

CA INTER
Advanced Accounts

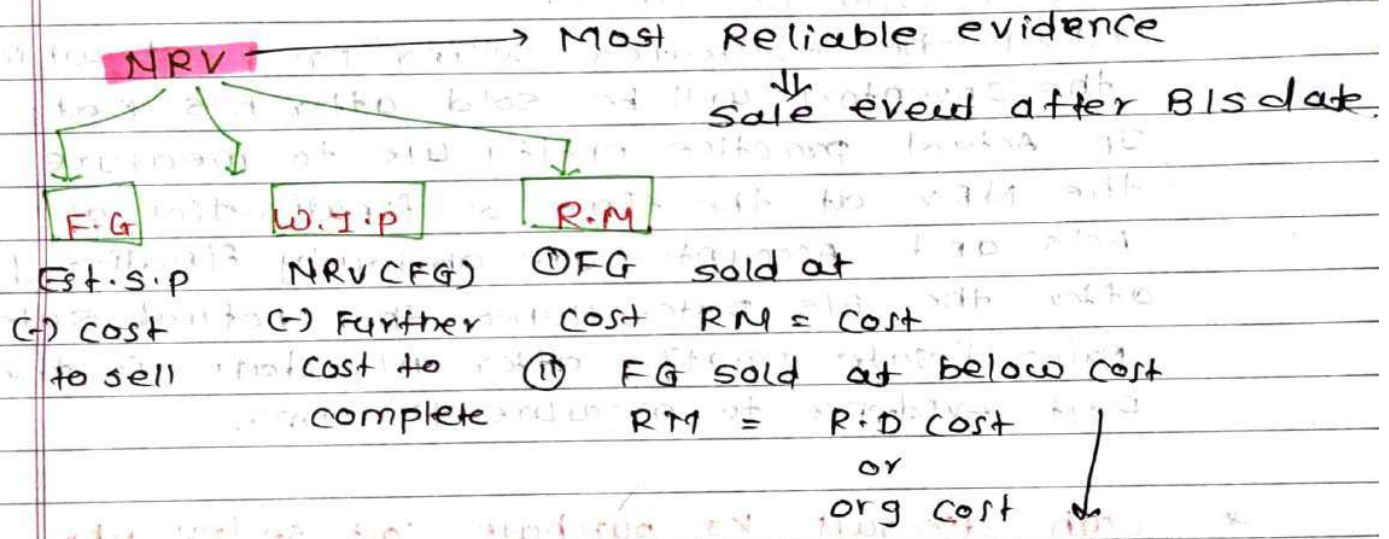
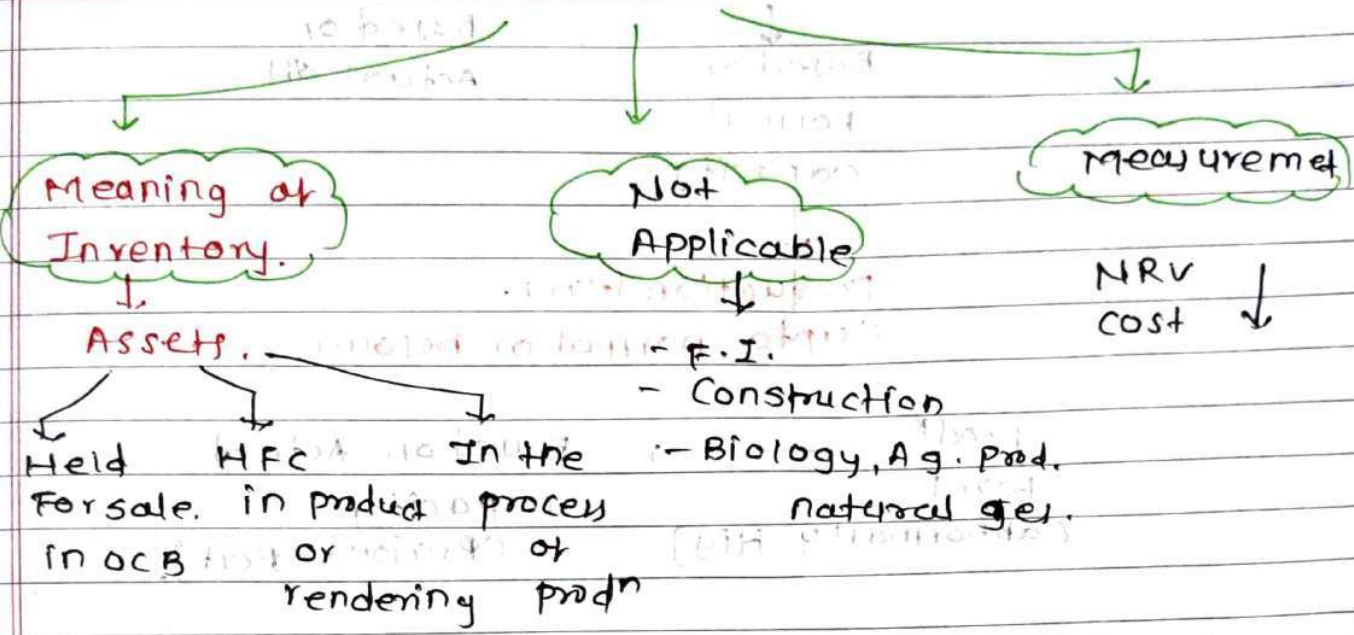
Summary of Important Topics

Made by Rutuja Phatangare
Student of CA. Jai Chawla Sir
Face to Face Batch (Jan'25)

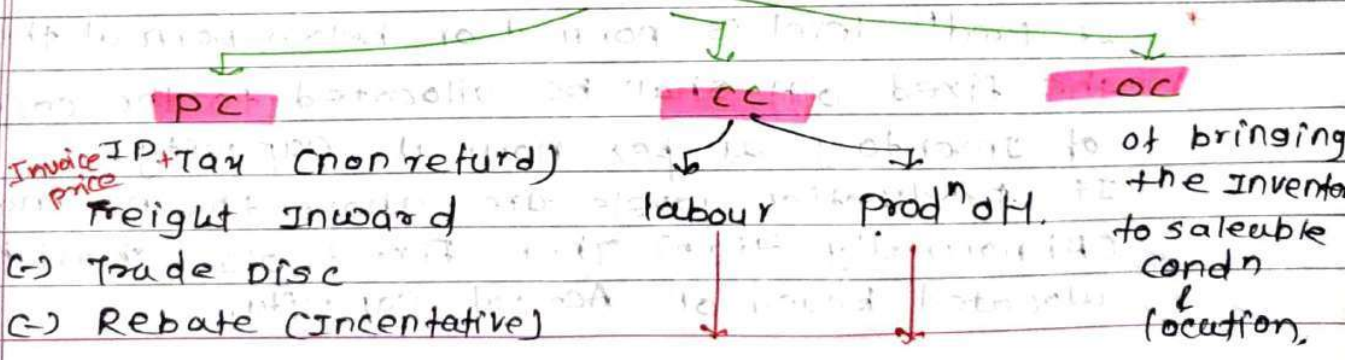
INDEX

Sr. No	Topic	Page No.
1	As 2 - Inventories	3
2	AS 10 – Property Plant & Equipment	8
3	As 13 – Accounting For Investment	16
4	AS 16 – Borrowing Cost	21
5	AS 26 – Intangible Assets	25
6	AS 19 - Leases	30
7	AS 18 – Related Party Disclosure	35
8	AS 28 – Impairment of Assets	38
9	AS 20 - EPS	43
10	AS 22 – Accounting For Taxes on Income	47
11	AS 4 - CONTINGENCIES & EVENTS OCCURRING AFTER THE BALANCE SHEET DATE	50
12	Amalgamation of Companies	57
13	Consolidated of F.S.	68
14	Internal Reconstruction	82
15	Buy Back	87

AS-2 - Inventories.



Cost of Inventory.



↓
Based on
normal
capacity,

Based on
Actual OH

↓
production level.
(upto normal or below).

prodⁿ level
(abnormally High)

Based on Actual
Capacity
(Revised Part)

* How to Find the NRV:-

NRV is the estimated selling price at which the Inventory will be sold after BIS date. In Actual practice entity we to measure the NRV at the time of finalisation of Ac's and Accounts are obviously finalised after the BIS date. Hence the Actual sale price [sale event] after BIS date is the Best evidence to measure the NRV.

* Cash discount ko purchase cost se ley nhi kareng.

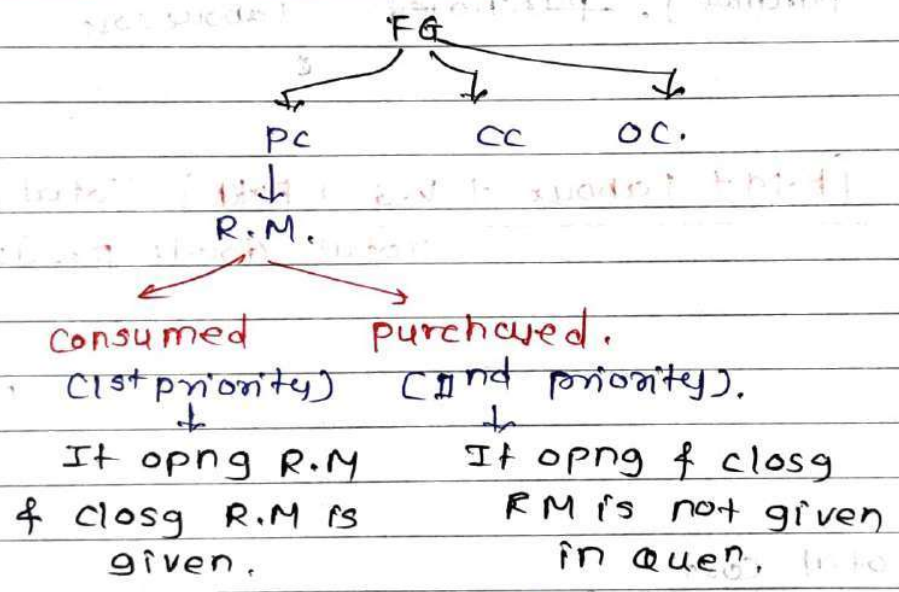
* If prodⁿ level is normal or below normal then the Fixed OH shall be allocated to the cost of Inventory as per normal capacity. If production levels are above the normal (Abnormally High) Then Fixed OH shall be allocated based on Actual Capacity.

* Interest on Borrowing Funds — Capitalise ✓
 when Borrowed Funds — Inventory
 Inventory substantial period of time.

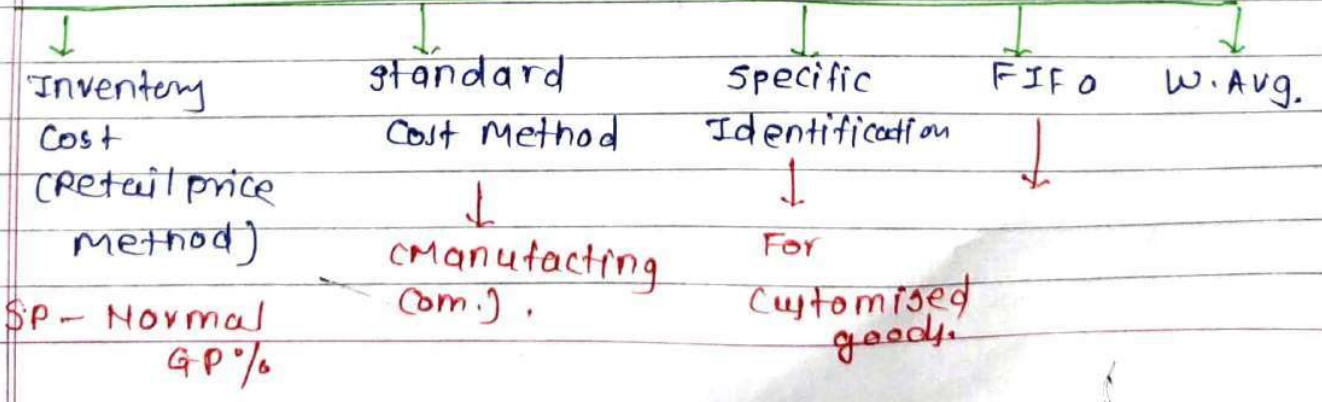
* Inventory purchase price present value
 Beyond normal = (Cash price Equivalent),
 Credit period

* Abnormal loss → not included in cost of
 Inventory.

* Refer. Q10. Pg. No - 3.14.



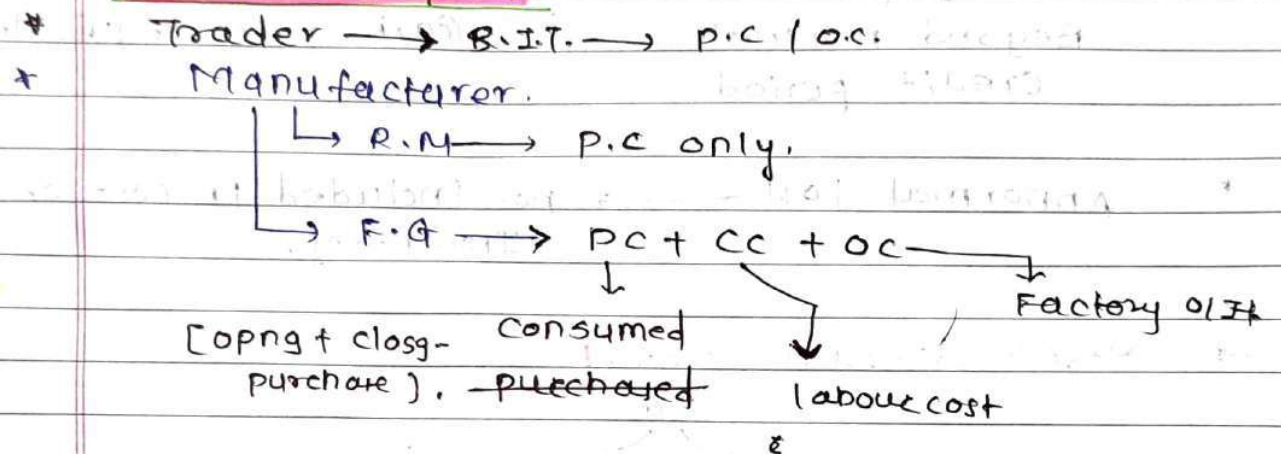
Methods of Measuring The Cost.



Conversion of PPE into Inventory :-

When such PPE is sold regularly after using in the ordinary course of business, sale of such PPE shall be booked as sale of Inventory on Gross Basis.

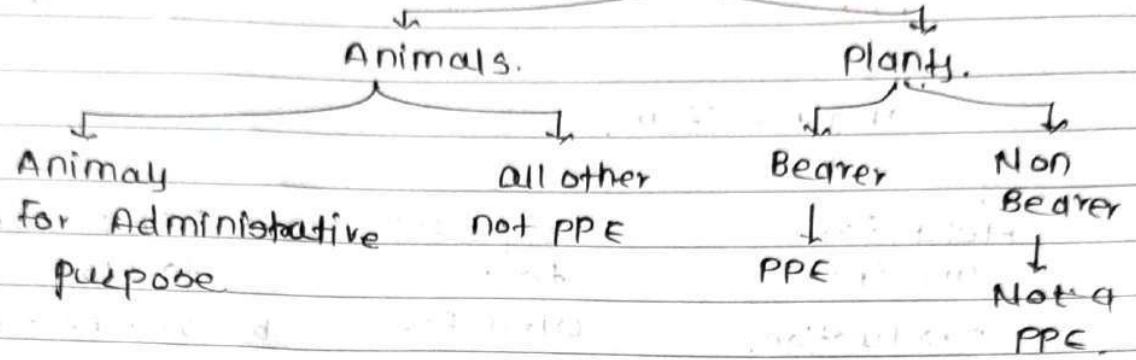
Refer @.9 / @.10



$$\text{Cost per unit of F.G.} = \frac{[R.M + (\text{labour} + V.G + F.O.I)] \text{ Total cost F.G.} + \text{Closing F.G.}}{\text{Total Goods produce} \times}$$

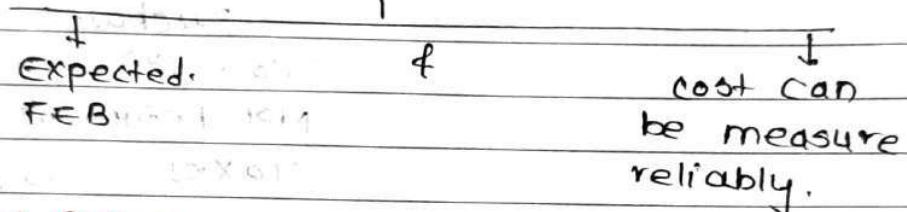
Effective cost per unit = $\frac{\text{Total cost}}{\text{Total units Inputs} - \text{Normal loss}}$

= **Biological Asset** = living Animals & plants.



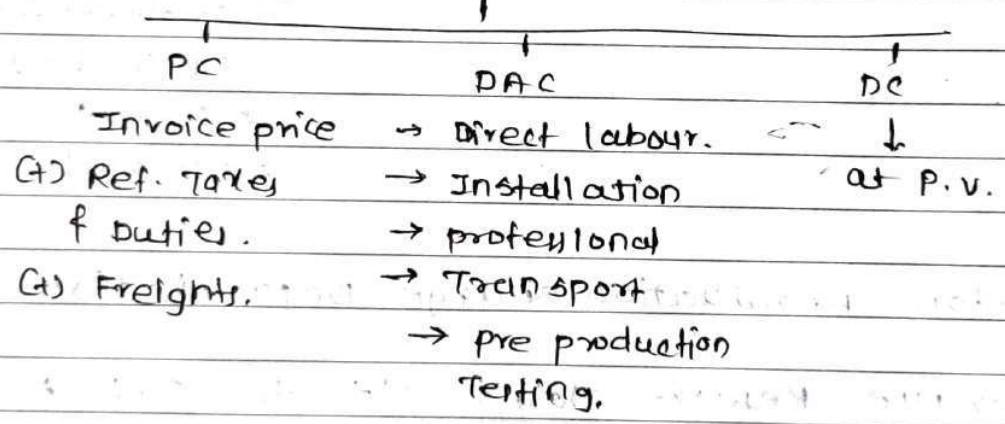
* **Recognition criteria:**

PPE should be recorded Asset.

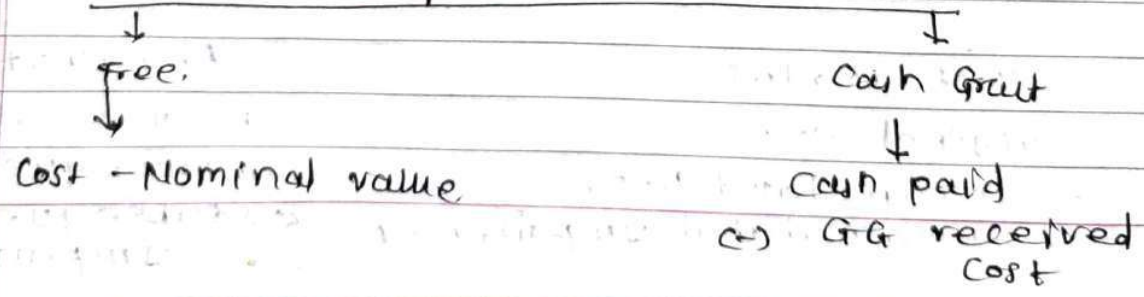


* **Initial Recog:-**

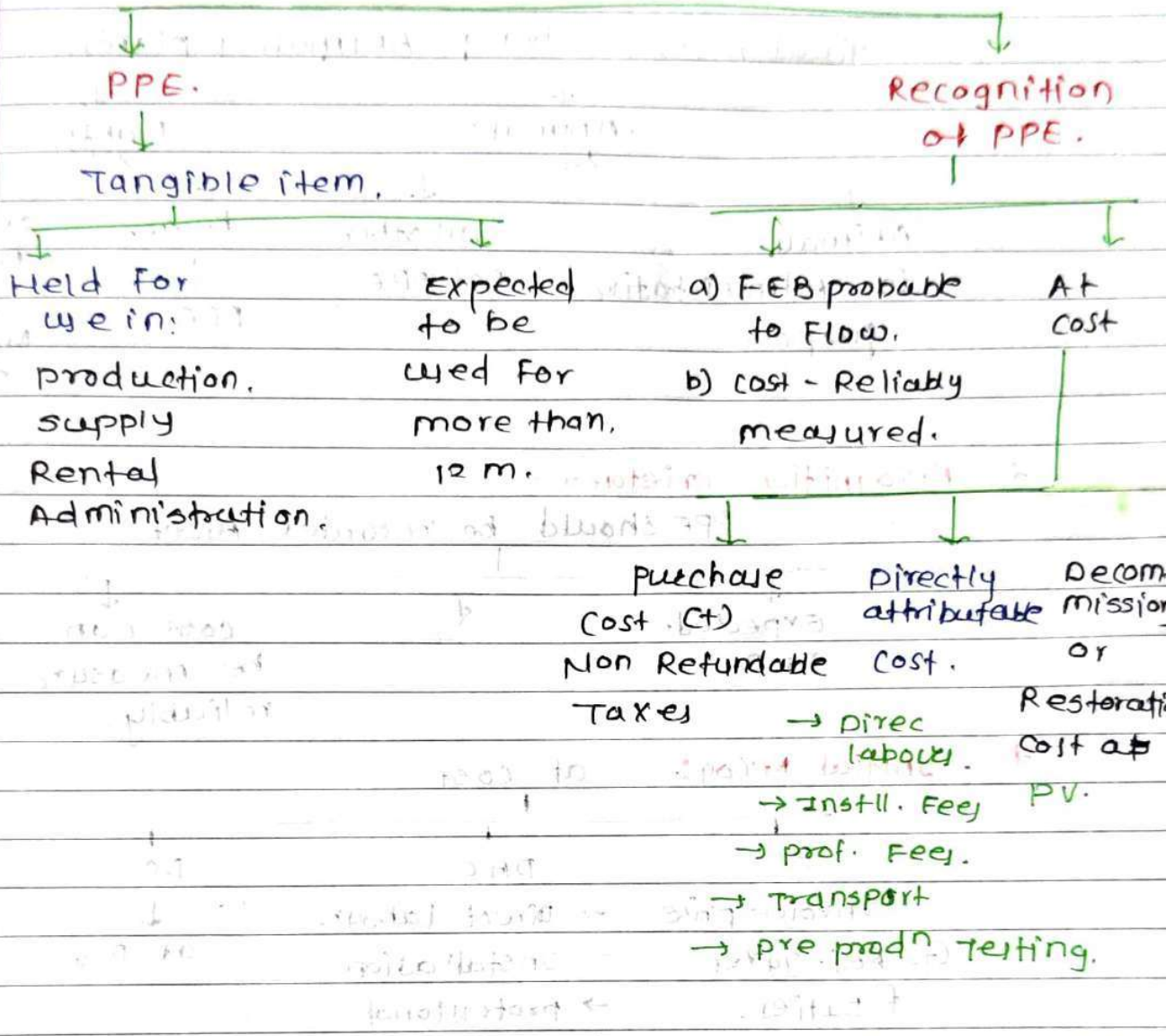
at cost



* **Cost in case of Govt:-**



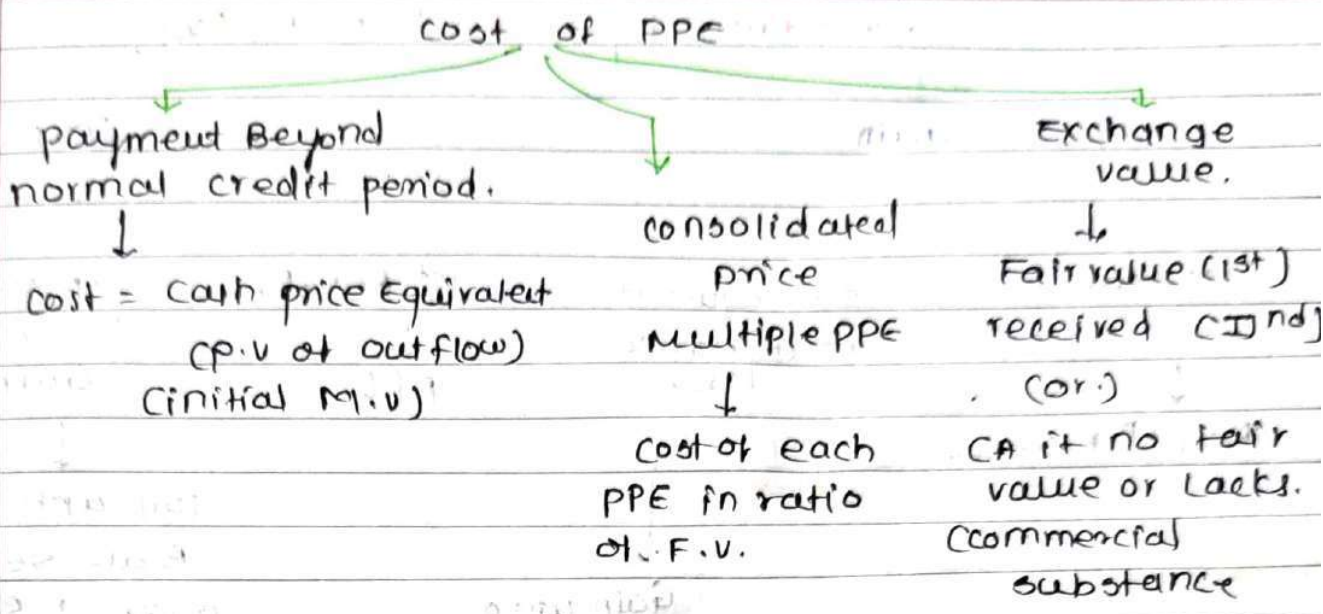
As-10 Property plant & Equipment.



- * Before Revaluation charge Depreciation mandatory
- * Revenue Reserve doesn't T/F to P&L A/c not shown in P&L A/c.

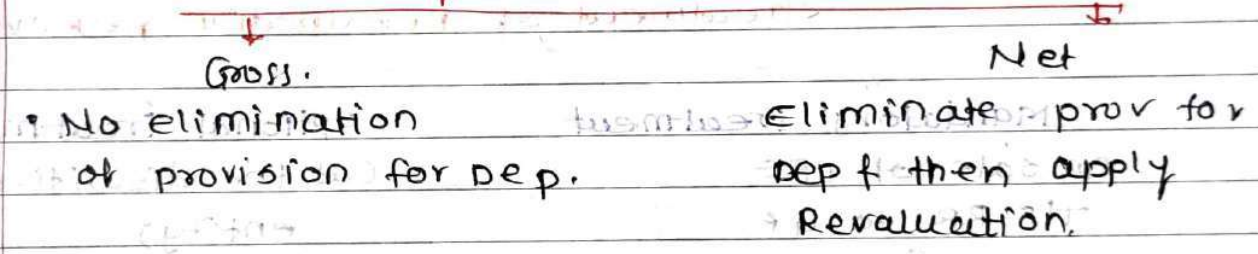
Measurement at B/S Date

Cost Model	Revaluation Model
original cost	FV at Measurement
G) accumulated Dep.	G) subsequent Dep
G) accumulated Impairment	G) subsequent Impairment.



Subsequent measurement (PPE at B/S date).

Revaluation Model.

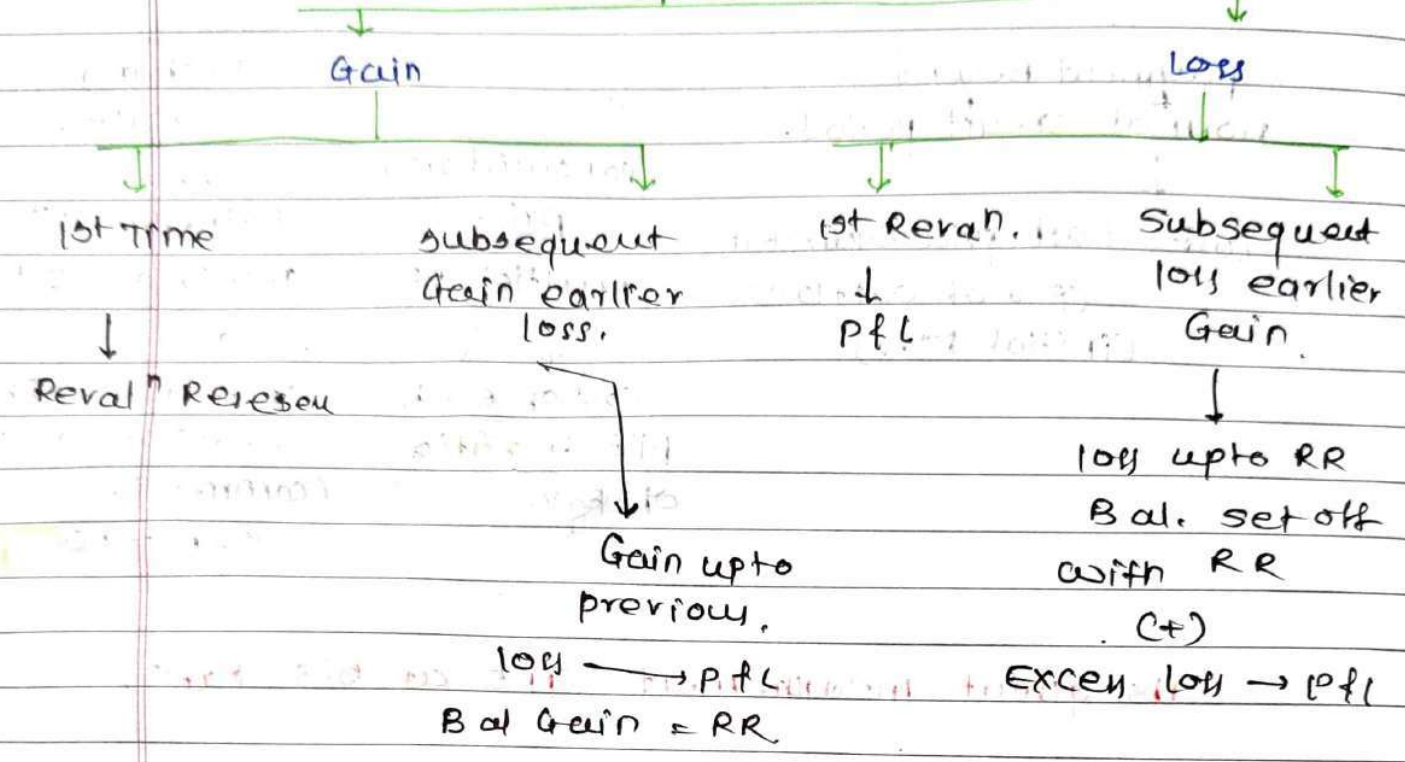


• % of change:-

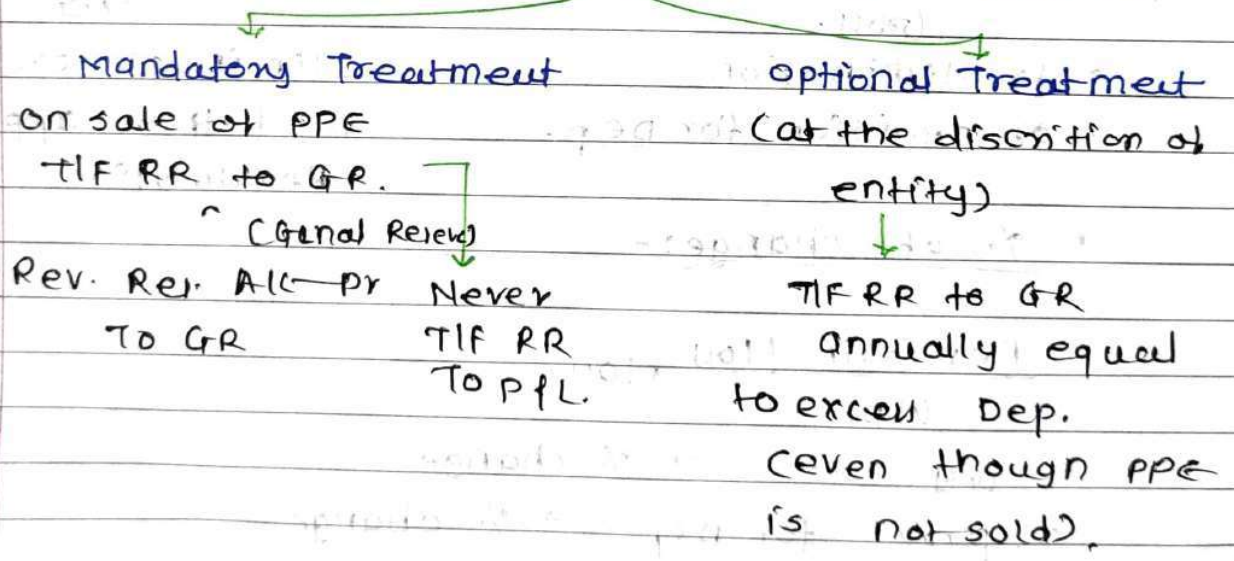
- Rev Gain / Loss $\times 100$
- org cost \rightarrow % change
- prov. for dep \rightarrow % change

<p>① Asset A/c \rightarrow pr To prov To RR</p> <p style="color: red; font-size: small;">upward</p>	<p>② prov A/c \rightarrow pr P/L A/c \rightarrow pr To Asset</p> <p style="color: red; font-size: small;">downward</p>
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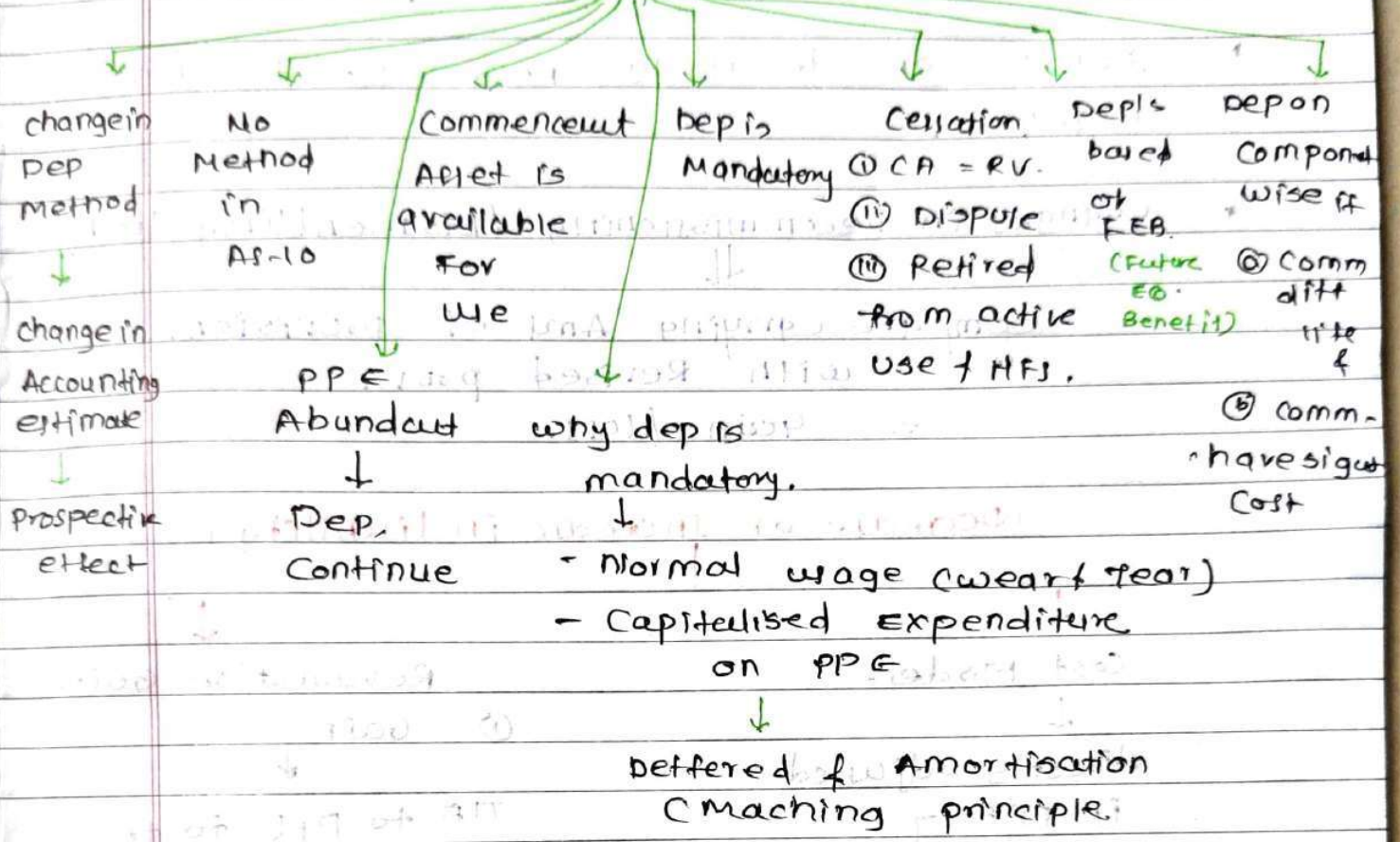
Treatment of Revⁿ Gain/Loss



Treatment of Revaluation Reserve



Depreciation



Retired from Active use of HFS.

measure at lower of.

- (a) CA
 - (b) NRV
- } diff P/L

De-recognition (eliminate from Books).

leased / sold / disposed / donate.

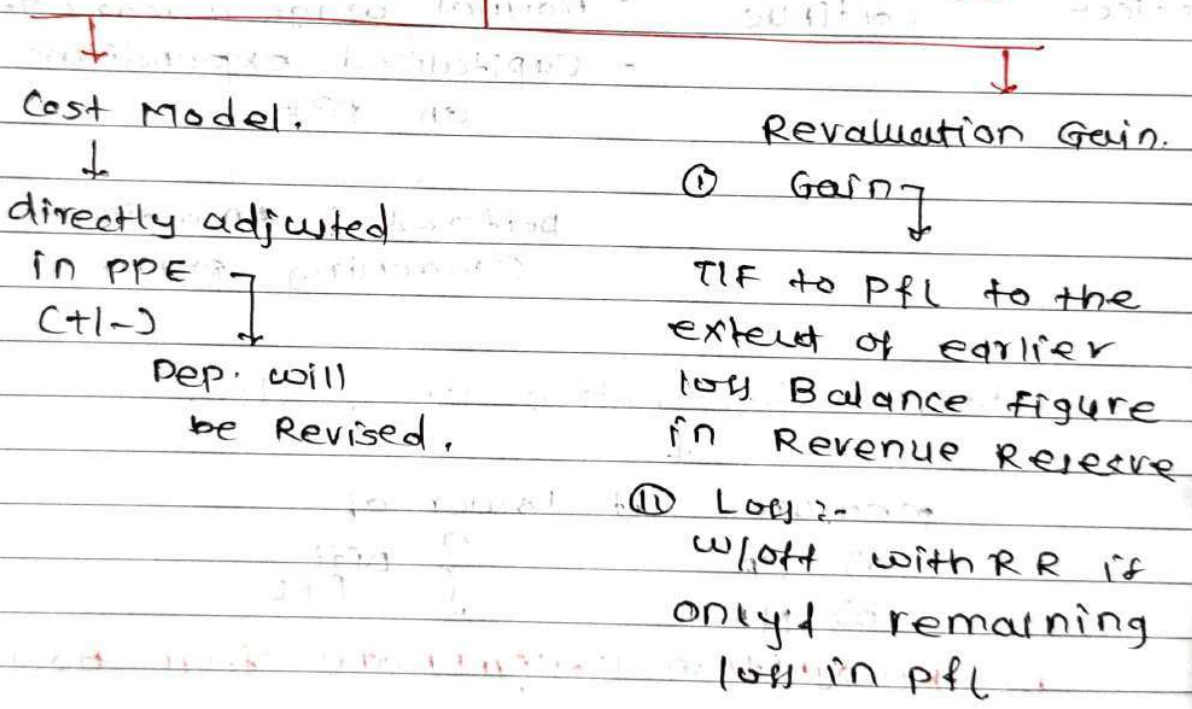
No further expectation of getting Future Eco. Benefits.

Gain/Loss \rightarrow pfl always.

* Gain/Loss on de-recog. never TIF to Rev. Reserve).

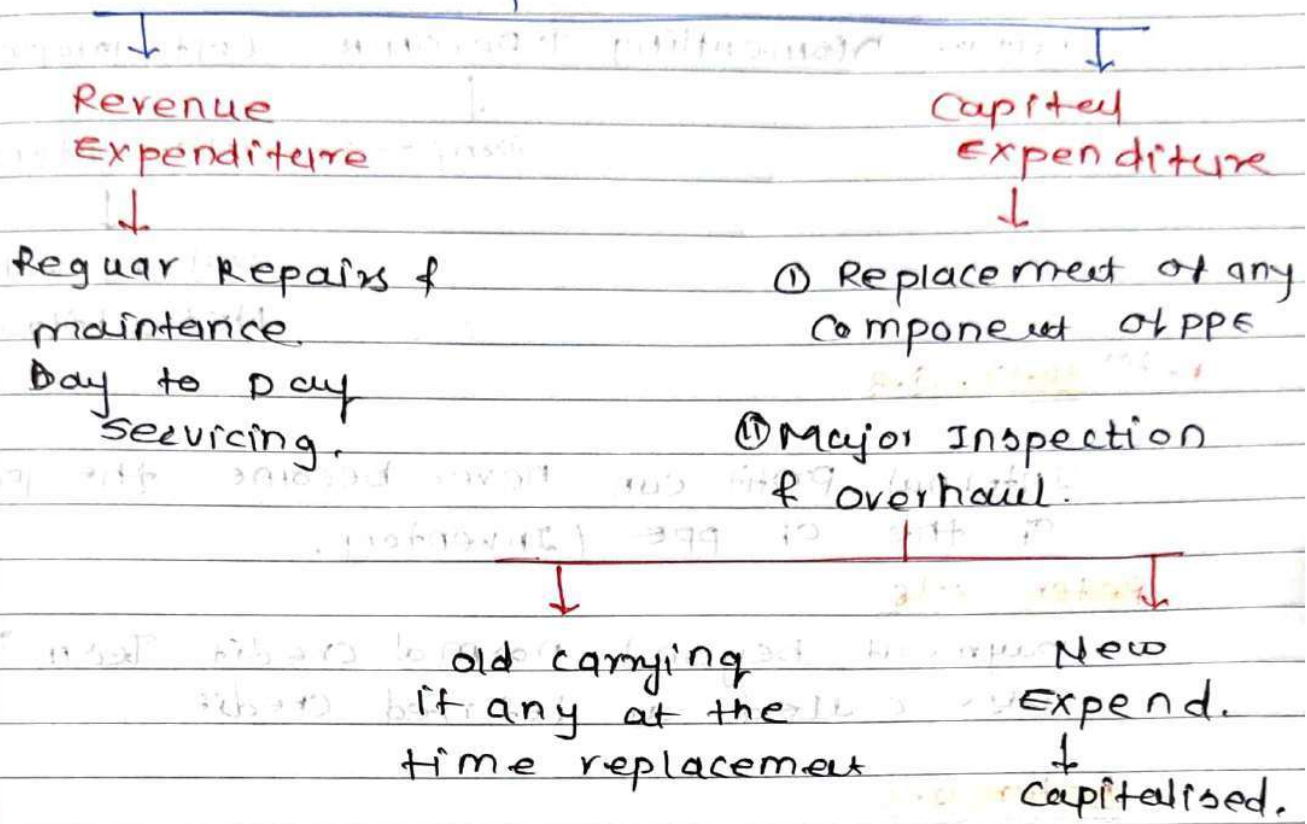
* changes in decommissioning / dismantling liab.
 \Downarrow
 compare carrying Amt of provision with Revised prov.
 = Gain / loss.

(Decrease or Increase in liability)



*

Subsequent Expenditure on PPE.



* Machine → Tools & equipment of spare parts to be replaced frequently. → life 12 m or more → To be Added in cost of machine if those are insignificant items.
 → life less than 12 m → Inventory.

* Accounting policy should apply that policy to an entire class of PPE.

* Transfer from Revaluation Surplus to the Revenue reserves are not made through the statement of profit flow.

(Refer Q.4e, 02. Pg. No. 4.21)

Refer. Q.16

Future Dismantling + decommission cost property

↓
Scrap → sale → Money

↓
Salvage value

Net outflow p.v.

Refer Q.17, Q.3

Internal Profit can never become the part of the PPE / Inventory.

Refer. Q.18

payment beyond normal credit term is also called as deferred credit

Refer. Q.2

when the asset is available for the first use → Installation time that

Further Installation → Capitalise → X
Asset is already put to use

EX. Pg. No. 74. (CNB)

Machine = 75,00,000.

(No Breakdown).

one part is replaced at a cost of 40,00,000

discounting rate = 6%

Org. life = 12 years

out of which 5 years lapsed.

$$\Rightarrow \text{old last of part} = 400,000$$

$$\times 0.747$$

$$= 298,800.$$

$$CA = \frac{298,800}{12} \times 7 = 174,300.$$

$$\text{Revised} = CA = 750,000.$$

$$(-) \text{De-Recog} = (174,300)$$

$$(+)\text{ New} = \underline{\underline{€ 400,000}}$$

$$9,715,700$$

AS-13 - Accounting For Investments

Rule 1:-

shares purchase Multiple times on different dates at different prices. → calculate Avg. cost

Rule 2:- Bonus equity shares at free of cost.

→ Qty of shares. ↑

→ Carrying value of Investment ↑

Rule 3:- Right Issue shares.

① Investor subscribes the Right Issue.

→ Rule 1 apply

② Investor are not subscribing the Right Issue & selling the right.

A) → Jitna bhi sale proceed aayega Transfer to P/L A/c. → Bank A/c — or —
TO P/L A/c

B) If original shares were acquired at Cum price & after the Right Issue, Mv is lower than above cum Right price

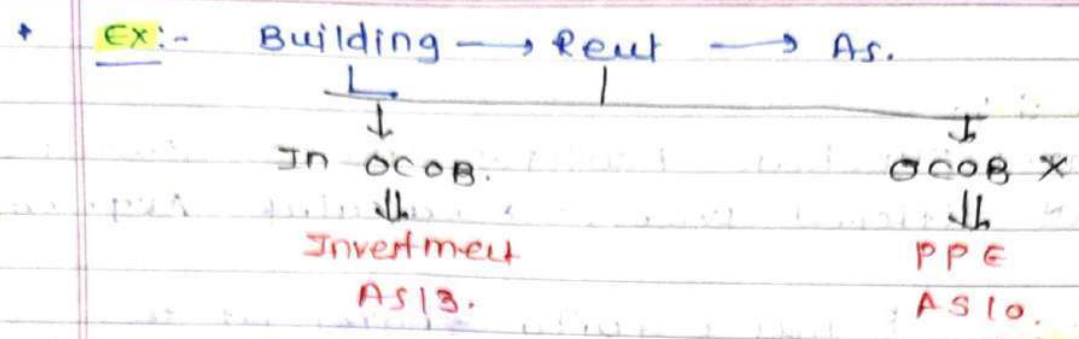
Treat the proceeds as recovery towards Cost & it will be credited to Investment

Bank A/c — or —
TO Investment A/c

* AS 13 is applicable on Investment only not Income from Investment

* AS-13 is applicable on all Investment

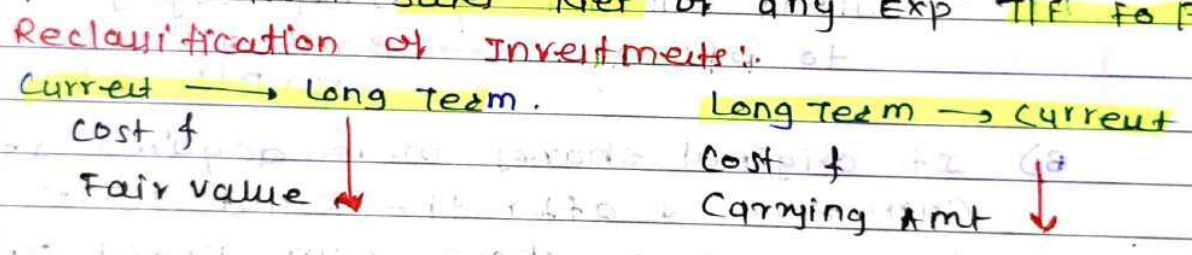
* Except — Investment specially made for Employee Benefits.



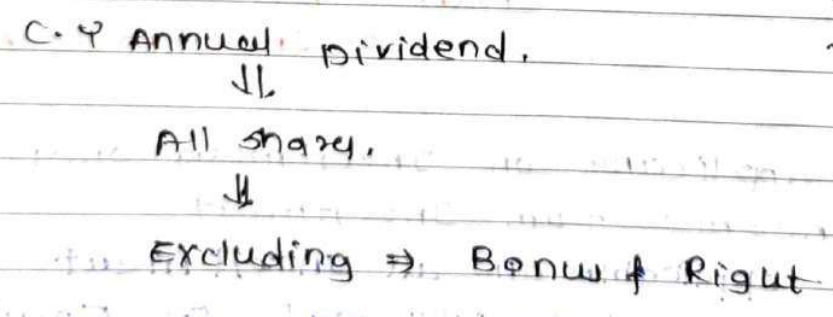
- * Investment Cost = ① Brokerage, duties & Fees. Includes:-
 - ① Non-cash consideration,
 - ① Issuing share,
 - ① Any other Asset

* Remeasurement ke time pe loss cost ke upar nhi Ja sakta.

* Investment treatment on disposal:-
 Sale or disposal of Investment diff betw gv and proceeds from sales Net of any Exp TIF to P/L

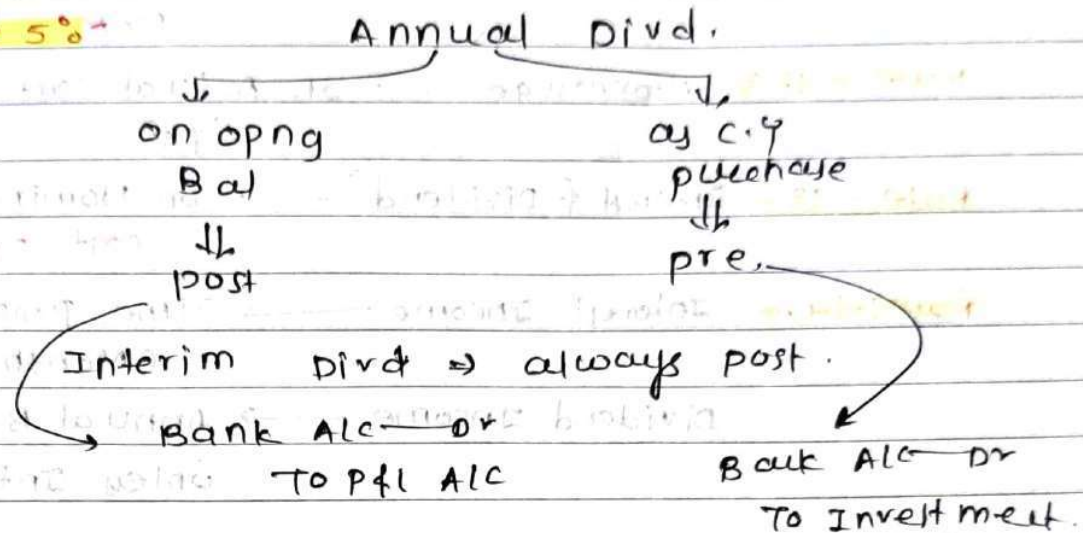


* Rule 4.8- Annual Dividend = Total No. of shares held on the date of receipt



If nothing is specified in queⁿ about Dividend
 ⇒ Assume Annual dividend.

→ Rule 5:-



* Rule :- 6: whenever the pre-acquisition dividend is received and credited to investment Alc of then the share are sold then, to calculate Gain/Loss on sale. Average cost per share → calculated after deduction pre-acquisition dividend from cost.

* Rule :- 7: Debentures → purchased → Multiple times / dates / prices.
 calculate Average.

* Rule :- 8: If in any question cum interest price & Ex Interest price is given → always record Investment Ex Interest price.

* Rule :- 9:
$$\text{Gain/Loss} = \left[\left[\text{Ex-Interest} \right] - \left[\text{Brokerage} \right] \right] - \left[\left(\frac{\text{Ex-Interest}}{\text{purchase value}} \right) + \left(\text{Brokerage} \right) \right]$$

* Rule :- 10 Investment → record at Acquisition cost and not at Face value.

Rule - 11:- Brokerage paid at the time of purchase, added to cost of Investment.

Brokerage paid \rightarrow Sale \rightarrow less from sale proceeds.

Rule - 12:- Brokerage \rightarrow on Actual cost.

Rule - 13:- Interest & Dividend \rightarrow on Nominal value
cost price

Rule - 14:- Interest Income \rightarrow Time proportion Basis.
(Month wise).

Dividend Income \rightarrow Annual Basis, only
only Interim Dividend

* Questions - Summary *

Q. 302. Pg. No - 5.24.

> Jab bhi Interest due date or B/S date aag aag hogi tab opng & Closg mai bhi Interest Accrued Hoga.

> 3m. Interest Accrued ki entry na payi Hogi

$$\text{Interest} = 120,000 \times 9\% \times 3/12 = 27,000$$

> purchase

$$\text{Interest purchase bonds} = 200 \times 100 \times 9\% \times 5/12 = 750$$

$$\text{Investment in purchase Bond} = 200 \times 98 = 19,600$$

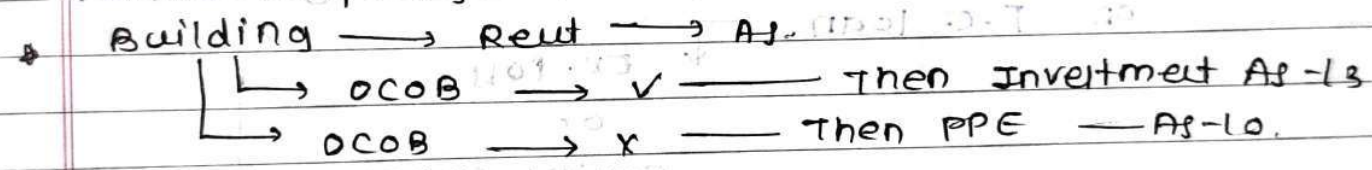
$$\text{Interest For Half-Year} = 1400 \times 100 \times 9\% \times 6/12 = 6300$$

Q.304. pg. No - 5.27.

- Jab bhi hum conversion karenge at that time of conversion interest will be collected on such conversion of Debⁿ.
- On the date of conversion the propotinate cost of Debⁿ $(239064 \times 25\%) = 59766$ will become the cost of Investment.

Invest in share All-Or portion
To Investment in Debⁿ A/c

- Long Term Investments are carried at cost less other than Temporary decline.



- As-13 - all Investment except Investment specially made for Employee's Benefits.

As-16 Borrowing cost

➤ **Borrowing cost** :- Incurred in Relation to Arrangement of funds, it includes -
(a) Interest cost
(b) other costs.

B.C. covers Exclusively.

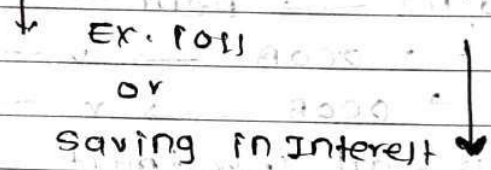
i) **Interest** :- short Term & long Term.

ii) **Finance charges** in leases.

iii) **Ancillary cost** such as stamp duty, processing Fee - Amortised part.

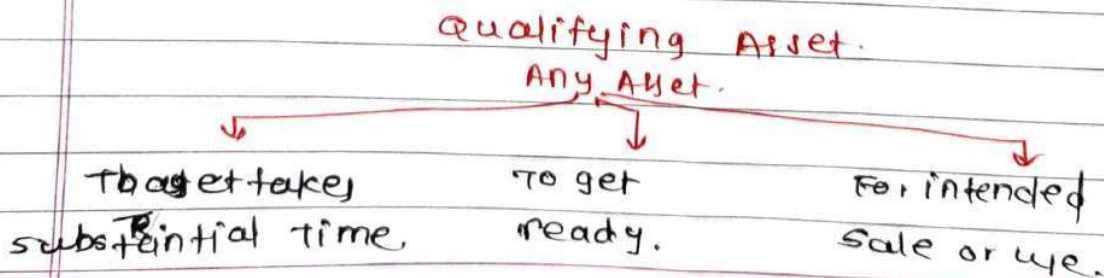
iv) **Discount on Issue & premium on redemption of Debⁿ** - Amortised part.

v) **Ex. Diff.** to the extent of saving in interest on F.C. loan.



➤ **Redeemable preference shares** capital is also **borrowed fund** hence dividend paid on such share is as good as Interest & to be treated as **Borrowing cost**.

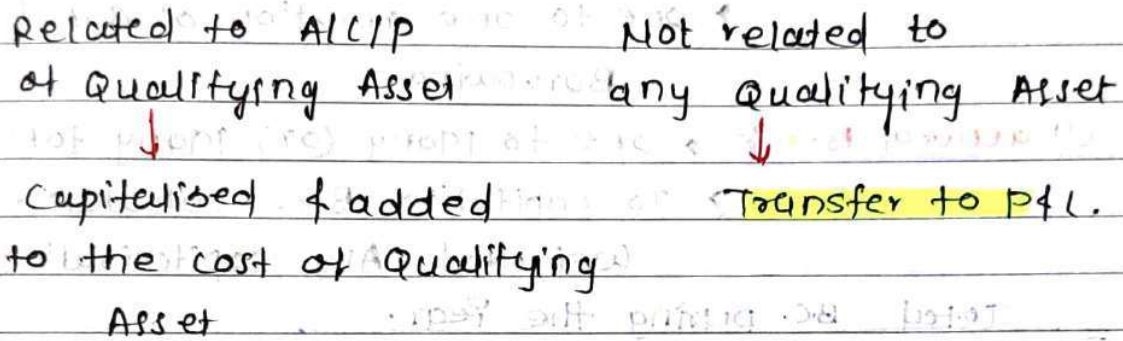
➤ Ex. loss ka vo hissa Jo ki → saving ke barabar hai → vo bhi **B.C.** hai.



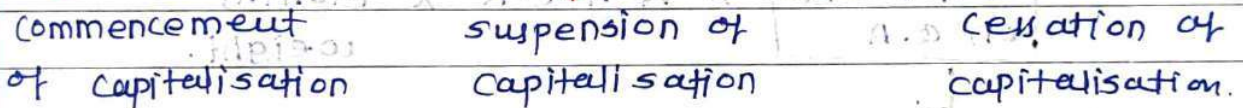
Investment in equity shares, Debentures, security can never become the Qualifying Asset.

treatment of B.C.

B.C. cost is:-



Capitalisation of B.C.



- | | | |
|---|--|--|
| <p>i) Date of start of Expon A/CIP of Q.A.</p> <p>ii) Date of start of charging of B.C.</p> <p>iii) Date when necessary Activities started.</p> | <p>i) suspension takes place for extended period due to interruption of necessary activities for avoidable Reason.</p> <p>ii) Un-avoidable Reason.</p> | <p>when Q.A is substantially completed.</p> <p>Q.A is constructed in parts, & any such part is substantially completed</p> <p>↓</p> <p>cease capitalisation of B.C for such part</p> |
|---|--|--|

* To part separately we or sale ho sakta hai
 Ton w part ke upar capitalisation band kardo.

* Types of B.C :-

① specific B.C :- capitalise B.C to a specific
 a.i.A only.
 ▶ one to one relation of a.i.A of
 Borrowing.

② General B.C :- one to many (or) many to many.
 ▶ To capitalise B.C. calculate:-
 Weighted Avg capitalisation rate.

$$= \frac{\text{Total B.C. during the Year.}}{\text{Total Borrowings o/s during the period.}}$$

$$= \frac{\text{Expenditure on a.i.A}}{\text{Exp. Incurred till last Year.}} \times \text{W.A.C.R} \times \text{Months weight.}$$

Exp. Incurred till last Year.	xxx
(+) Cash payment	xxx
(+) Non-Cash Exp.	xxx
(-) Progreys payments Received	(xxx)
(-) Grant / subsidy	(xxx)
	<u>xxx</u>

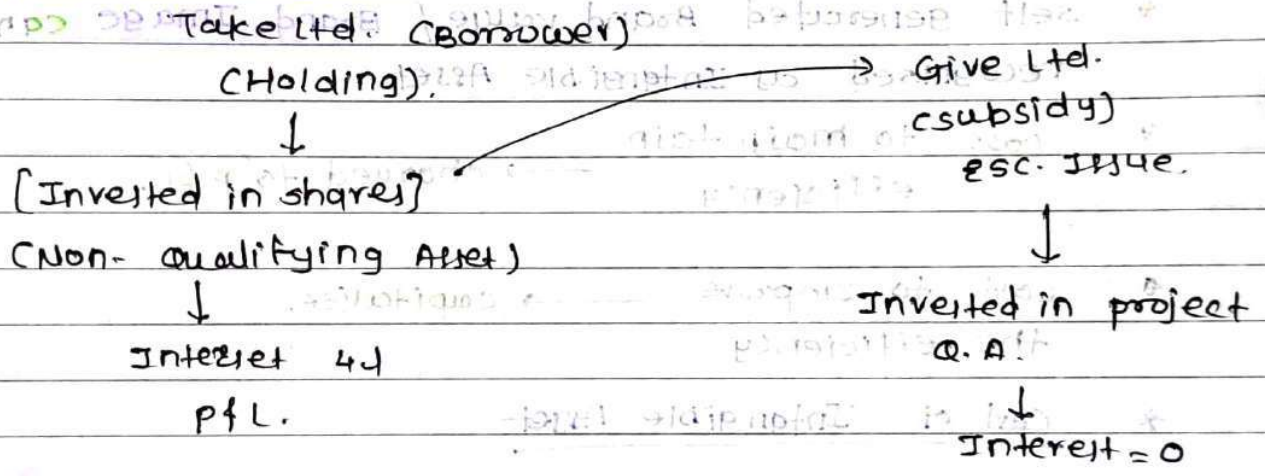
*** Questions Summary ***

Q. 206. pg. No - 6.17.

Agar BC Amt kam hai f Expenditure bohot jyada → Entity ne own Funds lagaye in that case WACR way not work.

In that case Total General BC ko Alag Alag Qualifying Asset ke Expenditure proportion me distribute kar do.

Q. 103. pg No - 6.12



EX-1 / class EX 1 / Q. 207 pg. No 6.22 / → (Exchange Diff) / Q. 201

- Step 1:- Calculate actual Interest on foreign currency loan.
- Step 2:- Saving in Interest due to FC loan.
- Step 3:- Calculate Exchange loss.
- Step 4:- a) Exchange loss. ↓
 b) Interest saving ↓

Q. 104. pg. No: 6.13

Loans & Advances can never be Qualifying Asset

As26 - Intangible Assets.

Conditions of Intangible Asset

- (i) Control
 - (ii) E.F.E.O. (Revenue generation)
 - (iii) No physical substance
 - (iv) Held For use.
 - (v) Non Monetary.
 - (vi) cost can be measured reliably.
 - (vii) Enterprise can control
- Identifiable

* self generated Brand value / Brand Image **can not be** recognised as Intangible Asset

* cost to maintain efficiency → charged to P&L.

* cost to improve the efficiency → capitalise.

* Cost of Intangible Asset

PC + DAC.

↳ of bringing the Intangible Asset to its usable condn.

* Control — power to obtain Future Eco. Benefit
— Restrict others from use of Asset
[e.g. Ronaldo]

* Employee / Player ko recruit karane ki cost Intangible Asset or not?

whether cost of recruitment of Employee / player is treated as Intangible Asset or not?

→ Yes, it

- ① Such contract with player / Employee can be enforceable under the court of law (Ability of entity to restrict others).
- ② Entity should expect future economic benefits for the period of contract.

Refer. EX:- 5, pg. No. 8-4.

*

Research & Development

Research
activity.



Expense in P&L
Immediately in the
same year.

Development
Activity.



Cost can be recorded if
following condⁿ satisfied

- ① Technical Feasibility
- ② Intention to complete
- ③ Ability to sell or use
- ④ Generation of F&B.
- ⑤ Adequate Resource
- ⑥ Cost can be measured reliably.

Refer. Q. 2. of Q. 8.

Whenever the development is incurred in phases / stages then we have to check at which stage the conditions are fulfilled. From that stage the cost will be capitalised & all other cost shall be transfer to P&L.

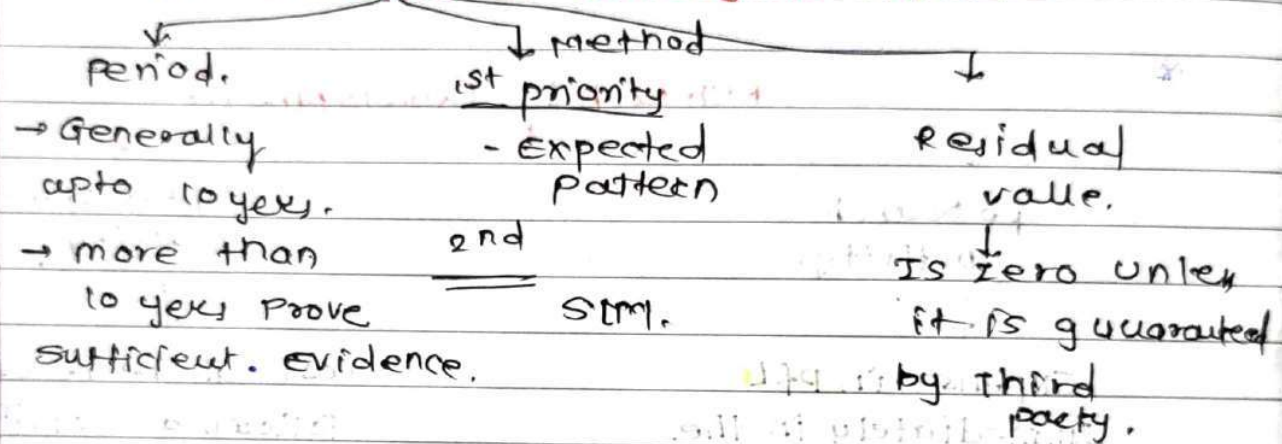
• Subsequent Exp on Intangible Asset

↓
 It is Increase the efficiency of Earning future Eco. Benefit

Refer Q.5

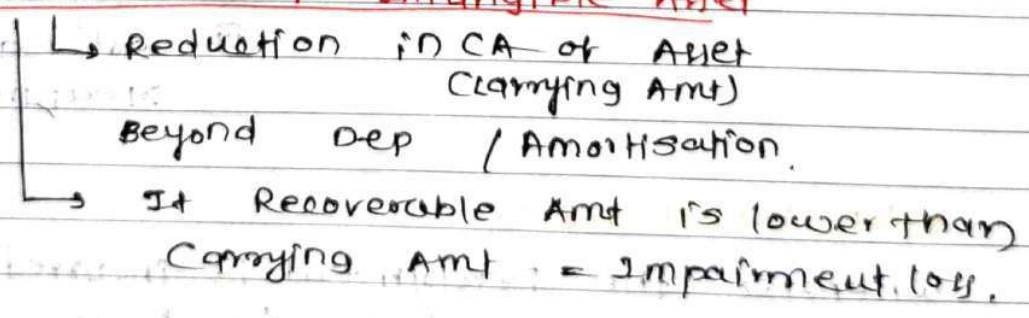
↓
 It should be capitalised
 ↓
 otherwise TIF to pfi.

* Amortisation of Intangible Asset



* Any change in Amortisation period method or Residual Value is Treated as change in Ac Estimate & prospective Effect shall be given.

* Impairment of Intangible Asset



Recoverable Amt :- Higher of :-
 a) NSP (Net selling price)
 b) VIU (value in use)

Impairment loss = charged to P/L A/c.

*

skill | Talent (Employee player)

↓

Intangible Asset?

Yes

No.

- Control

power to obtain

FEB Restrict others to use

If condition

not fulfilled

- Indentifiable

- contract with Employee & Player

- Enforceable by

law - protected through legal rights.

→

Not Intangible Asset Always Transfer to P/L.

(i) preliminary Exp.

(ii) pre-operating Exp.

(iii) staff Training cost.

(iv) Heavy Advertisement exp.

Q.9. Pg. No - 8.16. -

purchased goodwill recognised as per As-14 (CPC-Net Asset) is required to be amortised in 5 years only as per As-14.

→ purchased Goodwill = 10 years applicable nhl had not as per-26.

Franchise is arise through contractual agreement hence Identifiability criteria is

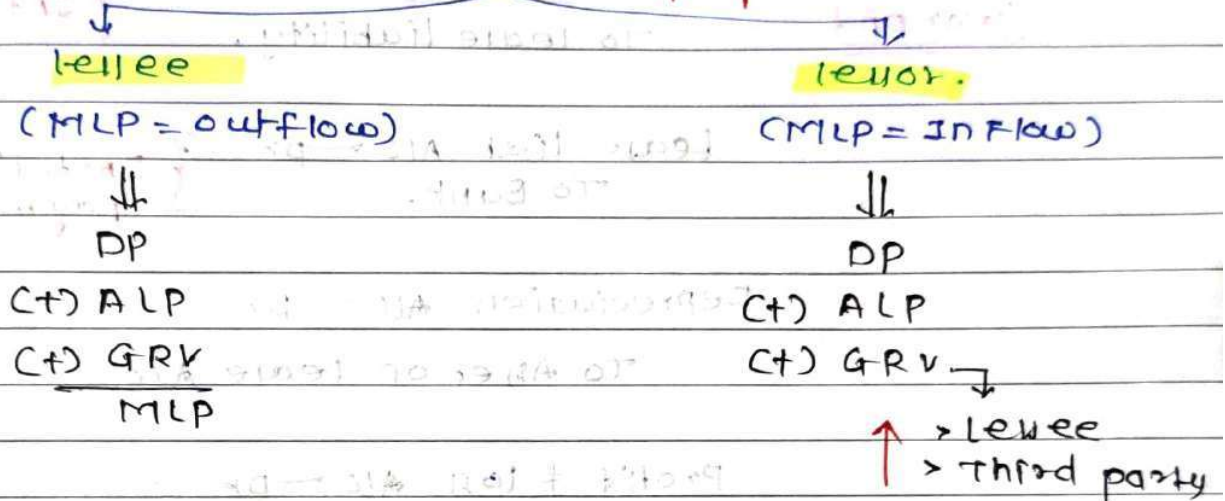
is fulfilled along with other condⁿ. It is an intangible Asset

Franchise = intangible Asset → cost
 ↓
 Franchise fee,
 one time cost
 Annual Recurring Fees (exp) → Transfer to P&L.

As-19 - Leases.

- * **UGRV = ERV - GRV.**
- * **Contingent Liab. :-** Additional payment to be made by lessee based on same factors other than just a passage of time. — always TIF to Pft.

* MLP (Minimum lease payment) :-

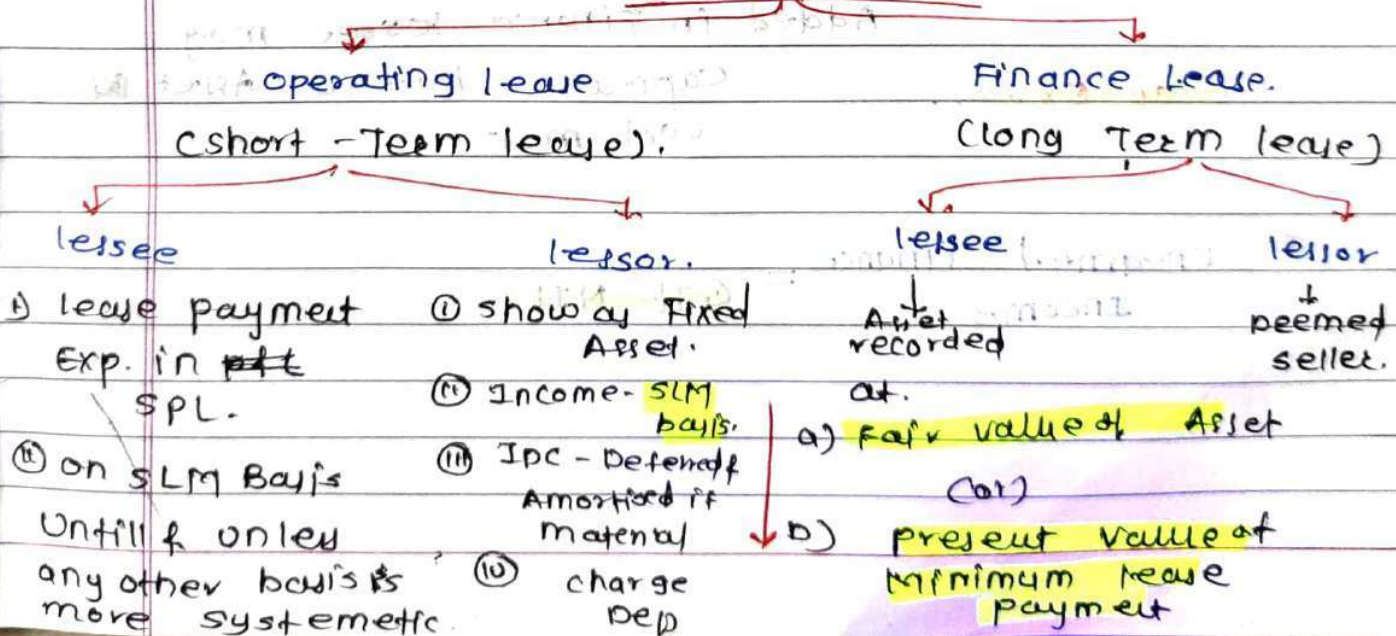


* MLP does not include UGRV & Contingent Rent.

* **GIL = MLP + UGRV.**
(lessor)

* **NIL = present value of GIL.**

Types of Leases.



Finance lease as good as loan.
 * Finance lease - Books of lessee.
 Asset on lease A/c — pr (lower of F.V or p.v. of MLP)
 To Bank (COP)
 To lease liab. (CBal fig)

Year end Finance charges A/c — pr } Int. Camt
 To lease liability.

Lease liab A/c — pr } Installment
 To Bank. } payment.

Depreciation A/c — pr
 To Asset on lease A/c

Profit & loss A/c — pr
 To depreciation A/c
 To Finance charges A/c

* Jpc → capitalise by lessee.
 Added in Finance lessee may
 Capitalise karega Asset ka
 Cost mai

Unearned Finance Income = GIL - NIL.

* Finance lease - Books of lessor.

Type of lessor.

↓
Dealer or
Manufacturer
lessor.

↓
Non-Dealer
lessor.

Asset = Inventory.

leave Receivable A/c - Dr (NIL)
Co. G.S. A/c - Dr (CBIF)
 To sales A/c
 To Inventory A/c (CBV/cost)

Begin
leave Receivable A/c - Dr (NIL)
P.V.C (MLP + UGRV)
Bank A/c - Dr (DP)
 To Asset A/c (CBV).

↓ FV of Asset
↓ P.V. of MLP.

↓ (Difference in above entry is Pfl).

Year end

* Inception date
registrar of -

leave Receivable A/c - Dr
 To Fin. Income A/c

a) Date of Agreement
 or

Bank A/c - Dr
 To leave Receivable A/c

b) Date of Commitment
 by parties for
 principle prov.

Finance Income A/c - Dr
 To Pfl A/c

* Commence ment date :-
 actually available

IRI :- It is a rate at which sum of p.v of all future out flows = current proceeds.

IRI, IRR, Disc-Rate, ERI \Rightarrow

Sum of PV of (MLP + URGV),
 (lessor)

Retor
 clay
 EX-3

is equal to

Fair value of Asset + IDC (lessor)
 (Initial direct cost),

which discount rate to be taken while solve que?

lessor

lessee

always IRI (%)

1st priority = IRI (%)
 2nd = Take Incremental
 Borrowing Rate if IRI is
 not available
 determinable

EX: 2. Pg. No. 7.5

- ⓪ Transfer of ownership = No
- Ⓛ putback option at reduced price = No
- Ⓜ Major part of life cover lease term = No
- Ⓝ specialised Asset
- Ⓟ PV of MLP = Fair value

Sale of lease Back.

Treatment of G/Ls for
Seller lessee.

↓ Finance lease Back ↓ Operating lease Back

↓
Gain/Loss shall be
Deferred & Amortised
over the lease Term.
In proportion of dep.

Refer pg. No

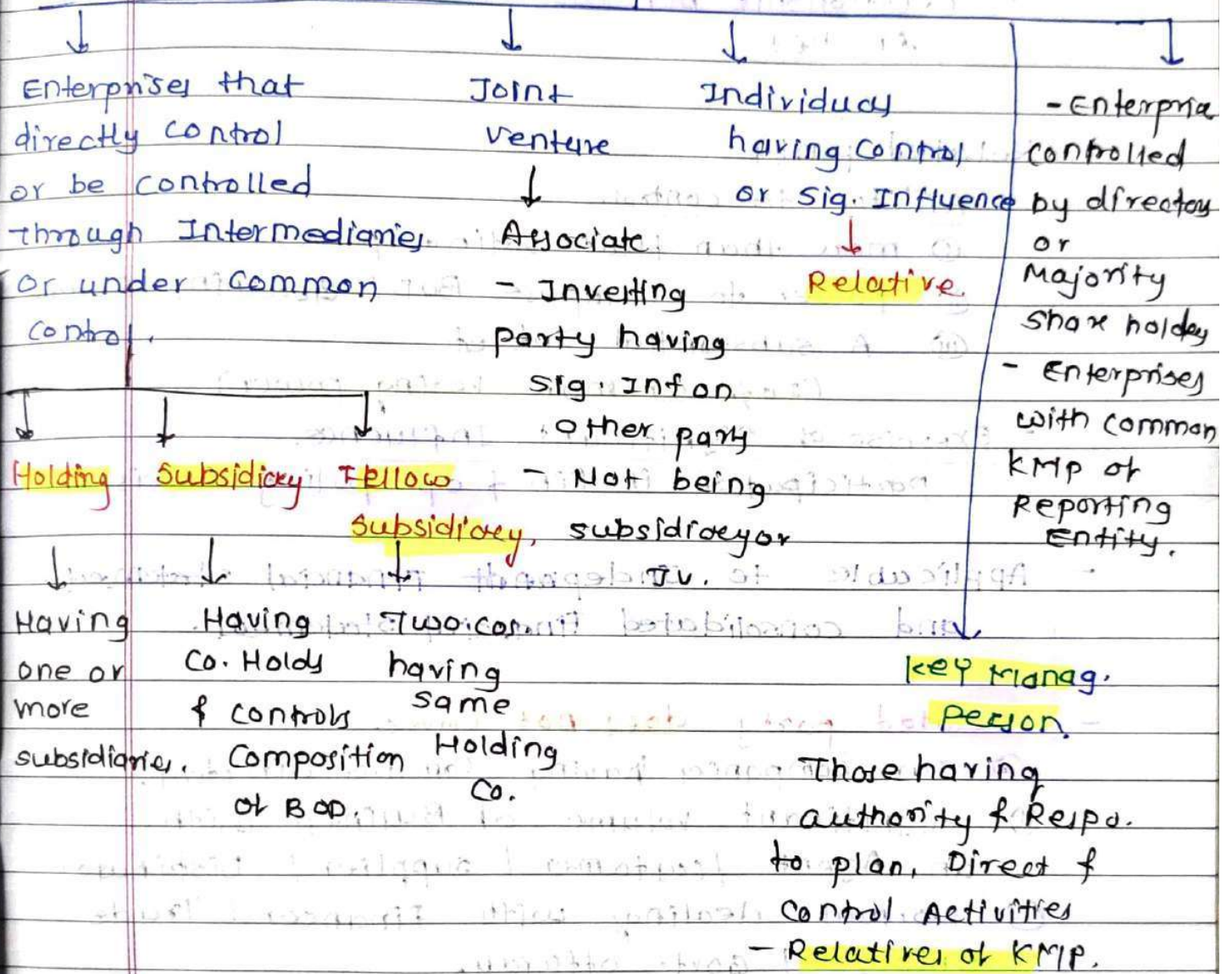
7.14 for concept

7.15 for exp.

↓
Refer- EX 9 - As - Trump

As-18 - Related party Disclosure

Related party



* Investor or Venture for whom Reporting Entity is **JV** or **Associate**

- * **RP does not cover**
- ① Two comp. having common directors.
 - ② Significant volume of business with an Agent / customer / supplier / distributor.

- Normal dealing with Financier / Trade Unions / Govt. officials.
- Relationship betⁿ one state control Entity & Another.

* Related party

- Ability to control.
 - (i) more than Half voting power.
 - (ii) power to Compose BOD / Governing Body.
 - (iii) A substantial Interest
(20% or more voting power)
- Exercise of Significant Influence.
Participation in Fin & op. policy Decision
- Applicable to Independent financial statement and consolidated financial statement.
- Related party does not cover.
 - (i) Two companies having Common directors.
 - (ii) significant volume of Business with an Agent / customer / supplier / distributor.
 - (iii) Normal dealing with financier / Trade unions / Govt. officials.
 - (iv) Relationships betⁿ one state control Entity & Another.

- * Remuneration paid to key man. personnel should be considered as a related party transaction requiring disclosure.
- Non-Executive directors on the BOD are not related parties.

*

According to AS-18 Related party Disclosure, related party transaction is a transfer of resources or obligation betⁿ related parties, provided a price is charged for such transfer

False

AS-28 - Impairment of

- (i) Impairment happens after Depreciation.
- (ii) Annual Impairment is not mandatory it depends on indicators.
- (iii) Impairment loss = $CA - RA$
- (iv) RA is a Higher of :-

↑ NSP
&
↓ VIU

- (v) NSP means if Asset sold immediately use current Market price less cost to sale.
- (vi) value in use means present value of Future Cash Inflows before Tax if Asset is used in business instead of sale including Terminal cash Flows.
- (vii) Impairment loss shall be written off first against RR & remaining Transfer to P/L

* Impairment Testing = carrying Amount ko recoverable Amt se Compare karna.

* MCA → How to estimate value in use?

→ Future cash Flows can be estimated for a maximum period of 5 years unless the longer period is justified.

* MCA → while estimating Future cash Flows effect of Future Amalgamations & Merger should not be taken.

cash Flow should always taken before Tax.

* Foreign currency future cash flows
If the cash flows are in the foreign currency
Then :-

Refer
EX: 1
Pg. No. 9.5

Step 1:- Calculate present value with discount rate related to that currency.
Step 2:- Translate PV into Indian currency using Ex. Rate on the date of measurement of value in use.

* If we can't calculate NPV then take value in, we only and vice versa.

* whenever the Impairment loss is more than the total carrying Amt (It is possible when recoverable Amt is negative) in such case the excess loss will be treated as liability

ex:- CA = 50

RA = (20)

IL = 5 - (2)

= 7

Imp loss A/c — Dr 7

To Asset A/c 5

To prov. of outflow 2

* Q. 401, Pg. No. 9.26

a magazine title can also be a CGU if it generates independent cash flows and can be replaced without disturbing other title.

Impairment of CGU:-

Impairment loss = CA of CGU

G) RA of CGU.



Imp loss of CGU shall be distributed as under:-

1st Goodwill shall be set off if CGU includes Goodwill.

and Remaining Imp. loss shall be allocated to all other Assets in the ratio of their respective Carrying Amt.

Clay Ex:- Impairment of Goodwill & CGU.

Goodwill CGU never be Impair Individually it is will always tested for Impairment along CGU.

* CGU shall include multiple assets including Goodwill & Corporate Assets.

* Recoverable Amt of Goodwill is not possible to Identify, Hence Goodwill is merged with CGU.

* How to allocate Goodwill if there are more than one CGU?

1st priority :- In the ratio of Fair value of each & every CGU.

(Refer ex:- pg. No. 262)

2nd priority :- If F.V of respective CGU's are not given then either question will give us specific Ratio or it can be

allocated in the ratio of carrying amt of each CGU.

* Goodwill & Corporate Asset.

↓
allocable

↓
apply Bottom up
Impairment Testing

↓
un-allocable

↓
apply Bottom up First
excluding un-allocable
goodwill & Corp. Asset
• Calculate Revised CA
of all CGU's after
Bottom up Imp Testing
• Now apply Top Down
Impairment Testing to
include un-allocable
Goodwill & Corp Asset

Note:- Top Down Impairment Testing.
CA of entire entity.

Call CGU's (+) all Goodwill (+) all
Corp Asset)

G) RA of Entire Entity.

Impairment loss.

G) Goodwill un-allocable

Bal. Imp. loss.

G) unallocable Corp. Asset.

* Impairment loss of Goodwill can never be reversed.

* Refer important note ⇒ from Book pg. No.
9.10. f Refer Ex:- 7 also.

Area / Theory ques.

Indicators of Impairment Testing

External

Internal

- ① Significant decline in the MV of Asset
- ② Adverse effect on Company's operation due to:-
 Technological changes
 legal changes.
 Market & Eco. changes.
- ③ Market Interest Rates are significantly increased.

- ① Asset is damaged or obsolescence.
- ② Reconstruction or re-organisation effect because of lower efficiency losses in the company etc.
- ③ Asset performance is getting worse than expected.

It Market Rate ↑
 ↳ Disc. Rate ↑
 ↳ PV of Cash Flows ↓
 ↳ Recoverable Amt ↓

④ MV of Net worth is less than BV- Net worth
 ↳ i.e. Assets are overvalued in Books.

Maximum Amount of Reversal of Imp. loss.
 ↓
 Recoverable Amt of CA.

Refer Ex: g. CPG, Nar. g. is

As-20-EPs

M T W T F S S

Page No:

FIONA

Date:

① Partly paid shares

Eligible for dividend only when they will become fully paid.

↓
Do not consider them in calculation of Basic EPS, until they become fully paid.

Eligible for dividend even though they are partly paid.

↓
Consider them in Basic EPS calculation.

Note:- always assume that partly paid shares are eligible for dividend when no information is given.

* For Bonus issue in the current year always consider $1/12$ time weight. Also p/y EPS to be restated by including bonus numbers in the p/y.

(Refer. Book Ex.MO :- 7, Pg.No. 20.6).

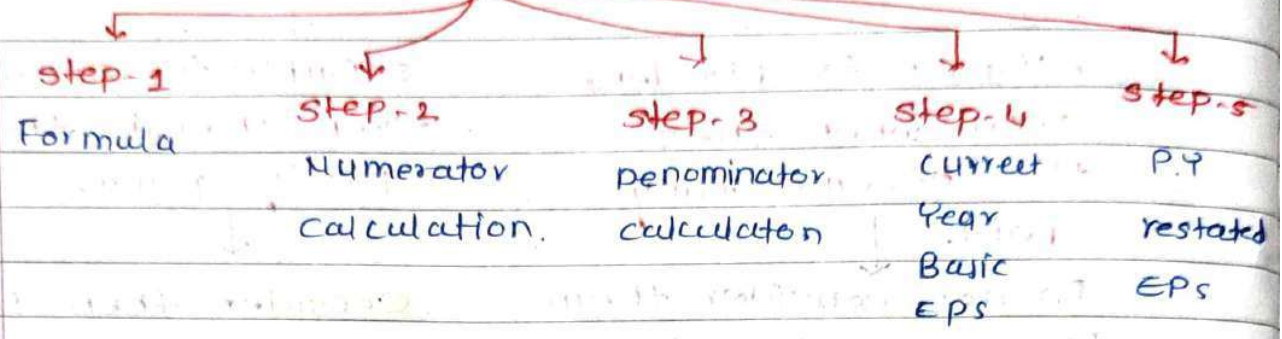
* preference dividend.
† If not specified in question about cumulative or non cumulative, ^{always} treated as cumulative.

* Full market price = public Issue.

* Bonus issue in cy is assumed as o/s since Beging of p/y due to following reasons:-

- ① No. additional funds are raised due to Bonus issue
- ② Bonus issue is always distributed out of existing Bal. of Rfs. Hence we can conclude that cy Bonus shares were already o/s since Beg in the form of Rfs.

How to solve the question of Basic Eps with 5 steps:

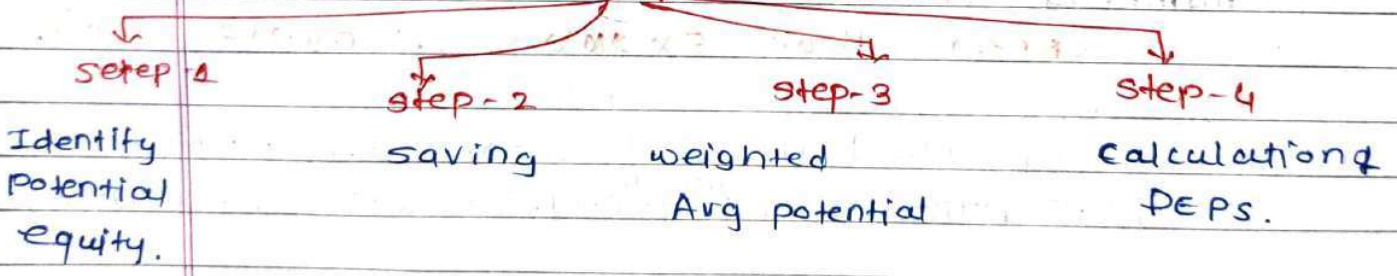


How to calculate potential equity no. of shares in case of Esops.

Refer. Ex:-
24 Pg. No.
2014

- (i) Total Funds to be raised from Esops.
- (ii) If same funds could have been raised from general public @ 14%.
- (iii) potential eq. shares = Total Esop - shares to be issued to public

Diluted EPS steps.



- * Agari continuing operation mai layer hai toh DEPS calculate karate time potential equity ko ignore karna hai otherwise Anti-dilute Earning per share nikaal Jata hai. Anti-dilution nhi nikalna chahate isliye potential equity ko ignore karo.
- toh \Rightarrow Discontinued mai hai / continue mai profit hai toh potential equity lenge

Refer class EX - 3/4 - Pg. No. 299 - 300.
Q. 501. (B).

* Diluted EPS *

- (i) DEPS is calculated when there are old potential equity shares.
- (ii) Potential eq. shares are those securities which can be converted into ordinary eq. shares in future.
- E.g. in
- convertible pref. shares.
 - convertible Debentures.
 - share warrants.
 - ESOPs.
- since ordinary shares Banne se additional funds raise nhi hote.
- (iii) Their conversion into ordinary equity may increase the numerator & denominator.
- Numerator \rightarrow saving in Interest (after tax)
Saving in pref. Divd.

Denominator = Increase in no. of shares.

(v) such change in numerator & denominator will result in decrease of EPS or Increase of EPS.

(vi) If decrease = Diluted EPS (DEPS)

If Increase = Anti DEPS.

(vii) only DEPS shall be disclosed

If there is Anti - DEPS then for Disclosure purpose \rightarrow DEPS = BEPS.

Agar potential Eq. shares \neq me hi ordinary share
hote toh basic EPS kitna Ho Jata.

DEPS = EAESH + (saving due to potential Eq Conversion)

Weighted Avg Co (s) (Ordinary share) +

potential Eq. share)

Refer ex:- 19 Pg. No 20.12.

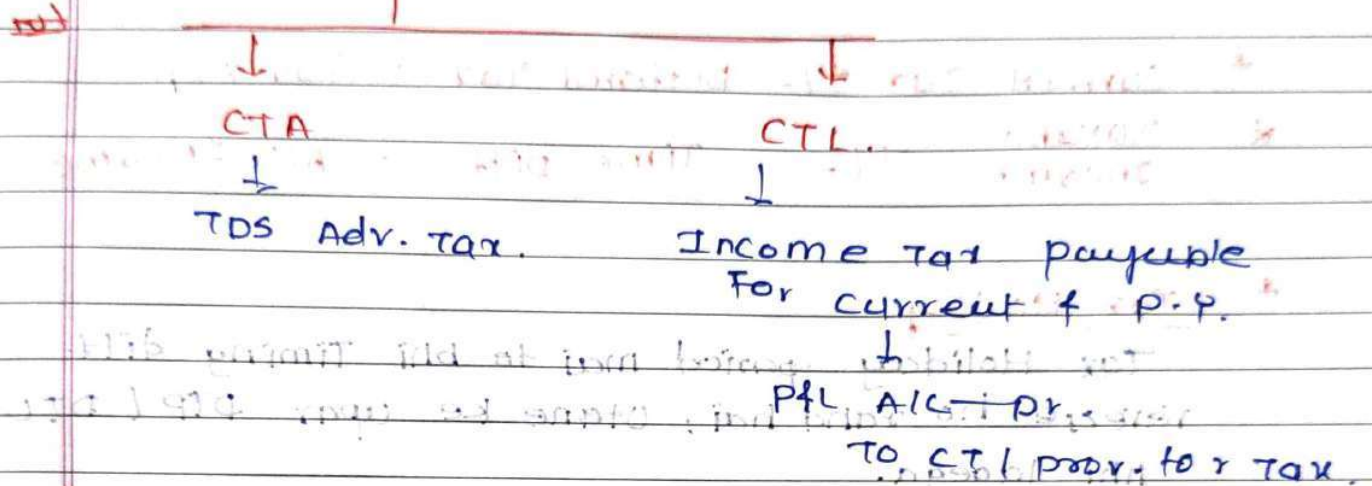
* EPS in case of discontinued operation *

If there is a loss in continuing operation then while calculating DEPS, do not consider potential Eq. share.
Consider ordinary Eq. share only.

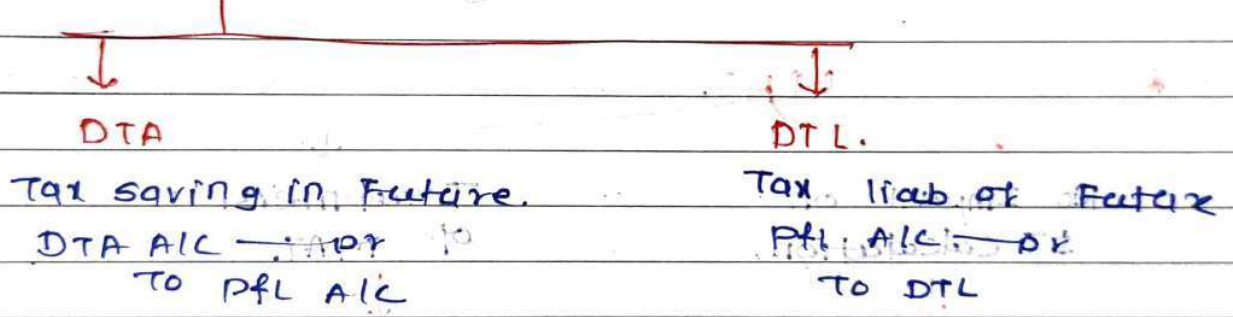
A3-22 - Accounting for Taxes on Income

Definitions

- i) Accounting Income = PBT as per P/L A/c
- ii) Taxable Income = Tax calculated as per law.
- iii) Current Tax = Tax on Taxable Income.



- iv) DTA = Tax on Timing Diff.



DTA is reasonable. Items other than self losses for unabsorbed dep.

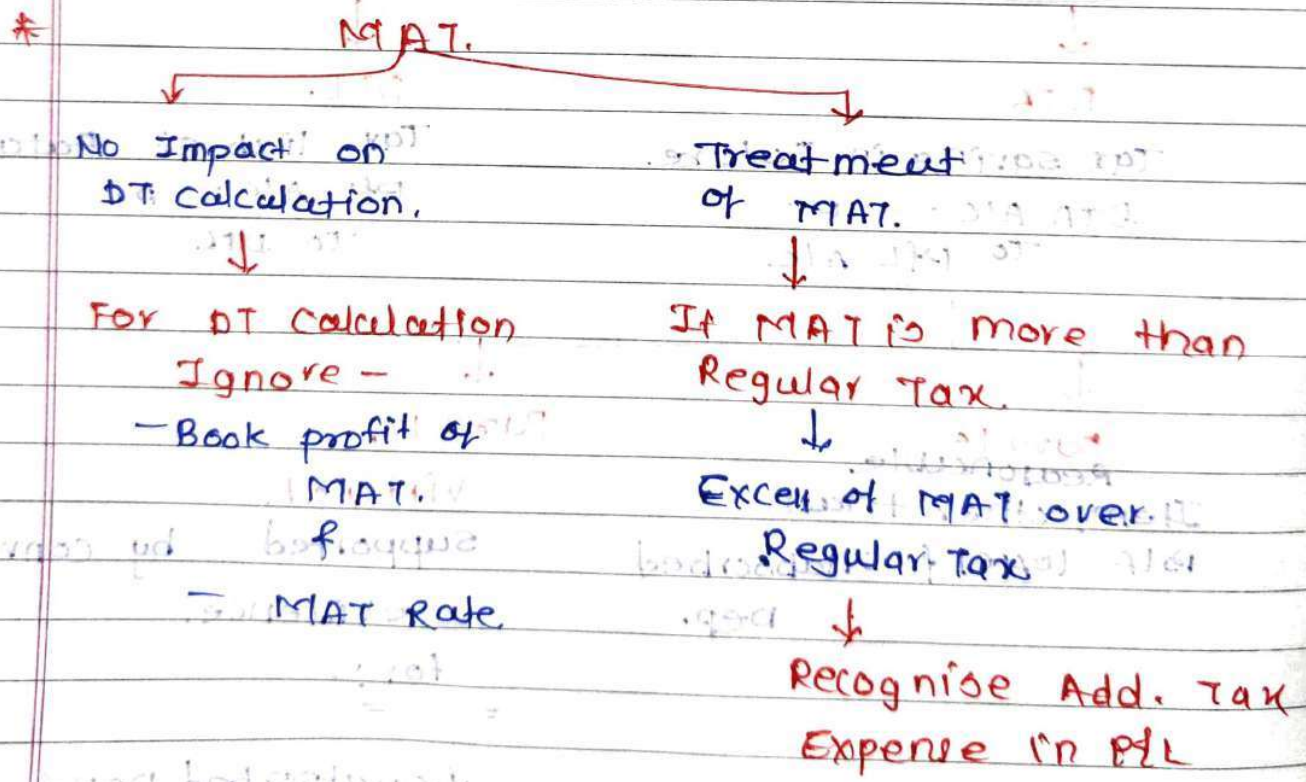
DTL is virtual. Supported by convincing evidence.

- For:-
- a) Unabsorbed dep f
 - b) CIF Business losses.

* Tax Exp :- CTEP
 G) DTA
 C) DTL
 G) DTA Revealal
 G) DTL Revealal.

* Current Tax +/- deferred tax = Tax Exp
 * Taxable Income +/- Time diff = AIC Income

* Tax Holiday
 Tax Holiday period mai to bhi Timing diff reverse ho rahi hai, utane ke upar DTP / DTL nhi lagega.
 Usake bad reverse Hoga hoto DTA / DTL Lagega



↓
Permanent Diff.

Arises in one period
but no reversal in future.



Examples:-

- Donations,
- Penalty,
- Personal Exps.



No DTA / DTL.

↓
Timing Diff.

Arises in one period &
to be Reversed in Future.



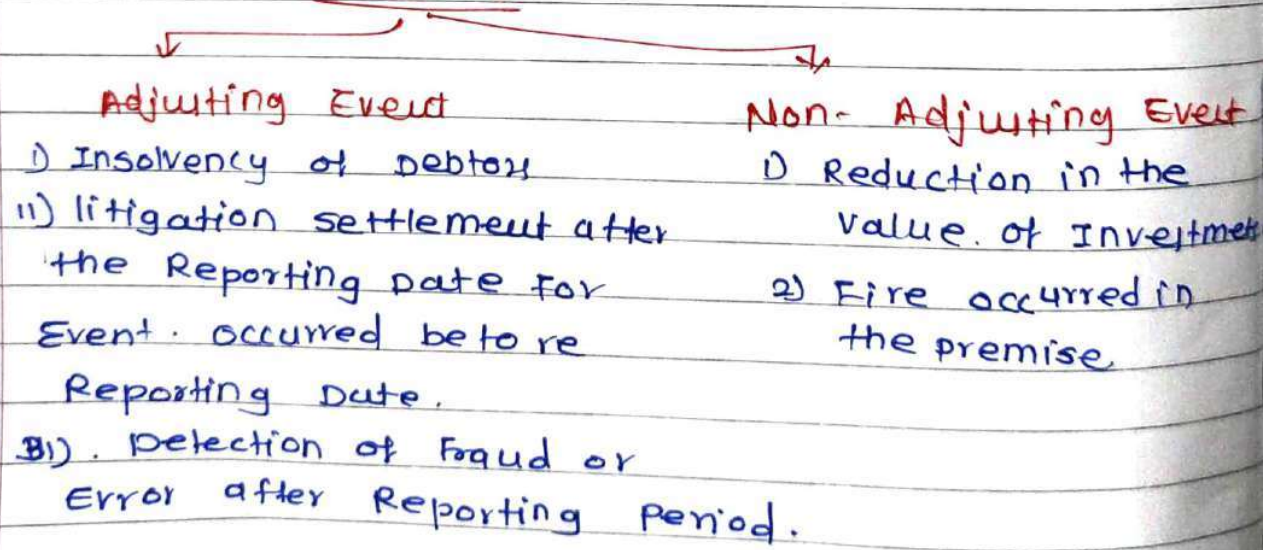
Ex:-

- (i) Bonus not yet paid (43B)
- (ii) Int. on Nationalised bank (43B)
- (iii) PF contribution (43B)
- (iv) Govt Taxes (43B)
- (v) Proor. for BD / legal D. (36)
- (vi) Dep. (32)

AS-4

- * Financial statements are always approved by BOP & not by Shareholders. Approved Financial statements are submitted to shareholders in AGM.
- * Any event occurred after BLS date till the date of approval is required to be either accounted or disclosed in the P.Y Financial statement.
- * **Adjusting Event** - Adjustment to P.Y Assets & liabilities is required through Journal Entry.
- * **Non-Adjusting Event** - P.Y Assets / Liab not to be Adjusted through any Entry. only proper disclosure in P.Y FIs is required.

Example



Dividend declared after BIS date.

- Treat contingent liability on BIS date & disclose on BIS date.

Going concern affected due to occurrence of

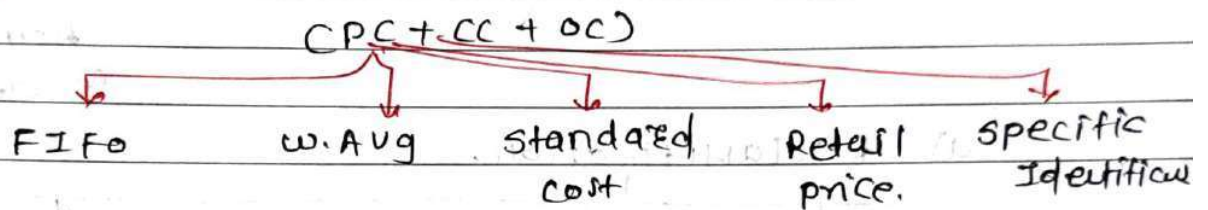
Non-Adjusting event

Treat Adjusting Event & Adj. the all the Assets & liability at Realisable value.

* Measurement Summary of different items as per different As:- *

1) As 2:- Inventory is measured at
 Cost
 (or)
 NRV } whichever is lower.

2) As 2:- Cost can be measured at:-

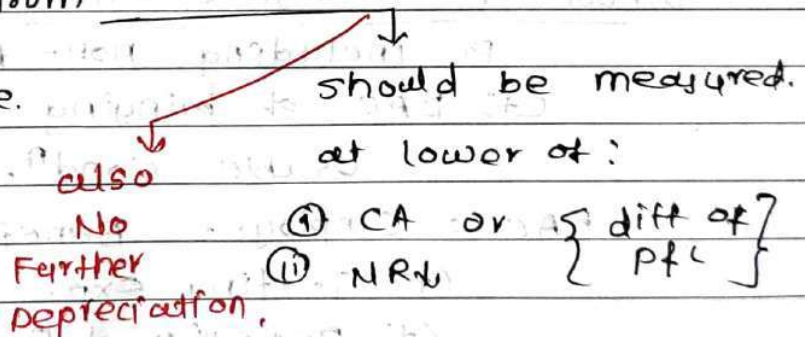


3) As 10:-

a) Cost → PC + PAC + PCC at PV

b) at B/S date = Cost Model.
 or
 Revaluation Model.
 (Fair value).

c) Asset retired from active use & held for sale.



d) acquired in exchange

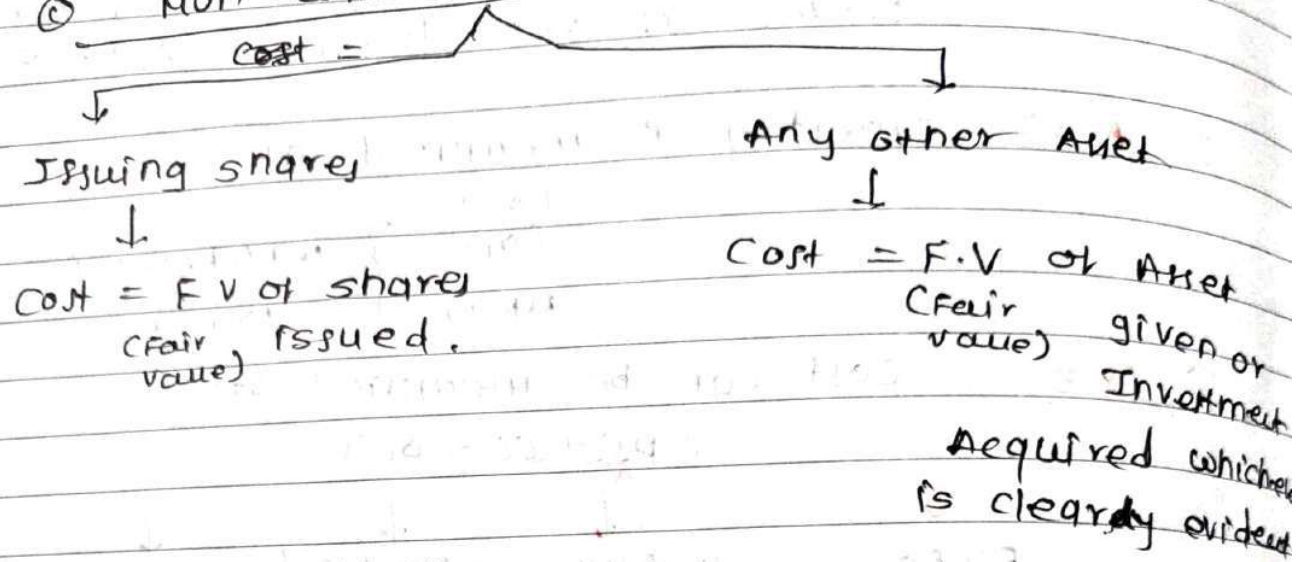
→ Fair value or Book value

4) As 13:-

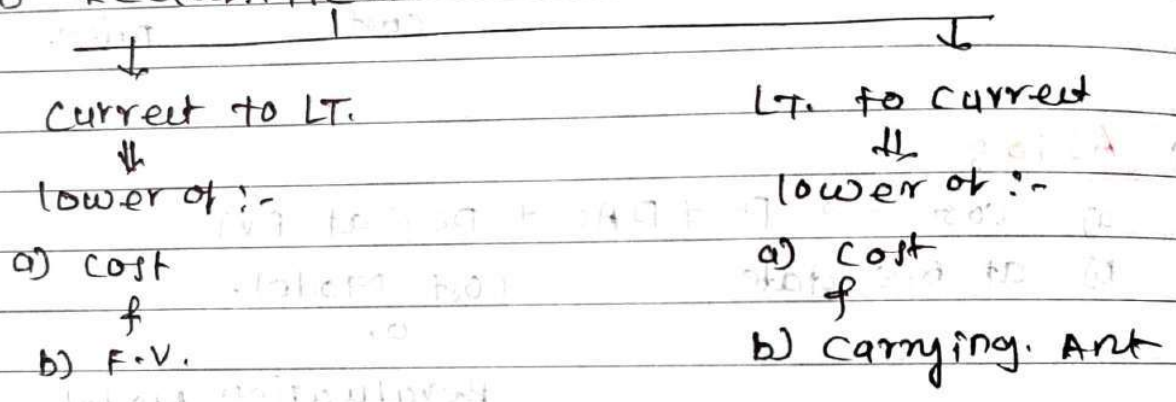
a) Current Investment:- Measured at lower of a) cost or b) Mv.

b) Long Term :- Measure at cost unless there is other than temporary redn.

② Acquired at Non cash consideration ~~cost~~ :-



d) Reclarification.

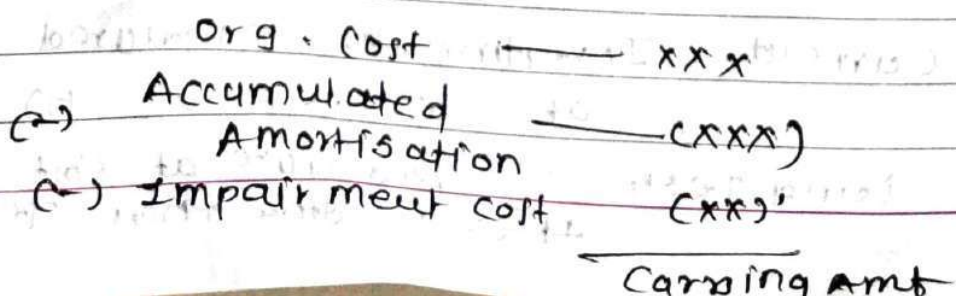


5) AS-26 :-

a) Cost of Intangible Asset :-
 PC including non-ref. Duties & taxes,
 (t) DAC of bringing the I.A to its
 usable condⁿ.

DAC = Employee Benefit Exp.
 (t) Testing Exp.
 (t) profession of fee,

b) carrying Amt of Intangible Asset (B/S date).



6) AS-19 - Leases

↓	↓
lessee (Finance lease)	lessor (FII)
Asset at lower of :-	lease receivable at
a) Fair value	NIL.
or	(NIL = PV of GIL)
b) PV of MLP.	

7) AS-28 - Impairment :-

Impaired loss = CA - RA
 CA :- org cost (Fair value)
 c-) Accumulated Dep till date.
 RA :- Higher of N S P f VIU.
 VIU :- Pv of Cash Flows. (before Tax).

Reversal of Impairment loss :-

After reversal, revised CA can not exceed lower of following :-

- a) RA
- f
- b) CA had there been No Impairment.

8) AS 20 :- EPS

$$\text{Basic EPS} = \frac{\text{Net P/L attributable to ESH.}}{\text{w. Avg o/s equity no.}}$$

$$\text{Diluted EPS} = \frac{\text{Net P/L attributable of ESH (+) savings.}}{\text{w. Avg o/s equity no + potential eq.}}$$

Net P/L attributable :-

$$\begin{aligned} & \text{EBIT } \times \times \times \\ & (-) \text{ Interest } \underline{\underline{(\times \times \times)}} \end{aligned}$$

EBT XXX

(-) Tax CXXX
XXX

EAT

(-) pref Divd (XXX)

EASH

Cumulative
(-) always

Non cumulative
(-) if declared.

examples of Accounting policies as per Relevant AS.

M	T	W	T	F	S	S
Page No.:						FIONA
Date:						

① AS 2 :-

① choosing cost Measurement method like FIFO or weighted Avg.

② Apply cost or NRV whichever is lower

OR

at NRV only (or) at cost only.

② AS 10 :-

① Applying cost Model or Revaluation Model.

② AS 18 :- measuring the Investment either
at cost (or) (Market value
or at lower of cost & NRV.

Amalgamation of companies.

(i) Merger \Rightarrow A Ltd + B Ltd = C Ltd.

(ii) Absorption \Rightarrow A Ltd + B Ltd = A Ltd.

(iii) **Takeover (As-14)**

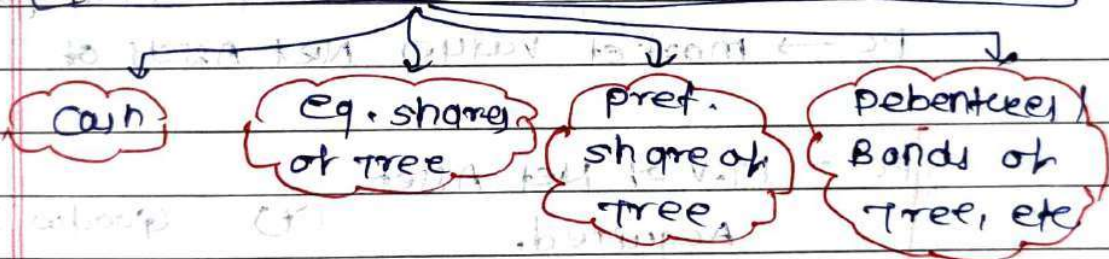
Absorption
(acquisition)

Holding &
Subsidiary

$$A+B=A$$

Business \rightarrow Net Assets.

Tree acquires Net Assets of Tror by discharging purchase consideration to the shareholder \rightarrow Tror.



As-14 is applicable to Transferee company.

Types of Amalgamation

Amalgamation in the nature of purchase

Dominance Tree only over the business taken over

Amalgamation in the nature of merger.

\rightarrow acquire \rightarrow Assets / liabilities Tror

\rightarrow SH Holding \rightarrow 90% Eq. share Tree.

(Here only external SH of Tror shall be considered)

$A+B=A$: A's management has control over B's Business.
 $A+B=C$: Under new co. manag. of A will controlling power over new co.
 $A+B=C$: Fractional \rightarrow in cash.
 $A+B=C$: \rightarrow Tror same business intended carried by Tror
 $A+B=C$: \rightarrow Assets/Liabilities - Carrying Amt

Exceptions: - Uniform AIC policy.

Purchase Consideration

PC \rightarrow Not dependent \rightarrow Nature of Amalgamation

PC \rightarrow market value Net Assets of Tror

$PC = M.V \text{ of Net Asset Acquired.}$	$(+) \text{ Goodwill value}$
---	------------------------------

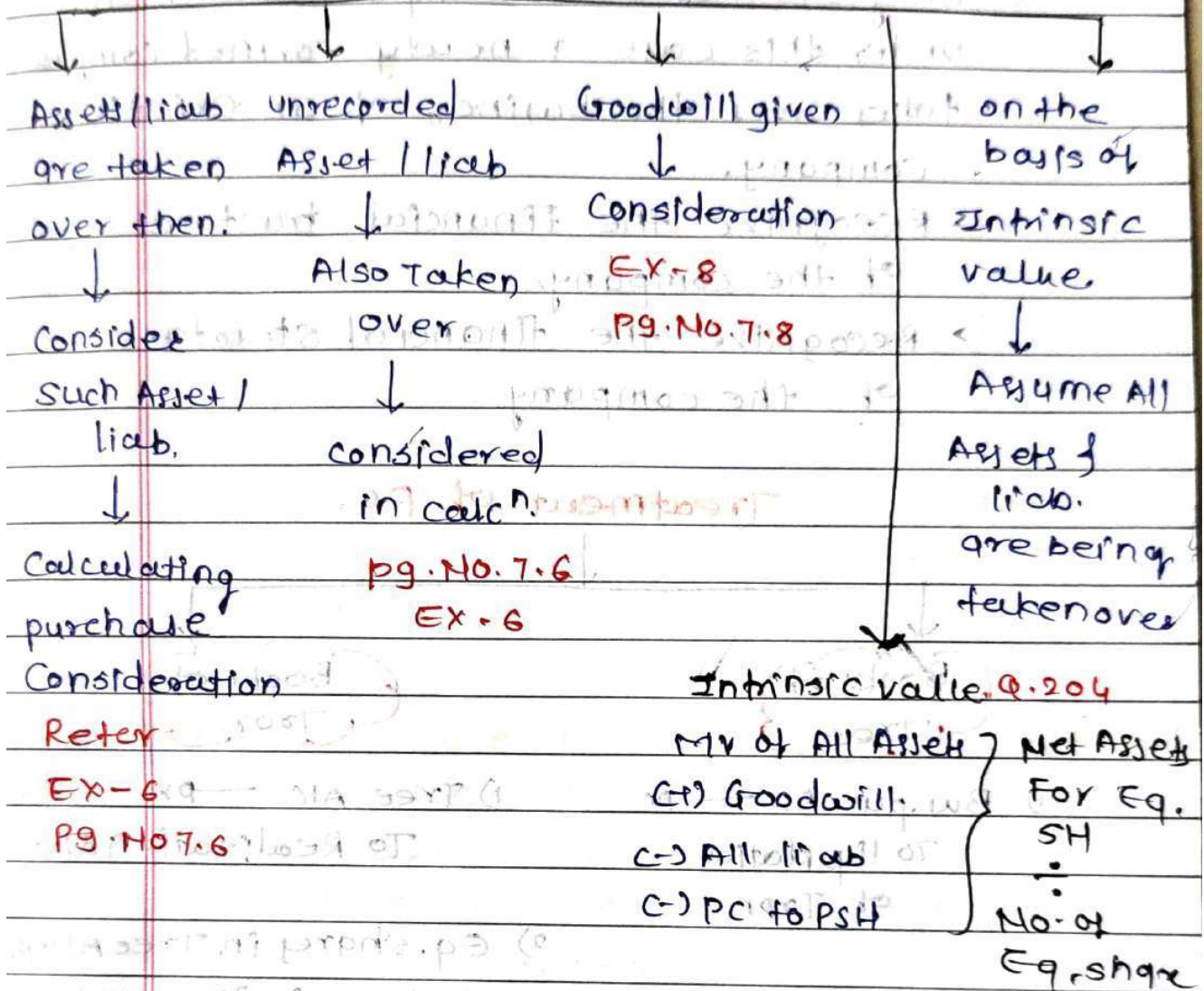
Calculation of purchase consideration

Exchange Ratio method.

\rightarrow No. of shares in que r

Net Asset value Method

$\frac{\text{Fair value of share of Tror}}{\text{Fair value of share of Tree}}$



PC also includes any Additional payment which is probable in Future & can be estimated reasonably (Contingent Consideration)

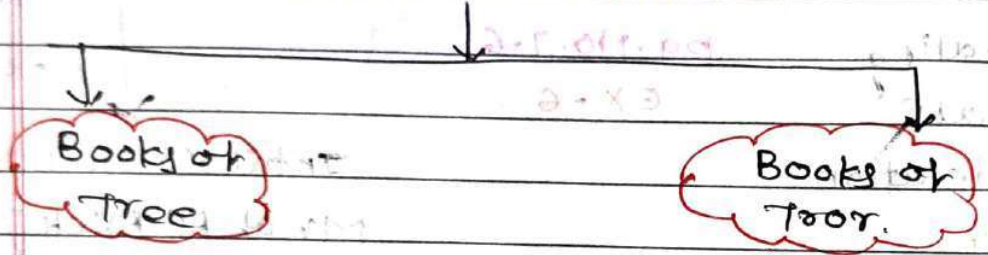
Important for Theory question

External reconstruction :- In this case, a newly Formed Company takes over the business of an existing company. only two companies are involved. **A & B.**

only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.

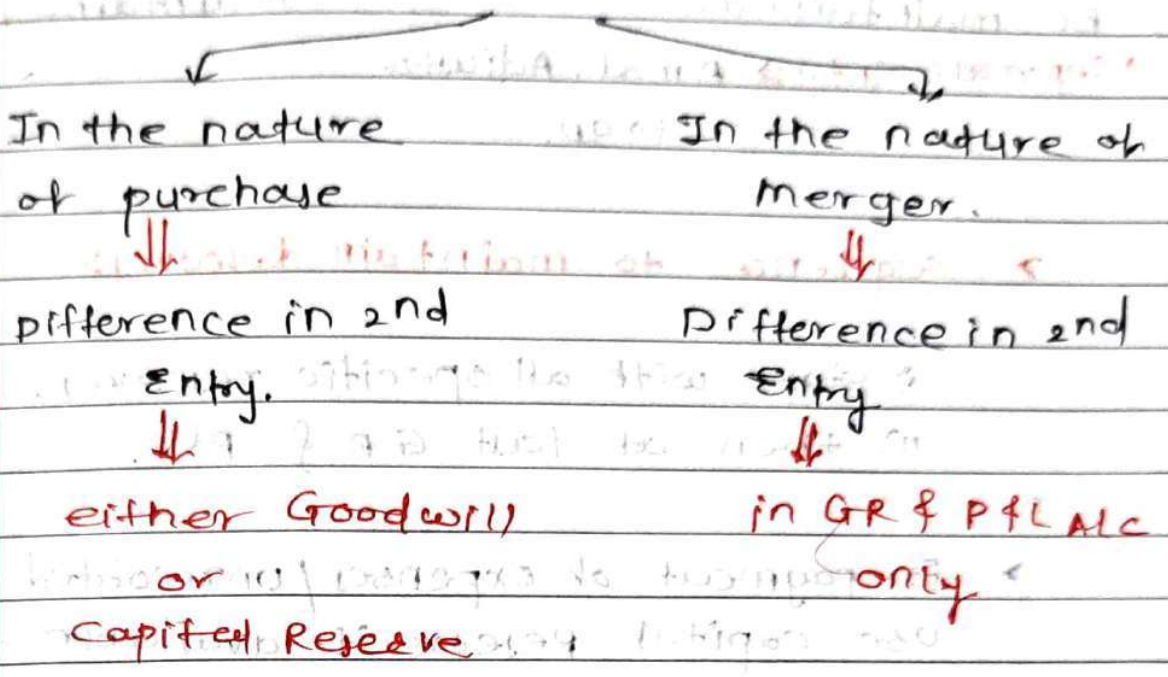
- > Recognize the financial structure of the company,
- > Recognize the financial structure of the company.

Treatment of PC.



- | | |
|---|---|
| <p>1) Bw. pur. A/c — Dr
To Liquidation of Toor</p> <p>2) liq. A/c — Dr
To ESC A/c
To PSC A/c
To SP A/c
To Cash A/c</p> <p>(Discharge of PC)
↓</p> <p>PC > NA = Goodwill
PC < NA = Capital Reserve</p> | <p>1) Tree A/c — Dr
To Realisation A/c</p> <p>2) Eq. shares in Tree A/c
pret. shares in Tree A/c — Dr
Cash A/c — Dr
To Tree A/c
(Receipt of PC)</p> <p>3) PSH A/c — Dr
ESH A/c — Dr
To Eq. sh. in Tree
To pret sh. in Tree
To Cash A/c
(Distribution of PC)</p> |
|---|---|

Summary of Accounting (Tree).



Settlement of debentures: Recording Tree of (Tree Book)

while passing second Entry of Assets & Liab of shall always record the debenture Holders at settlement value in both nature of Amalgamations (purchase [merger])

Purchase	Merger.
1) purchase consideration → MV	PC → MV
2) Not necessarily All Asset/liab	record all Asset/liab
3) recording of All → MV	recording of Asset/liab L & B V
4) Difference in 2nd Entry → CR GR	Difference in 2nd Entry → FR

Only statutory reserves to be maintained.

All Res & sur. to be maintained.

↳ Separate entry → Amal. Adjust. To GR.

> sequence to maintain Reserves:-

i) start with all specific reserves.

ii) then at last GR & P&L.

> For payment of expenses / unrecorded liab:-
use capital reserve if available & remaining bal to goodwill.

> Amal. Adjust. Reserve should be shown as a separate line item under the head Rfs.

> In the nature of purchase when net Asset value Method, value. Intrinsic value ↴

Goodwill (capital Reserve - no any balance.

> while calculating PC by Net Asset method or IV Method, the common debts (debtors / creditors) shall not be deducted in Asset & liab it means The common debts the totally ignored

while calculating Net Asset.

In means All Asset & liab on gross basis to be taken.

➤ RfS :-

Tror.

workmen compensation Reserve. 8000
(Expected liab 5000).

while closing the Books of Troor 5000
liab is closed to realisation A/c &
remaining 3,000 reserve is closed
to ESH A/c.

(Refer. Que. No. 401).

➤ Jisne profit kamaya uske RfS se
hatao - subject to conditions ke
usake RfS se hatao. Suppose
wane RfS nhi huye to Goodwill /
CR se hatao.

Exception :- upstream purchase.

always ↗

Goodwill (Capital Reserve
to stock

RfS A/c — Dr
to stock

Important

a) If Balance sheet date of Tror is different & Take over date is different then before calculating PC, we must prepare the updated BIS of Tror as on take over date.

b) For the purpose of updated BIS:-

i) PPE shall be after Dep.

ii) Cash / Bank shall be After cash profits, and dividends payments.

iii) R & S shall be revised.

iv) Other Assets & liabilities may be taken as same figures if no information is available.

* Fictitious Assets such as share issue exp shall never be take over

* For liquidation Exps, if nothing is mentioned then always assume it is born by Tror co. only

* In The Books of Tror co. before closing of realisation A/c we should always check following points:-

① whether all Assets & liabilities book value is TIF to realisation A/c or not.

② Difference of PSH A/c is TIF to

realisation A/c or not:

(iii) Liquidation exp paid by Tror is posted to realisation A/c or not

(iv) Those Assets & liabilities which are not taken over are realised and paid by Tror co. Through realisation A/c or not

In the nature of purchase :-

Goodwill/

Capital

= Net Asset

Reserve

- Taken (-)

Purchase Consideration

over

If positive = Capital Reserve

If Negative = Goodwill

→ If Balance sheet of Tror shows Goodwill & their no additional information about Goodwill calculation & valuation then for the purpose of PC calculation or Net Asset valuation such Goodwill will be taken as Zero.

→ unrecorded liability should not considered while process of closure of Books of Accounts.

→ At time of Amalgamation Tror & Tror should have their uniform Accounting policies

If their conflicting then Tror shall make appropriate adjustment in the value

Assets & Liab to make uniform accounting policies - (Applicable - purchase/merges)

... assigned ... in ... of ...

... of ...

... of ...

... of ...

... of ...

... of ...

Consolidated of F.S.

i) Date of Acquisition of \Rightarrow Consolidation Controls starts from.

ii) Consolidation means. Recognize the Investments & recognize the ~~net~~ all Assets & all Liabilities.

iii) M12 - proportionate share of Net Assets of subsidiary, (Eq. share cap FR SS)

iv) Goodwill = Comparing Investment with
or
CR prop. share of Net Asset.

Cost of control :-

Investment as on DoA.

\Rightarrow prop. NA. as on DoA.

Goodwill / CR.

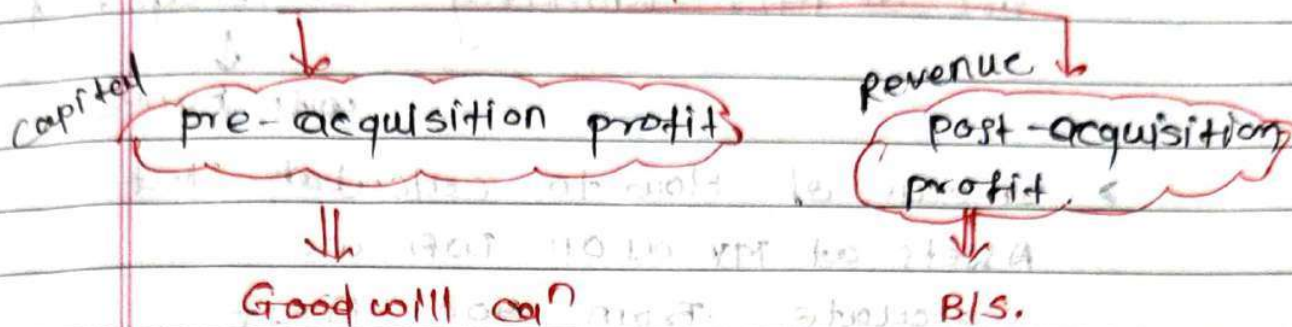
subsc

- Rfs as on DoA \Rightarrow pre Acquisition profit
(Capital profit)

subsd

Rfs after DoA \Rightarrow post - Acquisition
profit
(Revenue profit)

subsidiary co. profit



* Golden Rule:-

① Time Adjustment is only for normal profit not of the actual profit

➤ Assumptions :- Every ^{normal} month's profit is equal.

In case of Normal profit

Cap^{ital} ↓ — Abnormal loss

(+) Eliminate Abnormal loss.

(+) Adjustment for

(-) Restate Ab. loss.

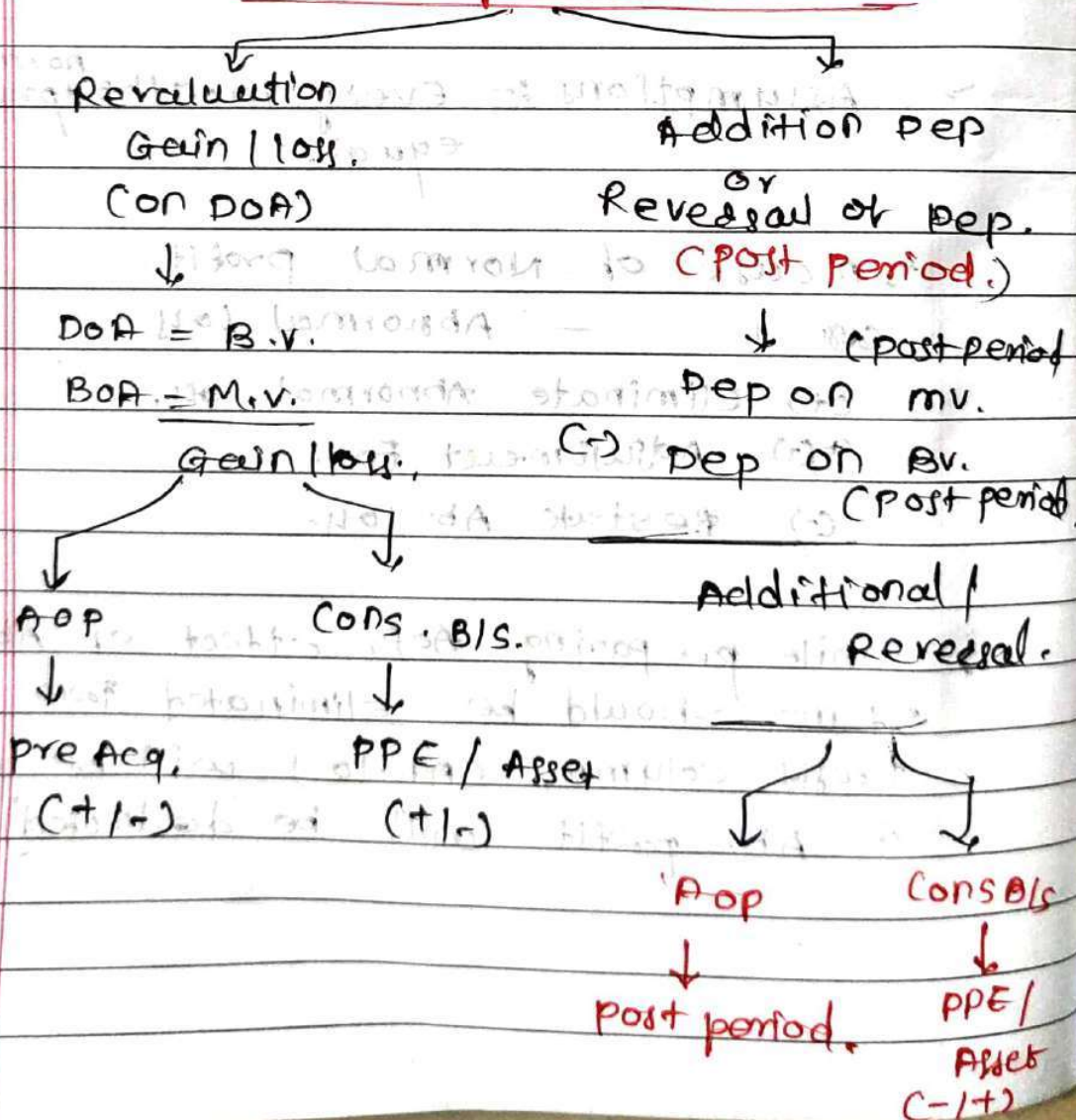
➤ while preparing AOP, effect of Abnormal Items should be eliminated from Revenue Profit column, (Ab. loss will be added & Ab. profit will be deducted).

> Agar kisi quon mein bonus hai toh
 coc or MVI → working → Eq. Capital

↓
 with bonus.

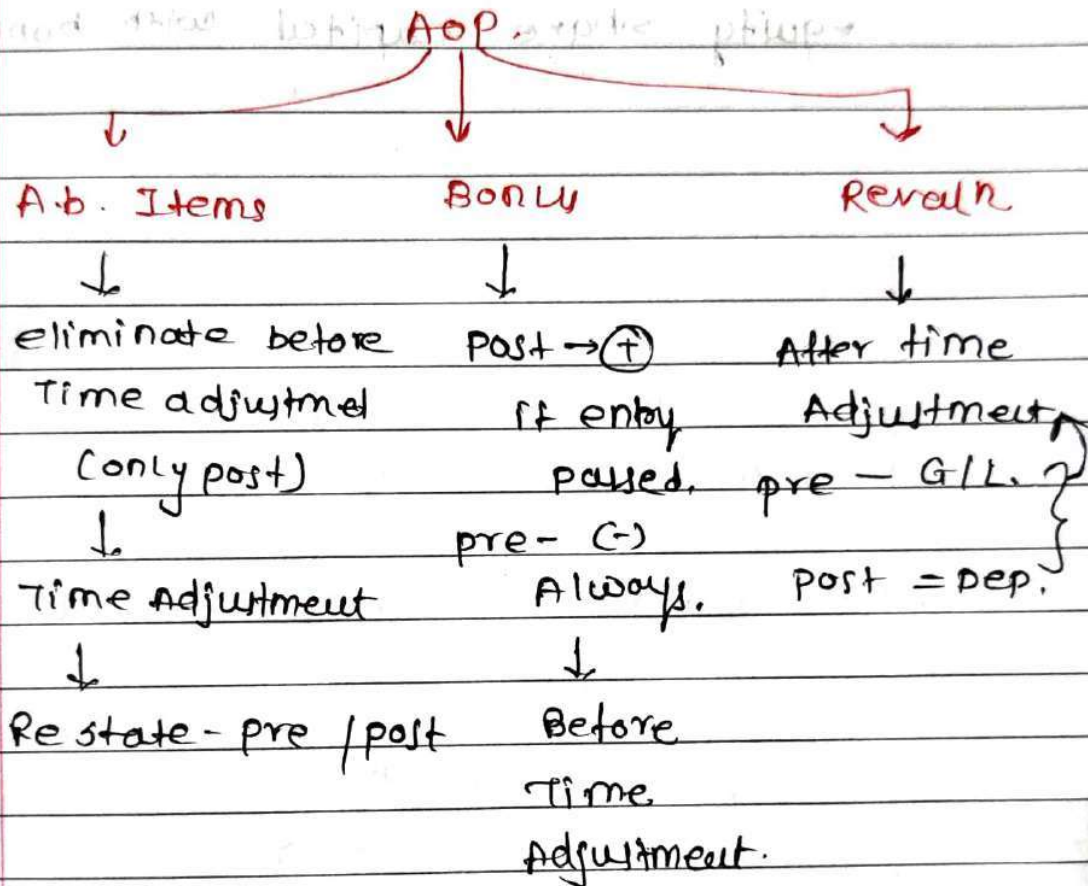
> In case of How to calculate Net
 Assets at MV as on DOA we
 Calculate From AOP. First
 Adjustment (+/-) Rev. loss / Gain
 as on pre and post. In pre
 acquisition. before POA.

Summary of Revaluation



Note

Entire Revaluation Adjustment including Dep. will be made always after time adjustment.

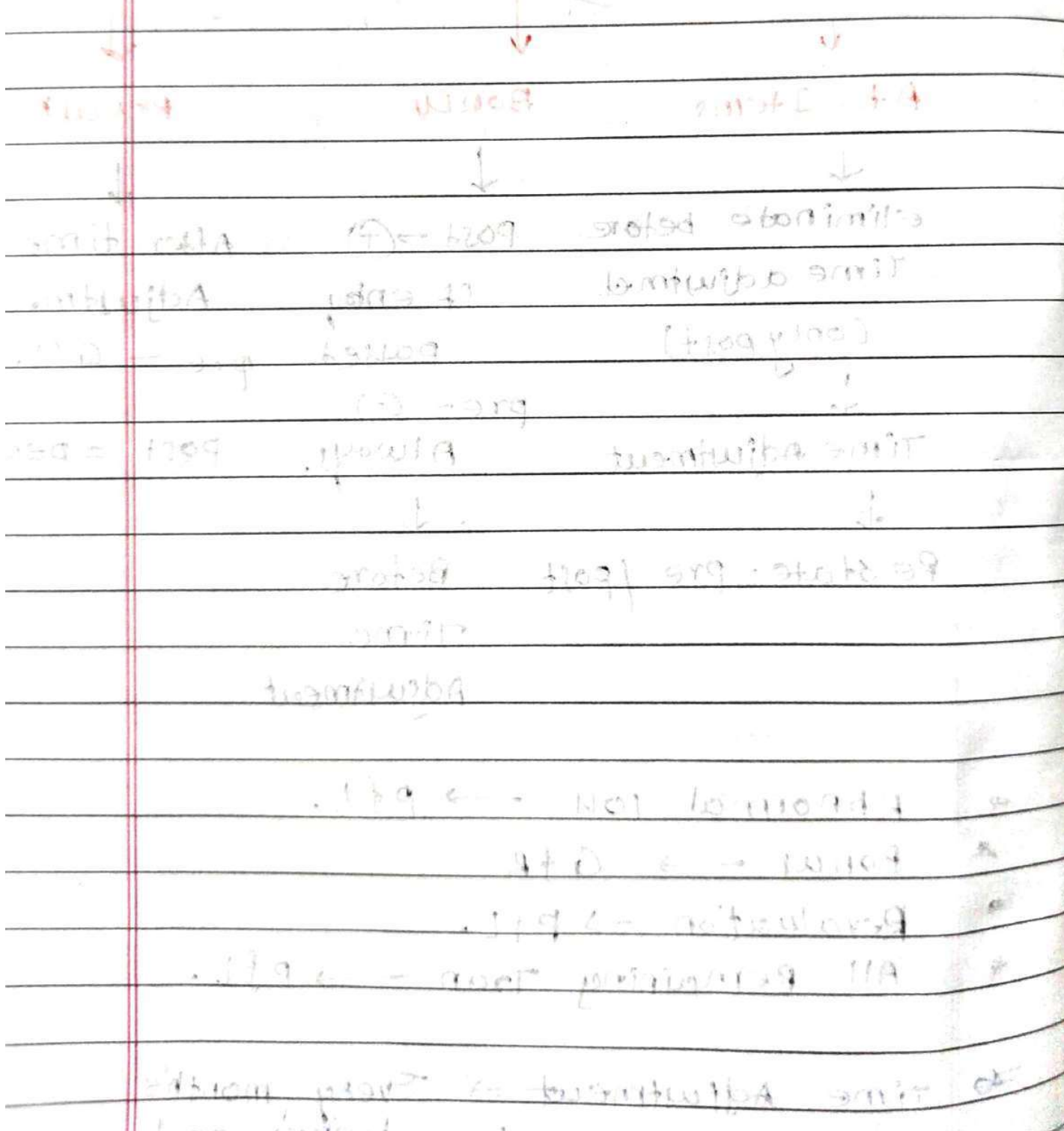


- * Abnormal loss → P/L.
- * Bonus → G/R.
- * Revaluation → P/L.
- * All Remaining Tran → P/L.

⇒ Time Adjustment ⇒ Every month's Normal profit before bonus and dividend is equal.

⇒ Dividend is period ka hota hai us period se leu hota hai.

> If bonus issue is declared during the year & after bonus the dividend is also declared at the year end, then such dividend shall be calculated on equity share capital with bonus.



Summary of consolidation.

1) MII (minority Interest):- proportionate share of Net Asset of subsidiary.

2) Investment (90%)

e-) proportionate Net Asset (90%) $\times \times$

$\underbrace{\hspace{10em}}$
 [cost of control] - working, Goodwill / CR

3) MII \rightarrow propⁿ Eq. Capital

(+) propⁿ Reserves & surplus.

4) subsidiary \rightarrow R & S on \rightarrow pre Acquisition profit
 Case \rightarrow DOP (Capital profit)

\rightarrow R & S after DOP \rightarrow post (Revenue Acquisition profit)
 profit)

5) subsidiary \rightarrow pre \rightarrow Goodwill

profit \rightarrow post \rightarrow B/S Reserves & surplus.

6) Time Adjustment is always at Normal profit and not at Actual profit

7) Basic Assumption for calculation of Aop is assume that every month is equal normal profit.

- 7) Basic Assumption for calculation of AOP is assume that every month is equal normal profit.
- 8) If Bonus entry already passed then one error is done and we have to Rectify it (Add to post f less from pre)
- 9) For Bonus:- Time Adjustment is for Normal profit Before Bonus.
- 10) If Bonus entry not passed till B/S date then not any error and entry passed at Bonus issue and effect Given from pre-acquisition profit
- 11) Take Equity capital for calculation of COC / MVI always with Bonus.
- 12) The COC is calculated on the DOA from Investments is proportion Net Assets. Thus Investments and Net Assets should be at MOV.

13) COC Net Assets should be at M.V.

COC = Eq. share capital xxx,

(+) Reserve & surplus

(pre- Acqⁿ profit) xxx

(-/-) Revalⁿ Gain (Loss) xxv

Net Assets at M.V. xxx

Revaluation profit & loss is treated as pre-acquisition profit / loss.

14) **Revision.**

Abnormal items

Bonus Issue

if eliminate from post Acquisition column.

By subsidiary Co.

(+) Loss

(-) Gain

Reserve & surplus
TO ESCALC

2) Time Adjustment

Normal profit

Bonus shall always from pre Acqⁿ.

3) Restatement Ab. items.

profits.

Pre

post

Bonus

Bonus entry

entry already

Not passed

depending on date of item.

passed

↓
Add post Acqⁿ before Time Adj.

↓
only less from pre Acqⁿ.

- 15) Entire Revaluation Adjustment including Depreciation will be made always after time Adjustment.
- 16) If Dividend is declared on BIS date of C.Y then assume that it is of C.Y only.
- 17) If dividend is declared is betn any time during the year then it is of P.Y.
- 18) If Interim dividend declared during the year then it is of C.Y & taken from beginning to date of Declaration.
- 19) Every month Normal profit before Bonus and Dividend is equal.
- 20) Dividend Belong to which period from that period it will be declared.
- 21) profit always \rightarrow Before Dividend
& Before Bonus
& Before Abnormal items

Summary of Cash Flow Statement *

Date _____
Page _____

① If Insurance claim received towards loss of Machinery by fire is Investing activities.

Note
to this
will
be null

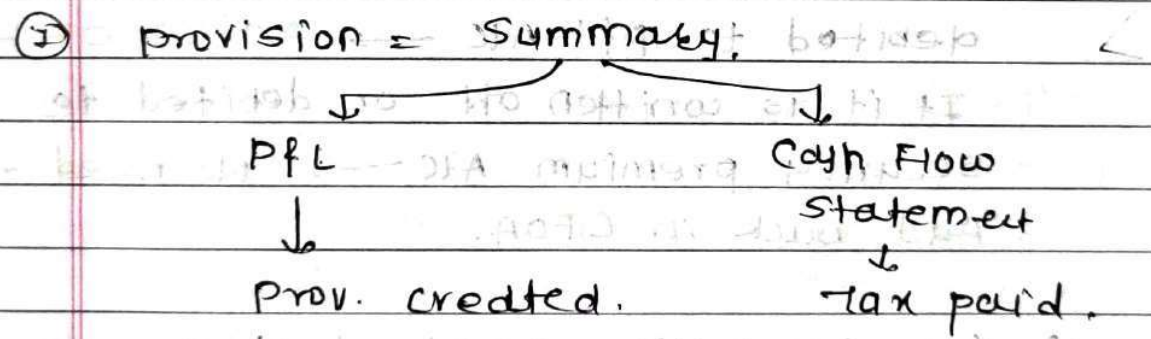
② Govt Grant → Revenue Receipt → op. Activity.

③ Govt Grant → Capital projects → Inv. Activity.

④ Bank overdraft } Short Term = Financial
Cash credit } Borrowing = Activity

⑤ Loan given to supplier & Interest received there on - operating Activity.

⑥ Advance collected from debtor & Interest paid there on - operating Activity.



⑧ premium payable on redemption of preference shares / debentures is an item not a financing activity which must have been paid during redemption but it is return off in P/L A/c.

Hence it should be Added back in operating Activity & should be deducted in fin. Activity.

9) If any asset is sold and gain or loss is transferred to capital reserve directly in that case such gain or loss shall not be considered in cash flow from operating activity, because in CFOA, we start from NPBT. This time NPBT does not have any impact of gain or loss on date.

10) **Premium on Redemption of preference shares or debentures :-** At the time of redemption the premium is paid we have to check whether the premium is written off in P&L A/c or security premium A/c. If it is debited to P&L A/c → **Add in CFOA.** If it is written off or debited to security premium A/c → **No need to Add back in CFOA.**

11) Pre-Acquisition Dividend shall always be deducted from cost of investment as per AS-13.

Receipt of Pre-Acquisition Dividend :-

Cash/Bank A/c — Dr

To Investments A/c

Post - Acquisition period Dividend is always credited to PFL A/c.

(12) Whenever the percentage is specified with debentures we should always consider the interest on debentures.

(13) * Examples of Extra-ordinary items for Cash Flow statement :-

(i) Income from loss suit (compensation)

(ii) Compensation / penalty paid in a law suit.

(iii) VRs Expenditure.

(iv) Insurance claim due to loss of stock.

(v) claim due to loss by fire.

(14) * Premium :- we have to check whether this premium is before tax item or after tax item. If nothing is specified in question we should assume it as "after tax item" In that case its own start point is NPBT or NPAT then no need to add back. Such premium & solve the question accordingly. If final answer is matched with closing cash Bal. own assumption Hold goods otherwise Add Back of premium is required.

15] **Preference Dividend**:- If percentage of dividend is given but question doesn't mention anything about pref. Dividend payment we shall ignore the dividend treatment.

16] Revaluation loss on FA — Always T/F To P/L.

17] Companies having Financial Activities as main activity then:-
Dividend received
Interest paid / Received.
shall be covered under operating Activity.

18] Acquisition / subsidiaries — **Investing Activity**

19] Nothing specified — Cash sales & Cash purchase — Then we would always assume the total sales & purchases — **Credit only**.

20] TDS deducted at source on interest received — **Investing Activity**
[Int. reced].

21] Short Term Int = **Investing Activity**
(Current Investment)

22) **Bad debts :-** While doing working capital adjustment of debtors closing debtor Bal. shall be increased by Bad debts / discount amount during the year & then revised closing shall be compared with opng.

23) Bank Bal. and Foreign Currency is also cash equivalents its value should be Foreign Currency amt closing Exchange rate as on B/s Date.

Internal Reconstruction

Methods of Internal Reconstruction

- ① Sub-division & consolidation of shares
- Reduction in face value with reduction in paid up capital.

Eq. share cap A/c — pr

To Eq. share cap.

(No change in share capital, only change in No. of shares).

- ② Conversion of partly paid to fully paid:

share cap. A/c — pr (partly paid)

To share cap A/c (fully paid).

- ③ Cancellation of share cap.

share cap A/c — pr (Old FV)

To share cap A/c (New FV)

To cap. reduction A/c (B/F).

- ④ Variation of shareholder rights.

- ⑤ No. of Reduction in face value of share but reduction in paid up.

Journal Entry:-

share cap A/c — pr

To capital reduction A/c.

refer Q. 211 & Q. 217

④ surrender of shares:-

Shares surrendered by shareholders for the purpose of reissue in settlement with other pref-shareholders or liab. holders (Remaining shares not re-issued should be cancelled).

Share Capital A/c — Dr

To Share Surrender A/c

⑤ settlement with o/s liab. holders.

Compromise & Arrangement:-

Amount sacrificed by liability holders transfer to capital Reduction A/c

Journal Entry:-

liability A/c — Dr

To Capital Reduction A/c

Q. 205. pg. No. 5.26

- * Preference shareholders would give up 30% of their capital in exchange for allotment of 11% debentures of them that means = 30% waived off and for remaining 70% allotment of debn.

- * The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current reducing the debit Bal. of pfl. For 3 years the remaining bal

of said account would be w/ off at the time of capital reduction.

- * whenever the additional information contain 'converted' which shall be assumed as 'reduced'.

*

BLS (extract)

workman Comp Fund	15,000	Investment For workmen Comp Fund	15,000
----------------------	--------	--	--------

- Actual liab - 1000 only

- Investment realised to extent of Balance.

- Entire Investment sold.

⇒ Here we will assume "entire" means full amount of investment i.e. 14000 (∵ 15000 - 1000)

*

IF Interest Rate of debentures / preference shares are given in BLS but interest payable not given and nothing mentioned in additional information also

Then, does not need to calculate

But, if it is mentioned in Additional interest

Then we will pass the following entry.

Capital Reduction A/c — Dr
To Bank / ESC A/c

* While physical allotment of converted surrender shares to creditors on preference holder
"No Entry will be passed"

* **Utilisation of Capital Reduction A/c**

- (i) To write off Dr. bal of P/L A/c
- (ii) To write off overvalued Assets.
- (iii) To write off fictitious Assets.
- (iv) To write off Intangible Assets if asked in the question.

Journal Entry

Cap Reduction A/c — Dr

To P/L A/c

To Asset A/c (if overvalued)

To Intangible Asset

Bal of Capital Reduction Transfer to Capital Reserve

* The accumulated losses under scheme of Internal reconstruction are written off against Capital Reduction A/c

All cash / Bank Transaction are assumed with Bank op A/c since separate cash & cash equivalent are not given in the question alternatively this can be recorded separately in cash or cash equivalents.

Refer Q. 218. pg. No. 5-69

Comparison

split/consolidation	Reduction
i) Change in No. of shares.	No change in No. of shares.
ii) No change in total share capital Amt.	change in total share capital Amt.
iii) Mandatory change in Face value	Face value will be changed generally.
iv) No Gain / Loss hence no capital reduction A/c	Gain / Loss transfer to capital Reduction.

ex:- 5

Buy Back

* Threshold limit of Buy back

By BOP

upto 10% of
PUSC.

By members

> upto 25% of PUSC
in any F.Y

> upto 25% of PUSC + FR.

debt / equity

In any case,
post BB D/E
Ratio must
not be more
than 2:1.

* Source of Buy back:-

- Fresh issue

or

- out of free reserve of SPA.

* Accounting Treatment

→ When Buy Back is Announced:-

Share Capital A/c — Dr (CFV)

premium on BB A/c — Dr (Prem)

To Eq. share BB A/c (BB price)

* Fresh Issue proceed:-

Bank A/c — Dr

To New security A/c

To Sec. premium A/c.

→ If any Investment / Asset is sold for BB
 Bank A/C — dr } Bal. To
 To Investment A/C } PFL

* Create CRR

General Reserve A/C — dr
 PFL A/C — dr
 Sec. prem A/C — dr
 To CRR

* Payment for BB

Eq. Share BB A/C — dr
 To Bank A/C

* To write off prem on BB

Sec. prem A/C — dr (1st pret)
 Free Reserve A/C — dr (2nd pret)
 To Prem on BB A/C

Q. 216. pg. No. 4.40

Premium collected on issue of debentures/Bonds can not utilized for creating CRR if other free Reserve Balances are sufficient.

In case, other FR Bal. are insufficient then above premium could be used at least priority.

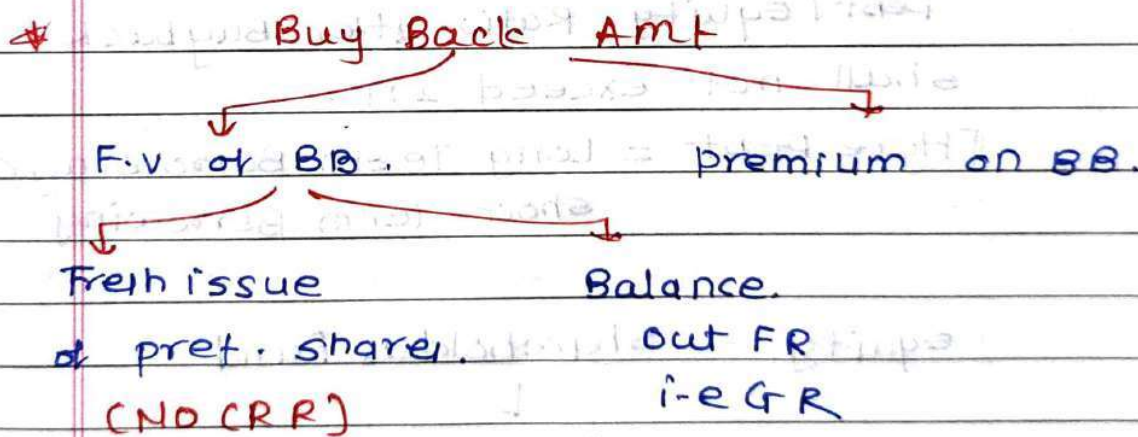
Q. 218. pg. No. 481

whenever question doesn't mention specifically about current liabilities whether they are debt or not then we shall solve test 3 buy both alternatives.

alternate 1 :- Assuming current liab is not part of debt.

alternate 2 :- Assuming current liab is short term borrowing part of debts.

However we shall pay Journal entry with most suitable alternate which is alternate.



* Only Fully paid up shares can be brought back.

* Not defaulted in filling of FS for 3 PFY.

* Maximum permissible Buy Back
Lower of below will be max BB allowed

* Test - 1 Shares outstanding Test

Total BB value =

Total No. of O/S Issued shares \times 25%

* Test 2 Resource Test

Total BB value =

(Total PVSC + Free Reserves \times 20%)

↓

GR

(+) P/L

(+) SP A/c

* Test 3 :- Debt Equity Test

Debt / Equity Ratio after Buyback
shall not exceed 2:1.

[Here Debt = Long Term Borrowing (+)
short Term Borrowing

Equity = Shareholders Fund

↓

ESC

xx

(+) PSC

xx

(+) GR

xx

(+) P/L

xx

(+) SP

xx

Eq. Net worth

CRP, CR, Revaluation Reserve or any other reserve shall be included under above equity for the purpose of BB.

Eq. Before - Buy Back Effect = Minimum eq. after BB

* Creation & Utilization of CRP.

When to CRP?

CRP is created in two cases:-

- BB of eq. share
- Redemption of pref share.

Utilize CRP.

Company Announce Bonus eq. share

CRP A/c - Dr
TO ESC A/c

How much CRP is required to be created?

Equal to Face value of BB or redemption

↓
out of Free Reserve or SPA.