TAPOVAN CA

CA INTERMEDIATE

ADV.ACCOUNTING

SUMMARY

With AS Charts

Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

Rohan Nimbalkar

(15+ Years Teaching Exp.)

Founder & Director of TapovanCA

Advanced Accounting

Summary Notes with AS Charts

Buy Back of Securities

Buy Back of Shares Means - Purchase back of shares by Company

Buy back of Equity Shares | Redemption of Preference Shares

This Can be Done By

a) Proceeds of fresh issue of shares

b) By using Free Reserves;

(Free reserve are transferred to CRR & then Bonus shares can be issued out of CRR)

To maintain capital after buy back or redemption

Limits of Buy Back

1. 25% of Total Outstanding Equity Shares (In Numbers).
2. 25% of (Paid up Capital + Free Reserves)/Buy Back Price per share. (It includes Securities premium, P&L A/c, General Reserve but not Statutory Reserve).
3. Post buy back "Debt Equity Ratio" shall not exceed 2:1

Calculation of Number of Shares for Buy Back

1) Shares Outstanding Test

Total Number of Equity Shares x 25% = (XXX)

2) Resource Test

= 25% (Paid capital + Free Reserve)/ Buy Back Price = No. of shares (xxx).

3) Debt Equity Ratio Test

a)	Debt/ Loan at Present	xxx
b)	Minimum shareholders Fund (Post Buy Back) {Step(a)/2}	xxx
c)	Actual Shareholders Fund at Present	xxx
d)	Excess shareholders fund over minimum [Step c-Step b]	xxx

e) No. of shares for buy back | xxx

$$= \frac{\text{Excess/Difference (Step d)}}{\text{Buy Back price + Provision For CRR}}$$

Whichever is less from 3 tests.

Journal Entries

Redemption of Preference shares	Buy back of Equity shares
(i) Amount Due	(i) Amount Due
Preference share Capital A/c ....Dr.	Equity share capital A/c......................Dr.
Premium Payable A/c ....Dr.	Premium Payable on Buy-back A/c...Dr.
To Preference Shareholders A/c	To Equity Shareholders A/c
(ii) Amount Paid	(iii) Amount Paid
Preference Shareholders A/c ....Dr.	Equity Shareholders A/c ....Dr.
To Bank A/c	To Bank A/c
(iii) Adj. of Premium against Profit /Loss	(iii) Adj. of Premium against Profit /Loss
General Reserve/Profit &Loss A/c ....Dr.	General Reserve/Profit &Loss A/c.....Dr.
Securities Premium A/c.........................Dr.	Securities Premium A/c.......................Dr.
To Premium Payable A/c	To Premium Payable on Buy Back A/c
(iv) Transfer to Capital Redemption Reserves	(iv) Transfer to Capital Redemption Reserves
General Reserve A/c...............................Dr.	General Reserve ....Dr.
Profit &Loss A/c ....Dr.	Profit &Loss A/c ....Dr.
To Capital Redemption Reserves A/c	To Capital Redemption Reserves A/c
(v) Issue of Bonus Shares	(v) Issue of Bonus Shares
Securities Premium A/c ....Dr.	Securities Premium A/c ....Dr.

Revenue Reserve A/c ....Dr.	Revenue Reserve A/c ....Dr.
General Reserve A/c ....Dr.	General Reserve A/c ....Dr.
P& L A/c ....Dr.	P& L A/c ....Dr.
To Bonus Issue to Shareholders A/c	To Bonus Issue to Shareholders A/c
(vi) Bonus to shareholders A/c ....Dr.	(vi) Bonus to shareholders A/c.....Dr.
To Equity Share Capital A/c.	To Equity Share Capital A/c.

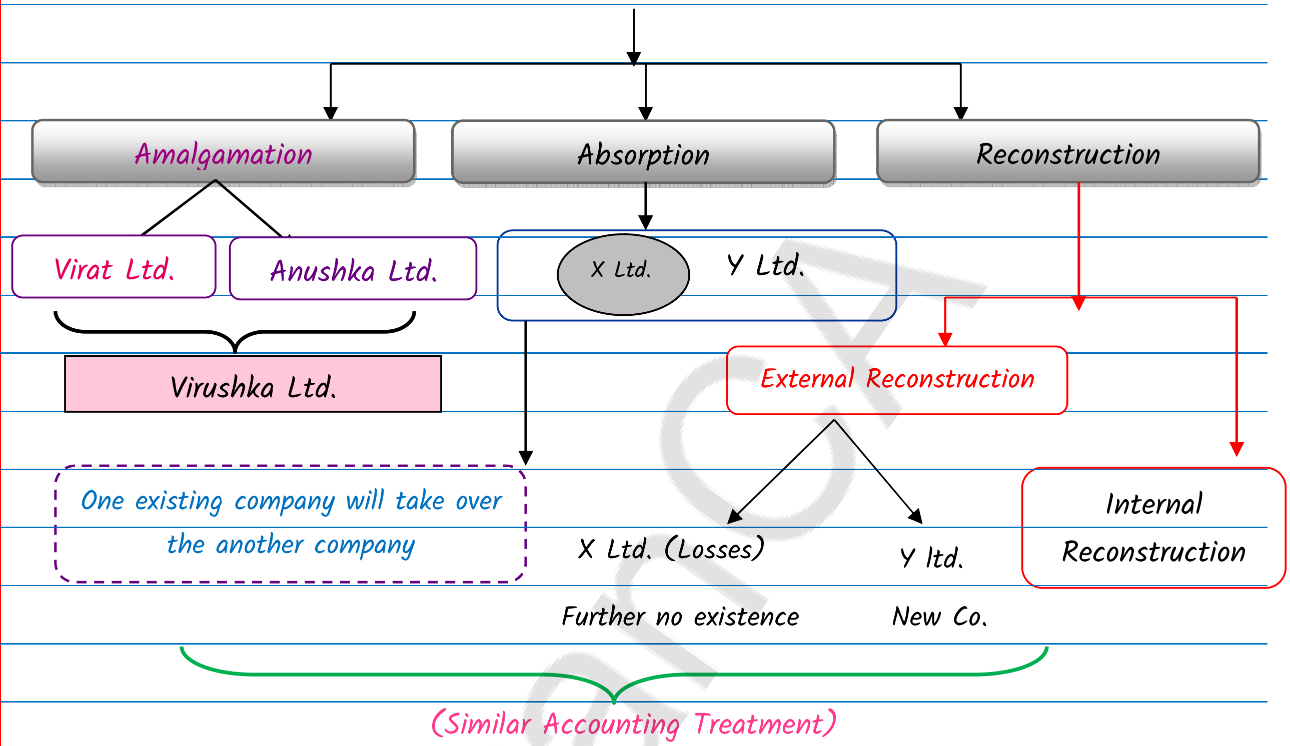
Transfer to Capital Redemption Reserves =

Nominal Value shares Redeemed - Nominal Value of shares issued

Buy back has effect on mainly 3 items of Balance sheet

Share Capital	Reserve & Surplus	Cash & Cash Equivalent
(-)Buy Back	Premium Payable	(+) Proceeds of New issue
(+) New Shares	Capital Redemption Reserves	(-) Payment of Buy Back
(+) Bonus	Bonus	

Scope of this chapter



Amalgamation –

Two companies dissolved & New company formed to take over business of two companies

Absorption -

One existing company took over business of other company.

External Reconstruction –

New Company will be formed to take over the business of existing / old company.

Accounting Treatment

1. One or more company(ies) getting closed / dissolved in all above three types – Prepare Realisation Account.
2. Another company whether existing or new is taking over business – Pass Journal entries for business purchase.
3. Therefore, In case of amalgamation, Absorption & Reconstruction there is no change in accounting treatment.

Purchase Consideration

1. Payment made to equity shareholders & Preference shareholders in form of Cash, Equity shares, Preference shares or debentures are treated as purchase consideration.
2. Therefore, payments to debenture holders in the form of cash / debenture are not treated as Purchase Consideration.
3. As well as realisation expenses paid by transferee company is not treated as purchase consideration.
4. Other payments of liability settlement is NOT Purchase consideration.

Methods of calculating Purchase Consideration

- Net Asset Method
- Net Payment Method
- Lump-sum Method

Net Asset Method

Assets Acquired (Agreed Price)	xxx
(-) Liabilities taken over	(xxx)
Net Assets	xxx
(+) Goodwill	xxx
Total Purchase Consideration	xxx

If payment is not given in problem or share issued is given but number of Shares or price of shares is not given then follow Net Asset Method

Net Payment Method / Lump-sum Method

1. Consider payment to equity & preference shareholders Only. Note:- Payment to debenture holders in cash or debentures is not considered.
2. Payment of Realisation expenses not considered.
3. Purchase consideration –

Payment to equity shareholder of transferor Company in cash / shares / debentures	XXX
(+) Payment to preference shareholders of transferor co. in cash / shares/ debentures	XXX
Purchase consideration	XXX
(-) Net Assets acquired As per 1st Method	
Goodwill / Capital Reserve	XXX

Intrinsic Value Of Share

It is real value of shares on the basis of Net Asset in business

All Assets (At current Price)	xxx
(-) All Liabilities	(xx)
Net Asset	xxx

Intrinsic Value of shares = $\frac{\text{Net Assets}}{\text{No. of equity shares.}}$

ACCOUNTING TREATMENT

Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
Conditions for Merger (5 fere)	If any of the condition is not fulfilled / Satisfied.
1. All assets & liabilities are taken over (As well as reserves are acquired). 2. At Book Value only. 3. Same business will be carried on . 4. At least 90% of shareholders of transferor Company ready to become shareholder of new company. 5. Consideration paid in shares except fractional Shares.	Then it is treated as purchase. Accounting as per purchase method.
Accounting as per pooling of Int. method.	

Intention – To come together & do business

Consequences

1. All reserves are also acquired with assets & Liabilities.
2. Assets & liabilities are shown at Book Value.
3. Excess payment for net asset or realisation expense of transferor company.
   a) Extra payment – Deducted from General reserve / P&L A/c.
   b) Less Payment – Added in GR / P&L A/c.
   (No effect to Goodwill / Capital Reserve)

If realisation expenses paid by transferee company of transferor company

- Deduct from P & L A/c / General Reserves.

Statutory Reserves

- In case of merger all reserves are acquire at the time of business purchase.

Hence Statutory Reserves are also acquired Due to this there is no need to give separate treatment for statutory reserves.

Accounting as per purchase method.

1. Reserves are not acquired (If nothing is specified then all assets including cash & bank after adjustment realisation expenses shall be acquired.
2. Assets & liabilities are shown at agreed price.
3. Excess / Less payment for realisation of expenses.
   a) Extra Payment treated as goodwill
   b) Less Payment treated as Capital Reserve.

- Statutory Reserve – In case of Purchase, reserves are not acquired. Therefore separate treatment is required for statutory reserve.
- Transferee company must show statutory Reserve in their Books of Accounts / Balance sheet.

Journal Entry

Amalgamation Adjustment A/c ....Dr.
To Statutory Reserve
Shown in Reserve & surplus
Shown in Reserve &Surplus as negative (Previously it was required to be shown on Asset Side).

- This separate treatment of A/c is required in the books of Transferee Company. There is no change in accounting treatment in books of transferor whether it is purchase or merger.
- In the books of transferor co. If preference shareholders are discharged / settled at premium, then such payment to preference shareholders shall be treated as loss for equity shareholders And such loss shall be debited to realisation Account / Equity shareholders Account.

Journal Entries

In the books of transferor company

(No change in following entries whether it is purchase / merger)

1.	To close Asset Account -	Realisation Account ....Dr.		xxx
		To Assets Account	(Individually) (At B.V.)	xxx
2.	To close Liabilities Account -	Sundry Liabilities A/c.........Dr.	(Individually) (At B.V.)	xxx
		To Realization A/c.		xxx

(Note: Debtors Account & Provision for doubtful debts A/c both are separate A/c. Hence Debtors A/c shall be credited with Gross value & provision for doubtful debts Account shall be debited with its value)

3.	To close share capital & reserve Account	Equity share capital A/..........Dr.		xxx
		Reserve A/c ....Dr.	(Individually)	xxx
		To Equity Shareholders A/c		xxx
		Preference share Capital A/C.....Dr.		xxx

		To Preference shareholders A/c	xxx
4.	Purchase consideration Due	Transferee Co./ New CO. A/c....Dr.	xxx
		To Realisation A/c	xxx
5.	Sale **of assets not**	Cash A/c ....Dr.	xxx
	taken over by new co.	To Realisation A/c	xxx
6.	Paid **of liabilities not**	Realisation A/c...................Dr.	xxx
	taken over by new co.	To Cash A/c	xxx
7.	**Purchase Consideration Received**	**Cash/Bank A/c……………………Dr.**	xxx
		Shares in New Co. A/c.........Dr.	xxx
		Debentures in New co. A/c....Dr.	xxx
		To New Company A/c	xxx
8.	**Payment to Pref. share holders**	Preference shareholders A/c...Dr.	xxx
		To Cash / Bank A/c	xxx
	(If any excess amount paid, then such amount debited to realisation/ Eq. shareholders A/c).		
9.	**Payment to Equity Shareholders**	Equity Shareholders A/c ....Dr.	xxx
		To cash / bank A/c	xxx
		To Eq. shares of transferee Co. A/c	xxx
10.	**Liquidation expenses**	**Realization A/c……………………Dr.**	xxx
		To Cash/Bank A/c.	xxx
	Note - If problem states two companies are merged it doesn't mean it is merger, please check conditions given.		

In the books of New Company (Transferee Company)

1.	Business Purchase A/c	**Business Purchase A/c………………Dr**	xxx	
		To Transferor co. / Vendor co. A/c.		xxx(p.c.)
2.	**Recording of assets and Liabilities.**	**Asset A/c ……………………………….Dr.**	xxx	
		To Liabilities A/c		xxx
		To Business Purchase A/c		xxx

If Extra amount paid then,

Assets A/c…………………….Dr.	xxx	In merger no concept of G/W or Capital Reserve then profits / difference adjusted in General Reserve / P&L A/c.
Goodwill A/c……………………..Dr.	**(Bal. Figure)** xxx	
To liabilities A/c.	xxx	
To Business Purchase A/c.	xxx	

If less paid then,

Asset A/c …………………….Dr.	xxx
To liabilities A/c	xxx
To Business Purchases A/c	xxx
To Capital Reserve Account	**(Bal. Figure)**xxx

3. Purchase Consideration Paid.

Transferor Co. A/c ………..Dr.	xxx
To Cash / Bank	xxx
To Equity shares	xxx
To Debentures	xxx

4. Realisation Expenses of transferor company paid by transferee.

Goodwill A/c ……..Dr.	xxx	(In case of purchase)
P&L A/c / General Reserve A/c……… Dr.	xxx	(In cases of merger)
To Cash/ Bank A/c	xxx	

If following words are given in problem. What does it mean?

Discharged at Premium Vs. **Issued at Premium**

Discharged at Premium

↓

Paid at premium

↓

No securities premium A/c is involved

↓

Just Extra payment is made for settlement in cash / shares.

For Example - 11,00,000 preference shares are discharged at 10% premium by issuing Preference shares of transferee company

11,00,000 + 10 % = 12,10,000

12,10,000 are Preference shares issued and transfer it share capital amount .

Issued at Premium

↓

Securities premium A/c is involved

↓

Ex. ₹ 11,00,000 preference shares are discharged by issuing preference shares of ₹ 100 @ 10 %Premium.

↓

11,00,000 – liability is constant

11,00,000/ 100 + 10

Premium = 10,000 shares x ₹ 10

=1,00,000

Transfer 1,00,000 to securities premium Account Remaining in Preference share Capital.

- Transferor company sold goods to transferee company at profit before amalgamation. (vice versa)

Inventory remaining with other company which is taken over back. Then such inventory contains unrealised profit & such profit shall be reversed.

1st effect – deduct it from inventory & 2nd effect – deduct it from P&L.

- Special Adjustment

Debentures of 5,00,000 discharged at premium of 20% @ ₹ 96 i.e. (96%).

Hence 5,00,000 + 20% = ₹ 6,00,000.

No. of Debentures = 6,00,000 / 96 = 6,250 X ₹ 100 (Face value) = 6,25,000.

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INTERNAL RECONSTRUCTION

Objectives of Internal Reconstructions

1. Is to write off losses & fictitious assets.
2. To show actual position of business through new balance sheet.
3. For writing off losses there must be profit which is possible by either reducing capital liabilities or increasing asset value.
4. Such profit shall be credited to capital reduction/ reconstruction A/c and then losses/ fictitious **Assets shall be written off be debiting capital reduction account**
5. If there is credit balance in capital reduction account even after writing off losses and fictitious Assets then such profit/balance shall be transferred to capital reduction/ reconstruction account

Liabilities

Balance in present Balance Sheet

Paid less amount than liability

Liabilities A/c ....Dr.

To Bank A/C

To Capital Reduction A/c

Balance is not shown in Balance sheet

Unrecorded liabilities.

Examples

1. Preference divided payable.
2. Unrecorded Creditor.

- Entry for only amount paid -

Capital Reduction A/c ....Dr.

To Bank A/c

In this case balance was not available in balance Sheet and it is unrecorded still we have to make Payment.

Hence it is additional liability. This Will be debited in CAPITAL Reduction A/c.

Amount which is not paid shall be ignored.

Dividend

- Declaration of dividend out of Reserves.

Conditions as per companies (Declaration of dividend out of reserve) Rules.

Conditions

1. Rate of dividend declared should not exceed the average of the rate at which dividend was declared by it in three years immediately preceding that year.
2. Total amount withdrawn from reserve should not exceed 10% of paid up share Capital (Equity + pref.)+ free reserves.
3. Balance of reserve after such withdrawal should not fall below 15% of its paid up capital.

The amount so drawn should be utilised to set off the losses incurred in financial year in which dividend is declared.

Bonus Issue

Bonus issue means a issue of free additional shares to existing shareholders

- Partly paid up share can be made fully paid up through bonus.

Following paid up shares can be made fully paid up through bonus.

1. Capital Redemption Reserve (CRR).
2. Security Premium Account (Only if realised in cash).
3. Capital Reserves (Only if realised in cash).
4. General Reserves & other fee reserves.
5. Profit & Loss A/c.

(Revaluation Reserve & Statutory reserves shall not be used for bonus issue).

Journal Entries

When Bonus shares are issued	When partly paid up shares made fully paid up through bonus
Capitalisation of profit	When final call made
Capital Redemption Reserve A/c.....Dr.	- Equity Final Call A/c ....Dr.
Security Premium A/c.....Dr.	To Equity Share Capital A/C
Capital Reserves A/c.....Dr.	
General Reserves A/c.....Dr.	- Capital Redemption Reserve A/c.....Dr.
Profit & Loss A/c.....Dr.	Security Premium A/c.....Dr.
Other Reserves A/c .....Dr.	Capital Reserves A/c.....Dr.
To Bonus to shareholders A/c	General Reserves A/c.....Dr.
	Profit & Loss A/c.....Dr.
	Other Reserves A/c .....Dr.
When bonus shares are actually	To Bonus to shareholders A/c
issued:-	- Bonus to Shareholders A/c .....Dr.
Bonus to shareholders A/c .....Dr.	To Equity Share Final call A/c
To Equity Share Capital call A/c	

Redemption of Preference shares

Conditions for redemption

1. If preference shares must be fully paid up before they are redeemed. (if partly paid up then it should be made fully paid up or forfeited before redemption).

2. Preference shares can be redeemed out of -
   1. Profits available for Dividend

2.

3. If shares are redeemed out of profit

Transfer to Capital Redemption Reserve

$\boxed{\text{Nominal value of shares redeemed - Nominal value of shares issued}}$

4. Premium payable shall be provided from securities premium A/c or out of profit

5. CRR available for bonus shares

Number of share to be issued

When profit is Insufficient

Particulars	₹
Nominal value of Pref. Shares	xxx
(-) Maximum possible	
Redemption out of profit	**xxx**
Deficiency	**xxx**

$$\frac{\text{Deficiency}}{\text{Price per share}} = \text{No. of shares}$$

Price per share to be taken

Face Value	10	10	10
Issue price	10	9	12

When funds are Insufficient

Particulars	
Amt payable to preference Share holders	
Face Value	xxx
(+) Premium Payable	xxx
Amount payable	xxx
(-) Sale of Investment	xxx
(-) Available Bank Balance	xxx
Deficiency	xxx

$$\frac{\text{Deficiency}}{\text{Price per share}} = \text{No. of shares}$$

Price per share to be taken

Face Value	10	10	10
Issue price	10	9	12

Journal Entries for redemption

	Particulars	Entry
1.	Amount payable on Redemption	Redeemable Pref. Share Capital A/c ....Dr. Premium on Redemption of Pref. Shares A/c....Dr. To Preference Shareholders A/c.
2.	Payment made	Preference Shareholders A/c .....Dr. To Bank A/c.
3.	Adjustment of Premium	General Reserve or P&L A/c.....Dr. To premium payable on redemption A/c
4.	Transfer to C.R.R.	General Reserve / Profit & Loss ....Dr. To Capital Redemption Reserve A/c

Schedule III of the Companies Act

PART I - BALANCE SHEET

	Particulars	Note No.	Figures as at the end Current Period	Figures as at the end Previous Period
	EQUITY AND LIABILITIES			
1.	**Shareholders' funds**			
	a) Share capital			
	b) Reserves and surplus			
	c) Money received against share Warrants			
2.	**Share application money pending allotment**			
3.	**Non-current liabilities**			
	a) Long-term borrowings			
	b) Deferred tax liabilities (Net)			

		c) Other Long term liabilities			
		d) Long-term provisions			
	4.	**Current liabilities Liabilities**			
		a. Short-term borrowings			
		b. Trade payables			
		1) Total dues of micro & small enterprises			
		2) Total dues of other than micro & small			
		enterprises			
		c. Other current liabilities			
		d. Short-term provisions			
		Total			
		ASSETS			
	1.	**Non-current assets**			
		a) Fixed assets			
		1) Tangible assets			
		2) Intangible assets			
		3) Capital work-in-progress			
		4) Intangible assets under development			
		b) Non-current investments			
		c) Deferred tax assets (net)			
		d) Long-term loans and advances			
		e) Other non-current assets			
	2.	Current Assets			
		a) Current investments			
		b) Inventories			
		c) Trade receivables			
		d) Cash and cash equivalents			
		e) Short-term loans and advances			

	f) Other current assets			
	Total			

✸ Asset shall be treated as current if -

1. It is expected to realised or consumed within normal operating cycle.
2. It is expected to be realised within 12 months after reporting of date.

✸ Liabilities shall be treated as current if -

It is due to settled within 12 months after reporting date

Points to remember for notes to Accounts.

1. Share Capital -

Specify Authorised & Issued, subscribed & called up with number & value separately for equity as well preference share capital.

(specify note for shares which have been issued for consideration other than cash).

Deduct calls in arrears if any to find out paid up capital.

2. Reserves & Surplus -

Show each & every reserve (Capital or Revenue) separately.

Reserve specifically represented by earmarked investments shall be termed as "fund".

Debit balance of P&L A/c (If any) shall be shown as negative figure. If after adjustment balance of reserves & surplus, if there is negative balance still it is to be shown under reserves & Surplus.

Balance to preliminary expenses & other fictitious assets shall be adjusted from reserves & surplus.

3. Long term Borrowings

Secured:- (specify Nature of Hypothecation / mortgage for each loan)

Particulars	₹
Unsecured	xxx
Bank Loan	xxx
Loan from realted parties	xxx
Others	xxx

- Above categories to be specified separately

If above loan includes portion which is repayable within 12 months then such. portion to be shown in other current liabilities & not under this heading.

4. Long term provisions.

a) Provision for employees benefits

b) Others (specify)

5. Tangible Assets:-

(Specify for every asset as follows)

Eg.

Building	xxx (Original Cost)
(-) Depreciation	xxx (Accumulated Depreciation)

6. Trade Receivables (Specify Separately)

- Debts Outstanding for a period exceeding six months
- Other Debts

7. Cash & Cash Equivalents:-

Shall be classified as

a) Balance with Banks

b) Cheques, Drafts on hands

c) Cash in Hands

d) Balances with other scheduled Banks

- Earmarked balances with bank (E.g. Unpaid dividend)

Accounting for Branches Including Foreign Branches

Distinction Between Branch Accounts And Departmental Accounts

	Branch Accounts	Departmental Accounts
1.	Branch accounts may be maintained either at branch or at head office.	Departmental accounts are maintained at one place only.
2.	Expenses in respect of each branch can be identified therefore No allocation Problem.	Common exp. are distributed among the departments concerned on some equitable basis considered suitable in the case.
3.	Reconciliation of H.O. and branch accounts is necessary in case of independent branches at the end of the accounting year.	**No such problem arises in Departmental Account.**

Types of Branches

Dependent Branch	Independent Branch
Head office Maintains record of transaction by branch.	- **Independent branch maintains its own set of books.**
Methods	1. Branch maintains complete double entry system.
Debtors Method	2. Branch opens H.O. A/c in its Book & H.O. maintains Branch A/c to record Transactions of both H.O. & Branch.
Stock - Debtor Method	3. Branch prepares Trial Balance & Trading & P&L A/c & sends it to Head office.
Trading & P&L A/c Method	4. H.O. will pass entries to incorporate Branch Trial Balance in its Books.

ACCOUNTING FOR INDEPENDENT BRANCHES

	Transactions	Head office books	Branch books
1.	Dispatch of goods to	Branch A/c ....Dr	Goods recd. from H.O. A/c ..Dr.
	branch by H.O.	To good sent to BranchA/c	To Head Office A/c
2.	Goods returned by	Goods sent to Branch A/c	Head Office A/c ....Dr
	Branch.	To Branch A/c	To Goods Recd. from H.O A/c
3.	Branch Expenses are	No entry	Expenses A/c. ....Dr
	paid by the Branch		To cash A/c
4.	Branch Expenses	Branch A/c ....Dr	Expenses A/c ....Dr
	paid by H.O.	To bank	To H.O. A/c
5.	Outside purchase	No entry	Purchases A/c ....Dr
	made by the branch		To Bank (or) Creditors A/c
6.	Sales effected by	No entry	Cash or Debtors A/c
	the branch.		To Sales
7.	Collection from	Cash or Bank A/c ....Dr	Head office A/c ....Dr
	Debtors of the Br.	To Branch A/c	To sundry Debtors A/c
	recd. by H.O.		
8.	Payment by H.O. for	Branch A/c ....Dr	Purchases/ S.Creditor A/c...Dr.
	purchase made by Br.	To Bank	To Head Office Account
9.	Asset purchased by	Branch Asset A/c ....Dr	Head office.......................Dr

	the branch but Asset	To Branch A/c	To Bank (or)Liability
	A/c retained at H.O.		
	Books.		
10.	Depreciation on above	Branch A/c ....Dr	Depreciation A/c ....Dr
		To Branch Asset	To Head office A/c
11.	Remittance of funds	Branch A/c ....Dr	Bank A/c ....Dr
	by H.O. to Branch.	To Bank	To head office
12.	Remittance of funds	Reverse entry of above	Reverse entry of above
	by Branch to H.O.		
13.	Transfer of goods	Branch(recipient)a/c ..Dr	**In the books of Supplying Br.**
	from one Branch to	To Supplying Branch A/c	Head Office A/c .....Dr.
	another branch.		To goods Recd. From H.O. A/c
			In the books of receiving Br.
			Goods Received from H.O. A/c
			To head office A/c

Adjustment and Reconcilation of Branch and Head office Account

	Reasons of Disagreement	Head Office A/c	Branch Office
1.	Goods displaced by Head office	No Entry	Goods in A/c ...Dr.
	but not received by Branch	Entry already done	To Head Office A/c
	(Goods in Transit).		
2.	Cash in transit Not received	Cash in transit A/c..Dr.	No Entry
	By Head Office.	To Branch A/c	

3.	Direct collection by Head Office On behalf of branch.	(Entry already Done)	Head Office A/c...Dr. To Debtors A/c
4.	Direct Payment by branch on behalf of Head Office.	Sundry Creditors A/c..Dr. To Branch A/c	(Entry already Done)
5.	Expenses allocated to Branch	(Entry already done)	Branch Exp. A/c ......Dr. To Head Office A/c

Techniques for Foreign Currency Transaction

In case of Integral foreign operation

1. Monetary Items – Closing Rate
2. Non Monetary Items
   a) If tangible Asset carried of cost Rate on the date of purchase.
   b) Carried at fair value – Rate on the date of valuation.
3. All other transaction
   Rate prevailing on the date of Transaction (Monthly & weekly average permitted if there are no significant variations.)

Non Integral foreign operation

1) Balance sheet Items:-
   Closing Exchange rate
2) Items of income & expenses
   Actual Exchange rate or average rate subject to materiality.
   (If separate rate for fixed asset is given in problem than same shall be applied).

If balance of H.O. A/c is given in branch Account in \$ or any other foreign currency & balance of branch appears in Head Office Account A/c in Indian currency / reporting currency then no need to translate amount as actual amount is available in Indian / Reporting currency.

Above rule is also applicable for goods sent & goods received amount available in Head Office books & Branch Books separately.

Incorporation of Branch balance in H.O. Books

In the books of Head Office	In the books of Branch
Branch Asset (Individual) A/c ……Dr.	Head Office A/c ……Dr.
To Branch A/c	To (Individual) Asset A/c
Branch A/c………	(Individual) Liability A/c …Dr.
To Branch Liability A/c	To Head Office A/c
Beginning of Next Year	
Above Entries will be reversed	Above Entries will be reversed

Foreign Branches

Integral Foreign Operations	Non Integral Foreign Operations
Business of foreign branch is carried on as if it were extension of Head Office. E.g. Sale of Goods imported from Head Office & remittance to Head Office.	Business of branches is carried on substantially independent way by Accumulating cash incurring expenses, generating income. E.g. production by using resources available, in that country.

Indicators of Non – Integral

1. Operation carried independent
2. Transaction with Head Office is not in high proportion of foreign activities
3. Activities of Branch not financed by Head Office.
4. Exchange difference is accumulated to foreign currency transaction reserve.

Dependent Branches Method

Debtors Method

Only transaction between Head Office & Branch is recorded assuming that branch is debtor of Head Office.

Head Office record transactions by branch with customer or any other person & only transactions with Head office will be recorded. (Method is similar to Consignment accounting Branch Account prepared

Stock Debtors Method

In this method, Head Office will record all transactions with by branch with outsiders

Accounts Required:-

1. Brach Stock Account
2. Branch Cash Account
3. Branch Asset Account
4. Branch Debtors Account
5. Branch Expenses Account
6. Goods sent to Branch A/c
7. Branch Adjustment A/c

   (Only if Goods are sent by Head Office to branch at Invoice price)

Trading & P&L A/c

(Similar to Departmental Trading & P&L A/c)

in by Head Office is similar to consignment A/c)	Balance of Branch Adjustment A/c will be transferred to Branch P&L A/c.
↓	↓
(But if any figure is missing then we need to prepare Branch Stock, Branch Debtors A/c).	Branch P&L A/c (Dr. all exp.) Result is Profit or Loss.

Debtors Method

In the books of Head Office Branch Account

Particulars	₹	Particulars	₹
To Balance b/d		By Balance b/d	
- Cash in Hand	xxx	- Stock Reserve	xxx
- Trade Debtors	xxx	By Goods Sent to Branch A/c	xxx
- Stock	xxx	(Return to H.O.)	
- Asset (Furniture)	xxx	By Goods Sent to Branch A/c	xxx
To Goods Sent to Branch A/c	xxx	(loading on net goods sent to	
To Bank A/c	xxx	branch)	
(Payment by Head Office		By bank A/c (Remittance from	xxx
behalf of Branch)		Branch to Head office)	
To Balance C/d	xxx	By Balance c/d	
- Stock Reserve		- Cash in Hand	xxx
- Outstanding Expenses		- Trade Debtors	xxx
To P&L A/c (Net profit)	xxx	- Stock	xxx
		- Asset (Furniture)	xxx
	xxx		xxx

If any amount is missing then A/c shall be prepared to find out amount as Balancing figure. (Accounts are similar to A/cs prepared in Stock-Debtor Method).

Stock Debtor Method

Branch Adjustment Account

Particulars	₹	Particulars	₹
To Branch Stock A/c	xxx	By stock Reserve A/c	xxx
(Loading of loss)		(on opening stock)	
To stock reserve	xxx	By Goods Sent to Branch A/c	xxx
(on closing stock)		(loading on goods sent)	
To Gross Profit*	xxx		
	xxx		xxx

Branch P&L A/c

Particulars	₹	Particulars	₹
To Branch Stock A/c	xxx	By Gross Profit	xxx
(Loss of stock if any)		(From Adjustment A/c)	
To Branch Expenses A/c	xxx		
(Expenses, Bad Debts,			
Disc. allowed)			
To Net Profit*	xxx		
(transferred to General			
P&L A/c)	xxx		
	xxx		xxx

- Other Accounts in stock Debtors system shall be maintained by following double entry system principle.
- Branch stock A/c is maintained at Invoice price if Goods are sent at Invoice Price by H.O. to Branch.
- In Branch Adjustment A/c loading on opening stock, Goods sent, Goods lost, Goods I transit & closing stock is adjusted but no adjustment to be made for loading related to goods sold as loading portion in goods sent represents realised profit Hence it shall not be reversed.

- Balancing figure in Branch Stock A/c :-

1. If Balancing figure on Debit side :- Represents stock excess profit over normal & it is transferred/credited to Adjustment A/c.
2. If Balancing figure on Credit side:- It may be treated as stock shortage & cost to be transferred/ Debit to P&L A/c & loading portion to Branch Adjustment A/c.

Chart AS 1 "Disclosure of Accounting Policies"

1. Accounting Policies Means

Specific accounting principles & Methods of applying such principles adopted in preparation and presentation of financial statements.

Selection of accounting policies is the responsibility of the management.

In selection of accounting policies, management should consider the following:

Primary consideration

Financial statements should give True & Fair view after applying selected policies

Other Major consideration

Prudence

- It means management should be careful while selecting accounting policies.
- Management should apply knowledge i.e. nature of business, legal requirements, accounting standards, etc. in the selection of policies.

Substance over

- It is Reality over Legality.
- Management should select the accounting policies which help to present a accurate picture of financial statements rather than legality

Materiality

- Financial Statement should disclose all material Items i.e. those items which affect decision making of users

2. Fundamental Accounting Assumption in preparation of financial statements

Going concern

It is assumed that business would continue for foreseeable period.

Consistency

it is always assumed that same accounting policies would be followed every year.

Accrual Assumption

It is assumed that entity record all income & exp. on period basis. They are not recorded on payment basis

Chart AS – 2 Valuation of Inventories (Chart)

Inventory is an asset held for sale in the ordinary course of business (Finished goods), which is used in the process of production (Raw Material) or consumed in the process of production (Consumables and Loose tools)

Valuation of Inventory

1. ***Inventory is valued at COST (or) NRV whichever is LOWER***

*Let us understand **"What Cost of Inventory Includes"***

Cost of Purchase

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

Cost of Conversion

This includes the costs incurred to convert the raw materials into finished goods. (I.e. Factory Overheads)

Absorption of Factory Overheads

- ***Fixed OHs***
  - *Actual Capacity > Normal Capacity* → *Absorb based on Actual Capacity*
  - *Actual Capacity < Normal* → *Absorb based on Normal Capacity*
- ***Variable OHs***
  - *Absorb based on actual capacity utilisation*

Example

Other Cost

All other costs incurred to bring the inventory to the present location and condition. E.g. R & D cost, Packaging cost, Administration OHs in relation to production activities

Cost of inventory should be ascertained in following manner

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

Following Cost should be Excluded from Cost – 1) Abnormal Loss 2) Storage Cost (Unless those cost are necessary for production process) 3) Administrative selling & distribution cost 4) Borrowing cost (Interest)

2. Let us see "How to Calculate Net Realisable Value

Net Realisable Value of

- ***Finished Goods*** – *Expected SP - Selling cost*
- ***Work in Progress*** – *Expected SP of FG - Expected cost to complete - Selling Cost*
- ***Raw Material*** – *Strictly, No need to determine NRV*

3. Valuation of Raw Material

Its valuation is fully based on the valuation of Finished Goods

If finished goods is sold or expected to be sold at cost or above cost	***If finished goods is sold or expected to be sold below the cost***
Raw material should be valued at Cost	***Raw material should be valued at Replacement Cost***

Examples

Or

4. Disclosure Requirements – The financial statement should disclosed

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

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Cash Flow Statement

Categories of Cash Flows

Operating Activities

These are the Main revenue generating Activities of the enterprise.

Cash Inflow	Cash Outflow
- Cash Sales	- Cash purchase Of goods
- Cash received from Debtors	- Payment to creditors
- Commission & fees Received	- Payment of wages
- Royalty received	- Payment of Income tax

Investing Activities

It includes the purchase and sale of long term assets and other investments than cash equivalents.

Cash Inflow	Cash Outflow
1. Sale of fixed assets	1. Purchase of fixed assets
2. Sale of investment	2. Purchase of investment
3. Interest received	
4. Dividend received	

Financing Activities

Activities that result in change in the size and composition of the capital and borrowings

Cash Inflow	Cash Outflow
1. Issue of shares	1. Cash repayments of Loan.
2. Issue of debentures in cash	2. Redemption of Shares & debentures
3. Proceeds from long term short term Loans/ borrowings	3. Dividends paid on equity & preference share capital
	4. Interest paid on loans/debentures

Cash fund Includes:-

1. Cash in hand
2. Cash at Bank
3. Cash Equivalents – It is short term Highly liquid investments readily convertible in cash.

- **Income tax payment:-**
  - If nature of tax is not specified then it is assumed that tax paid on income generated from operating activity.
  - If it is practicable to separate the tax payment among different activities then it should be separated & presented under respective activity like Operating Investing & Financing Activity.

- **Extra ordinary Items:-**

  Should be disclosed separately under appropriate activity based on nature of cash flow.

Example :- Cash received against insurance claim is treated as cash flow operating activity But if cash is received against insurance claim for loss of asset is shown in investing activity.

Let's understand Direct & Indirect Method for presenting cash flow from operating

Cash flow from operating activity

Trading & P&L A/c (Combined)

Particulars	Dr. (₹)		Particulars		Cr. (₹)
To opening Stock		-	By Sales		
To Purchases			Cash sales	50,00,000	
Cash	20,00,000		Credit sale	30,00,000	80,00,000
Credit	30,00,000	50,00,000	By Cl. stock		5,00,000

To Expenses			By Interest		
Cash	5,00,000		on Investment		2,00,000
Credit	6,00,000	11,00,000			
To Depreciation		4,00,000			
To Interest on loan		1,00,000			
To Net profit		21,00,000			
		87,00,000			87,00,000

Cash flow statement with Direct Method

Direct Method	
(i) Cash flow from operating activities	
A) Operating cash receipts	
------------	XXX
------------	XXX
B) Less : Operating cash payment	
------------	XXX
------------	XXX
C) Cash generated from operation (A – B)	XXX
D) Less Income tax paid (Net of tax refund received)	XXX

E) Cash flow before extraordinary items	XXX
Net cash flow from Operating activity	XXX
(ii) Cash from Investing Activity	
Add : (Cash Inflows)	
------------	XXX
------------	XXX
Less: (cash outflows)	
------------	XXX
------------	XXX
Net cash flow from Investing activities	XXX
(iii) Cash flows from financing activities	
Add : (Cash Inflows)	
------------	XXX
------------	XXX
Less: (cash outflows)	
------------	XXX
------------	XXX
Net cash flow from Financing activities	XXX
(iv) **Net increase/Decrease in cash and cash equivalent (i + ii + iii)**	XXX
(v) Add : cash and cash equivalents in the beginning of the year	XXX
(vi) **Cash and cash equivalents in the end of the year**	XXX

↓

Operating Activity under direct method only considers Cash Items.

Common Accounts required to be prepared as working Note under Direct Method.

1. **Debtors A/c (To find out receipt from Debtors)**

Particulars	₹	Particulars	₹
To Balance B/d	xxx	By cash A/c* (Collection) (b.f.)	xxx
To Credit sales A/c	xxx	By Balance c/d	xxx
	xxx		xxx

2. **Creditors A/c (To find out payment to creditors)**

Particulars	₹	Particulars	₹
To cash / bank A/c* (b.f.)	xxx	By Balance B/d	xxx
To Balance C/d	xxx	By Purchases	xxx
	xxx		xxx

- If nothing is specified whole sale & purchase is treated as on credit.

Accounts which may be required to be prepared under Direct Method.

3. **Provision for Tax Account / Income Tax Payable A/c (To find out tax paid)**

Particulars	₹	Particulars	₹
To Bank *(Tax paid) (b.f.)	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P&L A/c	xxx
		(Provision created this year)	
	xxx		xxx

4. **Outstanding Expenses A/c**

(To find out specific expense paid)

Particulars	₹	Particulars	₹
To Bank *(paid in current year) (b.f.)	xx	By balance b/d	xx
To Balance c/d	xx	By expenses (for current yr.)	xx
	xx		xx

Items marked with * are balancing figure or required figure.

Cash flow statement with Indirect Method

Indirect Method	₹
(i) Cash flow from operating activities	
A. Net Profit as per P&L A/c or difference between Opening	
& Closing balance of Profit and Loss A/c	XXX
Add : Transfer to reserve	XXX
Proposed dividend for current year	XXX
Interim dividend paid during the year	XXX
Provision for tax made during the current year	XXX
Net profit before taxation and Extra ordinary items	XXX
Adjustment for Non-Cash and Non-Operating Items.	XXX
B. Add :	XXX
- Depreciation	XXX
- Preliminary expenses	XXX
- Interest on borrowings and debentures	XXX
- Loss on sale of fixed assets	XXX
- Discount on issue of shares and debentures written off	XXX
C. Less :	
- Interest income / received	XXX
- Dividend income received	XXX
- Rental income received	XXX
- Profit on sale of fixed asset	XXX
D. Operating profits before working capital changes (A + B – C)	
E. Add	
- Decrease in current assets	XXX
- Increase in current liabilities	XXX

F. Less :	
- Increase in current assets	XXX
- Decrease in current liabilities	XXX
G. Cash generated from operations (D + E – F)	XXX
H. Less : Income tax paid (Net of tax refund received)	XXX
I. Cash flow from operation before extraordinary items	XXX
(+/–) Cash flow from extraordinary items	XXX
Net cash flow from Operating activity	XXX
(ii) Cash from investing accounting –(Same as Direct Method)	XXX
(iii) Cash flows from financing activities – (Same as Direct Method)	XXX
(iv) Net increase/Decrease in cash and cash equivalent (i + ii + iii)	XXX
(v) Add : cash and cash equivalents in the beginning of the year	XXX
(vi) Cash and Cash equivalents in the end of the year	XXX

Accounts which may be required to be prepared under Indirect Method

1. Asset A/c

(To find out Depreciation or profit or loss on sale of asset or loss on or sale & Purchase of Asset)

Particulars	₹	Particulars	₹
To Balance B/d	xxx	By Bank* (Sale)	xxx
To Bank * (Purchases)	xxx	By Depreciation*	xxx
To P&L A/c (Profit on sale)	xxx	By Balance c/d	xxx
	xxx		xxx

2. Provision for Tax A/c / Income Tax Payable A/c

(To find out tax paid or provision for tax created in current year)

Particulars	₹	Particulars	₹
To Bank A/c* (Tax paid)	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P&L A/c* (Provision created)	xxx
	xxx		xxx

Main Focus in INDIRECT METHOD = Cash Items + P&L A/C Items for reversal.

Items marked with * are balancing figure or required figure.

Chart – AS 3 Cash Flow Statement

1. Cash Flow Statement Means

Presentation of Flow of Cash & Cash Equivalents during the year , it includes following cash activities

Cash Inflow/ Outflow from Operating Activity	Cash Inflow/ Outflow from Investing Activity	Cash Inflow/ Outflow from Financing Activity
These are the principal/ Main revenue generating activities of the enterprise.	It include the purchase and sale of long term assets and other investments than cash equivalents.	Activities that result in change in the size and composition of the capital (including Preference share capital in the case of a company) and borrowings of the enterprise
Cash Inflow – 1. Cash Sales 2. Cash received from Debtors /Commission and Fees etc…. **Cash Outflow** 1. Cash Purchases. 2. Cash operating expenses. 3. Payment of wages/ Income Tax.	**Cash Inflow-** 1. Sale of fixed assets 2. Sale of investment 3. Interest received 4. Dividend received **Cash Outflow** 1. Purchase of fixed assets 2. Purchase of investment	**Cash Inflow-** 1. Issue of shares/debentures 2. Proceeds from long term, short term Loans/ borrowings **Cash Outflow** 1. Cash repayments of amounts of Loan. 2. Redemption of shares & debentures. 3. Interest Dividends paid

2. Presentation of Cash Flow Statement

Statement can be prepared with the help of following two methods.

Difference is there only in presentation of operating activities
(Other activities are presented in the same way in both Methods)

Direct Method	***Indirect Method***
Major classes of gross cash receipts & cash payments are disclosed.	Reconciles from net income to cash provided by operating activities Indirect Method

1. Net Profit before tax 2. +/- Non cash & Non operating
3. +/- Changes in Working Capital 4. - Tax paid & extra ordinary items

3. *Disclosure Required*

- Components of Cash & Cash Equivalents
- Reconciliation of the amounts in CFS with amounts reported in Balance Sheet.

Events that occur after the Balance Sheet date but before approval of accounts by Governing body i.e. (Board of Directors)

Adjusting Events are

- *Condition /Event exist on Balance Sheet Date.*
- *Events occurring after the balance sheet date provide additional information on the conditions existing on the BS date.*
- *The additional information materially affects the Amounts on the Balance Sheet date.*

Requires Adjustment in the balances of assets and liabilities as on Balance Sheet date

Example of Adjusting Events

Insolvency of customer - Conditions:

a. *Condition of insolvency existed on balance sheet date.*
b. *Customer is not yet declared Insolvent on Balance sheet date.*
c. *He is declared insolvent after Balance sheet date but before Approval of Financial Statement by BOD.*
Then Balances of Debtors shall be adjusted by making provision for doubtful debts for entire amount

Non-Adjusting Events are

- *If Conditions of Adjusting events not satisfied*
- *Do not require adjustment of Assets or Liabilities.*
- *Disclose Non - Adjusting events in report of Approving authority if significant (e.g., Board's Report)*
- *What to disclose*

  -Nature of events Nature of event, an estimate of financial effect, or a statement that such an estimate cannot be made.

Examples of Non Adjusting Events

1. *Decline in market value of investment*
2. *Major Business combination after Balance Sheet date.*
3. *Announcing plan to discontinue operations.*
4. *The distraction of a major production plant by a fire after reporting period.*
5. *Announcing or commencing the implementation of a major restructuring.*
6. *Abnormally large changes after Balance Sheet date in asset prices or foreign exchange rates.*
7. *Commencing major litigation arising solely out of events that occurred after the reporting period.*
8. *Changes in tax rates announced after Balance sheet date*

Exceptions to the rule of Non-adjusting event

(a) Going concern assumption rendered invalid.
(b) Statutory requirements.

Even though above situations are Non- Adjusting Events, it should be adjusted as on Balance sheet

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Chart - AS – 5 Net profits/ loss for the period, prior period items & changes in Accounting Policies

Issues Discussed in AS-5

Presentation & Disclosure of

Ordinary Activities

Activities which are Related normal course of business, & incidental to entity's main business activities.

Examples

Sale of goods, providing services, sale of scrap, interest income/expense, salary expense, provisions.

Exceptional items (Ordinary Acitivities)

On size, nature or incidence of transactions those activities require separate disclosure. These items are generally termed as exceptional items.

Examples -

-Profit /Loss on sale of Asset

- Theft of Cash/Stock

-Litigation Settlements

Disclosure

Ordinary Activities required Separate Disclosure of Nature and Amount

Extraordinary Activities

These items are not expected to occur as part of a business.

Examples

- Loss due to earthquake
- Attachment of property of the enterprise
- Refund of Government Grant.

Disclosure

Due to size, Nature or Incidence of transactions those activities require separate disclosure,

Prior Period Items.

These are income or expenses arise in the current period as a result of errors or omissions in the preparation of the FS of one or more prior periods.

Examples

- Omission to record for income and expenditure.
- Non provision of expenses which are already incurred or due.
- Depreciation rate was incorrect.
- Treating operating lease as finance lease

Disclosure

These items should be disclosed separately in the P&L A/c show the impact of prior period items in the current year

Presentation and Accounting Treatment of

Changes in Accounting Estimates

A change in the estimated amount in any items of FS

- When it is difficult to distinguish the change in estimate & change in accounting policy , treat the change as change in accounting estimate.
- Adopt same classification as was previously used.

Examples

Changes in the -

1. Amount of provision for doubtful debts.
2. Useful life of depreciable assets.
3. Method of depreciation.

Disclosure

- Nature of change
- Amount of change
- Any change in an accounting estimate having effect in later periods.

Changes in Accounting Policies

A change in the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of FS.

Allowed only if.

-Required by Statute

- Required by AS or

- Leads to better presentation of FS.

Examples

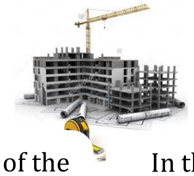
- Changes from weighted average to FIFO(Inventory Inventory Valuation)
- Changes from cost model to revaluation model

Disclosure

1. What is changed?
2. How much impact on FS
3. If there is no impact in the year of change but there is material impact in the future years, the fact of such impact in the year of change.

AS 7 - Construction Contracts

1. *Types of Construction Contract*



Fixed price contract

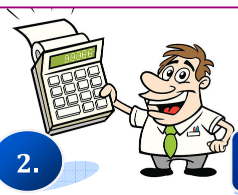
In these contracts contractor agrees for fixed price of the contract or a fixed rate per unit of output.

E.g. Contractor receives Rs. 5 crore after construction of building or he receives Rs. 5 crore per building constructed.

Cost plus contract

In these contracts, contractor is reimbursed all allowable/defined costs as defined plus fixed percentage of fee/profit.

Contractor receives amount spent for construction + 2 % of amount spent OR receives amount spent for construction + 5 lakh.



2. Measurement of Contract Revenue on the Basis of

Completion of a physical proportion of the contract work

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

If Total costs> Contract Revenue
Estimated loss can be recognized immediately
Irrespective of

- ***(i) % of completion***
- ***(ii) Started work or not***
- ***(iii) Whether or not income from other***

Percentage of work performed

Percentage of work performed =

$$\frac{\textbf{Contracts cost incurred till balance sheet date}}{\textbf{Estimated total contract cost}}$$

Costs =
Direct costs + Allocable costs + Costs specifically chargeable to customer.

Survey method

3. Disclosures

1. *The amount of contract revenue recognised.*
2. *The methods used to determine the contract revenue; and the percentage of completion;*

An entity should disclose the following for contracts in progress at the balance sheet date:

- *(a) The total amount of costs incurred and recognised profits (less recognised losses) up to the balance sheet date;*
- *(b) The amount of advances received; and the amount of retention money with the contractee.*

As – 9 deals with the recognition (recording) of revenue in the profit and loss statement of an entity

Revenue means Gross Inflow of cash, Receivables or other consideration arising in the course of ordinary activities of an enterprise.

This Standard discusses the following revenues

Sale of goods

1. ***Ownership of goods have been transferred***
2. ***Risk and rewards has been transferred***
3. ***There is no uncertainty regarding consideration (i.e. Cash or Receivables) at the time of recognition***

Rendering of services

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

- ***Proportionate of completion Method***
- ***Recognise on significant completion Method***

Other Income

Interest

Interest is recognised on time proportion basis based on the outstanding amount and rate applicable

Royalty Income

Royalty is recognised on accrual basis in accordance with the terms of agreement.

Dividend Income

Dividend income is recognised when a right to receive dividend is established irrespective of the year it is relating to.

There should NOT be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed till the time there is NO uncertainty.

Disclosure

- Revenue recognition policy
- Change in policy if any
- Disclose if revenue recognition is postponed
- Gross turnover, Excise duty and net turnover - Disclose Separately

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Chart - AS 10 – PROPERTY, PLANT AND EQUIPMENT (PPE)

1.

Let us see "What is PPE"

It is Tangible Assets

- **Expected to be used during more than a period of 12 months**
- **Held for use in**
  - **Producing Goods**
  - **Providing Services**
  - **Rental to others**
  - **For Administration Purpose**



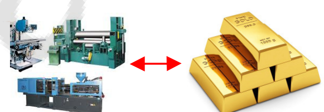

Recognition of Plant, Property and Equipments

2.

How entity should do "Recognition of PPE" i.e. (Recording of PPE in the books of account)

Initial Recognisation & Measurement

Asset is acquired by



Payment of Cash/Credit

Asset is recognised at Purchase Price + Expenses incurred on asset to make asset ready to use

Purchase price	xx
+Freight	xx
+Non refundable taxes	xx
+PV of restoration	xx
+All direct exp Inc till ready to use	xx
+ 16- Borrowing cost	xx
-Discount	xx
-Govt. Grants	xx
	xx

Self construction

Asset is recognised at Cost of Construction + Expenses Borrowing cost incurred before asset is ready to use. (Avoid internal profits on stores used and abnormal loss of material and labour)

Exchange with another assets & by issue of securities

1. Asset received is recognised at Fair value of either
(a) Asset given up
(b) Asset acquired.

2. If it is reliable measurement of fair value of asset given up or Asset received is not possible then new asset received is to be recorded at Carrying amount of Asset given up.

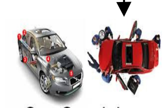
Subsequent Recognisation & Measurement

Does subsequent expenditure (including spare parts) increase the future economic benefits? In other words it is PPE if it satisfies the recognition criteria

- Yes → Capitalise along with PPE

&

- No → Charge to P&L Statement



Car Servicing

It is recognised as PPE if it is expected to generate Future economic benefit to Entity

3. Important Points

1. *Major assets replacement & overhauling should be capitalised and depreciated over its useful life, if it satisfies PPE recognition criteria.*
2. *If deferred credit terms are involved, it should be recognised at present value and it would be unwinded over the period. PPE should be recognised at cash price (Present Value) on the date of Recognisation.* ***Interest = Total Payment – Cash Price should be debited to P& L unless asset is qualifying asset as per AS -16***
3. *Useful life, Residual value & depreciation method should be reviewed every year end.*
4. *Any change in price. Life, Realisable Value & method of depreciation - Account prospectively.*
5. *Select Cost or revaluation model for the entire class of items. Select and apply consistently.*
6. *If any major components is replaced then component to be recognised separately by removing old component from book and depreciation on new component to be charged on component basis.*

4. Retirement of PPE

1. ***PPE is retired from active use and it is held for disposal - such PPE should be stated in balance sheet Carrying amount (Net book value); or Net realisable value (NRV) Whichever is LOWER***

Replaced By →

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

5. Accounting disposal

COST Model

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

Revaluation Model & Revaluation surplus exist

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

After disposal, if any Revaluation surplus exists - transfer to General reserve (Revenue reserves)

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

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

This AS discusses how to convert the foreign currency transaction into reporting currency i.e.

- ***Which exchange rate should be used to convert it into Rupees*** *and*
- ***How to account for the changes in foreign currency (Forex) rates in financial statements.***

This Standard guides in

- ***Recording of Foreign currency transactions entered by the entity***
- ***Translation of financial statements of foreign operations***
- ***Accounting for forward exchange contracts***

1. *What is Monetary & Non – Monetary Item*

Monetary items

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

Therefore following items are monetary items:

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

Non monetary items

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

Example :Prepaid expenses, Advances given to suppliers.

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

2. *Let us understand An entity can have foreign currency transactions in two ways*

- Transactions in foreign currency directly by the entity i.e. imports, exports, foreign currency loans, etc.
- Foreign currency transactions by its foreign branch or subsidiary, etc. (Indirectly)

3.

Currency

- **Reporting Currency** - currency in which financial statements are presented.

- **Foreign currency - currency is other than the reporting currency.**

4. *Recording of Foreign currency transactions entered by the entity*

- **Initial Recognition**
  - Record using the rate on Date of Transaction /Average rate (if no significant fluctuation)
- **Classification of Assets & Liabilities as on Balance Sheet Date**
  - ***Monetary item***
    - Closing Rate
  - ***Non-Monetary item***
    - Carried At
      - Historical cost
        - Rate on Date of Transaction
      - Fair value
        - Rate on date of valuation

5. *Based on classification of foreign operation*

- **Integral Foreign Operation**
  - Monetary
    - Closing Rate
  - Non - Monetary
    - Historical Cost
      - Rate on Date of Transaction
    - Fair Value
      - Rate on date of valuation
  - P & L items & others
    - Rate on Date of Transaction

  Difference - Transfer to P & L

- **Non-Integral Foreign Operation**
  - Monetary & Non - Monetary
    - Closing Rate
  - P & L items
    - Rate on Date of Transaction
  - Contingent liabilities
    - Closing Rate

  Difference - transfer to FCTR a/c every year FCTR a/c - will be transferred to P & L only on disposal of Foreign Operation.

  FCTR – Foreign Currency Transaction Reserve

6.

Types of Forward Contract

Forward Contract entered for its own purpose

1. Premium or discount arising at the inception of the contract should be amortised as an expense or income over the life of the contract.
2. Exchange difference on such contract should be recognised in P&L.
3. Any profit or loss arising on cancellation or renewal of such forward contract should be recognised as income or expense for the period.

Forward Contract entered for Trading/ Speculation

1. Premium or Discount on such contracts need not be recognised.
2. As the forward contract is held for trading or speculation purpose it should be valued at the balance sheet rate .
3. Gain or loss as on the Balance sheet date should be recognised in P&L for the period.
4. Gain or loss = Forward rate available on the reporting date for the remaining maturity of the contract LESS Forward rate fixed at the inception.

Chart AS 12 - Accounting for Government Grants

Government Grants are Govt. assistance in cash/kind for compliance of future/past conditions

Two conditions must be satisfied for recognition of Government Grant

1. There is reasonable assurance that the entity will comply with the conditions
2. Ultimate collection is reasonably certain.

Now Let us see "What will be the Accounting treatment for Grant Received"

Govt. Assistance /Grant in form of Cash

Grant Received - related to Specific Asset

- **Depreciable Assets**
  - **Alternative ONE**
    1. **Amount received is deducted from the gross value of the asset;**
    2. **The reduced amount of fixed asset is depreciated over its useful life**
  - **Alternative Two**
    1. **Amount received is treated as deferred income**
    2. **Deferred income is recognised in P&L a/c on a systematic and rational basis over the useful life of the asset;**
    3. **Apply depreciation method to recognise deferred income in P&L a/c;**
- **Non - Depreciable Assets**
  - No conditions to be fulfilled → **Credit to capital reserve**
  - Conditions to be fulfilled → **Credit to P & L in a systematic Manner**

Grant Received - related to Revenue Expenses

- **Option 1 – Deduct from related Expenses**
- **Option 2 – Credit to P & L A/c as other income in a systematic basis (Matching Concept)**

Govt. Assistance /Grant in form of kind

- Received at Free of cost
  Record at Nominal Value
- Received at Concessional Price.
  Record it at acquisition Rate

Refund of Government Grant

Government grants are generally refundable when the entity does not fulfil certain conditions. Refund of grant is treated as an extraordinary item as per AS 5

Related to Revenue

- Apply first against unamortized deferred GG.
- Balance (if any) - Debit P & L.

Relating to promoters Related to Fixed Asset

- Debit Capital Reserve

Related to fixed Asset

- Debit to FA &
- Depreciate the Revised Book Value prospectively over the remaining useful life.
- Debit from Capital Reserve/ Deferred GG. (if any)

Disclosure under Accounting Standard - 12

- Accounting Policy followed by Entity.
- Nature & Extent of Government Grants recognized in Financial Statement.

Chart AS 13 - Accounting For Investments

1. Investment is a

Asset (Not held as Stock in Trade)

- **Held for earning Income**
  - **By the way of**
    - **Dividend**
    - **Rental**
    - **Interest**
- **Held for Capital Appreciation**
- **Held for Other Benefits**

2. Recognition and Measurement of Investment

Initial Recognition

Recognise at Cost i.e.	
Purchase Price	***XX***
+ Incidental expenses	***XX***
- Pre acquisition income	***XX***
	XX

Subsequent measurement on BS date

Based on classification

Current Investment

Two conditions to be satisfied

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

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

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

Long term Investment

Which is not a current investment

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

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

3. *Sale of Investments*

Profit or Loss on sale of investments should be recognised in the P&L alc.
Profit / (Loss) = Sale proceeds (Net of selling expenses) - Carrying amount (book value).

4. Classification of Income from Investments

PRE Acquisition Income

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

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

POST Acquisition Income

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

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

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

5 What is Accounting Treatment for Right Issue and Rights share?

If shares purchased under right option

If the existing share holders exercise the option
Investment A/c .... Dr.
To Cash/Bank A/c

If right option sold

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

<u>Exception to the above rule -</u> when the following two conditions are satisfied, the accounting treatment differs:
1. The investments must be acquired on cum-right basis; and
2. Market value of such investments came down below the cost of investment immediately after the issue of right shares;

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

4. Disclosure

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

AS 15 Employee Benefits Chart

Employee Benefits Includes

All forms of consideration given for the services rendered. (Including accrued during the employment but payment may be later}

Short-term employee benefits [EB]:-

- Due within 12 months from YE.
- E.g. Wages/leave etc.
- Recognise the expense & liability in the year of an service/accrual basis.
- NO Discounting

Other Long-term EB:-

- Due during service period but paid after 2 Yrs from YE.
  E.g. Silver jubilee gifts etc.
- Same as post employee benefits.

Post EB:-

- Due after completion of service E.g. gratuity, superannuation etc.)
- Time difference may exist, therefore consider time value of money.

Temporary benefits:-

- After service (Either VRS/Termination).
- If paid immediately - NO PV calculation.
- Otherwise bring to no present value & provide the same

Post Employment Benefits Plans

Defined Contribution Plans (DCP)

- Responsibility is limited to contribution only;
- No further responsibility
- No actuarial & investment risk on entity
- Recognise expense & Liability in the year of service i.e. accrual basis
- No present value calculation

Defined Benefit plan (DBP)

- Responsibility is to provide agreed benefits after retirement.
- Accrued during the service. But payment after retirement.
- Actuarial risk & Investment risk is with employer.
- Time difference exists, hence present value computation required.
- **Follow below mentioned steps for calculations:-***

Steps for calculating Defined Benefit plan (DBP)

Step 1: Estimate employee benefit obligations as on BS Date;
Step 2: Discount the benefits using PUCM (Projected Unit Credit Method);
Step 3: Find out fair value of plan assets;
Step 4: Determine the actuarial gain /loss;
Step 5: Determine past service cost due to change / introduction of new things in plan;
Step 6: When plan is stopped-recognise gain or loss.

Other Important Points:

(a) Use Yield of government bonds as at BS Date.
(b) Fair value-take market value if not available - estimate value.
(c) Actuarial gain/losses should be recognised immediately in P&L.
(d) Based on market expectations -expect return on plan Assets.

Balance Sheet Presentations:

Particulars	₹
PV of DBP as computed	xxx
Less: Past service cost not yet recognised	(xx)
Less: Fair value of plan assets	(xx)

Fair Value of Plan Assets:

Particulars	₹
Opening Fair value of Assets	XXX
Add: Return on the Assets	XX
Add: Contributions	XX
Less: Actual payment to employee	(XX)

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With AS Charts

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Yaad Hoo Jayenge !!

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Chart AS – 16 Borrowing Cost

This Accounting Standard Prescribes rules for accounting treatment for borrowing costs

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

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

1. Commitment charges

2. Amortisation of discounts/premiums on loan

3. Finance lease charges

4. Ancillary costs

5. Exchange differences arising from foreign currency borrowings

Let us see how to "Recognise Borrowing Cost"

Borrowing costs directly related to

- **Acquisition of**
- **Construction of**
- **Production of**

Qualifying Asset → **Capitalise along with Asset**

If Asset is not Qualifying Asset → **Charge to P & L**

What is Qualifying Asset......?

Asset that takes a substantial period of time to get ready for its intended Use or Sale (Generally 12 months or higher)

Examples of Qualifying

A. Tangible - plant and machinery, Building Intangible Assets: Patent
B. Investment Property.
C. Inventories that require a substantial period of time to make it ready for sale. E.g. Wine

Capitalisation of Borrowing Costs

The standard has given guidance on the following points:

Commencement of Capitalisation (When to start capitalisation)

When ALL of the following conditions are satisfied

(a) Expenditure on qualifying asset being incurred;
(b) Borrowing costs are being incurred; &
(c) Activities are in progress.

Suspension of Capitalisation (When to suspend)

When there is NO active development or active development is interrupted. (Not to be suspended if there is temporary delay)

Stop or cease of Capitalisation (When to stop)

When substantially all necessary activities are complete i.e. the asset is ready for its intended use or sale.

How much amount should be capitalised?

If funds are specifically borrowed for obtaining a qualifying asset

Capitalization rate on basis of actual costs

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

If funds are borrowed generally and used for obtaining a qualifying asset

Compute capitalisation rate based on weighted average rate of borrowing Cost costs;

1.**Capitalisation Rate** $= \dfrac{\text{BC incurred during the year}}{\text{Aggregate outstanding borrowings}} \times 100$

1 **Aggregate outstanding borrowings**

$= \dfrac{\text{Amount of borrowings} \times \text{No. of months loan outstanding}}{\text{12 Months}}$

2 **Interest to be capitalised**

= Expenditure incurred on the asset x capitalisation rate x Period of utilisation / 12 months

Exchange differences arising on foreign currency borrowings

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

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

Disclosures

The entity should disclose the following in its financial statements:

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

1. Important Concepts

What is Segment Reporting? → Disclosure/Reporting of Information of product and Location of Entity based on Sales, Profit, Assets, and liabilities is known as Segment Reporting.

Core Element of AS – 17 → Core Element of this standard is reporting more than Accounting

Why Segment Reporting? → To gives very good understanding of the company to the stake holders, so that stake holders can take informed decisions.

2. Types of Segment

Business Segment

Segment is made on the basis of Products / Services with different risk and returns.

Geographical Segment

Segment is made on the basis of its operation/customers in different geographical areas, which are exposed to different risk and

3. Important Definitions

Segment Revenue → Direct revenue + Allocated + Inter segment
{Except extraordinary items, finance income & Investment income}

Segment Expense → Direct expense + Allocated + Inter segment
{Except extraordinary items, Finance expense, Income-tax expense and General Admin expense}

Segment Asset → Operating assets + directly attributable assets

Segment Liabilities → Operating Liabilities + Directly attributable liabilities

Segment Result (Profit/ Loss) → Segment Revenue – Segment Expenses

4. Is every segment reportable?

No, only which satisfies anyone of the below Conditions are reportable.

- Segment Revenue >= 10% of total revenue of all segments
- Segment result is 10% or more of
  a. Total of segments profits only.
  b. Total of segments losses only.
  (Whichever is Higher)
- Segment assets >=10% of total assets of all segments
- At least 75% of external revenue should be reported - If not add more segments
- Management can add extra segments at their discretion

Note – If Any segment is reportable because, it satisfied any of first 3 conditions then, it should continue to be reportable in the next year irrespective of criteria.

5. Disclosure

1. Primary segment 2. Secondary segment

Let us see Primary Disclosure

1) Revenue {Direct + Other Segments}. 2) Segment Results
3) Carrying amount of Segment Assets 4) Cost of acquisition of tangible and intangibles during the year. 5) Depreciation and amortisation expenses
6) Non-cash expenses other than depreciation and amortisation.

Business Segment Disclose above

Geographical segment-
{Disclose above points}
- By Assets
- By Customers

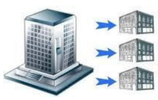
AS 18 – Related Party Disclosures

1. **Objectives of AS 18**

To establish requirements for disclosure of

- **Related party relationships**
- **Transactions between a reporting enterprise and its related parties**

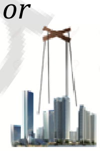
2. **Applicable To**



(a) Enterprises that controlled by the reporting enterprise

(b) Associates and joint ventures of the entity

(c) Individuals who have control or significant influence directly or indirectly & their relatives



(d) Key management personnel and relatives of such personnel

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence

3. **Important Concepts**

Related Party –	***During the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.***
Related party transaction	***A transfer of resources or obligations between related parties regardless of price charged or not.***
Control	***Ownership, directly or indirectly, of more than one-half of the voting power of an enterprise, or*** ***- Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or*** ***- A substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.***
Significant Influence	***Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies***

4.

AS- 18 Not Applicable to-

1. ***Entities have common Directors***
2. ***Finance provider***
3. ***Government Dept.***
4. ***State Controlled Entities***
5. ***Single Supplier/customer etc...***

5.

Disclosures

Is it related at any time during the

Yes

No

Any transaction took place i.e. transfer of resources or obligation

If Yes

If No

Does control exist?

No disclosure required.

Disclose the following:
(a) Name
(b) Relationship
(c) Nature of transaction
(d) Amount of transaction
(e) OIS balance, if any
(g) Amounts written off /back during the period.

Yes

Disclose the following:
(a) Name
(b) Relationship
Other disclosure not required.

Examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- ***Purchases or sales of goods (finished or unfinished);***
- ***Purchases or sales of fixed assets;***
- ***Rendering or receiving of services;***
- ***Agency arrangements;***
- ***Leasing or hire purchase arrangements;***
- ***Transfer of research and development;***
- ***License agreements;***
- ***Finance (including loans and equity contributions in cash or in kind);***
- ***Guarantees and collaterals; and***
- ***Management contracts including for deputation of employees.***

1.

Objectives of AS 19

To prescribe in the books of lessee & lessor

The accounting treatment of Lease

Accounting policies and disclosures related to lease

2.

Leases are broadly classified into two

The classification of leases is based on risk and rewards incidental to ownership of the asset.

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

Operating lease

(ye scme lease he)
Accounting for rental is required)

If the risks and rewards incidental to ownership lie with the Lessee - it is called as

Finance lease

Accounting treatment is similar to sale on the basis of substance over form)

2.

Accounting for operating lease

In the books of Lessor:

1. Record lease out asset as the fixed assets in the balance sheet
2. Charge depreciation as per AS 6
3. Recognise lease income in P & L account using straight-line method.
4. Other cost of operating lease should be recognized as expenses in the year in which they are incurred.
5. Initial direct cost of lease may be expensed out immediately or deferred as per lease term.

In the books of lessee:

1. Lease payments should be recognized as an expense in the P & L account on a straight-line basis over the lease term.

3. *Indicators of finance lease*

1. ***Lessor will transfer ownership of asset to lessee by the end of lease term.***
2. ***Lessee has option to purchase he asset at the price sufficiently lower than fair value on the date of option becomes exercisable.***
3. ***Lease term is for major part of economic life of asst (75% approx.)***
4. ***Specified asset given on lease.***
5. ***Total amount collected as lease payment is 90% or more of fair value (approx.)***

4. Accounting for Finance Lease

In the books of Lessor:

1. Recognise asset given under finance lease as receivable at an amount equal to net investment in the lease and corresponding credit to sale of assets.

Net Investment: Gross investment – unearned finance income

Gross Investment: Minimum lease payment from Lessor point of view + unguaranteed residual value

Unearned Finance Income: Gross investment - PV of gross investment

2. Recognition of Finance Income: On the basis net investment outstanding in respect of finance lease.

In the books of lessee:

1. Lease assets as well as liability for lease should be recognized at the lower of:

a. Fair value of the leased assets at the inception of lease, or

b. Present Value (PV) of minimum lease payment (MLP) from the lessee's point of view.

2. Apportionment of lease payment:

a. Principal Amount: It is reduced from the outstanding liability.

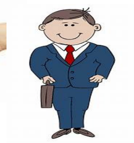
b. Finance charges: It is allocated over lease term on the remaining principal balance.

3. Charge depreciation on finance lease assets as per AS 10.

4. Initial direct cost for financial lease is included in assets under lease.

Note: - If seller quotes artificially lower rate of interest then consider market rate of interest.

5.



Minimum Lease Payment (MLP)

- Lessor → Rent + Guaranteed RV +Unguaranteed RV
- Lesse → Rent + Guaranteed RV → Lease asset recorded at fair value or present value of minimum lease payment → ***Whichever lower***

6.

Accounting Entries for Finance Lease

Lessor

1. **Entry for sale**

- Lessee A/c ....Dr.
  To Sales/Assets

2. **Interest due to year end**

- Lessee A/c ....Dr.
  To Interest A/c

↓

- No Depreciation

↓

- Installment
  Bank A/c ....Dr.
  To Lessee A/c

Lessee

1. **Entry for sale**

- Asset A/c ....Dr.
  To Lesser A/c
  (Fair value or PV or Minimum Lease Payment whichever less)

2. **Interest due to year end**

- Interest A/c.............Dr.
  To Lessor A/c

↓

- Depreciation A/c.............Dr.
  To Asset A/c

↓

- Lessor A/c.............Dr.
  To Bank A/c

7. **Accounting Entries for Operating Lease**

Lessor

1. Rent Received

- Bank A/c ....Dr.
  To rent received A/c

2. Depreciation

- Depreciation A/c ....Dr.
  To Assets A/c

Lessee

Rent Paid

- Rent A/c ....Dr.
  To Bank A/c

8. **When a manufacturer or dealer of the asset gives the asset or lease**

In case of Operating Lease

No change in accounting treatment.
(There is only one minor change: - Initial direct cost shall not be deferred)

In case of Finance Lease

Lessor

Includes –
(a) Profit on sale
(b) Finance Charges

A) Sale, value = FV or PV of MPL (lower)
B) Cost of sales
= Cost of leased asset
= PV of UGRV

Profit recognised = (A – B)

(c) Inception of lease

Note: - If lessor quotes artificially lower rate of interest then consider market rate of interest for calculation of PV

Lessee

Same as previous

9. Sale & Lease back transaction when it is operating lease

- *If sale price is equal to fair value* → *Lessor shall transfer profit or loss immediately*
- *If SP is less than fair value* → *Loss shall be transferred to P&L immediately except if loss will be compensated by future lease payment then sc loss to be deferred; in proportion to lease payment*
- *If sale price is above FV* → *Profit upto fair value recognised as profit and excess over is amortised over period of lease.*

10. Sale & Lease back transaction when it is Finance lease

Profit or loss on sale of asset shall be deferred / amortised over lease period in proportion of leased asset.

↓

Remaining treatment same

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Yaad Hoo Jayenge !!

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AS – 20 Earnings Per Share

1. Objective of AS - 20

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

Over Time | Between Different Entities

2. Presentation of Earning Per Share

An entity should present Basic EPS and Diluted EPS on the face of P&L a/c. Basic & Diluted EPS should be presented separately for each class of equity shares that has a different right in sharing the net profit.

Basic EPS

= Net Profit or Loss for the period attributable to Equity share holders (i.e. after preference dividend and dividend distribution tax) / Weighted average number of equity shares outstanding during the period

Diluted EPS

= Net profit or loss attributable to equity share holders after giving effect of potentially dilutive equity shares / Weighted average number of shares outstanding after giving effect of potentially dilutive equity shares

Meaning of weighted average Number – Share should be adjusted for time weight factors & partly paid shares converted to equivalent shares.

Assume that - All dilutive potential equity shares are converted into equity shares and hence the P&L should be adjusted.

Meaning of Potential Equity Shares

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

E.g. (a) Convertible debentures/preference shares; (b) Share warrants; (c) ESOP (d) Loan agreement, if the borrower has to issue equity shares in case of default of conditions.

3. Restatement of Basic EPS

- ***In case of bonus issue, shares splitting, consolidation of shares in current year then previous year's basis EPS shall also be restated as if bonus shares split took place at the beginning of last year for better comparison.***
- ***EPS not to be adjusted for transactions occurring after the BS date and not affecting amount of capital used for earning profits.***

4. Calculation of Basic EPS in case of Rights issue

Right shares are generally issued at less than fair value it means that there is bonus element and treatment shall be similar to bonus issue therefore we should restate (adjust) previous years.

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

Theoretical ex - rights FV per share =

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

5. Mandatory Disclosures

Basic & Diluted EPS (Whether positive or negative)

- **Fact of a change in calculations of EPS due to bonus, right etc.,**
- **Reconciliation of net profit or loss with the numerator**
- **Weighted average no. of equity shares for Basic & Diluted EPS & their reconciliation with each other**
- **Nominal value of shares along with EPS figures.**

Consolidated Financial Statement of Companies

Subkuch Holding company ke point of view se

Rule No. 1

Inter-company balances are required to be eliminated (to avoid double counting).

a) Share capital of subsidiary is adjusted against investment of holding company at face Value – Remaining capital

(Remaining capital belongs to minority & added to minority interest.)

b) Inter-company debts/ loans shall be eliminated.

- Inter-company balances of Debtors (Bills Receivables) and Creditors (Bills Payables)
- Inter-company loans & advances will be cancelled.
- **Cash in transit or goods in transit shall be cancelled.**

Rule No. 2

Calculate minority Interest (Bacche logo ka hissa alag rakho nahi to rone lagenge)

- If minority interest is negative in consolidated balance sheet then it is shown as negative figure on liability side, finally it will deducted form share capital.
- When holding company acquires more than 50% but less than 100% shares of subsidiary company, then shares which are not acquired by holding company are treated as minority Shareholders.
- Minority interest shall be shown separately to identify holding companies total interest in Subsidiary company. It is shown below shareholders fund.
- Minority interest is the proportion of subsidiary companies net assets/shareholders fund.

We can calculate minority interest with following formula

Particulars	₹
Portion of share capital belongs to minority	xxx
(Add) Portion of pre-acquisition profit belongs to minority	xxx
(Add) Portion of post Acquisition profit belongs to minority	xxx
	xxx

Note:- Minority interest is calculated every time on date of consolidated balance sheet.

Rule No. 3

Calculation of goodwill / Capital Reserve (Also known as Cost Control)

1. Generally calculated on date of acquisition
2. If value of investment in subsidiary company by holding company is higher than value of Net asset acquired (share capital + Reserve) on acquisition date then difference is Goodwill And if the situation is opposite then there is Capital Reserve.
3. In this Case Investment cost for subsidiary company share will not be cancelled against Share capital of subsidiary company unless goodwill = difference is shown on asset side.

Particulars	₹	₹
Cost of investment		xxx
(-) Pre-acquisition of Investment		(xx)
Net cost of Investment		xxx
(-) Portion of net asset of subsidiary company		(xx)
Share capital	xxx	
Reserve & Surplus on acquisition date	xxx	(xxx)
Goodwill / (Capital Reserve)		xxx

Rule No. 4

Divide Reserve & Surplus in Pre-acquisition & Post Acquisition.

Pre – acquisition

- Portion belongs to Holding company Example = 80% → Adjusted in goodwill / Capital Reserve Calculation.
- Portion belongs to Subsidiary company Example = 20% → Added in calculation of minority interest along with their share capital.

Post – acquisition

- Share belongs to Minority 20% → Added in calculation of minority interest along with their share capital.
- Share belongs to majority 80% → Added in Reserve / P & L A/c

Rule No. 5

If Assets & Liabilities are revalued on date of acquisition (such profit or loss is treated as pre- acquisition)

1. Revaluation of fixed assets upward / increasing

   either goodwill $\downarrow$ or capital reserve $\uparrow$

2. Revaluation of assets downwards / decreasing

   Either Goodwill $\uparrow$ or capital reserve $\downarrow$

- Assets to be shown at revalued price.
- Extra depreciation on increased price = Debited to P&L A/c.

OR Reversal of Depreciation = Credited to P&L A/c.

We can find out Net Asset By

Option 1

Assets (Revalued Price)	xxx
(-) Liabilities (Revalued Price)	xxx
Net Asset	xxx

Holding Company 80% | Subsidiary Co. 20%

Follow this option if Assets / liabilities are revalued or share capital & reserve not given

Option 2

Share capital (FMV)	xxx
(+) P&L A/c	xxx
(+) Reserves	xxx
(+) Revaluation Reserve	xxx
Net Asset	xxx

Holding Company 80% | Subsidiary Co. 20%

Rule No. 6

Dividend declared by subsidiary Company

If declared out of pre-acquisition profit

It is traded as recovery of cost of investment & deducted from cost of investment

It has impact on calculation of Goodwill / Capital Reserve.

If declared out of post acquisition

It is treated as Income & Credit to P&L A/c of holding company

Uniform Accounting Policy

At the time of consolidation of Balance sheet of two entities, if policies are not uniform, Then before consolidation we must adjust the balances of Balance Sheet of subsidiary Company according to accounting policies / method adopted by holding company.

Example: - Depreciation / Inventory valuation.

Rule No. 7

If Debentures / Preference shares are acquired at higher or lesser price than face value -

Treatment is similar to Rule No. 3 except pre-acquisition profit are not deducted here to find out goodwill or capital reserve.

In case of preference shares	In case of debentures
Investment in preference shares shall be Cancelled as face value	Investment in debentures shall be cancelled at Face value
Difference shall be transferred to goodwill / capital reserve	Difference shall be transferred to P&L A/c

Note :-

- If balance sheet of holding & subsidiary company is given but date of b/s of subsidiary company is different or is of previous year then prepare/ restate the balance sheet of subsidiary company as per date to match with date of balance of holding company.
- If it is not given in question to restate balance sheet then find out balances of Assets & Liabilities on due date of Balance sheet of holding company.

- If balance sheet of holding company & subsidiary company is not available on same date then consolidation is not possible.

- Due to continuous losses minority interest may become negative such access & any other further losses applicable to minority (Negative balance) are adjusted and deducted form P&L A/c or Consolidated P & L A/c.

- If subsidiary subsequent reports profit then all such profits are added / allocated in consolidated & P&L account until minority's share of losses previously absorbed by majority has been recovered.

AS 22 Accounting For Taxes on Income

1.

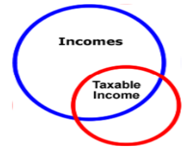
Types of INCOME

Accounting Income

Profit or loss for a period before deducting tax expense

Taxable income

The income for a period determined in accordance with the rules established by the taxation Laws, upon which income tax is payable



2.

Reasons for differences between accounting income and taxable income

Timing difference

This type of difference arises in one period and capable of reversal in one or more subsequent period.

Example:
1. Difference due to rate of depreciation.
2. Difference due to method of depreciation.
3, Expenses debited in P& L A/c of current year but allowed for tax purpose in subsequent period. Like section 43B of Income Tax Act, 1961 (Allows expenses on cash basis only)

Differences are going to be realised in the future, the equity should create deferred tax asset/liability in the year in which difference arises & reverse the same in the year in which difference is rectified

Permanent difference

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

The following items are income or expense either for accounting or income tax purpose and it will never be reversed in life. Hence the entity need NOT defer the tax expense for future years.
(a) Agricultural Income;
(b) Expenses disallowed U/S 40A;
(c) Dividend income; (It is shown as income in accounting but it won't be taxed)
(d) Penalties or fines;
(g) Employers' contribution to unapproved provident fund.
Note: Permanent differences do not result in deferred tax asset or deferred tax liability.

Deferred Tax Asset (DTA)

DTA should be recognised when taxes of initial year are higher & subsequent year are lower.

(Entity will receive benefit of tax paid in future years)

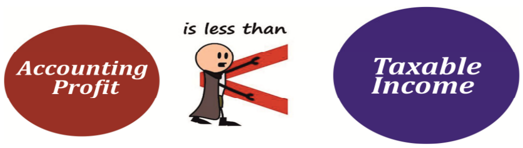
Deferred Tax Liability

DTL should be recognised when taxes of initial year are less and subsequent years higher
(Entity needs to pay higher tax in coming year which is saved in current year)

DTA shall be recorded only if there is reasonable certainly that sufficient future taxable income will be generated against which such deferred tax can be adjusted

↓

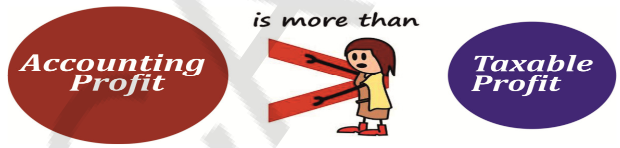
Accounting Profit < Taxable



For recognition DTL there is no need to analyse any certainty level

↓

Accounting Profit >Taxable Profit



Accounting for Investment in association in Consolidated Financial Statements

Apply only when the entry has a subsidiary & Preparing Consolidated Financial Statements

Associate?

The one who has significant influence

How to get?

By statute

Share ownership generally

By Shareholders' agreement

20 % ⇧

Assumed in general unless otherwise proved negatively

20 % ⇩

Should be proved

It has significant influence Apply AS-23-Equity method to account for investment

Equity Method

- Initially recognise investment at cost;
- Identify GW/CR on acquisition but do not recognise it & disclose;
- Investor's share of post-acquisition profit/loss should be adjusted to investment;

- Any distribution received-deduct from investment
- The investment in associate should not be negative. It can be NIL;
- Eliminate unrealised profit/loss - from transaction between investor & associate - to the extent of investor share.

Uniform Accounting Policies?

- **No** → Make necessary changes before following Equity method
- **Yes** → No change required

Different Accounting period?

- **Yes** → Make necessary changes before following Equity method
- **No** → No change required

AS – 24 Discontinuing Operations

1. **Objective of AS - 24** → *To establish principles for reporting information about discontinuing operations*

2. ***A Discontinuing Operation is a component of an enterprise/Entity Which***

- *Represents separate major line of business or geographical area of operations*
- *Can be separated / distinguished For*
  - **Operational Purpose**
  - **Financial reporting purpose**

- *Is discontinued (as per a single plan) by*

Methods of Discontinuing

- **Selling substantially in total either in single transaction or demerger or spin off**
- **Selling off component's assets individually (piecemeal disposal) and settling its liabilities also individually.**
- **Terminating through abandonment; i.e. stopping the operations (as it is) without selling its assets/components. (Stopping with an intention to sell)**

3. **Important Points**

Mere gradual phasing out is not considered as discontinuing operation.
Examples:-

1. **Gradual phasing out of product line or class of service.**
2. **Shifting of some production or marketing activities for particular line of business from one location to other.**
3. **Closing of facility to achieve productivity, improvement or other cost savings.**

4.

Disclosure Requirements

Initial Disclosure Event

Entered into binding sale agreement.
Or BOD approved a formal plan and announced the same (Whichever is earlier).
Immediately disclose the informationto most affected parties.

Every Year End Disclosure

- Describe discontinuance
- Which segment is discontinued?
- Date and nature of initial disclosure event.
- Total amount of assets & Liabilities related
- Revenues & Expenses attributable to that segment.
- Pre-tax P&L and tax expense separately.
- Net cash flows attributable to the segment.

CA INTERMEDIATE

ADV.ACCOUNTING

SUMMARY

With AS Charts

Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

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AS 25 – Interim Financial Reporting {Chart}

AS 25 – Interim Financial Reporting

Can be

Complete set

Same as annual FSs

Condensed set

- It is to give an update on financial position & performance.
- Only heading and sub-heading; Selected explanation. Notes; like change in accounting policies, Seasonality, Unusual items, segment info etc.

IFR Period

BS

Year to Date

CFS

Year to Date

P&L

- Current Interim
- Cumulative -Year to date
- P&L for 12 months

Unseasonal – I & ii
Seasonal – All 3

Other important Points

Consider materiality concept;

- Last quarter reporting is not required, if entity is preparing & presenting audited FS;
- Recognition & Measurement: No separate rules. Apply the same concept of Asset, liability, income & expense;
- Think that we are preparing Annual FS i.e., the Key.
- Change in the accounting policy - say during third quarter - Restate all quarters of current FY.
- (No need to change PY FS)
- Cannot defer or anticipate Costs/Income - when it cannot be done at year end;

Income Tax Expense

↓

Apply best estimate of weighted average annual Income Tax rate
For full financial year

↓

Step 1: Estimate annual accounting Income; by considering future Income with certainty.

Step 2: Calculate taxable income & liability -using enacted / substantially enacted tax rates – Calculate DTA / DTL as per AS-22.

- If carried forward losses exist-but not created DTA, Set off in computing CY Tax Expenses
- If carried forward losses exist- DTA also created. Same as above & reverse DTA to that extent.

Step 3: Weighted average tax rate = Step 2 /Step 1.

Step 4: Apply on accounting Income.

Step 5: Different tax rates are given. Ex Capital Gains, apply separately.

1. **Meaning of Intangible Assets (IA)**

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

2. **Recognition & Measurement of Intangible Assets**

Initial Recognition/Measurement of Intangible Asset

Subsequent expenditure of Intangible Assets

Intangible Assets are Capitalise only when Future Economic Benefit is probable

Purchased By Cash/Credit

Purchase price
Add: - All Direct exp related to acquisition

Purchased by Barter & Issuing securities

Value of Fixed Asset given

Or

Fair Market Value of Intangible Asset received.

Whichever is clearly evident.

Self Generation

Phases of generation of IA

- Research Expenses for acquiring knowledge → Charge to P & L
- Development Expenses → Capitalise only when six criteria satisfied

Conditions for Capitalisation.

1. Technical feasibility checked.
2. Resources available for development.
3. It is expected that there will be future economic benefits.
4. Management approval obtained.
5. Goodwill, brands, masthead, title shall not be treated as an asset if it is self generated (Not purchased) because it is not possible to calculate cost incurred for self generated asset.
6. If any asset contains tangible as well as intangible part, then treatment shall be based on dominant part. In other word if intangible part is dominant then it shall be treated as intangible. Example: - software in Pendrive /CD.

3. *Amortisation of Intangible Asset*

Useful life of Intangible Asset

Amortise over its useful life (Assumption Max. life = 10 yrs, if expected useful life cannot be expected.)

Method of Amortisation

Any method which reflects the pattern of Flow of Economic Benefits

If not possible to determine pattern of future economic benefit - Follow Straight Line Method

4. Disclosures

(a) Separately for internally generated & other intangible assets Useful lives/amortization rate, amortization method.
Gross carrying amount, accumulated amortization and impairment losses
Additions, disposals, impairment losses recognized or reversed, amortisation, other changes in carrying amount during the period.

(b) If amortised period > 10 yrs - Reasons for the same.

(c) Existence & carrying amount of assets whose title is restricted & of assets pledged as security for liabilities.

(d) Amount of commitments for acquisition of assets.

(e) Research & Development recognized as expense during the period.

AS –27 Financial Reporting of interest in Joint Venture

Forms of Joint Ventures

Jointly Controlled Operations (JCO);

- No separate legal entity
- Every venturer has its own
- assets, liabilities & Income and expenses
- No separate accounting & no adjustment required in CFS Venturer

(a) Jointly Controlled Assets

- Recognise to the extent of their share.
- No separate legal entity
- No separate accounting
- No adjustment in CFS

Jointly Controlled Entities (JCE).

- Separate legal entity
- Separate standalone FS are prepared
- Is venturer preparing CFS?

No

Recognise investment as per AS- 13

Yes

Consolidate using Proportionate consolidation method Except :-

(a) Temporary Interest
(b) Severe long-term restriction

Proportionate Consolidation Method:-

Line by line consolidation, only to the extent of Joint control of all assets, liabilities, income & expenses.

& Step 1:- Determine cost of investment
Step 2:- Venturer's share of equity in JCE at the DOA
Step 3:- Determine GW/CR
Step 4:- add post acquisition share of profits to venturer's profit.
Step 5:-Line by line add things and prepare CFS.

Step 1 >2 = GW

Step 2 > 1 = CR

Other important points:-

- Uniform A/C policies - Same as AS-21
- Different reporting periods- Same as AS-21
- Loss of Investors the interest in JCE-should be borne by investors in control proportion (Subsequent profits adjust first, same as AS-21.)

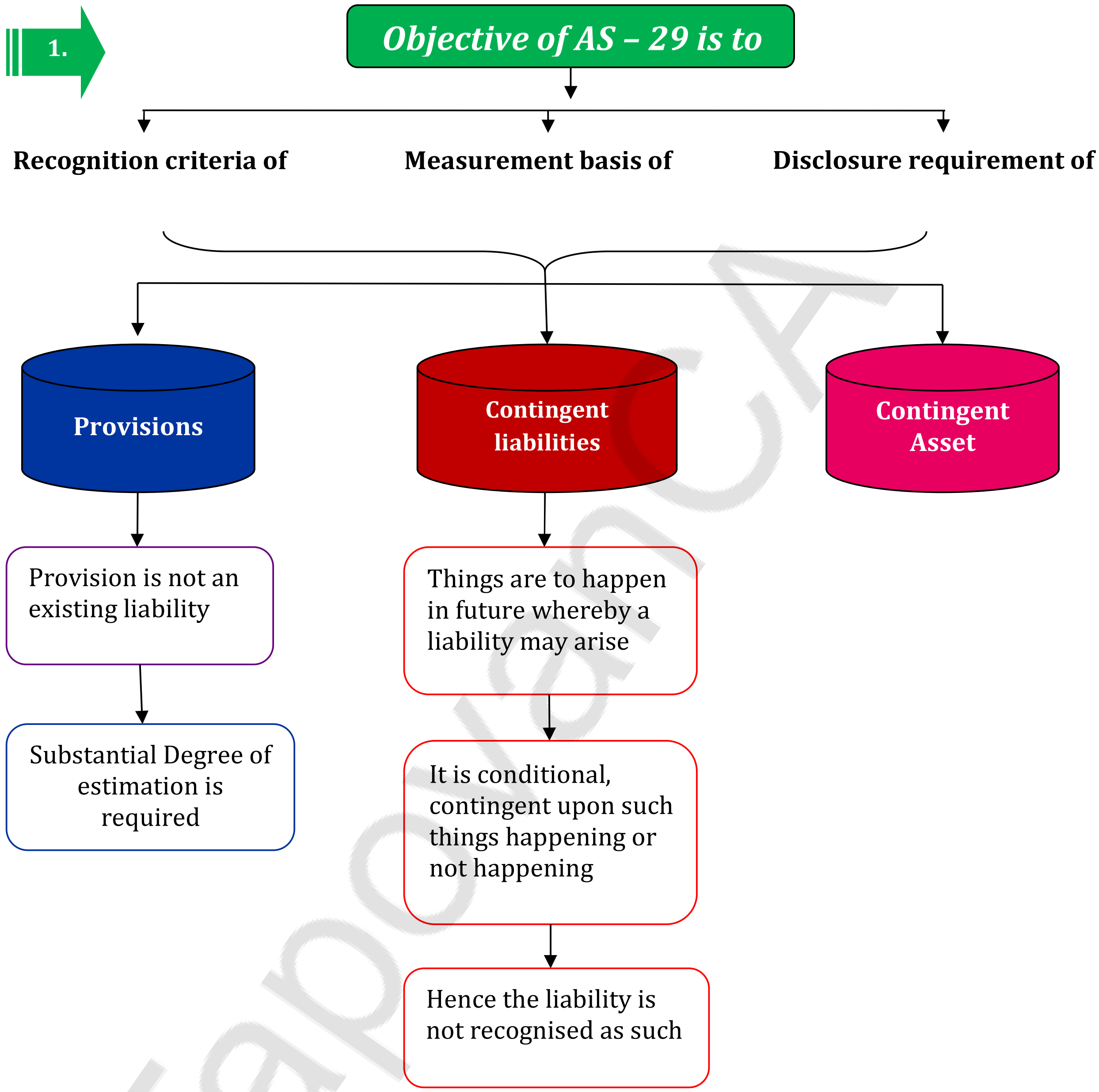
Transactions between venturer & JV

Sales by

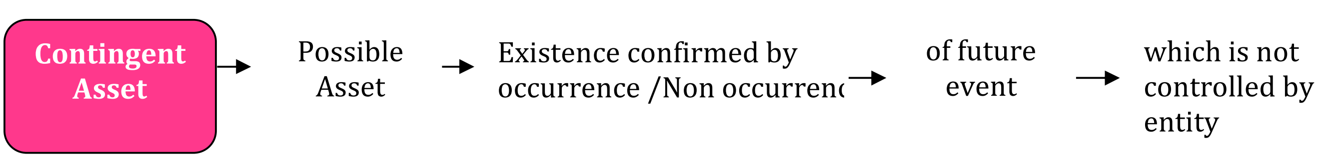
In CFS recognise only portion of profit loss related to other venturers
Recognise full loss- When the loss on sale is permanent in nature.

JV to venturer
Check is it Profit or Loss: -
Profit:- Should not recognise its share till it resales;
Loss:- If loss is permanent recognise immediately if not permanent don't Recognise.

See lecture for chart



Meaning of Contingent Asset



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

1. The entity should have a present (Existing on Balance Sheet Date) obligation arising from past events (Which cannot be avoided).

2. Outflow of future economic benefits should be probable (more than 50% chances); and

3. Provision should be measured reliably by using a substantial degree of estimation.

If all conditions satisfied → *Create Provision*

If only one or two conditions satisfied → *Show it as contingent liability*

Example

3. *Contingent Liability*

Present Existence

But cannot recognise provision because of

- Future Economic Benefits out flow is not probable
- Amount cannot be measured reliably

Possible Existence

Existence confirmed by

Occurrence OR Non Occurrence of One or More

Not controlled by entity

Points to remember

- **The amount of provision should not be expected in case of decommissioning, restoration and similar liabilities that are recognised as cost of property, plant & equipment.**

- **Future operating losses of a business do not meet definition of liability therefore no provision required for future operating losses.**

- **Provision should be received at each balance sheet date & provision shall be adjusted /reversed accordingly.**

- **Reimbursement:-**
  If entity will be receiving the reimbursement & expenses from another party the such reimbursement amount should be treated as asset and if should not be adjusted from provision made.

- **Provision for restructuring may be created if it satisfies all conditions of provision.**

About the Author

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

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