in Magazine, T.V, Google etc
- Advisory of Advocate, C.A, Doctor etc
- Insurance Commission for agents.

(5) Revenue from Interest, Dividend or Royalty
It should be recognised if
- No uncertainity exists regarding consideration and its ultimate collection
and
- In case of Interest - time has elapsed
In case of dividend - Right to Receive dividend Exists. (It Exist when dividend has been declared)
In case of Royalty - Condition of agreement have been satisfied

⑥ Repurchase agreement:-

If goods are sold with repurchase agreement, where goods will be repurchased at equal or higher price by seller, then such sale with repurchase agreement is NOT considered as sale. It is considered as financing agreement, where liability is recorded - This liability will be settled on repurchase date.

⑦ Disclosure Requirement

Revenue Recognition policy should be disclosed along with details of major Revenue

Accounting Standard - 10 Property, Plant and Equipments

1) This standard is applicable on all property plant and equipment Except following

(a) Biological Assets except Bearer Plants.
(b) Wasting Assets like Mines and other Natural Resources.

Note: Biological Asset means living animal or Plant.

Note: Bearer Plants is a plant that is used in production or supply of agricultural Produce, is expected to bear produce for more than Twelve months, and is not likely of being sold as agricultural produce.

following are not bearer plants
(a) plants which are cultivated for harvest (like wheat) like Lumber.
(b) Plants cultivated to produce agricultural Produce, when there is very low chance of harvesting plants
(c) annual crops (like wheat)

2) PPE means tangible assets that are held for use in production or supply of goods/services or for rental to others and
Such assets will be used for period more than 12 months.

Bharat Tent house → $\boxed{\text{Chairs, Utensils, decoration Material}}$ (life more than 12m) ⇒ for Rent
⇒ Tangible
∴ It is PPE

Aldine Vehicles → $\boxed{\text{Chairs, machine}}$ (life more than 12m) ⇒ for use Yes
⇒ for tangible Yes
It is PPE

③ Recognition Conditions

PPE should be recognised in books of accounts, if both of following conditions are satisfied

(i) It is probable that future Economic benefits associated with asset will flow to Entity

and

(ii) Its cost can be reliably measured.

Note: Sometimes asset does not provide future Economic benefits but enables other assets to provide Benefits. Such assets are called Enabler Assets and these are also recognised in books. for Example Roads, Bridges, Railway sidings etc.

Solution 100

As per Accounting Standard-10, PPE, whenever any PPE is to be recognised in books of accounts, then following conditions should be satisfied

(i) It is probable that future Economic Benefits will flow to Entity

and

(ii) Its cost can be reliably measured

In the given case, ABC Ltd has purchased one machine for ₹4,00,000 whose method of production has changed before receipt of delivery. Now this machine has no future Benefits, hence it cannot be Recognised as asset.

Such machine will be written off as expense. Entity should record liability for agreed consideration to be paid.

Journal Entries (i) for Recording Loss and Liability

Loss on Purchase of machine Dr
To Creditor/Vendor
(Being Machine Purchased)

(ii) for Payment

Creditor/Vendor Dr
To Bank
(Being amt paid)

(iii) for writing off Loss

P&L A/c Dr
To Loss on Purchase of M/C
(Being Loss written off)

(4) PPE should be recognised at Cost. → Initially. (पहली बार)

PPE can be

- Purchased/Acquired Assets
- Self constructed (Building Constructed)
- By Exchange

(4A) By Exchange

Exchange has commercial substance
⇓
Record PPE @ fair value of asset given.
If such fair value is not reliable, then consider fair value of asset Received.

Exchange does not have Commercial Substance
⇓
Record PPE @ Book value of asset given. If any Cash is paid/Received, it will

If Both fair values are not reliable, then use Book value of asset given.

be adjusted in PPE

Cash To PPE or PPE To Cash

Note: Cash Paid / Received will be adjusted in Entry and any difference is recorded as P&L A/c.

(4B) Self Constructed PPE

If any entity self Constructs any PPE, then it should be initially recorded at Cost.

for the purpose of Cost, Elements of Cost should be same as for Acquired PPE. following are special points

(i) Do not include Internal Profits in elements of Cost

(ii) Borrowing Cost may be capitalised as per AS-16.

(4C) Acquired PPE or Purchased PPE

If any entity Purchases or acquires PPE, then it should be initially recorded at Cost.

Elements of Cost

- Purchase Price
- Directly attributable Cost
- Cost not to be included.

Hence Cost of PPE should be

Purchase Price	xxx
+ Directly Attributable Cost	xxx
Cost of PPE	xxx

Meaning of Purchase Price

Purchase Price should be after Rebate and Trade Discount and it should include import duties and Non Refundable Taxes (GST whose ITC is not available)

Meaning of Directly attributable Cost following are included in Directly attributable Cost of Asset

(i) Cost of Employee Benefit which are directly working on PPE to make it Ready for intended use. Other Staff Cost are not Directly attributable

(ii) Cost of site preparation

(iii) Cost of initial delivery and handling Costs of PPE

(iv) Installation of PPE / Assembly Cost of PPE

(v) Cost of Testing / Trial Run of PPE

(vi) Professional / Consultant Expenses.

Following costs are NOT included in Cost of PPE

(i) Pooja / Muhurat / opening ceremony Cost of PPE.

(ii) Cost of introducing new product to new market like Advertisement Expenses.

(iii) Administration, selling and Distribution Expenses

(iv) Abnormal Loss

(V) Cost incurred after PPE is Ready for use but is not put to use / Partially put to use.

(VI) Operating losses of Entity

(VII) Staff Training

(VIII) Relocation / Relocating Expenses of PPE.

(IX) Interest for Deferred credit

NOTE If any PPE is to be De commissioned / Removed or other Restoration Costs are to be incurred when asset life is over, then such estimated costs should be included in cost of PPE at discounted value.

Note: Upon initial Recognition of asset, entity should identify components of PPE which are significant in value and have different useful life.

Later if any component is Replaced, such component should be derecognised from asset. It is not material, that it was not identified Earlier. Best Estimate based on

Current Cost of Replacement should be considered as Basis for Replacement.

(5) Subsequent Recognition

PPE should be subsequently recognised at Cost Model or Fair Value Model. (Revaluation Model).

If asset is measured at Cost Model, then its value should be taken at

Cost Price	XXX
(-) Depreciation	XXX
	XXX

If asset is measured at fair value, then its closing value should be

fair value	XXX
(-) Dep on fair value after Revaluation	XXX
	XXX

Note: If Entity applies Revaluation Model, it should be applied on ALL PPE within same class. It means all similar PPE with same function should be Revalued.

Examples of classes
(i) factory Building
(ii) office Building
(iii) Car
(iv) Delivery Van

(v) furniture
(vi) Plant & Machine
(vii) Office Equipments etc.

Note: If asset is revalued, then entity should credit Revaluation Reserve for change in value.

(6) Depreciation

(i) Depreciation should be charged on Components Basis.

(ii) Depreciation should be written off in P&L A/c.

(iii) Depreciation amt is calculated by applying systematic basis over useful life of asset.

(iv) Depreciation can be on SLM or WDV or any other appropriate Base

(v) If output/use of Asset is Even during life then SLM is preferred. (लगातार एक जैसा)

(VI) Depreciation should start from date when asset is Ready for use.

(VII) Depreciation should be charged even if asset is not actually used.

(VIII) Depreciation should Cease, when asset is derecognised / sold / Asset is held for sale.

(IX) Depreciation should be charged even if fair value is more than Cost.

(X) Depreciation Amt may be zero, if Residual Value is more than Book value.

Cor Book value	90000
Residual value	200000
Balance life	5yr.

$$Dep = \frac{90000 - 200000}{5} = Nil$$

(XI) Depreciation method, useful life, Residual Value can be changed due to review by Entity. Depreciation will be calculated Prospectively due to change in above.

(XII) If any Insurance Claim is Received on PPE, it should be credited to P/L A/c and Asset should be Derecognised as if it has been sold.

(7) Disclosure Requirement

- Entity should disclose Opening Balance, Additions, Deletions, Depreciation and closing Balance of PPE
- Depreciation method/ useful life should also be disclosed
- Cost Model or Revaluation Model should be disclosed.

AS-11 The effect of changes in Exchange Rates

① This standard deals with
(a) foreign Exchange Transactions (FET)
(b) Forward Exchange Contract (FEC)
(c) Foreign operations (FO)

② Foreign Exchange Transactions

(i) Initial Recognition :-> All transactions made in foreign currency should be converted using Spot Rate on date of transaction.
Entity can apply any other approximate rate, if it does not want to apply Spot Rate.

* Spot Rate means Rate at the time of transaction or current prevailing Rate.

(ii) Subsequent Recognition
At each Balance sheet date, entity should remeasure monetary items using closing exchange rate.

Non monetary items should Not be remeasured.

Note: Monetary items means
(i) Assets or Liabilities
(ii) Whose settlement is as per contract in fixed Amt
(iii) and such currency is foreign Currency

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Examples of monetary items :→ Cash, Bank, Debtor, B/R, B/P, Advances, Loan, Creditor, Expense Payable.

Examples of Non monetary item :→ Share Capital, Retained Earnings, fixed Assets, Investments, Stock.

(iii) Treatment of Exchange difference

- Monetary item is Short Term (Debtors, B/R, B/P, creditors etc)
  ⇓
  T/f Exchange Difference to P&L A/c as Loss or Income
- Monetary item is long term (Loans)
  - For PPE
    ↓
    T/f Exchange Diff to
    (a) P L A/c
    OR
    (B) Asset A/c.

    T/f to Asset is optional and not mandatory.
  - others
    ↓
    T/f Exchange Diff to
    (a) P&L
    OR
    (b) Foreign Currency Monetary Item Translation Difference A/C (FCMIT Diff)
    ↓
    T/f to FCMIT Diff A/c is optional.

(3) Forward Exchange Contracts

These Contracts are made for the following purpose

(i) For Hedging of future flows of cash

OR

(ii) For speculation purpose.

In case of Hedging

Ex. Diff is calculated as follows

Forward Rate	XXX
(-) Spot Rate	XXX
Premium on Contract	XXX

This premium is written off as Expense in P/L Over period of Contract.

In case of speculative Contracts

Forward Rate	XXX
Less Settlement Rate	XXX
Loss or Profit	XXX

This will be t/f to P/L A/c.

(4) Sometimes Exchange Difference are treated in Borrowing Cost. (Refer Notes written in AS-16)

(5) Foreign operation (foreign Branch)

FO can be of two types
(i) Integral foreign operation (IFO)
(ii) Non Integral foreign operation (NIFO)

Integral foreign operation means where Branch is extension of business. In these cases branch is doing same business as of head office.

Other Branches are called NIFO.

AS-11 provides Rates for conversion.
(Already dealt in Branch A/c).

(6) Disclosure Requirement

- Foreign Exchange Policy should be disclosed
- Closing Exchange Rate should be disclosed

———— x ————

Accounting Standard- 12 : Accounting for government grants

① Government Grants means assistance in cash or kind against compliance of conditions by entity. Such assistance should be capable of being valued.

Govt can be local / state / central Govt or national International bodies (like WHO).

② Govt Grants are recognised when following conditions are satisfied

(i) It is reasonably certain that grant will be Received

(ii) It is expected that conditions for compliance will be satisfied by entity.

③ Type of grants

- Revenue Grant OR Income grant or Exponse Grant (A)
- Grant for fixed Asset (B)
- Non Monetary Grant ⇓ Asset in Kind received as grant. (C)
- Promoter Contributions Grant or Capital grant (D)

(3A) Revenue Grant

This grant is given by government to meet certain specific expense of entity. This grant is to to expensed as per conditions applied by grantor.

Till the time entity incurs expenditure such grant is treated as liability. Once grant is expensed it is recognised by credit to P&L A/c.

Presentation

Revenue Grant is presented in P&L A/c

Option A : Record it as separate item in P&L or Show it as other Income

OR

Option B Reduce it from expense incurred.

NOTE : Upon Refund of such grant, it is debited to Account, where grant was credited

Examples of Revenue grant can be

- Grant for Medical facilities
- " " Children Education
- " " Women empowerment

(3B) Grant for fixed Assets / PPE

- If grant is given as concessional price asset, then record asset at concessional price paid. No treatment for concession
- If grant is given in cash for acquiring fixed Assets, then option of following any of following two methods is available.

Net method

Gross method

Net Method

Reduce grants from fixed Assets

Journal Bank A/c Dr

To Fixed Asset

(Being grant received)

* Depreciation will be charged on net fixed Assets
* If asset becomes negative, then excess value will be credited to P/L A/c. Asset will be shown at nominal value along with capital Reserve. In such cases depreciation is not charged.
* Upon Refund

Fixed Asset Dr

To Bank

(Being grant added to Asset)

Depreciation will be Revised on prospective basis.

Gross Method

(i) Grant is credited to Deferred Grant A/c

Bank A/c Dr

To Deferred Grant

(Being grant received)

(ii) This deferred grant is transferred to P/L A/c in ratio of Depreciation

Deferred Grant A/c Dr

To P/L

(Being amt transferred)

Note: Asset will be recorded at full value and depreciated as usual.

Note: Upon Refund of grant

Deferred Grant	Dr	Book value
P/L	Dr	B.F
To Bank		Amt Refunded

Being amt refunded

3(C) Non Monetary Grant

These grants are received in kind. These are not in cash. following Accounting treatment is made

(i) On Receipt of asset as grant

Asset A/c Dr (Nominal value)

To Capital Reserve

(Being asset received)

Note: These assets are not depreciated.

(ii) Upon Refund of such grant

Capital Reserve

To Asset

(Being grant Refunded)

3(D) Grant in nature of Promoter Contribution or
Backword Area grant
Sometimes grant is given to entities to work in remote/Backword or other tough areas. Such grant is in nature of Capital and hence it is credited to Capital Reserve. Since this grant is in capital nature, it cannot be transferred to P&L A/c. Similarly company cannot distribute it as dividend to shareholders.

Such grant is also called promoters Contribution considering that govt has become like a promoter of company.

Refund of such grant: upon Refund such grant is debited to Capital Reserve.

Note: This grant is calculated with reference to Total Investment made by entity towards total Capital outlay of Project.

④ Disclosure Requirements

(i) Govt Grant Recognition policy should be disclosed.

(ii) If grant is Refunded, then reasons of Refund should be disclosed.

* Refund of grant is treated as Extraordinary item by AS-5.

Investment Accounting

① Meaning

Investment means assets which are held with objective to Earn Income or capital appreciation, which is not in ordinary course of business.

* check intention of holding Investments at time of acquiring Investment

* Income can be in form of Interest, Rent or Dividend.

* Capital appreciation means Increase in Value of Asset over time.

Examples : Interest Bearing Bonds / FD / Debentures] Relevant for Exams
Dividend Bearing Shares
Bitcoins / NFT
PPF
Gold, Gold Bonds
Mutual funds
Real Estate as Immovable Property.

* Land & Building always means held for use, hence not Investment

* Investments can be
quoted (whose value is listed publically)
Unquoted (" " " not " ")
Short term (Held for upto 12 months from date of acquisition)
Long term (other than Short term)

② Investments are initially recognised at Cost. (Make separate ledger for each class of Instrument)

Interest Bearing Investments

③ Journal Entry on purchase
Investment Dr Cost
To Bank
(Being Investment purchased)

④ Meaning of Cost

Purchase Price	xxx	(Ex/cum Interest)
Less Interest (if purchase Price is Cum Int)	xxx	
Net purchase Price Ex Interest	xxx	
+ Commission on purchase	xxx	
+ Stamp duty	xxx	
+ other Expenses on purchase	xxx	
Cost	xxx	

Cost ≠ Face value or Paid up Value

Example : A purchased 1000 9% Debentures of X Ltd @ 102 cum interest Face value ₹100 each. Date of Purchase 1/10/23. Date of interest 30/6 and 31/12
Stamp duty 1/2% on Cost
Commission on purchase 2% on Cost
Journalise.

Example A purchased on 1/9/23 500 8% Bonds of X Ltd @ 97 Ex Int
Commission 2% Stamp duty 1% , Other Expenses 500/=
Date of Interest 31/3 and 30/9 each year. Journalise.

⑤ Journal Entry for Interest Income

Bank A/c Dr
To Interest on Investment
(Being Int Earned)

Interest will be calculated on
All Investments Held on Interest Date @ Rate of Interest given on it for period starting from last Interest Date to current Int Date.

Interest is always calculated on Paid up Amt (If missing assume face value as fully paid up)

(6) Journal Entry for Sale of Investment

Bank A/c Dr Sale Proceeds
To Investment Book value
To Profit on sale/loss on sale B.F
(Being Investment sold)

* How to calculate Sale Proceeds?

If Sale is cum Int			If Sale is Ex Int	
Sale value	xxx		Sale value	xxx
(-) Int	xxx	(from last int date to date of sale)	(-) commission on Ex Int value	xxx
net value	xxx		Sale Proceeds	xxx
(-) commission on cum Int	xxx	(on cum Int)		
Sale Proceeds	xxx			

* If Q is silent Assume Ex Interest

* How to Calculate Book value of Investments

FIFO Based = $\frac{\text{Cost of Lot Eligible for Sale on FIFO}}{\text{Face value of lot}} \times$ face value of investment sold

Weighted Avg Based = $\frac{\text{Cost of lots acquired Before Sale}}{\text{Face value of lots}} \times$ face value of Invts sold

Assume FIFO if Q is silent on Interest Bearing securities

(5) At year End

Investments will be subsequently carried at Cost or Fair value whichever is lower. Assuming current/short term Investments.

* If Investments are permanent/long term, then they are carried at Cost Price only. However provision is made for permanent decline in value of Investments. (Exams always assume Short term Investments)

* Any Accrued Interest on Invs held on which Interest is accrued will be recorded as closing Balance

* Any difference in Investment A/c will be transferred to P/L A/c.

(8) format of Investment A/c - Interest Bearing

Investment in xxxxx A/c
for Period

Date	Particulars	Face value	Interest	Amount	Date	Particulars	Face value	Int	Amount
xx	To Balance b/d	xxx	xxx	xxx	xxx	By Bank (Interest)	-	xxx	-
xx	To Bank (Purchase)	xxx	xxx	xxx	xx	By Bank sale	xxx	xxx	xxx
xx	To Profit on sale	-	-	xxx	xx	By loss on sale	-	-	xxx
xx	To P/L (B.F)	-	xxx		xx	By P/L B.F	-	-	xxx
					xx	By Balance c/d	xxx	xxx	xxx

* format of P/L (Extract)

Other Income	Interest Income	xxx
	Profit on sale	xxx
	Loss on sale	(xxx)
	loss on valuation	xxx
	Other Income	xxx

Example : A purchased 800 7% Debentures of X Ltd @ 97 each on 1/8/23. Int dates are 31/3 and 30/9 each year. Commission 2%. Stamp duty 1%. Other charges ₹500. Journalise for purchase & prepare ledger

Example A purchased 9% Debentures of X Ltd (Int date 31/3 and 30/9)

Date	Nos	Price	Remarks
1/7/22	500	102 CI	Commission 2%, stamp duty 1%
1/9/22	200	98 EI	" "
1/11/22	400	99	" "

Prepare ledger of Investment

Example A purchased 8% Debentures of X Ltd

Date	Nos	Price	Remarks
1/5/22	2000	97 CI	2% stamp duty 2% commission
1/12/22	1000	98 EI	" "

Int dates are 30/9 and 31/3

A sold 500 Debentures on 1/2/23 @ 101 cum Int. Commission 2%. Prepare Investment A/c. Assume fair value of each Debenture is ₹96 on 31/3. Also assume FIFO method.

(a) Treatment of Accrued Int

Whenever year End date + Int payment date do not match, then there is concept of Accrued Interest.

Here calculate Accrued Int for Period after Int date to year End Date

Accrued Int = Paid up value closing Balance × Rate of Int × Period as above

It will be shown at dr of Interest

Similar Treatment is for opening Interest also.

Dividend Bearing Investment

(10) Format of Investment A/c - for shares

Date	Particulars	Nos	Dividend	Amount	Date	Particulars	Nos	Dividend	Amt
xx	To Balance b/d	xxx	-	xxx	xx	By Bank Dividend		xxx Post	xxx Pre
xx	To Bank Purchase	xxx	-	xxx	xx	By Bank Sale	xxx	-	xxx
xx	To Bonus Share	xxx	-	-	xx	By loss on sale	-	-	xxx
xx	To Bank Right Subscribed	xxx	-	xxx	xx	By P/L B.F	-	-	xx
xx	To gain on sale	-	-	xxx	xx	By Balance c/d	xxx	-	xxx
xx	To P/L		xxx						
		xxx	xxx	xxx			xxx	xxx	xxx

Note: Accrued Dividend does not Exist. Hence no treatment
Concept of Ex/Cum interest not apply here

Balance c/d will be taken @ cost or Fair value whichever is lower
(assuming short term investment)

Note: Bonus shares are always at Zero Consideration. Hence on receipt of Bonus, cost is always zero. Bonus Ratio of 5:7 means 5 share will be issued for every 7 shares held.

Note: Treatment of Right

(A) If Right share are subscribed — Investment Dr
To Bank
(Being shares subscribed)

(B) If Right share are Renounced — Bank Dr
To Income on sale of Right
(Being Right Renounced)

Amt = No of share Renounced × Sale Price per right

This income will be credited to P/L / other income.

* sometimes sale of Right is not credited to P/L. It is reduced from Cost

Special Treatment on sale of Right / Renounce

AS-13 specifies that if shares are purchased Cum Right

and

these share are Renounced

And

there is a fall / decline in value of Equity shares when they become Ex Right

then

Journalise

Bank A/c Dr Amt Received on Sale of Right

To Investment (Decline in value, treated as Recovery)

To Income on sale of Right (B.F)

(Being Right Renounced)

Note: Upon purchase of shares Cost will be Calculated

Purchase Price	xxx
+ commission on purchase Price	xxx
+ Stamp duty " "	xxx
+ other Expense	xxx
	xxx

Note: upon sale of Shares sale Proceeds will be credited. These are calculated

Sale Price	xxx
(-) Commission on sale	xxx
Sale Proceeds	xxx

Note: Gain/loss on sale of Shares is calculated as follows

Sale Price	xxx
(-) Cost as per Avg Method	xxx
	xxx

Always use Avg Method for calculating Gain/loss.

Example A purchased 1000 shares of RIL @ 2800 each on 1/8/22.
Commission 1% Stampduty 1/2% . Other charges 1000.
On 1/9/22 RIL declared Bonus 1:2
On 1/10/22 RIL " Right Issue 1:3 @ 2000 each . A renounced 30% of his right @ 200 each.
Closing market value of RIL Share on 31/3/23 is ₹ 2900. Prepare Invt A/c

(11) Dividend Treatment

(A) If dividend is proposed, then Investor does not recognise any Income due to AS-9.

(B) If dividend is declared, it can be final dividend i.e. relating to last year or Interim dividend i.e. relating to current year.
If Q is silent assume final dividend.

(C) Dividend is calculated as follows

Final Dividend
= No. of shares outstanding at Year End × Paid up value × Rate of dividend

Interim Dividend
= No of shares outstanding on date of declaration × Paid up value × Rate of Dividend

* Dividend is NOT p.a. Hence do not apply days & months. Interim Dividend can be p.a. In that case take proportionate Period.

(D) Treatment of Dividend Received

If it is pre Acquisition Dividend, it will be credited to Investment A/c as recovery of cost.

Bank A/c Dr
To Investment
(Being Dividend Received)

If it is post Acquisition Dividend, then it is treated as Income

Bank A/c Dr
To Dividend Income
(Being amt Received)

It is further transferred to P/L A/c.

* Generally ICAI assumes in this chapter Interim Dividend as Post.
Also ICAI assumes Dividend is final if Q is silent.

* If Dividend is Received on Opening Balance of Shares, ICAI assumes as post Acquisition dividend.

Means ICAI says Pre Dividend is special, it must be clearly mentioned.

Example A purchased 1 share of RIL on 31/8/22 for ₹ 2600. On 1/9/22 Dividend declared for 21-22 ₹ 150 per share. Journalise

Example B purchased 1 share of X Ltd @ 135 on 31/8/22. Later on 1/9/22 X Ltd distributed dividend @ 12 per share for 22-23

Example M purchased 1 share of Infosys @ 1500 on 31/8/22. Later on 1/9/23 Infosys declared dividend @ 50 per share for 23-24. Journalise

Example C purchased 1 share of Axis Bank @ 730 on 31/8/22. On 1/9/22 Axis Bank declared dividend @ 50 for 21-22. Journalise

Example A purchased 1 share of SBI @ 515 on 31/8/22. On 1/9/23 SBI declared dividend @ 50 for 22-23. Journalise.

Example R purchased 1000 shares of X Ltd on 1/10/22 @ 25 per share. On 1/9/22 X Ltd distributed Dividend @ 2 per share for 21-22. Journalise

Example R purchased 1000 shares of X Ltd on 1/10/22 @ 25 per share. On 1/11/22 X Ltd declared final Dividend @ 20% (Paid up value per share ₹ 20 each). Journalise

Example R purchased 1000 shares of X Ltd on 1/10/22 @ 25 per share. On 1/12/22 X Ltd declared Interim Dividend @ 20% (Paid up value ₹ 10) Journalise.

Example R purchased 1000 shares of X Ltd on 1/10/22 @ 25 each. On 1/12/22 X Ltd proposed Dividend @ 20%. Journalise.

(12) Calculation of Avg Cost in case of Shares
Whenever Avg Cost is to be calculated for Equity Shares, Then Reduce Recovery of cost from cost Incurred.

Note: Recovery of cost may arise due to
- Pre Acquisition Dividend or
- Due to decline in value of shares which were purchased Cum right and Renounced.

(13) Meaning of terms

- Cum Right means we are entitled to Receive Right offer
- Cum Bonus means we are entitled to Receive Bonus shares
- Cum Dividend " we are Entitled to receive Dividend

Similarly if it is Ex Right/Ex Bonus/Ex Dividend, means right to Receive is not Existing

(14) Conversion of Debentures into Equity
Whenever Debentures are converted into Equity shares (wholly or partly) then
(i) Receive Interest on converted Debentures upto Date of Conversion
and
(ii) Convert Debentures by following Entry

Investment in Equity A/c Dr
To Investment in Debentures
(Being investment converted)

* Cost of Debentures converted will become cost of Equity shares.

* No of shares received on conversion will be given in question.

Example Ram purchased following share

on 1/5/22 1000 share of X Ltd cum Right, Ex Bonus @ 20/-
on 1/6/22 2000 " " " Ex Dividend @ 25/-
on 15/6/22 Company paid Dividend @ 5 per share for 21-22
on 30/6/22 " " Bonus 1:2
on 31/7/22 " announced Right @ 1:4 @ 27 per share. Ram
Renounced 50% Right @ 3 per right
on 1/8/22 Ram sold 500 shares @ 30 each
on 1/9/22 " purchased 800 " " 32 "
on 1/10/22 " sold 100 " 33 each

Prepare Investment A/c

Accounting Standard-14 Accounting for Amalgamation

All concepts have been covered in chapter Amalgamation Absorption and External Reconstruction.

Accounting Standard-15 : Employee Benefits

① This standard is not applicable as Employee Share Based Payments

② **Meaning**

(i) Employee Benefits are all forms of Consideration for Services rendered that are provided

- under formal plan (Profit sharing Bonus Plan)
- " legislative Requirement (P.F)
- " Informal Practices (like Ex-gratia)

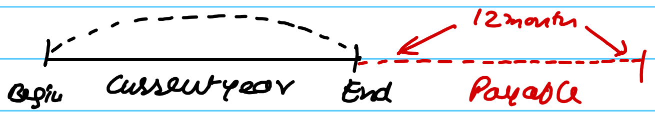
(ii) Employee Benefits are provided to employee, spouse, children or other dependents.

Employee can be full time or part time, casual or temporary or permanent.

(iii) Types of Employee Benefits

- Short term Employee Benefits
- Post Employment Employee Benefits
- Other Long term Employee Benefits
- Termination Benefits

③ Short term Employee Benefits. These fall due within 12 months from End of period



(A) It includes

- wages, salary
- Profit sharing Bonus
- Medical care, Housing, cars etc
- Short term Compensated Absence (STCA)

(B) Accounting Treatment

Advance Salary Dr
Salary Dr
To Cash
To Salary Payable
(Being Salary payment recorded)

(C) Special Treatment of STCA

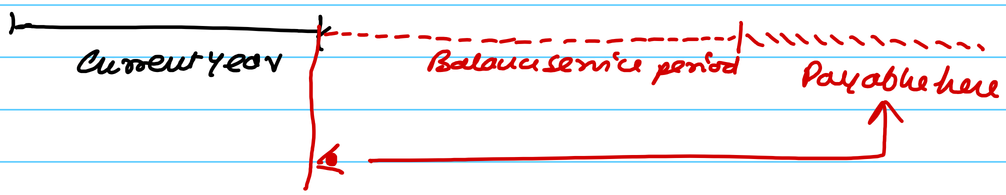
Leave

Used during Year → No Treatment

Unutilised at End of Year:
- Can be used in next 12 months → Provide for Proportionate or full Amount of Amt Payable for such leave.
- Cannot be used → No Treatment

(4) Post Employment Employee Benefits (PEEB)

It is payable after Completion of Services.



(A) It can be (i) Defined Contribution Plan where obligation is defined and Employer makes Contribution for it.
Example Pension fund and Provident fund.
Record Expenses based on actual contribution

(ii) Defined Benefit Plan where Employer has obligation which is defined, but contribution is not required
Example Gratuity, Leave Salary, Ex-gratia, Settlement Allowance etc.

(B) Accounting Treatment under Projected Unit Credit Method for DBO

Step1 Calculate estimated amount of Benefit Payable by applying Best demographic and financial assumptions.

Step2 Calculate Allocated Cost per unit based on balance period of service

Step3 Calculate Current Service Cost

Step4 Prepare Amortisation Table and calculate finance cost

Step5 On due date pay DBO

* This calculation is reviewed each year (Actuary does it) and any difference in opening Balance is considered as Actuary Gain/loss which is recognised in P/L A/c.
This Actuary surplus / Deficit cannot be deferred to future periods.

Journal Entries

- Current Service Cost Dr
  Int Cost Dr
  To PVDBO
  (Being cost of DBO recorded)

- Actuary loss
  To PVDBO
  (Being Actuary loss recorded)

- Benefit Paid Dr
  To Bank
  (Being amt paid on settlement)

PV DBO A/c

To Benefit Paid	xxx	By Balance b/d	xxx
		By CSC	xxx
		By Int Cost	xxx
To Balance c/d	xxx	By Actuary loss	xxx

(C) If Entity has funded the obligation then make plan Asset A/c

Plan Asset A/c

To Bal b/d	xxx	By Benefit Paid	xxx
To Contribution	xxx	By Actuary loss R.E	xxx
To Expected Return	xxx		
		By Balance c/d (Fair value)	xxx

Note Income will be calculated on Half Yearly basis.

Assume Contribution and Benefit Paid are in mid of year.

Calculate Chargeable Rate = $\sqrt{1+r} - 1$ where r is Expected Rate of Return

r is calculated based on management estimate of

Int and dividend income (after tax) of fund	xxx
+ Realised / unrealised Gains on Plan Assets	xxx
− fund Administration Cost	xxx
Expected Rate of Return	xxx

(D) Curtailment

If any Plan is curtailed or settled without Compensation, then difference between settled amount and Book value is transferred to P/L. It gain or loss is calculated as follows

Reduction in Gross obligation	xxx
less Proportionate Reduction in unamortised past service cost	xxx
Gain on curtailment	xxx

Balance in Balance sheet is calculated as follows

PV DBO new Balance after Reduction	xxx
less Fair value of Plan Assets	xxx
	xxx
less unamortised past service Cost	xxx
Balance to be shown in B/S	xxx

(5) Other long term Employee Benefits (Payable after 12m but before Retirement)

Examples
- Long term Compensated Absence
- Long term disability Benefits
- Silver Jubilee Benefits etc

Accounting Treatment is same as PEEB (discussed above)

(6) Termination Benefits

Paid for termination of services.

Example
- VRS
- Retrenchment Compensation.

These are written off in P/L A/c and cannot be deferred.

Accounting Standard - 16 Borrowing Cost

① following concept are covered by this standard

- Meaning and Treatment
- Calculations of Borrowing Cost to be Capitalised
- Treatment of Exchange Diff as Borrowing Cost
- Theory.

② Meaning and Treatment

(i) Meaning of Borrowing Cost (B.C)

B.C includes (a) Interest and other charges on Long term or Short Term Loans or Interest on Leases.

(b) Amortisation of Discount or Premium or other Expenses amortised on redemption of Borrowing.

(c) Any Exchange Difference which is in nature of loss, upto cost of local Borrowings.

(ii) Treatment B.C incurred on Construction, acquisition or Production of Qualifying Assets is capitalised with Qualifying Asset. (QA)

Other B.Cost are expensed in Profit & Loss A/c.

(iii) Meaning of Q.A

QA is asset which takes ~~necessarily~~ normally substantial period of time to get ready for intended use.

Generally 12 months or more is considered as substantial period, unless lower period can be justified.

If lower period can be justified take substantial period lower than 12 months.

Examples of QA and Non Q.A

	QA	Not QA
(i)	Modernisation and Renovation of Plant + machine including Advances paid on it.	Normal Plant + machine including advances on it.
(ii)	Construction of Building, Road, Dam, Airport, Ships, Aircraft including advances paid for it.	other Assets including Advances for Tools, Equipment
(iii)	Stock which take substantial Period to manufacture like wines.	Other Stocks
(iv)	-	Vehicles, Working Capital, Investment in Shares/Debentures, Intangible Assets, Technical know how

3 Calculation of Borrowing Cost to be Capitalised

Specific Borrowing only

Step 1 Calculate Borrowing Cost Incurred upto date of completion of QA.

Step 2 Calculate any Interest Earned on idle funds

Step 3 Calculate Net Borrowing Cost (Step 1 − Step 2)

Step 4 Allocate Net Borrowing Cost in ratio of Expenditure for all assets on which Borrowings was used.

Step 5 B·Cost on QA should be capitalised. Other B·C is expensed in P&L A/c.

General Borrowing with Specific Borrowings.

Step 1 Calculate Avg Expenditure based on date of Expenditure to year End or Asset Ready for Use

Step 2 Calculate General Borrowing Rate

$$\text{Rate} = \frac{\text{B·Cost on General Borrowing}}{\text{Avg General Borrowing}}$$

Step 3 Calculate B·Cost to be capitalised on

• Specific Borrowing	XXX
• General Borrow	XXX
	XXX

Step 4 Calculate Cost of Asset

Cost Incurred	XXX
+ B·Cost Capitalised	XXX

xxx

Step 5 Journalise

Asset A/c Dr
To Bank
*optional [To WIP
To Borrowing Cost
Being B. Cost Capitalised.

(4) How to Calculate Exchange Difference treated as B. Cost

Lower of following should be treated as Borrowing Cost

- Exchange Loss OR

- (Borrowing Cost if Local Borrowings were raised) Less (Actual Borrowing Cost on foreign Borrowings)

(5) Period of Capitalisation

Commencement of Capitalisation	Suspension of Capitalisation	Cease or Stopping or Cessation of Capitalisation
When all of following are satisfied Capitalisation should commence • B. Cost is being incurred • Expenditure on development is being incurred	If development is suspended during extended Period due to Abnormal Reasons, then	If asset is Ready for Use Wholly or Partially OR

• Development has started	Capitalisation should be suspended	Borrowing Cost is not being incurred, Capitalisation should stop.

⑥ <u>Disclosure Requirement</u> (i) Borrowing Cost Policy should be disclosed

(ii) B. Cost Capitalised should be disclosed.

——— × ———

Accounting Standard - 17 Segment Reporting

① This AS is applicable to Companies and non companies (not applying 2nd AS).
Exemption is available for
Small and Medium Entities
Non Corporate Entities level II, III & IV

② This Standard requires presenting a segment report in financial statements which will provide information for performance analysis

③ Segments represent, components of business, each having separate risk and Reward
Segments can be
a) Business Segments
b) Geographical Segments

④ Business segments are components of business, having separate risk and reward in business environment. These segments can be based on
- Products
- Production Process
- Type of consumers
- Regulatory environment

⑤ Geographical segments are components of business having separate risk & reward in Economic Environment. These segments can be based on
- Location of customers
- Location of assets or
- Currency etc

⑥ Entity should identify its business segments or geographical segments as primary segments. For this identification, Entity should evaluate dominant risk for users of financial statements.
If dominant risk is relating to products, production process etc, then Business Segments should be considered as primary segments and geographical segments as secondary segments.

Similarly, if dominant risk is relating to location of customers/assets/currency then geographical segments are considered as primary segments and Business segments as secondary segments.

* for primary segment, reporting is more comprehensive

⑦ To make segment report, entity should identify Reportable segments from its primary segment selection.

⑧ How to Select Reportable Segments ?

A segment is included in Segment Report on separate basis, then such segment is reportable.

Segments which do not qualify as reportable segments are included in segment report on collective basis called other segments.

A segment is considered as reportable, if it qualifies Any of following limits.

Limit 1 Segment Revenue is 10% or more of Total Segment Revenue

Limit 2 Segment Assets are 10% or more of total Segment Assets

Limit 3 Segment Result (Profit/loss) is 10% or more of Total Segment Result taken, total of Profit of all Profitable segments or total of loss of all loss making segments, whichever is higher.

Note: A segment is considered as reportable even if it does not qualify any of above limits, if such segment has qualified any limit in previous year.

Note: All reportable segments, selected on above basis should represent 75% of External Revenue of Entity. If not, then management may select any segment as reportable, till it reaches 75% level.

⑨ Meaning of

(A) Segment Revenue : It represents sale made by segment. It is calculated as follows

Directly attributable sale by segment	xxx
+ Enterprise sale allocated to segment	xxx
External Sale of Segment	xxx
+ Inter segment sale	xxx
Segment Revenue	xxx

(B) Segment Result means profit/loss of segment

Segment Revenue	xxx
less Segment Expense	xxx
Segment Result	xxx

Where Segment Expense means

Directly attributable/Operating Expenses of Segment	xxx
+ Allocated Expense of Segment	xxx
+ Inter Segment Expenses	xxx
Segment Expenses	xxx

* Do not include intersegment profit in above result. Also result is before Interest, Taxes and Head office Expense.

(C) Segment Assets

Fixed Assets of Segment	xxx
+ Current Assets of Segment	xxx
	xxx

Do not include Investment, Tax Assets (Advance Tax, Deferred Tax) in above Assets.

(10) Inter Segment Transfer Policy

Entity can have any policy of Pricing for Inter Segment Transactions. It can be Cost, above Cost or below Cost policy.

Whatever policy has been made, it should be consistently followed and it should be disclosed in notes to segment report

(ii) Format of Segment Report

Reportable Segments

Primary Segment Report

SN	Particulars	Segment A	Segment B	Other Segment	Elimination	Total
i)	Segment Revenue					
	Directly Attributable Revenue	xxx	xxx	xxx	–	xxx
	+ Allocated Revenue	xxx	xxx	xxx	–	xxx
	External Revenue	xxx	xxx	xxx	–	xxx
	+ Inter Segment Revenue	xxx	xxx	xxx	(xxx)	–
	Segment Revenue	xxx	xxx	xxx	(xxx)	xxx
ii)	Segment Results					
	EBIT/operating profit	xxx	xxx	xxx	xxx	xxx
	Less Expense not charged to segment					xxx
	Add Income not included to segment					xxx
	PBT					xxx
	(-) Tax Expense					xxx
	PAT					xxx
iii)	Segment Assets					
	Fixed Assets	xxx	xxx	xxx		xxx
	Current Assets	xxx	xxx	xxx		xxx
	Total	xxx	xxx	xxx		xxx
	Unallocated Asset					xxx
	Total Assets					xxx
iv)	Segment Liabilities					
	Long term	xxx	xxx	xxx		xxx
	Current Liabilities	xxx	xxx	xxx		xxx
	Segment Liabilities	xxx	xxx	xxx		xxx
	Unallocated Liability					xxx
	Total Liab.					xxx
v)	Capital Expenditure during the year	xxx	xxx	xxx		xxx
vi)	Depreciation during the year	xxx	xxx	xxx		xxx
vii)	Other Non Cash Expenses	xxx	xxx	xxx		xxx

Secondary Segment Report

Sl	Particulars	Segment A	Segment B	Segment C	Segment D	Total
I	External Revenue	XXX	XXX	XXX	XXX	XXX
II	Capital Expenditure during the year	XXX	XXX	XXX	XXX	XXX

Accounting Standard-18 : Related party Disclosures

① This Accounting Standard is not applicable to level-III and IV Entities.
This standard also does not apply to companies on which Ind AS applies.

② Related Party disclosure are useful for users of financial statements because it clearly discloses
- Relationship between Related Parties and
- Transactions between them.

③ Related parties means where one party has power to Control or exercise significant influence over other party at any time during the period.

④ Meaning of Control

If any of following conditions are satisfied, then consider that Control Exists.

a) Where one party has more than 50% Voting power of another Company
OR
b) Where one party has power to compose governing body of another Entity
OR
(c) Where one party has substantial interest AND Power to direct financial and/or operating policies of another Entity.

Note: Substantial Interest means voting power of 20% or more.

Note: Power to Direct means Chairing Board meeting.

Note: Power to Compose means power to appoint/Remove directors of Entity.

⑤ Meaning of Significant Influence

(i) Significant Influence means Power to participate in operating/financing policies of Entity

(ii) Such power is obtained through
- application of law
- agreement with other shareholder
- voting power of 20% or more

Note: In above clause of 20% or more, 20% is not fixed. It is generally considered as 20% or more.

If question provides evidence of participation at lower %, then consider it to be significant influence. Similarly if question proves non existence of power, even after 20% or more then consider significant influence does not exist.

(iii) Significant Influence makes relationship of Associate/Investor whereas Control makes relationship of Subsidiary/Parent or Holding

⑥ Following are considered to be Related party Relationships (Para 3 of AS-18)

Para 3.a

Where an enterprise, directly or indirectly through subsidiary, controls or is being controlled or under common control of Reporting Entity

Para 3b Reporting Entity is associate or Joint Venture of another Entity
Such Relation can be through Subsidiary

Para 3c Individual, which directly or Indirectly through Subsidiary controls or Exercise significant Influence over reporting Entity.
Note: Relatives of such Individual are also considered as related party under this para.

Note: Relative here include only
father, mother, Brother, Sister, Son, Daughter + Spouse

Para 3d Key management Employees of Entity and Relatives of such Key Employee.

Relative means same as above in para 3c

Para 3e
Entities, which are under control or significant influence of persons defined in para 3c or para 3d.

(7) Following are not related parties
- Common director/Agent/Supplier/customer
- Provider of finance
- Trade Unions
- Govt + Govt Entities

(8) In following cases, Related party Disclosures are not required

- Where such disclosures are against ethics of Business or
- In consolidated financial statements, transactions which are Eliminated within group are not disclosed.

(9) Related Party Disclosures

- No transactions during Related Party Relationship
  - Related due to Control
    - (i) Name of Related Party
    - (ii) Nature of Relationship
  - Related due to Significant Influence
    - No Disclosures
- Transactions exist during Related Party Relationship
  - See next point

(10) Related Party Disclosures when Transactions exist during Related Party Relationship

- Name of Related party
- Nature of Relationship
- " " Transaction
- Volume of Transaction
- Elements of Transaction (At arms length or not)
- Outstanding Balance from such Related party
- Any discounts / Baddebts with Related party

Accounting standard- 19 leases

① lease means agreement between two parties, where one party obtains rights to use any asset against payment of consideration or series of consideration.

Person who obtains right to use Asset = lessee
Person who receives consideration = lessor

Period of agreement for which asset can be used is called lease Term

② leases can be of two types
a) Financial leases
b) Operating leases

Financial lease means lease where risk & Reward, incident to ownership are also transferred along with asset.

Operating leases are leases other than financial lease.

Note: In financial leases, accounting is done as if asset has been purchased and sold between parties on installment. lease Rent treated as installment

In operating lease, accounting is done as if asset is under Rent Agreement lease Rent is treated as expense and Income for parties.

③ In following cases, we consider lease as financial lease

(i) Where lessee will become owner at End of lease term, automatically
(ii) Where lessee is expected to become owner at end of lease term by paying a small amount and lessee is certain to opt for it
(iii) Lease Term covers majority whole Economic life of asset (Generally 90% or more life covered in lease term.
(iv) Asset is specialised and cannot be used by person other than lessee unless major modification are made.
(v) Present value of lease Rentals is approximately equal to fair value (around 90% or more of fair value)

(4) Accounting for operating leases (Books of lessee and lessor)

(i) If lease Rent is to be calculated in a question, then,
- Calculate Total Sale Price of asset
- Convert it into per unit basis (unit can be time/Production/Sale) etc
- Calculate Total lease Rent by multiplying per unit Basis into agreed unit by lessee
- Identify Payment terms and calculate lease Rent

(ii) How to recognise Expense/Income of operating lease

- Identify Total Lease Rent
- Identify Basis of amortisation. It should be systematic basis representing user benefit Ratio. If it cannot be identified use SLM Basis over lease term.
- Recognise Expense and Income as per above calculation. Difference between lease Rent Paid/received and Expense/Income is called Lease Equalisation, which gets squared off at End of lease term.

(iii) Journal Entries

Lessee	Lessor
Lease Rent Expense Dr	Bank A/c Dr
Lease Equalisation Dr	To Lease Rent Income
To Bank	To Lease Equalisation
(Being lease rent Paid)	(Being lease Rent Income)
P/L A/c Dr	Lease Rent Income Dr
To Lease Rent Expense	To P/L
(Being amt written off)	(Being amt t/f)

* Lease Equalisation is shown as other current Asset/Liab. in Balance Sheet. It gets closed at End of lease term.

(5) Accounting Treatment of financial lease in books of Lessee and Lessor

Step 1 Sometimes Implicit Rate of Return (IRR) is to be calculated, since Incremental Borrowing Rate is missing.
Whenever IRR is to be calculated, use Hit and Trial method and Interpolation to calculate it.
Fair value of asset is considered as outflow and agreed lease Rentals with guaranteed Residual value along with unguaranteed Residual value as Inflow.

IRR =
Fair value ⇌ PV of (Lease Rental + GRV + UGRV)

IRR is calculated by lessor.

Step 2 If question asks to check lease as financial lease or operating lease, check by using

PV of (Lease Rental + GRV) ⇌ Fair value of asset

Step 3 If lease Rentals are missing, these can be calculated as

$$\text{Lease Rental} = \left[\frac{\text{Fair value of asset} - (\text{PV of GRV} + \text{UGRV})}{\text{Annuity Factor}}\right]$$

Step 4 If unearned finance Income is to be calculated, it is

Gross Investment less Net Investment
where Gross Investment = Lease Rent + UGRV + GRV
" Net Investment = PV of (Lease Rent + GRV + UGRV)
Books of Lessee

Step 5 Value of lease liability and Asset is considered to be lower of
- Fair value of asset or
- PV of (Lease Rent + GRV)

Journal

Asset on Lease Dr
To Lease Liability
(Being asset Recorded)

Note: If lower in above calculation is fair value, then IRR will be recomputed to adjust rate.

Note: Lease liability is a loan A/c, which is closed as usual

Note: Asset A/c is depreciated as usual

Note: An Amortisation Schedule is generally prepared for calculation of finance Expense.

Books of Lessor

Lease Receivable Dr PVAF (Lease Rent + GRV + UGRV)
To Asset Book value
To P/L
(Being asset sold)

Lease Receivable is treated like loan given A/c.

6) Sale and leaseback

This means
- Sale of asset and then
- getting it back on financial/operating lease.

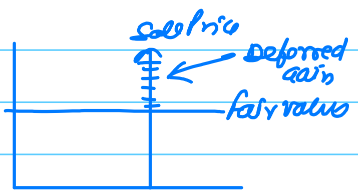
This is a way of arranging funds.

If sale and lease back is financial lease back, we defer the amount of gain/loss and transfer it to P/L over period of lease in ratio of Depreciation.

If sale and lease back is operating lease back, apply following steps

Step 1 Calculate Deferred Gain by

Def. Gain = Sale Price - Fair value of Asset



Step 2 Check and Calculate Deferred loss

Deferred loss = Fair value – sale Price

But loss can be deferred only if it's compensated with reduced lease Rentals in future. ICAI assumes non compliance of above assumption, Hence they do not defer it.

Step 3 Journalise

Bank A/c Dr sale Price.
To Asset
To Def. Gain (Step 1)
(Being asset sold)

* Any difference is t/f to P/L A/c.

Accounting Standard- 20 : Earning per Share (EPS)

① This AS is applicable to all Entities (on which Ind AS does not apply) except where Entity has exemption or relaxation.

Note: SMC and level II, III and IV are having full exemption for applying this standard.

② EPS represents earnings attributable to each equity shareholder for a period. EPS can be of two types
- Basic EPS
- Diluted EPS

In FM, we uses Basic EPS

③ Basic EPS = $\dfrac{\text{Earnings attributable to Equity Shareholders}}{\text{Weighted Avg of outstanding Eq. share during the period}}$

④ Diluted EPS = $\dfrac{\text{Earnings attributable to Equity shareholders after considering effect of Potential Equity shares}}{\text{Weighted Avg of outstanding Eq. shares during the period after considering effect of Potential Equity Shares}}$

⑤ Calculation of Earnings attributable to Equity shareholders (Earnings)

EBIT (after Rectification of any errors)	xxx
(-) Interest Expense	xxx
EBT	xxx
(-) Tax Expense	xxx
Net Profit or PAT	xxx
(-) Preference Dividend	
Declared or not on Cumulative Pref shares	xxx
Declared on non " " "	xxx
Earning attributable to Equity shareholders	xxx

Note:

If Q is silent, assume Pref shares are cumulative and
" " " " " Dividend is declared

Note: Do not deduct any Reserve created by entity (like creation of General Reserve)

Note: Corporate Dividend Tax/Dividend Distribution Tax is not applicable now.

⑥ Calculation of Weighted Average of outstanding Equity shares during the period

Outstanding means those shares which have been issued and subscribed

Weighted Avg means considering time as weight to calculate Avg of such shares
Time should be considered as follows

a) Fresh Issue: Date on which consideration becomes Receivable

b) Bonus Issue: Date is not relevant. Consider it for complete year

c) Right Issue: Date when consideration becomes Receivable is relevant for Paid part of Right Issue. Date is not relevant for Bonus part of right issue.

d) Share issued upon Conversion of debt: Date when Debt ceases to be debt

e) Shares issued in consideration of Interest: Date when Interest ceases.

(f) Shares issued on asset acquisition: Date on which assets are acquired

⑦ Treatment of Partly Paid Equity Shares or shares having different face value?

In such cases, EPS is calculated on per Rupee of Share Capital basis. Here all shares are converted into share of ₹1 each and EPS is calculated per ₹ share. EPS is recalculated based on its actual paid up/Face value.

(8) Treatment of Bonus Shares

Bonus Share are issued without Consideration. Hence these Bonus Shares do not affect Earnings.

To Calculate Basic EPS, we should Consider Bonus Shares since beginning of period reported.

It means date of issue of Bonus is not relevant.

Note: BEPS of previous year, if being calculated, for comparative basis should also adjusted for Bonus effect. Such ratio is called Adjusted BEPS or Recomputed/Restated BEPS.

(9) Equity shares upon Conversion

Whenever Equity Shares are issued upon Conversion of debt or Conversion of Pref. Shares, then consider date of Conversion as date of issue and include it in BEPS from that date.

Consider Actual number of Equity Shares issued upon conversion in Calculation of BEPS.

(10) Treatment of Right Issue

Whenever any entity issues Right Shares, following steps are applied

Step 1 : Calculate fair value Ex Right

$$= \frac{(\text{No. of Shares Before Right} \times \text{Fair value Cum Right}) + (\text{Right Share} \times \text{Right Price})}{\text{No. of Share Before Right} + \text{Right Shares}}$$

Step 2 Identify Paid Part and Bonus Part

$$\text{Paid Part} = \text{Right shares} \times \frac{\text{Right Price}}{\text{FV Ex Right}}$$

$$\text{Bonus Part} = \text{Right Shares} - \text{Paid Part}$$

Step 3 Consider
Paid Portion of Right Share from date of Issue
Bonus " " " " Beginning of Reporting Period

* If Question has previous year data, always calculate Restated / Recomputed EPS also.

(11) Diluted Earnings per Share

$$\text{Diluted EPS} = \frac{\text{Earnings attributable to Equity shareholders after considering effects of Potential Equity Shares}}{\text{Weighted Avg of outstanding Eq. Shares during the period after considering effects of Potential Equity Shares}}$$

Note: Potential Equity shares means instruments for which Equity Shares will be issued on future date. Following are PES
- Convertible Pref shares
- Options
- Share warrants
- Convertible Pref. Shares

Note: For Calculation of DEPS, always assume as if potential shares were Equity shares on date of issue.
यह मानो की Potential Equity Share अब Equity Share Capital बन चुके हैं, from date of issue of potential E shares

Note. For calculation of Potential Equity Shares, in options, following formula is applied

$$\text{PES in option} = (\text{option granted}) - \left[\frac{\text{option granted} \times \text{Exercise Price}}{\text{fair value of share}}\right]$$

(12) When we consider PES as Equity Shares in calculation, then Earnings attributable to Equity shareholders also change due to
Savings in Interest net of Tax and
Savings in Preference Dividend

(13) DEPS should always be less or Equal to BEPS. If DEPS after calculation is more than BEPS, then assume BEPS is equal to DEPS.

(14) Disclosure Requirements:

(i) BEPS and DEPS should be disclosed on face of P/L A/c for each class of Equity Share, even if it is negative.

(ii) Always disclose Face value of Equity Share along with BEPS and DEPS

Consolidated financial Statements
(Accounting Standard - 21)

① AS-21 deals with consolidation of parent (Holding Co) with subsidiary.
CFS include
(i) Consolidated Balance sheet
(ii) Consolidated P/L A/c
(iii) Consolidated Cash flow statement

② AS-21 does not mandate preparation of CFS, but mandates process of consolidation.
All Companies are required to prepare CFS under section 133 of companies Act 2013

③ Consolidation is for Parent and its Subsidiaries. Relationship of parent and subsidiaries arise due to Control by parent.

Meaning of Control as per AS-21
If any of following condition is satisfied, we consider Control
(i) Ownership of voting power more than 50%
OR
(ii) Power to compose governing body i.e. Board of Directors

Note: Meaning of Control under AS-18 has additional (iii) clause, not relevant here.

If Parent holds 100% Equity Share capital, then Subsidiary is called Wholly owned Subsidiary.

Do not see ownership of Pref shares

④ How to calculate Goodwill or Capital Reserve?
(Also called Cost of Control)
Goodwill or Capital Reserve will be calculated for parent who has acquired control over subsidiary. It is calculated on Balance sheet date based on Net Assets of Subsidiary on the date of obtaining Control.

Calculation

Investments held on Balance Sheet date		xxx
Less Net Assets obtained		
ESHare Capital × Proportion owned by Parent	xxx	
Reserve + Surplus × " " " "	xxx	
(Free or Non free)		
	Goodwill(+) or Capital Res. (-)	xxx

Note: Net Assets can be obtained based on Assets and Liabilities approach also.

Note: Net Assets should be on date of acquisition which are still held - These should be taken after Revaluation if any

Example A Ltd purchased 60% shares of B Ltd for ₹ 1300 000. On that date B Ltd had ESC 800 000
R/surplus 700 000
Calculate Goodwill on purchase of shares,

Example A Ltd purchased 70% shares of B Ltd for ₹ 20,00,000. B Ltd had following details

Eq. share capital	10,00,000
G. Reserve	20,00,000
P&L	1500 000
S/Premium	700 000
Liability	400 000
Assets	5600 000

Calculate G/W or C/R

Example Balance sheet on 31.3.23

	H Ltd	S Ltd
ES Capital	10,00,000	600 000
Reserves & Surplus	800 000	500 000
Liabilities	900 000	200 000
PPE	1200 000	800 000
Investment in 100% Shares of S Ltd	10,00,000	-
Current Assets	500 000	500 000

Prepare Consolidated Balancesheet, assuming shares were acquired on 31.3.23

Example Balancesheet on 31.3.23

	H Ltd	S Ltd
ES capital	20,00,000	10,00,000
Reserve & Surplus	10,00,000	5,00,000
Liabilities	8,00,000	3,00,000
PPE	1500,000	1200000
Investment in 100% Share of S Ltd	16,00,000	-
Current Assets	7,00,000	6,00,000

Prepare Consolidated Balance sheet on 31.3.23 assuming Shares were acquired on 31.3.23.

(5) Calculation of Minority Interest (Also called Non Controlling Interest)
It represents Net Assets not owned but controlled by parent. These assets are also consolidated. This minority interest is calculated on date of acquisition or any other date.

Minority Interest should be positive. If it becomes negative, then it should be transferred to Consolidated P/L but negative minority interest is not reported. Later this negative value is recovered from Consolidated P/L A/c

Calculation = Eq. share capital × Proportion not owned by Parent = xxx
+ Reserve and Surplus (All free & non free) = xxx
Minority Interest xxx

It can also be calculated based on Assets less Liabilities method

Net Assets should be considered on date of acquisition as well as net assets change after date of acquisition.

Minority Interest is shown in Balancesheet after shareholders fund before Non Current Liabilities.

Example Balance sheet as 31.3.23

	H Ltd	S Ltd
ES Capital	25,00,000	20,00,000
Reserves & Surplus	15,00,000	2,00,000
Liabilities	5,00,000	3,00,000
PPE	7,00,000	12,00,000
Investment Shares of S Ltd	24,00,000	-
Current Assets	14,00,000	13,00,000

Prepare Consolidated Balance sheet assuming shares were acquired on 31.3.23

Case A : 100% share were acquired

Case B : 60% " " "

Example Balance sheet as 31.3.23

	H Ltd	S Ltd
ES Capital	10,00,000	5,00,000
Reserves & Surplus	6,00,000	4,00,000
Liabilities	2,00,000	3,00,000
PPE	5,00,000	6,00,000
Investment Shares of S Ltd (60%)	5,00,000	-
Current Assets	8,00,000	6,00,000

Prepare Consolidated Balance sheet assuming shares were acquired on 31.3.23

Example Balance sheet as 31.3.23

	H Ltd	S Ltd
ES Capital	10,00,000	5,00,000
Reserves & Surplus	6,00,000	4,00,000
Liabilities	2,00,000	3,00,000
PPE	10,00,000	6,00,000
Current Assets	8,00,000	6,00,000

Prepare Consolidated Balance sheet assuming H Ltd obtained power to compose Board on 31.3.23

Example Balance Sheet as 31.3.23

	H Ltd	S Ltd
Eq Capital	700000	500000
Reserves & Surplus	500000	400000
Liabilities	300000	200000
PPE	600000	500000
Investment Shares of S Ltd 70%	700000	–
Current Assets	200000	6,00,000

Prepare Consolidated Balance sheet assuming shares were acquired on 31.3.23

Example Balance Sheet as 31.3.23

	H Ltd	S Ltd
Eq Capital	10,00,000	800000
Reserves & Surplus	600000	400000
Liabilities	200000	300000
PPE	500000	600000
Investment Shares of S Ltd (80%)	700000	–
Current Assets	600000	900,000

Prepare Consolidated Balance sheet assuming shares were acquired on 1/4/22. Balance in Reserves & Surplus of S Ltd on that date were ₹ 300000

⑥ Time Adjustment

We always need data for Reserve and Surplus of subsidiary on date of acquisition, but sometimes there reserve and surplus are given for date earlier than date of acquisition. In such cases apply time adjustment.

For this purpose, we always assume that Reserve & Surplus are Earned evenly during the period.

Pro-rata profits are calculated that belong to Pre Category. These are reduced from post and added to pre profit.

Example: H Ltd acquired 80% shares of S Ltd on 1/7/2022. Cost of Investment ₹10,00,000

S Ltd	1/4/22	31/3/23
Equity Share Capital	700000	700000
Reserve & Surplus	200000	260000

Calculate Goodwill and Minority Interest for CB/S on 31·3·23

⑦ Revaluation and Consequential Depreciation Adjustment

(i) for the purpose of correctly calculating Goodwill/CR, AS-21 require that Assets of subsidiary should be revalued on date of acquisition.

(ii) Following steps are applied

Step 1 Identify market value/Fair value of Assets on date of Acquisition

Step 2 Calculate Book value of Assets on date of Acquisition

Step 3 Calculate Revaluation Gain/loss (Step 1 − Step 2). This will be adjusted in

AOP - Pre Acquisition

CB/S - Adjust with Assets.

Step 4 Calculate additional/savings in Depreciation

Calculate Depreciation on Revised value of Assets for Post Period	xxx
Less Depreciation already charged	xxx
Additional/savings in Depreciation.	xxx

This will be adjusted in

AOP - Post Acquisition
COAs Adjust with Assets.

* Adjustment in AOP will be made after time Adjustment

(8) Contra Adjustments

In consolidated Balancesheet, whenever any receivable is due from within group payable, it will be eliminated as contra item. It does not affect AOP, G/W, Consolidated Reserve & Surplus or minority interest.

It can be Debtor / Creditor
B/R / B P
Loan Receivable / Loan Payable
Other Receivable / Other Payable

If contra cancellation amount is not same, it can be due to Cash in transit. It should be reported as Cash Equivalent.

Journal

Creditor	Dr	B.V	
Cash in transit	Dr	B.F	
To Debtor			B.V

(Being contra cancelled)

Example On 1/12/23, H Ltd acquired 80% shares of S Ltd for ₹10 lakh.

Share Capital of S Ltd on 1/12/23 ₹ 9,00,000
Reserve + Surplus " " ₹ 5,00,000

Market value of Plant and machine of S Ltd was higher by ₹ 50,000 on that date.

Calculate Goodwill / CR.

Example Balance Sheet as 31.3.23

	H Ltd	S Ltd
E S capital	20,00,000	10,00,000
Reserve & Surplus	8,00,000	6,00,000
Liabilities	9,00,000	5,00,000
PPE	6,00,000	4,50,000
Investment shares of S Ltd (70%)	10,00,000	-
Current Assets	21,00,000	16,50,000

Prepare Consolidated Balance sheet assuming shares were acquired on 1/4/22. Balance in Reserve & Surplus of S Ltd on that date were ₹ 4,00,000

Plant and machine of S Ltd had market value of ₹ 6,00,000 on 1/4/22. Its Book value on that date was ₹ 5,00,000.

Example Balance Sheet as 31.3.23

	H Ltd	S Ltd
E.S capital	30,00,000	20,00,000
Reserve & Surplus	10,00,000	8,00,000
Liabilities	6,00,000	5,00,000
PPE	20,00,000	9,00,000
Investment Shares of S Ltd 60%	15,00,000	-
Current Assets	11,00,000	24,00,000

Prepare Consolidated Balance Sheet assuming shares were acquired on 1/10/22. Balance in Reserve & Surplus of S Ltd on 1/4/22 were ₹ 2,00,000

Plant and machine of S Ltd had market value of ₹12,00,000 on 1/10/22. Its Book value on 1/4/22 was 10,00,000.

④ Unrealised Profit Adjustment or Stock Reserve

If parent and subsidiary has Sale/Purchase transaction on which profit was earned but certain stock remains unsold, then such profit is unrealised and it should be eliminated in RS, since it is not yet earned.

Following steps are applied

Step 1. Find out stock still held arising from inter company transaction (a)

- Find out rate of Profit (b)
- Unrealised Profit = a×b

Step 2

Adjust unrealised Profit on CBS

- Reduce it in stock
- Reduce Profit in
  - Consolidated Reserve if Parent had sold goods (Downstream)
  - AOP after time adjustment (if upstream)

Note: In Consolidated P&L A/c, Reduce Sale and purchase made within group as contra item.

(10) Bonus By Subsidiary

Following points are relevant

Subsidiary distribute Bonus share but this is unrecorded

(1) Bonus will be calculated
Share capital × Bonus Ratio = Bonus

(2) Adjust Bonus share Capital in
- AOP - Assuming Bonus from Pre Profits
- Calculation of G/W / CR → Adjust it in share capital of S Ltd
- Calculation of Minority Int → Adjust it in share Capital of S Ltd.

Subsidiary distributes Bonus and it is recorded in financial statements

(1) It affects Holding Ratio. Be careful in calculation of Holding Ratio. Take numerator & denominator after Bonus issue

(2) While preparing AOP, Bonus will be added back to Post Profits and Time adjustment will be applied after that.

Later, after time adjustment, Bonus is correctly deducted in Pre Acquisition Profit.

* We do not adjust share capital in this case, since Bonus has already been recorded.

Always assume source of Bonus to be pre Acquisition, unless mentioned

Note: If Question has Bonus as well dividend Adjustment, then Dividend should be calculated excluding Bonus (if Bonus was declared Before Bonus issue date)

Example

H Ltd acquired 60000 Shares of S Ltd on 1/7/23. Balance in R/S of S Ltd on 1/4/23 was ₹ 50000.
S Ltd declared Bonus in ratio of 1:3
Share Capital of S Ltd on 31/3/24 was ₹ 10,00,000 : S Ltd had recorded Bonus in its Books.
Cost of Investments was ₹ 120000.
Calculate G/W or C/R. Balance in R/S on 31/3/24 is ₹ 80000 for S Ltd

Example A Ltd held 19200 Shares of S Ltd on 31.3.23. Subsidiary was acquired on 1.4.22. Share Capital of S Ltd is ₹ 250000 (Share of ₹ 10 each). S Ltd declared Bonus in ratio of 1:10 on 31.3.23 whose entry is not yet passed by S Ltd.
Calculate holding Ratio

Example H Ltd acquired 6000 Shares of S Ltd on 1/4/22. S Ltd had share capital of 10000 Shares on 31/3/23. Bonus was declared in ratio of 1:9 whose Entry was passed by S Ltd.
Calculate Holding Ratio

Example H Ltd acquired 50000 Shares of S Ltd on 1/10/23. Balance in Reserve + Surplus of S Ltd was ₹ 350000 on 1/4/23.

(i) Bonus was declared on 31/3/24 by S Ltd @ 1:3 for which Entry has been passed.

(ii) PPE of S Ltd had Market value of ₹ 900000 on 1/10/23. Book value of PPE on 1/4/23 was ₹ 800000.

(iii) Current Assets of H Ltd include
- Stock from S Ltd ₹ 10000 on which S Ltd made profit of 10% on Sale
- Receivable ₹ 5000 within group

Balance sheet on 31/3/24

	H Ltd	S Ltd
Eq Capital	1000000	800000
Reserve & Surplus	500000	200000
Liabilities	600000	300000
PPE	500000	700000
Investment share of S Ltd 60%	700000	-
Current Assets	900000	600000

Prepare Consolidated B/S

(11) Dividend Adjustment

Following steps are applied

Step 1 Calculate Dividend Amt. It is always calculated on paid up share Capital.

Final Dividend = Share Capital End of Previous Year × Rate of Divid.

Interim Dividend = Share Capital on date of declaration of Dividend × Rate of Dividend

* Dividend distributed before opening date of Reserve & Surplus is Not Relevant

Step 2 Add back Dividend Paid in Post Profit before Time Adjustment

Step 3 Reduce dividend Paid based on Source of Profit

Final Dividend → Use Profit of Previous year
Interim " → " " " Current year.

* If dividend is paid @ End of Year, assume it as Interim else assume it as final Dividend.

Step 4 Rectify Dividend Received by Parent

- If Parent has received Dividend (i.e. dividend was paid after shares were acquired by parent)
- which is from the Acquisition Profit
- and it has been wrongly recorded by parent as Income

then rectify it

Journal for rectification

Profit & Loss A/c of Holding Dr. Parent share of Dividend
To Investment
(Being Dividend Rectified)

(12) Preparation of Consolidated Profit & Loss A/c

(i) All items of Income and Expenses should be consolidated as line by line basis
- Any Income or Expense which is within group should be Eliminated.
- Sale purchase within group should be Eliminated
- Format should be as per S-III

(ii) Unrealised Profit on Stock should be treated as expense and adjusted along with change in Stock in CP&L.

(iii) If any dividend (Post Acquisition) has been paid by subsidiary to parent, it should be cancelled as follows
- from Income of Parent (Parent share)
- from Consolidated Reserve & Surplus of CBLS

(13) Special Points:

(A) Profit on sale of Shares by Parent
As per AS-21, if parent sells shares of subsidiary, held by it as Invst then disclosure is made for profit/loss on Sale, which is Calculated as follows.

Sale Proceed	xxx
Less Net Asset Value of subsidiary on date of sale (Parent Share)	xxx
Profit/loss on sale of Shares	xxx

(B) Same policies of subsidiary

AS-21 requires that Subsidiary Accounting policies should be same as that of parent before consolidation. It means Subsidiary Balance Sheet should be Redrafted based on policies of Parent

Step 1 Identify policies which are different for Parent and Subsy

Step 2 Select Parent Policies to be used on Subsidiary

Step 3 Redraft Balance sheet of Subsidiary as per Step 2.
Effect of change in policy should be given in P/L of Subsidiary