CA INTER

Advanced Accounts

Summary of Important Topics

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Face to Face Batch (Jan'25)

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AS-2 - Inventories.

Meaning of Inventory.
Assets.
Held For sale. in OCB
HFC in product or rendering
In the process of prodⁿ

Not Applicable
- F.I.
- Construction
- Biology, Ag. prod. natural gas.

Measurement
NRV
cost

NRV → Most Reliable evidence
sale event after B/S date.

F.G
Est. S.P
(-) cost to sell

W.I.P
NRV (FG)
(-) Further cost to complete

R.M
(i) FG sold at cost RM = cost
(ii) FG sold at below cost RM = R.D cost or org cost

Cost of Inventory.

PC
Invoice price IP + Tax (non refund)
Freight Inward
(-) Trade Disc
(-) Rebate (Incentative)

CC
labour
Prodⁿ OH.

OC
of bringing the Inventory to saleable condⁿ & location.

↓ Based on normal capacity. → Based on Actual O/H

↓

production level. (upto normal or below).

prodn level (abnormally Hig) → Based on Actual capacity (Revised Rest).

* How to Find the NRV :-

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

* Cash discount ko purchase cost se less nhi karenge.

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

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

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

* Abnormal loss ⟶ not included in cost of Inventory.

* Refer. Q 10. Pg No – 3.14.

FG

↓ PC ↓ CC ↓ OC.

PC ↓ R.M.

R.M. → Consumed (1st priority) ↓ If opng R.M & closg R.M is given.

R.M. → purchased. (IInd priority). ↓ If opng & closg RM is not given in Quen.

Methods of Measuring The Cost.

↓ Inventory Cost (Retail price method)
SP – Normal GP%

↓ Standard Cost Method ↓ (Manufacting Com.).

↓ Specific Identification ↓ For Customised goods.

↓ FIFO ↓

↓ W. Avg.

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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. Q.9 / Q.10

\# Trader → R.I.T. → P.C / O.C.

* Manufacturer.

↳ R.M → P.C only.

↳ F.G → PC + CC + OC → Factory O/H

PC: [opng + closg - purchase]. ~~purchased~~

CC: consumed

↓ labour cost

&

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

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

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= Biological Asset = living Animals & plants.

- Animals.
  - Animals for Administrative purpose
  - all other not PPE
- Plants.
  - Bearer → PPE.
  - Non Bearer → Not a PPE.

* Recognition criteria :-

PPE should be recorded Asset.

- Expected. FEB
- &
- cost can be measure reliably.

* Initial Recog:- at cost

- PC
  - Invoice price
  - (+) Ref. Taxes & Duties.
  - (+) Freights.
- DAC
  - → Direct labour.
  - → Installation
  - → professional
  - → Transport
  - → pre production Testing.
- DC → at P.V.

* Cost in case of Govt:-

- Free. → Cost - Nominal value
- Cash Grant → Cash paid (-) GG received Cost

AS -10 Property plant & Equipment.

PPE.

Tangible item.

- Held For use in:
  - production.
  - supply
  - Rental
  - Administration.
- Expected to be used for more than 12 m.

Recognition of PPE.

- a) FEB probable to Flow.
- b) cost - Reliably measured.

At Cost

- Purchase cost (+) Non Refundable Taxes
- Directly attributable cost.
  - → Direc labour.
  - → Instll. Fees
  - → prof. Fees.
  - → Transport
  - → pre prod^n. Testing.
- Decommission or Restoration Cost at PV.

* 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
(-) accumulated Dep.	(-) subsequent Dep
(-) accumulated Impairement	(-) subsequent Impairement.

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cost of PPE

payment Beyond normal credit period.
↓
cost = Cash price Equivalent (P.V of outflow) (initial M.V)

consolidated price
Multiple PPE
↓
cost of each PPE in ratio of F.V.

Exchange value.
↓
Fair value (1st)
received (IInd)
(or)
CA if no fair value or Lacks. (commercial substance

Subsequent measurement (PPE at B/S date).

Revaluation Model.

Gross.
- No elimination of provision for Dep.

Net
Eliminate prov for dep & then apply Revaluation.

- % of change:-

$\frac{\text{Rev Gain / loss}}{\text{WDV}} \times 100$.

- org cost → % change
- prov. for Dep → % change

(i) Asset A/c — Dr
To prov
To RR
upward

(ii) Prov A/c — Dr
P/L A/c — Dr
To Asset
downward

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Treatment of Rev^n Gain / Loss.

Gain

- 1st Time
  - Reval^n Reserve
- Subsequent Gain earlier loss.
  - Gain upto previous.
  - loss → P&L
  - Bal Gain = RR

Loss

- 1st Reva^n.
  - P&L
- Subsequent loss earlier Gain.
  - loss upto RR
  - Bal. set off with RR
  - (+)
  - Excess loss → P&L

Treatment of Revaluation Reserve

Mandatory Treatment

On sale of PPE
T/F RR to GR.
(General Reserve)

Rev. Res. A/c — Dr
To GR

Never T/F RR To P&L.

Optional Treatment

(at the discretion of entity)

T/F RR to GR annually equal to excess Dep.
(even though PPE is not sold).

Depreciation:

- change in Dep method → change in Accounting estimate → prospective effect
- No Method in AS-10
- Commencement Asset is available for use
- PPE Abundant → Dep. Continue
- Dep is Mandatory
- why dep is mandatory.
  - Normal usage (wear & tear)
  - Capitalised expenditure on PPE
  - ↓
  - Deffered & Amortisation (Maching principle)
- Cessation
  - (i) CA = RV.
  - (ii) Dispose
  - (iii) Retired from active use & HFS.
- Dep is based of FEB (Future EO. Benefit)
- Dep on Component wise if
  - (a) Comm diff life &
  - (b) Comm. have signt Cost

Retired from Active use & 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 → P/L always.

* Gain/loss on de-recog. never T/F to Rev. Reserve).

* Changes in Decommissioning / Dismentling liab.

⇓

compare carrying Amt of provision with Revised prov.

= Gain / loss.

(Decrease or Increase in liability)

Cost Model.

↓

directly adjusted in PPE (+/-)

↓

Dep. will be Revised.

Revaluation Gain.

(i) Gain

↓

T/F to P/L to the extent of earlier loss Balance figure in Revenue Reserve

(ii) Loss :-

w/off with RR if only & remaining loss in P/L

*

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Subsequent Expenditure on PPE.

Revenue Expenditure
- Reguar Repairs & maintance
- Day to Day seevicing.

Capital Expenditure
- (i) Replacement of any component of PPE
- (ii) Major Inspection & overhaul.
  - old carrying if any at the time replacement
  - New Expend. → Capitalised.

* Machine → Tools & equipment & spare parts to be replaced Freqently.
  - 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 & loss.

(Refer Q.No. 02. pg.No. 4.21)

Refer. Q.16

Future Dismantling + Decomm 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 of 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 ✗
Asset is already put to use

EX Pg. No - 74. (NB)

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.

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=) old last of part = 400,000

$\times$ 0.747

= 29,88,000.

CA = $\frac{2988,000}{12}$ $\times$ 7 = 1743000.

Revised = CA = 75,00,000.

(-) De-Recog = (1743,000)

(+) New = £ 4000,0000

9,7,57,000

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.

(i) Investor subscribes the Right Issue.
→ Rule 1 apply
(ii) 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 ——— Dr
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 ——— Dr
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.

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* Ex:- Building → Rent → As.

In OCOB.	OCOB ×
⇓	⇓
Investment	PPE
AS13.	AS10.

* Investment Cost = ① Brokerage, duties & Fees.
  Includes :-
  ⑪ Non cash consideration.
  ① Issuing share.
  ⑪ Any other Asset

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

* Investment Treatment on Disposal :-
Sale or disposal of Investment diff betn BV and proceeds from sales Net of any Exp T/F to P&L.

Reclassification of Investments :-

Current → Long Term.
Cost & Fair value ↓

Long Term → Current
Cost & Carrying Amt ↓

* Rule 4 :- Annual Dividend = Total no. of shares held on the date of receipt

C.Y Annual Dividend.
⇓
All share.
⇓
Excluding ⇒ Bonus & Right

If nothing is specified in que^n about Dividend
→ Assume Annual Dividend.

* **Rule 5:-** Annual Divd.

on opng Bal ⇓ post	as C.Y purchase ⇓ pre.

Interim Divd ⇒ always post.

Bank A/C — Dr
To P&L A/C

Bank A/C — Dr
To Investment.

* **Rule :- 6 :** whenever the pre-Acquisition dividend is received and credited to Investment A/C & 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 :-** It in any question cum Interest price & Ex Interest price is given → always record Investment Ex Interest price.

* **Rule:- 9 :-**

$$\text{Gain/loss} = \left[\begin{bmatrix}\text{Ex-Interest}\\ \text{sale value}\end{bmatrix} - [\text{Brokerage}]\right] - \left[\begin{pmatrix}\text{Ex-Interest}\\ \text{purchase}\\ \text{value}\end{pmatrix} + (\text{Brokerage})\right]$$

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

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

Brokerage paid → sale → less from sale proceeds.

Rule - 12:- Brokerage → on Actual cost.

Rule - 13 - Interest & Dividend → on Nominal value ~~cost price~~

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

Dividend Income → Annual Basis. only unless Interim Dividend

* Questions Summary

Q. 302. Pg. No - 5.24.

- Jab bhi Interest due date or B/S date alag alag hogi tab opng & closg mai bhi Interest Accrued Hoga.
- 3m. Interest Accured ki entry ho gayi Hogi

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

  $= 2700$
- purchase

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

  Investment in purchase Bond $= 200 \times 98 = 19600$

  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 Deb^n.

* On the date of conversion the propotinate cost of Deb^n (239064 x 25%) = 59766 will become the cost of Innvestment.

Invest in share A/c — Dr
    To Investment in Deb^n A/c

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

* Building ⟶ Rent ⟶ AS.
    ↳ OCOB ⟶ ✓ —— Then Investment AS-13
    ↳ OCOB ⟶ ✗ —— Then PPE — AS-10.

* AS - 13 - all Investment
    ↳ Except Investment specially made for Employee Benefits.

As-16 Borrowing cost

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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) Ancilliary cost such as stamp Duty, Processing Fees - Amortised part.
iv) Discount on Issue & premium on Redemption of Deb^n - Amortised part.
v) Ex. Diff. to the extent of saving in Interest on F.C. loan. → Ex. loss or saving in Interest

* Reedemable 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.

Qualifying Asset.

Any Asset.

- That asset takes substantial time.
- To get ready.
- For intended sale or use.

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

Treatment of BC.

BC cost is :-

- Related to A/C/P of Qualifying Asset → Capitalised & added to the cost of Qualifying Asset
- Not related to any Qualifying Asset → Transfer to P&L.

Capitalisation of BC.

Commencement of Capitalisation

1) Date of start of Exp on A/C/P of Q.A.
II) Date of start of charging of B.C.
III) Date when necessary Activities started.

Suspension of Capitalisation

(I) Suspension takes place for extended period due to intruption of necessary activities for avoidable Reason.
(II) Un-avoidable Reason.

Cessation of capitalisation.

When QA is substantially completed.
(or)
QA is constructed in parts, & any such part is substantially completed → cease capitalisation of Bc for such part

* Jo part separately use or sale ho sakta hai
Toh us part ke upar capitalisation band kardo.

* Types of B.C :-

① Specific BC :- > capitalise BC to a specific
Q.A only.
> one to one relation of Q.A & Borrowing.

⑪ General B.C :- > one to many (or) many to many.
> To capitalise B.C. calculate :-
Weighted Avg capitalisation Rate.

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

$= \boxed{\text{Expenditure on Q.A}} \times W.A.C.R \times \text{Months weight.}$

Exp. Incurred till last Year.	xxx
(+) cash payment	xxx
(+) Non-cash Exp.	xxx
(-) Progress payments Received	(xxx)
(-) Grant / subsidy	(xxx)
	xxx

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* Questions summary *

Q.206. pg.No- 6.17.

Agar BC Amt kam hai & 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

Take Ltd. (Borrower) (Holding).
↓
[Invested in shares]
(Non- Qualifying Asset)
↓
Interest 4J
P&L.

→ Give Ltd. (subsidy)
ESC. Issue.
↓
Invested in project
Q.A.
↓
Interest = 0

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

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AS26 - Intangible Assets.

Conditions of Intangible Asset

(i) Control
(ii) FFEO (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 are treated as Intangible Asset or not?

→ Yes, if

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	Development Activity
↓	↓
Expense in P&L Immediately in the same Year.	cost can be recorded if following condⁿ satisfied ① Technical Feasibility ② Intention to complete ③ Ability to sell or use ④ Generation of FEB. ⑤ Adequate Resource ⑥ Cost can be measured Reliably.

Refer. Q. 2. & 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.

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* Subsequent Exp on Intangible Asset.

↓

It is Increase the efficiency of Earning Future Eco. Benefit

Refer Q.5

↓

It should be capitalised

↓

otherwise T/F to P&L.

* Amortisation of Intangible Asset

Period.
→ Generally upto 10 years.
→ more than 10 years Prove sufficient evidence.

Method
1st priority
- Expected pattern
2nd
SLM.

Residual value.
↓
Is zero unless it is guaranteed by Third party.

* Any change in Amortisation period Method or Residual value is Treated as change in A/c Estimate & prospective Effect shall be given.

* Impairement of Intangible Asset

↳ Reduction in CA of Asset (Carrying Amt) Beyond Dep / Amortisation.

→ If Recoverable Amt is lower than Carrying Amt = Impairment loss.

Recoverable Amt :- Higher of :-

a) NSP (Net selling price)
b) VIU. (value in use)

Impairement loss = charged to P&L A/c.

* skill / Talent (Employee player)

⇓

Intangible Asset?

Yes

- Control
  power to obtain
  FEB Restrict others to use
- Indentifiable
  - contract with Employee & player
  - Enforceable by law — protected through legal rights.

No.

If condition not fullfilled

* 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 nhi hai not as per-26.

Franchise is arises through contractual agreement hence Identifiability crieteria is

is Fulfilled along with other condn.. It is an Intangible Asset.

Franchise = Intangible Asset → cost
↓
Franchise Fees.
↓
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 some Factors other than just a passage of Time.
  → always T/F to P&L.
* MLP (Minimum lease payment):-

Lessee	Lessor
(MLP = outflow)	(MLP = Inflow)
⇓	⇓
DP	DP
(+) ALP	(+) ALP
(+) GRV	(+) GRV → > Lessee > Third party
MLP	

* MLP does not include UGRV & Contingent Rent.
* GIL = MLP + UGRV. (lessor)
* NIL = present value of GIL.
* Types of leases.

Operating lease (Short-Term lease).

Lessee:
1. lease payment Exp. in ~~P&L~~ SPL.
2. On SLM Basis Until & unless any other basis is more systematic.

Lessor:
1. show as Fixed Asset.
2. Income - SLM basis.
3. IDC - Deferred & Amortised if material
4. charge Dep

Finance Lease. (Long Term lease)

Lessee: Asset recorded at.
a) Fair value of Asset
(or)
b) present value of Minimum lease payment

Lessor: Deemed seller.

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- Finance lease as good as loan.
- Finance lease – Books of lessee.

Asset on lease A/c — Dr (lower of F.V or P.V. of MLP)

Beg

To Bank (DP)

To lease liab. (Bal fig)

Finance charges A/c — Dr

Year end

To lease liability.

} Int (Amt)

Lease liab A/c — Dr

To Bank.

} Installment payment.

Depreciation A/c — Dr

To Asset on lease A/c.

Profit & loss A/c — Dr

To Depreciation A/c

To Finance charges A/c.

- IDC → capitalise by lessee.

↓

Added in Finance lessee may capitalise karega Asset ki cost mai

(Class Ex:-2).

- Unearned Finance Income = GIL – NIL.

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* Finance lease - Books of lessor.

Types of lessor.

Dealer or Manufacturer lessor. | Non-Dealer lessor.

Asset = Inventory.

lease Receivable A/C - Dr (NIL)
COGS A/C - Dr (B/F)
To Sales A/C
To Inventory A/C (BV/cost)

FV of Asset
PV of MLP.

Beg

lease Recivable A/C - Dr (NIL)
P.V (MLP + UGRV)
Bank A/C - Dr (DP)
To Asset A/C (BV).
(Difference in above entry is P&L).

Year End

lease Receivable A/C - Dr
To Fin. Income A/C

Bank A/C - Dr
To lease Receivable A/C

Finance Income A/C - Dr
To P&L A/C

* Inception date earlier of :-
a) Date of Agreement
or
b) Date of Commitment by parties for priciple prov.

* Commencement 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 ⇒

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

is equal to

Fair value of Asset + IDC (lessor)
(Initial Direct cost).

Refer class Ex:-3

* which discount rate to be taken while solve que?

lessor
↓
always IRI(%)

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

$\boxed{\text{Ex:2. Pg. No. 7.5}}$

(i) Transfer of ownership = No
(ii) purchase option at reduced price = No
(iii) Major part of life cover lease term = No
(iv) specialised Asset
(v) PV of MLP = Fair value.

Sale & lease Back.

Treatment of G/s for Seller ~~lessee~~.

Finance lease Back

Gain/Loss shall be Defferred & Amortised over the lease Term. In proportion of Dep.

Refer. EX 9 - AS - Trump

Operating lease Back.

Refer. pg. No 7.14 For concept, 7.15 For exp.

As-18 - Related party Disclosure

Related party.

- Enterprises that directly control or be controlled through Intermediaries or under common control.
  - Holding → Having one or more subsidiaries.
  - Subsidiary → Having Co. Holds & controls Composition of BOD.
  - Fellow Subsidiary → Two co. having same Holding Co.
- Joint venture → Associate
  - Investing party having sig. Inf on other party
  - Not being subsidiary or JV.
- Individuals having control or sig. Influence → Relative.
- Enterprises controlled by directors or Majority share holders
  - Enterprises with common KMP of Reporting Entity.
- Key Manag. Person.
  - Those having authority & Respo. to plan, Direct & control Activities
  - Relatives of KMP.

* 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.

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- Normal dealings with Financer / 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 dealings with financer / 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 disclosures.
  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 - Impairement of Assets.

(i) Impairement Hamesha after Depreciation.
(ii) Annual Impairement 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 using 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) Impairement loss shall be written off First against RR & remaining Transfer to P/L

* Impairement Testing = carrying Amount ko recoverable Amt se compare karna.

* How to estimate value in use?

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

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

cash Flows should always taken before Tax.

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* 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 NSP then take value in use only and vice versa.

* whenever the Impairement 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 = 5 L
RA = (2) L
IL = 5-(-2)
= 7.

Imp loss A/c Dr 7
To Asset A/c 5
To prov. of out Flow 2.

* Q.40], 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 titles.

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Impairement of CGU:-

Impairement loss = CA of CGU
(-) RA of CGU.

ImlLoss of CGU shall be distributed as under:-

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

2nd Remaning Imp. loss shall be allocated to all other Assets in the ratio of their respective carrying Amt.

Class Ex2:- (Impairement of Goodwill & CGU).

Goodwill CGU never be Impair Individually it is will always Tested For Impairement 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

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allocated in the ratio of carrying amt of each CGU.

* Goodwill & corporate Asset.

allocable ↓ apply Bottom up Impairement 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 Impairement Testing to include un-allocable Goodwill & Corp Asset

Note:- Top Down Impairment ~~Tasting~~ Testing.

CA of entire entity.
Call CGU's (+) all Goodwill (+) all Corp Asset)
(-) RA of ~~Entity~~ entity.

Impairement loss.
(-) Goodwill un-allocable

Bal. Imp. loss.
(-) unallocable Corp. Assets.

* Impairment loss of Goodwill can never be reversed.

* Refer Important note ⇒ from Book pg.No. 9.10. & Refer EX:- 7 also.

MCQ / theory quen.

Indicators of Impairment Testing.

External	Internal
(i) Significant decline in the MV of Asset	(i) Asset is damaged or obsolenscence.
(ii) Adverse effect on Companies operation due to:- Technological changes, legal changes, Market & Eco. changes.	(ii) Reconstruction or re-organisation effect because of lower efficiency losses in the company etc.
(iii) Market Interest Rates are significantly Increased.	(iii) Asset performance is getting worst than expected..

If Market Rate ↑
↳ Disc. Rate ↑
↳ PV of cash Flows ↓
↳ Recoverable Amt ↓

(iv) 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 &
· CA.

Refer Ex: g. (Pg. No. g.15)

AS - 20 - EPS

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(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 $12/12$ time weight. Also PY EPS to be restated by including bonus numbers in the P.Y.
(Refer. Book EX NO :- 7. pg. NO. 20.6).

Preference Dividend.
* If not specified in quen 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 PY due to following reasons:-
(I) No. additional Funds are raised due to Bonus issue
(II) Bonus issue is always distributed out of existing Bal. of R&S. Hence we can conclude that CY Bonus shares were already o/s since Beg in the form of R&S.

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* How to solve the question of Basic EPS with 5 steps:

- step-1 Formula
- step-2 Numerator calculation.
- step-3 Denominator calculation
- step-4 Current Year Basic EPS
- step-5 P.Y restated EPS

* 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 @ MP.

(iii) potential eq. shares = Total ESOP − shares to be issued to public

Diluted EPS steps.

- setep 1 Identify Potential equity.
- step-2 saving
- step-3 weighted Avg potential
- step-4 Calculation of DEPS.

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* Agar continuing operation mai losses hai ton DEPS calculate karate time ~~op~~ potential equity ko Ignore karna hai otherwise Anti-dilute earning per share nikal jata hai. Anti-diluation nhi nikalna chahte isliye potential equity ko Ignore karo.

Loss ⇒ Dis-continued mai hai / contine mai profit hai

Ton potential equity lenge

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

* Diluted EPS *

(i) DEPS is calculated when there are o/s 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 → saving in Interest (after tax)
saving in pref. Divd.

Denominator = Increase in no. of shares.

(iv) such change in numerator & Denominator will result in Decrease of EPS or Increase of EPS.

(v) If Decrease = Diluted EPS (DEPS)
If Increase = Anti DEPS.

(vi) only DEPS shall be disclosed
If there is Anti - DEPS then for Disclosure purpose ⟶ DEPS = BEPS.

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

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

weighted Avg (o/s) (ordinary shares + potential eq. shares)

Refer Ex:- 19 Pg. No 20.12

* EPS in case of Dis-continued operation *
If there is a loss in continuing operation then wile calculating DEPS, do not consider potential eq. shares.
consider ordinary eq. shares only.

AS-22 - Accounting for Taxes on Income

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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)

CTA — TDS Adv. Tax.

CTL — Income Tax payable for current F.Y.

P&L A/C — Dr.
To CTL / Prov. for Tax.

v) DTA / DTL — Tax on Timing Diff.

DTA — Tax saving in Future.
DTA A/C — Dr
To P&L A/C

DTL — Tax liab. of Future
P&L A/C — Dr
To DTL

Para 15 — Reasonable.
Items other than B/F losses & unabsorbed Dep.

Para 17 — Virtual.
Supported by convincing evidence.
For :-

a) Unabsorbed Dep &
b) C/F Business losses.

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* Tax Exp :- CT Exp
(-) DTA
(+) DTL
(+) DTA Reversal
(-) DTL Reversal.

* Current Tax +/- Deffered Tax = Tax Exp
* Taxable Income +/- Time Diff = A/c Income

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

* MAT.

No Impact on DT Calculation.
↓
For DT Calculation Ignore -
- Book profit of MAT.
&
- MAT Rate

Treatment of MAT.
↓
If MAT is more than Regular Tax.
↓
Excess of MAT over Regular Tax
↓
Recognise Add. Tax Expense in P&L

Permanent Diff.	Timing Diff.
Arises in one period but no Reversal in Future.	Arises in one period & to be Reversal in Future.

Examples :-

- Donations,
- Penalty,
- Personal Exps.

No DTA / DTL.

Ex :-

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

AS-4

* Financial statement are always approved by BOD & not by shareholders. Approved Financial statement are submitted to shareholders in AGM.

* Any Event occured after B/S Date till the Date of approval is required to be either accounted or disclosed in the PY Financial statement.

* Adjusting Event – Adjustment to P.Y Assets & liabilities is required through Journal Entry.

* Non-Adjusting Event – PY Assets / liab not to be Adjusted through any Entry. only proper disclosure in P.Y F/S is required.

* Examples

Adjusting Event

I) Insolvency of Debtors
II) litigation settlement after the Reporting Date for Event occurred before Reporting Date.
III). Detection of Fraud or Error after Reporting Period.

Non-Adjusting Event

I) Reduction in the value of Investment
2) Fire occurred in the premise.

Dividend declared after B/S Date.

- Treat contingent liab on B/S date & disclose on B/S Date.

Going concern affected due to occurence of Non-Adjusting event

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

* Measurement Summary of different items as per differend AS:- *

1) **AS 2:-** Inventory is measured at

Cost (or) NRV } whichever is lower.

2) **AS 2 :-** Cost can be measured at:-

(PC + CC + OC)

FIFO | W. Avg | Standard cost | Retail price. | Specific Identifica

3) **AS 10:-**

a) Cost → PC + DAC + DC (at PV)

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

c) Asset retired from active use & Held for sale. → should be measured at lower of :
(i) CA or
(ii) NRV
{ diff of P/L }

also No Further Depreciation.

d) acquired in exchange → Fair value or Book value

4) **AS 13 :**

a) Current Investments:- Measured at lower of a) cost or b) MV.

b) Long Term :- Measure at Cost unless there is other than Temporary redⁿ

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c) Acquired at Non cash consideration ~~Cost~~ :-

Cost =

Issuing shares

↓

Cost = F V of shares (Fair value) issued.

Any other Asset

↓

Cost = F.V of Asset (Fair value) given or Investment Acquired whichever is clearly evident

d) Reclassification.

Current to LT.

⇓

lower of :-

a) Cost

&

b) F.V.

LT. to current

⇓

lower of :-

a) Cost

&

b) Carrying. Amt

5) AS - 26 :-

a) Cost of Intangible Asset :-

PC including non- Ref. Duties & Taxes.

(+) DAC of bringing the I.A to its Usable Condn.

DAC = Employee Benefit Exp.

(+) Testing Exp.

(+) professional fees.

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

Org. Cost	xxx
(-) Accumulated Amortisation	(xxx)
(-) Impairment cost	(xx)
Carrying Amt	

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6) AS-19 - leases.

lessee (Finance lease)
Asset at lower of :-
a) Fair value
or
b) PV of MLP.

lessor (F/L)
lease receivable at
NIL.
(NIL = PV of GIL)

7) AS - 28 - Impairement :-
Impairement loss = CA - RA
CA :- org cost (Fair value)
(-) Accumulated Dep till Date.
RA :- Higher of NSP & VIU.
VIU :- PV of cash Flows. (before Tax).

Reversal of Impairement loss :-
After Reversal, Revised CA can not exceed lower of Following :-
a) RA
&
b) CA had there been No Impairement.

8) AS 20 :- EPS
Basic EPS = $\frac{\text{Net P/L attributable to ESH.}}{\text{W. Avg O/s equity no.}}$

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

Net P/L attributable :-

EBIT xxx
(-) Interest (xxx)

	xxx
EBT	
(-) tax	(xxx)
EAT	xxx
(-) pref Divd	(xxx)
	EAESH.

cumulative
(-) always

Non cumulative
(-) if Declared.

Examples of Accounting policies as per Relevant AS.

① AS 2 :-

(i) Choosing cost Measurement Method like FIFO or weighted Avg.

(ii) Apply cost or NRV whichever is lower

OR

at NRV only (or) at cost only.

② AS 10 :-

(i) Applying cost Model or Revaluation Model.

③ AS 13 :- Measuring the Investment either at cost (or) (Market value or at lower of cost & MV.

Amalgamation of companies.

(i) Merger ⇒ A Ltd + B Ltd = C Ltd.
(ii) Absorption ⇒ A Ltd + B Ltd = A Ltd.
(iii) Takeover (AS - 14).

Absorption (aquisition) — Holding & subsidiary

A + B = A

> Business ⟶ Net Assets.

> Tree acquires Net Assets or Tror by discharging purchase consideration to the ⟶ shareholder ⟶ Tror.

Cash | Eq. shares of Tree | Pref. share of Tree | Debentures / Bonds of Tree, etc

> AS - 14 is applicable to Transfree company.

Types of Amalgamation.

Amalgamation in the nature of purchase | Amalgamation in the nature of merger.

Dominance Tree only over the business taken over

> acquire → Assets / liabilities Tror

> SH Holding → 90% Eq. shares Tror Tree.
(Here only external SH of Tror shall be considered)

↓	↓	
A+B = A	A+B = C	> PC → Eq. shares only
A's management has control over's B's Business.	under new Co. manag. of A will controlling power over new co.	Fractional → in cash.
		> Tror same business intended carried by Tree
		> Assets / liabilities - Carrying Amt
		Exceptions :- Uniform A/c policy.

Purchase Consideration

PC → Not dependent → Nature of Amalgamation

PC → market values Net Assets of Tror

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

Calculation of purchase consideration

↓ Exchange Ratio method.

↓ Net Asset value Method

> No. of shares in queⁿ

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

Assets / liab are taken over then.
↓
Consider such Asset / liab.
↓
Calculating purchase Consideration
Refer EX-6
Pg. No 7.6

unrecorded Asset / liab
↓
Also Taken over
↓
considered in calc^n.
pg. No. 7.6
EX - 6

Goodwill given
↓
Consideration
EX-8
Pg. No. 7.8

on the basis of Intrinsic value.
↓
Assume All Assets & liab. are being takenover
↓
Intrinsic value Q.204

$$\left.\begin{array}{l} \text{MV of All Assets} \\ (+)\ \text{Goodwill} \\ (-)\ \text{All liab} \\ (-)\ \text{PC to PSH} \end{array}\right\} \text{Net Assets For Eq. SH} \div \text{No. of Eq. share}$$

PC also include 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.

Books of Tree	Books of Troor.
1) Bus. pur. A/C — Dr	1) Tree A/C — Dr
To liquidation of Troor.	To Realisation A/c
	2) Eq. shares in Tree A/c Dr
2) liq. A/C — Dr	pref shares in Tree A/c Dr
To ESC A/C	Cash A/C — Dr
To PSC A/C	To Tree A/C
To SP A/C	(Receipt of PC)
To Cash A/C	
(Discharge of PC)	3) PSH A/C — Dr
⇓	ESH A/C — Dr
PC > NA = Goodwill	To Eq. sh. in Tree
PC < NA = Capital Reserve	To pref sh. in Tree
	To Cash A/C
	(Distribution of PC)

Summary of Accounting (Tree).

In the nature of purchase	In the nature of merger.
Difference in 2nd Entry.	Difference in 2nd Entry
either Goodwill or Capital Reserve	in GR & P&L A/c only

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 necessary All Asset / liab	record all Asset / liab
3) recording of All → MV Asset liab.	recording of Asset / liab ↳ BV
4) Difference in 2nd Entry ↳ CR GR	Difference in 2nd Entry → FR

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only statutory Reserves to be maintained. ↳ Separate Entry ⇒ Amal. Adjust. to GR.	All Res & sur. to be maintained.

> 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 R&S.

> 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.

- R&S :-

Tror.

workmen compensation Reserve. 8000
(expected liab 5000).

while closing the Books of Tror 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 usike R&S se hato - subject to conditions ke usake R&S se hatao. Suppose usne R&S nhi laye to Goodwill / CR se hatao.

Exception :- upstream + purchase.

always

Goodwill / Capital Reserve
To stock

R&S A/c ⟶ Dr
To stock.

$$\text{Tree} \xrightarrow{\text{Sale}} \text{Tror} \Rightarrow \text{Downstream,}$$

$$\text{Tror} \xrightarrow{\text{Sale}} \text{Tree} \Rightarrow \text{Upstream.}$$

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Important

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

b) For the purpose of updated B/S:-
   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.

* Fictious 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 T/F to realisation A/c or not.
   ⑪ Difference of PSH A/c ~~to~~ T/F 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 Reserve = Net Asset Taken Over (−) Purchase Considerat

If positive = Capital Reser
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 Amalgmation Tror & Tree should have their uniform Accounting policies If their conflicting then Tree shall make appropriate adjustment in the value of

at Assets & liab to make uniform Accounting policies - (Applicable — purchase/merger)

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Consolidated of F.S.

I). Date of Acquisition of Control: ⇒ Consolidation starts from.

II) Consolidation means. Decognize the Investments & recognizes the ~~net~~ all Assets & all Liabilities.

(Eq. share cap & R & S)

III) MII – proportinate share of Net Assets of subsidiary.

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

Cost of control :-

Investment as on DOA.

(–) prop. NA. as on DOA.

Gld / CR.

subsc

- R & S as on DOA ⇒ pre Acquisition profit (Capital profit)

subsd

R & S after DOA ⇒ post – Acquisition profit (Revenue profit) subsidiary co. profit

capital — pre-acquisition profit → Goodwill calⁿ

revenue — post-acquisition profit → B/S.

* Golden Rule:-

① Time Adjustment is only for normal profit Not of the Actual profit

→ Assumptions :- Every months normal profit is equal.

In case of Normal profit.

CAP — 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).

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- Agar kisi quen main bonus hai toh CoC or MII → 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 acquistion. before DOA.

Summary of Revaluation

- Revaluation Gain / loss. (on DOA)
  - ↓
  - DOA = B.V.
  - BOA = M.V.
  - Gain / loss.
    - AOP → pre Acq. (+/-)
    - Cons. B/S. → PPE / Asset (+/-)

- Addition Dep or Reversal of Dep. (Post period.)
  - ↓ (post period)
  - Dep on MV.
  - (-) Dep on BV. (Post period)
  - Additional / Reversal.
    - Aop → post period.
    - Cons B/S → PPE / Asset (-/+)

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

AOP

A.b. Items	Bonus	Revaln
eliminate before Time adjustment (only post)	post → (+) if entry passed. pre- (-) Always.	After time Adjustment, pre – G/L. post = Dep.
↓ Time Adjustment	↓ Before Time Adjustment.	
↓ Re state - pre / post		

* 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 less hota hai.

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

Summary of consolidation.

1) MI (Minority Interest) :- proportinate share of Net Assets of subsidiaries.

2) Investment (90%) xx
(-) proportinate Net Asset (90%) xx

Goodwill / CR

[cost of control] — working.

3) MI → propⁿ Eq. capital
(+) propⁿ Reserves & surplus.

4) Subsidiary Case
→ R&S as on DOA → pre Acquisition profit (capital profit)
→ R&S after DOA → Post Acquisition profit (Revenue profit)

5) Subsidiary profit
→ pre → Goodwill
→ post → B/S Reserves & surplus.

6) Time Adjustment is always of Normal profit and not of 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 & 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 of Bonus issue and effect Given from pre-Acquisition profit

11) Take Equity capital for calculation of COC / MI always with Bonus.

12) The COC is calculated on the DOA from Investments in propon 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- Acq^n profit) xxx
(+/-) Reval^n Gain / loss. xxx
Net Assets at M.V. xxx

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

14) Revision.

Abnormal items
1) eliminate from post Acquisition column.
loss (+)
Gain (-)
2) Time Adjustment
Normal profit
3) Restatement Ab. items.
pre / post
Depending on date of item.

Bonus Issue
By subsidiary Co.
Reserves & sur A/c → To ESC A/c
Bonus shall always from pre Acq^n profits.

Bonus entry already passed
Add post Acq^n (+) Before Time Adj.

Bonus entry Not passed
only less from pre Acq^n.

15) Entire Revaluation Adjustment including Depreciation will be made always after time Adjustment

16) If Dividend is declared on B/S 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 begining 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 → Before Dividend
& Before Bonus
& Befor Abnormal items.

* Summary of Cash Flow Statement *

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

Note to this will be must

2. Govt Grant → Revenue Receipt → Op. Activity.

3. Govt Grant → Capital Projects → Inv. Activity.

4. Bank overdraft } Short Term Borrowing — Financial Activity
Cash credit }

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

6. Advance collected from Debtor & Interest paid there on – operating Activity.

7. provision = Summary:

P&L → Prov. Credited.

Cash Flow Statement → Tax paid.

8. premium payable on Redemption of preference shares / Debentures is an item of 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.

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9) If any asset is sold and Gain or loss in 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 sale.

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

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post - Acquisition period Dividend is always credited to P&L 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 it 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.

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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 Acti.

19) Nothing specified — cash sales & cash purchase — Then we would always assume the total sales & purchases ~~would~~ 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 Foreing currency amt $\boxed{\times}$ closing Exchange rate as on B/s Date.

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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 — Dr
To Eq. share cap.
(No change in share capital, only change in No. of shares).

(i) Conversion of partly paid to Fully paid.
share cap A/c — Dr (partly paid)
To share cap A/c (Fully paid).

(ii) Concellation of share cap.
share Cap A/c — Dr (old FV)
To share cap A/c (New FV)
To Cap. reduction A/c (B/F).

② Variation of shareholder Rights.

③ No. of Reduction in Face value of share but Reduction in paid up.
Journal Entry:-

share cap A/c — Dr
To capital Reduction A/c.

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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 sacrified 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 P&L for 3 years the remaining bal

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

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

* B/s (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 B/s 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.

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

* While physical allotment of converted surrender shares to creditors on Debenture holders "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 Transactions are assumed with Bank op A/c since separate cash & cash Equivalent are not given in the question altrenatively this can be recorded separately in cash or cash Equivalents.

Refer Q.218. pg.No. 5.69

Comparison

Split/cosolidation	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 ex:-5
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.

Buy Back

* Threshold limit of Buy back

Debt / equity

By BOD

upto 10% of PUSC.

By Members

> upto 25% of PUSC in any F.Y

> upto 25% of PUSC + FR.

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 reserves & SPA.

* **Accounting Treatment**

* **When Buy Back is Announced:-**

Share Capital A/C — Dr (FV)
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
    To Investment A/C } Bal. To P&L

* Create CRR

General Reserve A/C — Dr
P&L 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 pref)
Free Reserve A/C — Dr (2nd pref)
    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 Reserves Balances are sufficient.

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

Q. 218. pg. NO - 4.81

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

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 altaenate.

* Buy Back Amt

F.V of BB. | premium on BB.

Fresh issue of pref. shares. (NO CRR) | Balance. out FR i-e GR

* Only Fully paid up shares can be brought back.

* Not defaulted in Filling of FS for 3 PFY.

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* 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 x 25%

* Test 2 Resource Test

Total BB value =

(Total PUSC + Free Reserves x 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 BB − Buy Back Effect = Minimum eq. after BB

* Creation & utilization of CRR.

When to CRR ?

CRR is created in Two cases:-

a) BB of eq. share
b) Redemption of pref shares.

Utilize CRR

Company Announce Bonus eq. shares

CRR A/c — Dr
To ESC A/c

How much CRR is required to be created?

Equal to Face value of BB or Redemption

Out of Free Reserve or SPA.