Contents

Introduction to Accounting Standards

Standards are of two types

1. Accounting standards
2. Indian accounting standards.

Accounting standards:

(these are applicable to intermediate students of ICAI examination)

Following points are relevant.

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 till now accounting standard 1 to 29 are issued except accounting standard six and eight which have been withdrawn.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

Benefits of Accounting Standards

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

Objectives of Accounting Standards

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

Issues dealt by accounting standards deals are

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

Process of issue of accounting standards is as follows.

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

Indian accounting standards.

Indian accounting standards are based on global standards.

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

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

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

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

How much are Ind AS and Global Standards different?

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

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

Reasons or significance of global standards.

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

Chapter 2

Framework for preparation and presentation of financial statements

1. following are users of financial statements

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

2. following are underlying Assumptions

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

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

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

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

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

(3) Qualitative Characteristics of financial Statements (गुणवत्ता)

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

(4) Components of financial Statements

- Balance sheet
- Profit and Loss Statement.

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

(5) Elements of financial Statements

Assets
↓
- Economic Resources (संसाधन)
- In Control of Entity (नियंत्रण)
- having future Benefits (फायदे होंगे)

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

Liability
↓
- It is present obligation arising from Past Event (आज का वादा)
- Which will be settled by outflow of Resources
- Which can be measured

Equity (Capital)
↓
Assets Less Liabilities

It is Residual Interest.

<u>It changes due to</u>
- Transactions with shareholders
  Bonus Issue, Redemption, Buy Back, Dividend/Drawings
- Profit/Loss

Income
↓
Increase in Resources without increase in Liabilities

Expense
↓
Decline in Resources without Increase in Assets.

(6) Measurement Bases in financial Statements

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

FM से पढ़ो

(7) Accounting Equation

Assets − Liabilities = Equity

(8) Capital maintenance Concept

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

Financial Capital Concept

- Based on Historical Cost

  Closing Capital XXX
  Less opening capital XXX
  Maximum drawing XXX

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

  Closing Capital XXX
  Less
  Indexed opening Capital XXX
  XXX

  Indexed opening Capital

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

  Here Index is of General Inflation Rate

Physical Capital

Closing
Less
Indexed opening Capital

Indexed Capita
= openin
opening index

Here Index is Inflation in goods in which Entity deals.

Application of Accounting Standards and Ind AS
as on 1.7.2023

COMPANIES

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

Non Corporate Entities
Partnership, LLP, Society, Trust, etc.

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

Accounting Standard-1 : Disclosure of Accounting Policies

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

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

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

FIFO method or weighted Avg method.

NOTE : from 2016 Depreciation methods are not called Accounting Policy. These are now called Estimates.

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

③ Examples of Accounting Policies

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

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

(4) Main Principles of AS-1

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

4A

Disclosure Requirements

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

4B How to select Accounting policies

Primary Considerations

financial Statements should reflect True and fair with such A/c Policies

Secondary Considerations

Prudence

Policies should be drafted so that financial Statements are more Prudent i.e. Recognise Expense more Conservatively but not Incomes

Substance over form

Give more Importance to facts than Law

Example

H.P Machine not legally owned it recorded.

Materiality

Draft Policies for material items only

Immaterial Policies not to be disclosed.

4C Change in Accounting Policy

Reasons for Change

↓

(i) Better Presentation

(ii) Compliance with Law

(iii) Compliance with AS

Treatment for Change

↓

Disclosure should be given for following

(i) Old Policy

(ii) New Policy

(iii) Reasons of changing Policy

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

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

4D

Fundamental Accounting Assumptions (FAA)

Going Concern

It means it is always assumed that business will continue forever. No need to cease or curtail operations. If Entity is not in position to continue in foreseeable future, disclosure is required. Here Prepare financial Statement on Non Going Concern Basis.

Accrual

Means recording Income and expenses on Period Basis, not Payment Basis. If Entity does not follow accrual Basis, disclosure is Required.

Consistency

Means it is assumed that Same policies will be followed Consistently each Year. If any Policy is temporary disclosure is Required.

Accounting Standard 2 Valuation of Inventories

(1) This standard applies to all forms of Inventories except

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

(2) Inventories are assets

- Held for Sale in ordinary course of business

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

(3) Inventory classification can be
- Finished goods or Stock in trade
- Work in Process
- Raw Material

(4) Valuation of Inventories - Rules

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

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

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

⑤ Calculation of Net Realisable Value

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

NRV for finished Goods or Stock in trade

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

NRV for work in Process

	Estimated Selling Price	XXX
less	" Selling Expence	XXX
less	" Cost of completing WIP	XXX
	NRV for WIP	XXX

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

⑥ Calculation of Cost Price

Cost price can be calculated by applying various cost techniques like

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

Generally Actual cost technique is applied.

⑦ Calculation of Cost based on Actual Cost Technique

(i) Cost of material

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

(ii) Cost of Conversion

Direct labour cost per unit	xxx
+ " cost " "	xxx
+ Production / factory overhead (variable) per unit	xxx
+ " " " (fixed) "	xxx
Total cost per unit	xxx

Note: Fixed Production Overheads per unit

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

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

Note: Following are not included in Costs

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

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

Note: for calculating material purchase price entity may apply cost formula like FIFO or weighted Average or other methods

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

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

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

(8) Retail Price technique

Under this technique cost is calculated using

Retail price	xxx
Less G.P. Ratio	xxx
	Cost

This technique is applied when entity has similar gross profit Ratio for all products.

Sometimes Trading A/c is prepared as simple way of calculation.

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

(10) Disclosure requirements

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

- Disclose Inventory classification with Amounts.

Example

A ltd has following data

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

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

Entity applies average cost formula. following expenses are incurred

Freight and Insurance ₹ 10000

Loading/unloading ₹ 50000

Normal loss 4000 units and Abnormal loss 1000 units.

Units Produced 32000, whereas Budgeted units were 50000

It incurred Variable factory overheads @ 2 per unit. fixed Production overhead ₹50000. labour cost per unit 6/- Direct Expense ₹3/- Per unit.

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

Calculate Cost of Stock.

Accounting Standard - 3 Cash Flow Statement

All Concepts of this Standard Covered in chapter Cash flow statement

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

① This standard deals with
(i) Contingencies and
(ii) Events occuring after Balance sheet date

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

② Contingency means
- Condition or Situation
- whose ultimate outcome may be gain/loss
- will be determined upon occurrence or non occurrence of
- uncertain future Events.

Here this contingency is limited to provision for doubtful debts

Note: Contingent Gains are not Recognised.

③ Contingent losses on doubtful debts can be

- Remote Possibility of loss → No Treatment
- High Probability of loss that can be measured reliably → Make Provision for doubtful debts
- other case, i.e. low Probability or whose amount cannot be measured → Give disclosure in notes

④ Events Occuring after Balance Sheet date

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

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

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

and

its conditions for occurrence were NOT existing on Balance sheet date

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

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

- Redrafted on Non Going Concern basis assumption

and

- Give disclosures for it

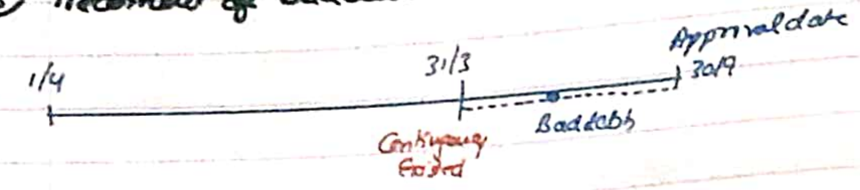
(7) Treatment of Proposed Dividend

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

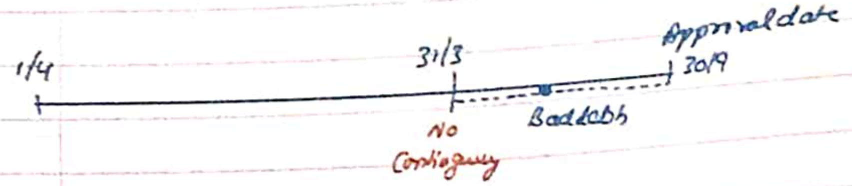
If dividend has been declared by End of Reporting date, then it should be adjusted in financial statements.

(8) Treatment of Baddebts

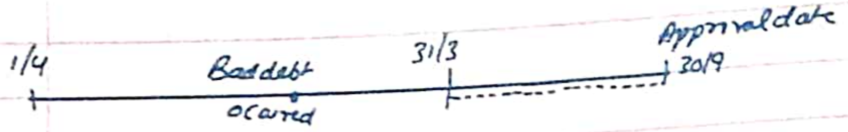
Treatment



Adjusting Event



Non Adjusting Event



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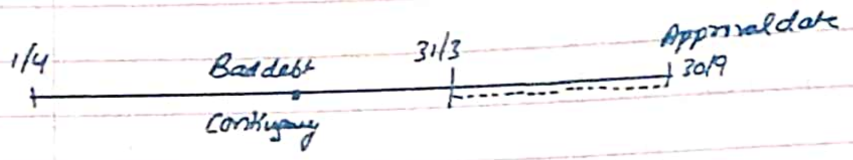

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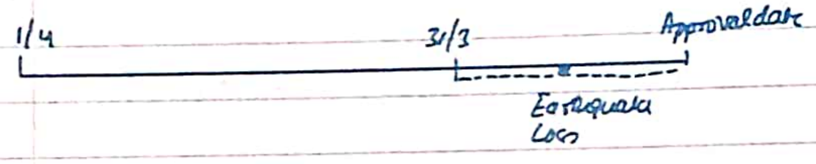
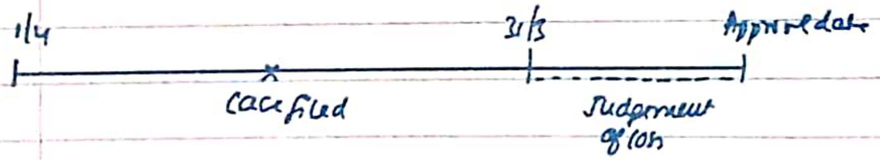
(9) Loss by fire/Earthquake etc



Non Adjusting

(10) Court Cases filed and its Judgements



Adjusting

Not Event

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

Sale agreement signed | court approval — Adjusting

Sale proposal | sale agreement — Non Adjusting (It's negotiation)

(12) Salary/wages Revision

dispute on salary | Agreement on salary — Adjusting

| wages increased no dispute — Non Adjusting

(12) Theft

theft | discovered — Adjusting

| Theft — Non Adjusting

(14) Proposed Dividend

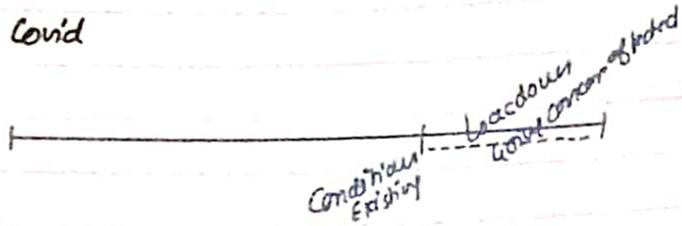
Proposed | Approved — Always Non Adjusting give disclosure

(15) Cheques collected from customers

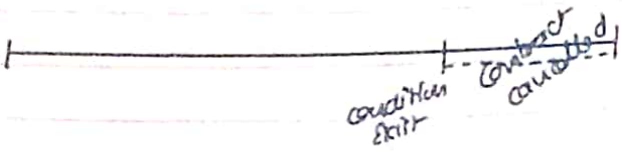
cheques collected by staff | cheques Received by Accountant — Adjusting

| cheque collected — non Adjusting

(16) Covid



Adjusting Event
Redraft FS



Adjusting Event

CRUX

Step1 On 31/3 check doubt/Contingency/condition should Exist for AS4 or AS29

Step2 Make Provision for such doubt/condition/contingency on 31/3 as per AS 4/29

Step3 If Event occurs, which is significant, Before Approval date, after BS date

- check Condition Existing on BS date
  - Remove Provision for doubt/condition/contingency
  - Create Provision for Event
- No Condition Existing on BS date
  - material Effect → disclosure need
  - material effect + Going Concern affected → Disclose + Restate FS
  - other → No Treatment

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

(1) This Standard deals with
Net Profit/loss from ordinary Activities
Prior Period items
Changes in Accounting policies
Changes in Accounting Estimate
Extraordinary items

(2) Net Profit/loss from ordinary Activities

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

Examples : Sale, Purchase, Expenses etc

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

(3) Prior Period Items

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

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

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

(4) change in Accounting Policies

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

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

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

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

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

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

⑤ change in Accounting Estimates

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

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

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

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

⑥ Extraordinary items

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

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

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

Accounting Standard-7 : Construction Contracts

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

Example of Construction Contracts

Contract to Construct Building/Dam/Road/Airport etc

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

③ How to Calculate Revenue & Profit in Cost plus Contracts

Contract Revenue Recognised = Approved Cost + % margin on it

Calculation of Profit/loss on Contract

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

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

Apply percentage of Completion Method. following steps are applied

Step1 Identify Elements of Contract at year End

(a) Contract Revenue

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

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

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

(b) Contract Cost

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

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

Step 2 Calculate Degree of Completion/Stage of completion

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

Cumulative means Cost Incurred from Beginning of Contract till this date

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

Step 3 Calculate Profit/loss

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

Step 4 check Provision for foreseeable loss

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

Note: Provision created in Earlier years will be cancelled.

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

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

6) Formats

Profit/loss Account

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

Balance sheet

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

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

Debtor A/C

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

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

* Gross Debtor or Gross Creditor means

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

Accounting Standard- 9 : Revenue Recognition

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

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

③ Revenue from Sale of goods should be recorded, if both of following conditions are satisfied
(i) No uncertainty regarding consideration or its ultimate collection
and
(ii) Goods have been transferred to buyer

Note: Goods transferred to buyer can be as follows
(i) By Transfer of ownership
(ii) By delivery of goods to customer along with Risk + Reward
(iii) By delayed delivery to customer at his request but risk + Reward transferred to Customer.

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

Note: Sale in special Cases
(A) Consignment/Agency
• Record Sale when goods are actually sold by agent
(B) Goods sold on approval basis
• Record Sale when approval received from customer or Period of Rejection Expires.

Note: Sale return is recorded separately from Sale.

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

④ Revenue from Services

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

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

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

(6) Repurchase agreement:-

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

(7) Disclosure Requirement

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

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

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It should be recognised if
- No uncertainty exists regarding consideration and its ultimate collection

and

- In case of Interest - time has elapsed
In case of dividend - Right to Receive dividend Exists. (It Exist when dividend has been declared)
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⑦ Disclosure Requirement

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

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

④ Revenue from Services

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

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

Ⓔ Revenue from Interest, Dividend or Royalty
It should be recognised if
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and
- In case of Interest - time has elapsed
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(7) Disclosure Requirement

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

Accounting standard - 10 Property, Plant and Equipments

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

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

Note: Biological Asset means living animal or Plant.

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

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

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

life more than 12 m
Bharat Tent house → chairs, utensils, decoration Material ⇒ for Rent
⇒ tangible
∴ It is PPE

life more than 12 m
Aldine Venture → chairs, machine ⇒ for use Yes
⇒ for tangible Yes
It is PPE

③ Recognition Conditions

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

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

and

(ii) Its cost can be reliably measured.

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

Solution 100

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

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

and

(ii) Its cost can be reliably measured

In the given case, ABC Ltd has purchased one machine for ₹ 400000 whose method of production has changed before receipt of delivery. Now this machine has no future Benefits, hence it cannot be Recognised as asset.

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

Journal Entries (i) for Recording Loss and Liability

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

(ii) for Payment
Creditor/Vendor Dr
To Bank
(Being amt paid)

(iii) for writing off Loss
P&L A/C Dr
To Loss on Purchase of M/C
(Being Loss written-off)

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

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

(4A) By Exchange

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

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

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

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

be adjusted in PPE

Cash
To PPE

or

PPE
To Cash

(4B) Self Constructed PPE

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

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

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

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

(4C) Acquired PPE or Purchased PPE

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

Elements of Cost

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

Hence Cost of PPE should be

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

Meaning of Purchase Price

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

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

(i) Cost of Employee Benefit which are directly working on PPE to make it Ready for intended use. Other Staff Cost are not Directly attributable
(ii) Cost of site preparation
(iii) Cost of Initial delivery and handling Costs of PPE
(iv) Installation of PPE / Assembly Cost of PPE
(v) Cost of Testing / Trial Run of PPE
(vi) Professional / Consultant Expenses.

Following costs are NOT included in Cost of PPE

(i) Pooja / Muhurat / opening ceremony Cost of PPE.
(ii) Cost of introducing new product to new market like Advertisement Expenses.
(iii) Administration, selling and Distribution Expenses
(iv) Abnormal Loss

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

(VI) operating losses of Entity

(VII) Staff Training

(VIII) Relocation / Relocating Expenses of PPE.

(IX) Interest for Deferred credit

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

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

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

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

(5) Subsequent Recognition

PPE should be subsequently recognised at Cost model or fair value model. (Revaluation model).

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

	Cost Price	XXX
(-)	Depreciation	XXX
		XXX

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

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

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

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

(v) furniture

(vi) Plant & Machine

(vii) Office Equipments etc.

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

6 Depreciation

(i) Depreciation should be charged on Components Basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

(7) Disclosure Requirement

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

AS-11 The effect of changes in Exchange Rates

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

② Foreign Exchange Transactions

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

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

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

Non monetary items should Not be remeasured.

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

Page 2

Examples of monetary items :-> Cash, Bank, Debtors, B/R, B/P, Advances, Loan, Creditor, Expenses Payable.

Examples of Non monetary items :-> Share Capital, Retained Earnings, fixed Assets, Investments, Stock.

(iii) Treatment of Exchange difference

- Monetary item is Short Term (Debtors, B/R, B/P, creditors etc)
  ⇓
  T/f Exchange Difference to P&L A/c as Loss or Income
- Monetary item is long term (Loans)
  - For PPE
    ↓
    T/f Exchange Diff to
    (a) PL A/c
    OR
    (B) Asset A/c.
    T/f to Asset is optional and not mandatory.
  - others
    ↓
    T/f Exchange Diff to
    (a) P&L
    OR
    (b) Foreign Currency Monetary Item Translation Difference A/c (FCMIT Diff)
    ↓
    T/f to FCMIT Diff A/c is optional.

(3) Forward Exchange Contracts

These Contracts are made for the following purpose
(i) For Hedging of future flow of cash
OR
(ii) For speculation purpose.

In case of Hedging

Ex. Diff is calculated as follows

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

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

In case of speculative Contracts

	Forward Rate	XXX
Less	Settlement Rate	XXX
	Loss or Profit	XXX

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

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

(5) Foreign operation (foreign Branch)

FO can be of two types

(i) Integral foreign operation (IFO)

(ii) Non integral foreign operation (NIFO)

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

Other Branches are called NIFO.

AS-11 provides Rates for conversion.

(Already dealt in Branch A/c).

(6) Disclosure Requirement

- Foreign Exchange Policy should be disclosed

- Closing Exchange Rate should be disclosed

x

Accounting Standard-12 : Accounting for government grants

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

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

② Govt Grants are recognised when following conditions are satisfied

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

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

③ Type of grants

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

(3A) Revenue Grant

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

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

Presentation

Revenue Grant is presented in P/L A/c

option A : Record it as separate item in P/L or Show it as other Income

OR

option B Reduce it from expense incurred.

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

Examples of Revenue grant can be

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

(3B) Grant for fixed Assets/PPE

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

Net method | Gross method

Net Method

Reduce grants from fixed Assets

Journal

Bank A/c Dr
To Fixed Asset
(Being grant received)

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

Fixed Asset Dr
To Bank
(Being grant added to Asset)

Depreciation will be Revised on prospective basis.

Gross method

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

Bank A/c Dr
To Deferred Grant
(Being grant received)

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

Deferred Grant A/c Dr
To P/L
(Being amt transferred)

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

Note: upon Refund of grant

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

3(C) Non Monetary Grant

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

(i) On Receipt of asset as grant

Asset A/c Dr (Nominal value)

To Capital Reserve

(Being asset received)

Note: These assets are not depreciated.

(ii) Upon Refund of such grant

Capital Reserve

To Asset

(Being grant Refunded)

3(D) Grant in nature of Promoter Contribution or Backword Area grant

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

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

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

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

4 Disclosure Requirements

(i) Govt Grant Recognition policy should be disclosed.

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

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

Investment Accounting

Meaning

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

* Check intention of holding Investments at time of acquiring Investment
* Income can be in form of Interest, Rent or Dividend.
* Capital appreciation means increase in value of Asset over time.

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

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

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

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

Interest Bearing Investment

Journal Entry on purchase

Investment Dr Cost
To Bank
(Being Investment purchased)

④ Meaning of Cost

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

Cost ≠ Face value or Paid up Value

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

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

⑤ Journal Entry for Interest Income

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

Interest will be calculated on
All Investments Held on Interest Date @ Rate of Interest given on it for period starting from last Interest date to current Int date.
Interest is always calculated on Paid up Amt (If missing assume face value as fully Paid up)

⑥ Jarnal Entry for sale of Investment

Bank A/c Dr — Sale Proceeds

To Investment — Book value

To Profit on sale/loss on sale — B.F

(Being Investment sold)

* How to calculate sale proceeds?

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

* If Q is silent Assume Ex Interest

* How to Calculate Book value of Investments

FIFO Based = $\frac{\text{Cost of Lot Eligible for Sale as FIFO}}{\text{Face value of lot}}$ × face value of Investment sold

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

Assume FIFO if Q is silent on Interest Bearing securities

⑤ At year End

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

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

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

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

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

Investment in XXXXX A/c
for Period

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

* Format of P/L (Extract)

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

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

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

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

Prepare ledger of Investment

Example A purchased 8% Debentures of X Ltd

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

Intt dates are 30/9 and 31/3

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

(9) Treatment of Accrued Intt

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

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

Accrued Intt = Paid up value closing balance × Rate of Intt × Period as above

It will be shown at cld of Interest

Similar Treatment is for opening Interest also.

Dividend Bearing Investment

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

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

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

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

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

Note: Treatment of Right

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

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

Amt = No of share Renounced × Sale Price per right

This Income will be credited to P/L / Other Income.

* sometime sale of Right is not credited to P/L. It is reduced from cost

Special Treatment on sale of Right/Renounce

AS-13 specifies that if shares are purchased Cum Right

and

these share are Renounced

And

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

then

Jornalize Bank A/c Dr Amt Received on sale of Right
To Investment (Decline in value, treated as Recovery)
To Income on sale of Right (B.F)
(Being Right Renounced)

Note: Upon purchase of shares Cost will be Calculated

Purchase Price	xxx
+ commission on purchase Price	xxx
+ Stampduty " "	xxx
+ other Expense	xxx
	xxx

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

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

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

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

Always use Avg Method for calculating Gain/loss.

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

(11) Dividend treatment

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

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

(C) Dividend is calculated as follows
final Dividend
= No. of shares outstanding at Year End × Paid up value × Rate of dividend

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

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

(D) Treatment of Dividend Received

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

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

If it is post Acquisition Dividend, then it is treated as Income
Bank A/c Dr
To Dividend Income
(Being amt Received)
It is further transferred to P&L A/c.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(13) Meaning of terms

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

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

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

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

* Cost of Debentures converted will become Cost of Equity Shares.

* No of Shares received on conversion will be given in Question.

Example Ram purchased following shares

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

Prepare Investment A/c

Accounting Standard-14 Accounting for Amalgamation

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

Accounting Standard-15 : Employee Benefits

① This standard is not applicable on Employee Share Based Payments.

② Meaning

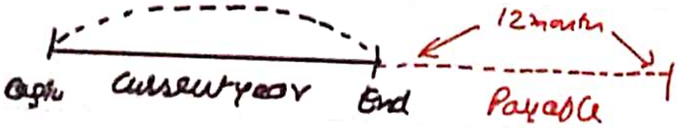
(i) Employee Benefits are all forms of consideration for services rendered that are provided
- under formal plan (Profit sharing Bonus Plan)
- " legislative Requirement (P.F)
- " Informal Practices (like Ex-gratia)

(ii) Employee Benefits are provided to employee, spouse, children or other dependents.
Employee can be full time or part time, casual or temporary or permanent.

(iii) Types of Employee Benefits

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

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



(A) It includes
- wages, salary
- Profit sharing Bonus
- Medical care, housing, cars etc
- Short term Compensated Absence (STCA)

(B) Accounting Treatment

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

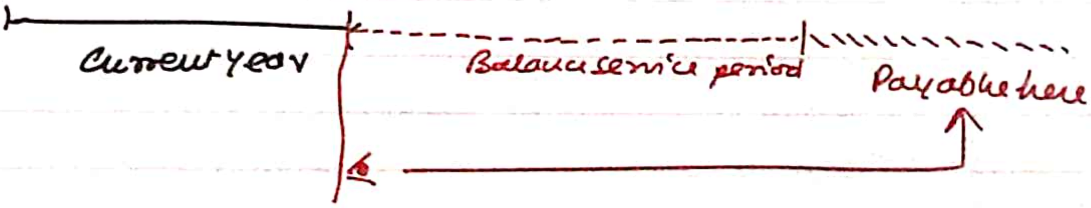
(C) Special Treatment of STCA

Leaves

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

④ Post Employment Employee Benefits (PEEB)

It is payable after completion of services.



(A) It can be ① Defined Contribution Plans where obligation is defined and Employer makes Contribution for it. Example Pension fund and Provident fund. Record Expenses based on actual Contribution

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

) Accounting Treatment under Projected Unit Credit Method for DBO

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

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

Step3 Calculate Current Service Cost

Step4 Prepare Amortisation Table and Calculate finance cost

Step5 On due date pay DBO

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

Journal Entries

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

- Actuary loss
  To PVDBO
  (Being Actuary loss recorded)

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

PV DBO A/C

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

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

Plan Asset A/C

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

Note Income will be calculated on Half Yearly basis.

Assume Contribution and Benefit Paid are in mid of year.

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

r is calculated based on management estimate of

Intt and dividend Income (after tax) of fund	xxx
+ Realised / Unrealised Gains on Plan Assets	xxx
− Fund Administration Cost	xxx
Expected Rate of Return	xxx

(D) Curtailment

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

Reduction in Gross obligation	xxx
Less Proportionate Reduction in unamortised past Service cost	xxx
Gain on curtailment	xxx

Balance in Balance sheet is calculated as follows

PV DBO new Balance after Reduction	xxx
Less fair value of Plan Assets	xxx
	xxx
Less unamortized past service Cost	xxx
Balance to be shown in B/S	xxx

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

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

Accounting Treatment is same as PEEB (discussed above)

Termination Benefits

Paid for termination of services.

Example
- VRS
- Retrenchment Compensation.

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

Accounting Standard - 16 Borrowing Cost

① following concepts are covered by this Standard

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

② **Meaning and Treatment**

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

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

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

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

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

Other B.Cost are expensed in P/L A/c.

(iii) Meaning of Q.A

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

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

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

Examples of QA and Non Q.A

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

③ Calculation of Borrowing Cost to be Capitalised

Specific Borrowing only

Step1 Calculate Borrowing Cost Incurred upto date of completion of QA.

Step2 Calculate any Interest Earned on idle funds

Step3 Calculate Net Borrowing Cost (Step1 − Step2)

Step4 Allocate Net Borrowing Cost in ratio of Expenditure for all assets on which Borrowings was used.

Step5 B·Cost on QA should be capitalised. Other B·C is expensed in P&L A/c.

General Borrowing with Specific Borrowings.

Step1 Calculate Avg Expenditure based on date of Expenditure to year End or Asset Ready for use

Step2 Calculate General Borrowing Rate

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

Step3 Calculate B·Cost to be capitalised on

• Specific Borrowing	XXX
• General Borrow	XXX
	XXX

Step4 Calculate Cost of Asset

Cost Incurred	XXX
+ B·Cost Capitalised	XXX

xxx

Step 5 Journalise

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

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

Lower of following should be treated as Borrowing Cost

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

(5) Period of Capitalisation

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

• Development has Started	Capitalisation should be Suspended	Borrowing Cost is not being incurred, Capitalisation should stop.

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

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Accounting Standard - 17 Segment Reporting

① This AS is applicable to Companies and non companies (not applying 3rd AS).
Exemption is available for
Small and Medium Entities
Non Corporate Entities level II, III & IV

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

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

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

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

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

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

* for primary segment, reporting is more comprehensive

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

(8) How to select Reportable Segments?
A segment is included in Segment Report on separate basis, then such segment is reportable.
Segments which do not qualify as reportable segments are included in segment report on collective basis called other segments.

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

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

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

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

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

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

(9) Meaning of

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

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

(b) Segment Result means profit/loss of segment

Segment Revenue	xxx
less Segment Expense	xxx
Segment Result	xxx

Where Segment Expense means

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

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

(c) Segment Assets

fixed Assets of Segment	xxx
+ current Assets of Segment	xxx
	xxx

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

(10) Inter Segment Transfer Policy

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

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

(11) format of Segment Report

Reportable Segments

Primary Segment Report

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

Secondary Segment Report

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

Accounting Standard-18 : Related party Disclosures

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

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

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

④ Meaning of Control

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

a) Where one party has more than 50% Voting power of another company

OR

b) Where one party has power to compose governing body of another Entity

OR

(c) Where one party has substantial interest AND Power to direct financial and/or operating policies of another Entity.

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

Note: Power to Direct means Chairing Board meeting.

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

⑤ Meaning of Significant Influence

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

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

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

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

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

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

Para 3.a

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

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

Para 3c Individual, which directly or indirectly through subsidiary controls or exercise significant influence over reporting Entity.

Note: Relatives of such individual are also considered as related party under this para.

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

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

Relative means same as above in para 3C

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

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

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

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

(9) Related Party Disclosures

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

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

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

Accounting standard - 19 leases

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

Person who obtains right to use Asset = Lessee
Person who receives consideration = Lessor

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

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

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

Operating leases are leases other than financial lease.

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

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

(3) In following cases, we consider lease as financial lease

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

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

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

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

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

(iii) Journal Entries

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

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

(5) Accounting Treatment of financial lease in books of lessee and lessor

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

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

IRR is calculated by lessor.

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

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

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

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

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

Gross Investment less net Investment
where Gross Investment = Lease Rent + UGRV + GRV
" net Investment = PVaf(Lease Rent + GRV + UGRV)

Books of lessee

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

Journal

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

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

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

Note: Asset A/c is depreciated as usual

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

Books of Lessor

Lease Receivable A/c PV of (Lease Rent + GRV + UGRV)
  To Asset Book value
  To P/L
(Being asset sold)

Lease Receivable is treated like loan given A/c.

(6) Sale and leaseback

This means

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

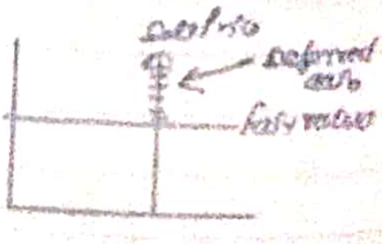
This is a way of arranging funds.

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

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

Step 1 Calculate Deferred Gain by

Def. Gain = Sale Price - Fair value of Asset



Step2 Check and Calculate Deferred loss

Deferred loss = Fair value – Sale Price

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

Step3 Journalise

Bank A/c Dr sale Price.
To Asset
To Def. Gain (Step1)
(Being asset sold)

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

Accounting Standard- 20 : Earning per share (EPS)

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

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

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

In FM, we uses Basic EPS

③ Basic EPS = $\frac{\text{Earnings attributable to Equity shareholders}}{\text{weighted Avg of outstanding eq. share during the period}}$

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

⑤ Calculation of Earnings attributable to Equity shareholders (Earnings)

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

Note:

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

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

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

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

Outstanding means those shares which have been issued and subscribed

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

a) Fresh Issue: Date on which consideration becomes Receivable

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

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

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

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

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

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

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

(8) Treatment of Bonus Shares

Bonus Share are issued without consideration. Hence these Bonus shares do not affect Earnings.

To calculate Basic EPS, we should consider Bonus shares since beginning of period reported.

It means date of issue of Bonus is not relevant.

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

(9) Equity shares Upon Conversion

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

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

(10) Treatment of Right Issue

Whenever any entity issues Right Shares, following steps are applied

Step 1 : Calculate Fair value Ex Right

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

Step 2 Identify Paid Part and Bonus Part

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

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

Step 3 Consider

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

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

(11) Diluted Earning per Share

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

Note: Potential Equity shares means instruments for which Equity shares will be issued on future date. Following are PES

- Convertible Pref shares
- Options
- Share warrants
- Convertible Pref. shares

Note: For Calculation of DEPS, always assume as if potential shares were Equity shares on date of issue.

यह मान कर Potential Equity Share अब Equity Share Capital का हिस्सा है, from date of issue of potential E shares

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

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

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

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

) Disclosure Requirments;

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

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

Consolidated financial Statements
(Accounting Standard - 21)

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

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

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

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

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

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

Do not see ownership of Pref shares

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

Calculation

Investment held on Balance Sheet date	xxx
Less Net Assets obtained	
E Share capital × Proportion owned by Parent	xxx
Reserve + Surplus × " " " "	xxx
(Fair or Market)	
Goodwill (+) or Capital Res. (-)	xxx

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

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

Example A Ltd purchased 60% shares of B Ltd for ₹ 1300000. On that date B Ltd had ESC 800000
R/Surplus 700000
Calculate Goodwill on purchase of shares.

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

Eq. share capital	10,00,000
G Reserve	20,00,000
P/L	1500000
S/Premium	700000
Liability	400000
Assets	5600000

Calculate G/w or C/R

Example Balance sheet on 31.3.23

	H Ltd	S Ltd
ES capital	10,00,000	600000
Reserve & Surplus	800000	500000
Liabilities	900000	200000
PPE	1200000	800000
Investment in 100% Shares of S Ltd	10,00,000	-
Current Assets	500000	500000

Prepare consolidated Balancesheet, assuming share were acquired on 31.3.23

Example Balancesheet on 31.3.23

	H Ltd	S Ltd
ES capital	20,00,000	10,00,000
Reserve & Surplus	10,00,000	5,00,000
Liabilities	8,00,000	3,00,000
PPE	1500,000	12,00,000
Investment in 100% Shares of S Ltd	16,00,000	-
Current Assets	7,00,000	6,00,000

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

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

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

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

It can also be calculated based on Assets less Liabilities method

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

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

Example Balance Sheet as 31·3·23

	M Ltd	S Ltd
ES Capital	2500,000	20,00,000
Reserve & Surplus	1500,000	200,000
Liabilities	500,000	300,000
PPE	700,000	1200,000
Investment S Ltd	2400,000	-
Current Assets	1400,000	1300,000

Prepare Consolidated Balance sheet assuming shares were acquired on 31·3·23

Case A : 100% share were acquired

Case B : 60% " " "

Example Balance Sheet as 31·3·23

	M Ltd	S Ltd
ES Capital	10,00,000	500,000
Reserve & Surplus	600,000	400,000
Liabilities	200,000	300,000
PPE	500,000	600,000
Investment S Ltd (60%)	500,000	-
Current Assets	800,000	600,000

Prepare Consolidated Balance sheet assuming shares were acquired on 31·3·23

Example Balance Sheet as 31·2·23

	M Ltd	S Ltd
ES Capital	10,00,000	500,000
Reserve & Surplus	600,000	400,000
Liabilities	200,000	300,000
PPE	10,00,000	600,000
Current Assets	800,000	600,000

Prepare Consolidated Balance sheet assuming M Ltd obtained power to compose Board on 31·2·23

Example Balance sheet as 31.3.23

	H Ltd	S Ltd
ES capital	700000	500000
Reserve & Surplus	500000	400000
Liabilities	300000	200000
PPE	600000	500000
Investment shares of S Ltd 70%	700000	-
Current Assets	200000	600000

Prepare Consolidated Balance sheet assuming shares were aquired on 31.3.23

Example Balance sheet as 31.3.23

	H Ltd	S Ltd
ES capital	10,00,000	800000
Reserve & Surplus	600000	400000
Liabilities	200000	300000
PPE	500000	600000
Investment shares of S Ltd (80%)	700000	-
Current Assets	~~600000~~	~~900000~~

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

⑥ Time Adjustment

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

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

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

Example Altd acquired 80% shares of SLtd on 1/7/2022. Cost of Investment ₹10,00,000

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

Calculate Goodwill and Minority Interest for CB/S on 31.3.23

⑦ Revaluation and Consequential Depreciation Adjustment

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

(ii) Following steps are applied

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

Step 2 Calculate Book Value of Assets on date of Acquisition

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

AOP - Pre Acquisition

CB/S - Adjust with Assets.

Step 4 Calculate additional/savings in Depreciation

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

This will be adjusted in

AOP - Post Acquisition

CBS Adjust with Assets.

* Adjustment in AOP will be made after time Adjustment

⑧ Contra Adjustments

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

It can be Debtor / Creditor

B/R / B/P

Loan Receivable / Loan Payable

Other Receivable / Other Payable

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

Journal

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

(Being Contra Cancelled)

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

Share Capital of S Ltd on 1/12/23 ₹ 9,00,000

Reserve + Surplus " " ₹ 5,00,000

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

Calculate Goodwill / CR.

Example Balance Sheet as 31.3.23

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

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

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

Example Balance sheet as 31·3·23

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

Prepare Consolidated Balance sheet assuming shares were acquired on 1/10/22. Balance in Reserve & Surplus of S Ltd on 1/4/22 were ₹ 200000

Plant and machine of S Ltd had market value of ₹1200000 on 1/10/22. Its Book value on 1/4/22 was 10,00,000.

④ Unrealised Profit Adjustment or Stock Reserve

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

Following steps are applied

Step 1. Find out stock still held arising from Inter Company transaction (a)

- Find out rate of Profit (b)

- Unrealised Profit = a×b

Step 2

Adjust unrealised Profit on CBS

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

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

(10) Bonus By Subsidiary

Following points are relevant

Subsidiary distribute Bonus shares but this is unrecorded

(1) Bonus will be calculated
Share capital × Bonus Ratio = Bonus
(2) Adjust Bonus share capital in
* AOP - Assuming Bonus from Pre Profits
* Calculation of G/W / CR → Adjust it in share capital of S Ltd
- Calculation of Minority Int → Adjust it in share Capital of S Ltd.

Subsidiary distributes Bonus and it's recorded in financial Statements

(1) It affects Holding Ratio. Be Careful in Calculation of Holding Ratio
Take numerator & denominator after Bonus Issue

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

Later, after time Adjustment, Bonus is correctly deducted in Pre Acquisition Profits.

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

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

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

Example

H Ltd aquired 60000 Shares of S Ltd on 1/7/23. Balance in R/S of S Ltd on 1/4/23 was ₹ 5,00,000.

S Ltd declared Bonus in ratio of 1:3

Share Capital of S Ltd on 31/3/24 was ₹ 10,00,000. S Ltd had recorded Bonus in its Books.

Cost of Investments was ₹ 12,00,000.

Calculate G/W or C/R. Balance in R/S on 31/3/24 is ₹ 8,00,000 for S Ltd

Example A Ltd held 19200 Shares of S Ltd on 31.3.23. Subsidiary was aquired on 1.4.22. Share Capital of S Ltd is ₹ 2,50,000 (Share of ₹10 each). S Ltd declared Bonus in ratio of 1:10 on 31.3.23 whose entry is not yet passed by S Ltd.

Calculate holding Ratio

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

Calculate Holding Ratio

Example H Ltd aquired 50000 shares of S Ltd on 1/10/23. Balance in Reserve + Surplus of S Ltd was ₹ 3,50,000 on 1/4/23.

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

(ii) PPE of S Ltd had market value of ₹ 9,00,000 on 1/10/23. Book value of PPE on 1/4/23 was ₹ 8,00,000.

(iii) Current Assets of H Ltd include

- Stock from S Ltd ₹ 10000 on which S Ltd made profit of 10% on sale
- Receivable ₹ 5000 within group

Balance sheet as 31/3/24

	H Ltd	S Ltd
ES capital	1000000	800000
Reserves & Surplus	500000	200000
Liabilities	600000	300000
PPE	800000	700000
Investment Share of S Ltd 60%.	700000	–
Current Assets	900000	600000

Prepare Consolidated B/S

(11) Dividend Adjustment

Following steps are applied

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

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

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

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

Step 2 Add back Dividend Paid in A&P Post Profits before Time Adjustment

Step 3 Reduce dividend Paid based on Source of Profits

Final Dividend → use Profits of Previous year

Interim " → " " " Current year.

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

Step 4 Rectify Dividend Received by Parent

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

then rectify it

Journal for rectification

P&L AC of H.Ltd Dr Parent share of Dividend
To Investment
(Being Dividend Rectified)

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

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

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

(iii) If any dividend (Post Acquisition) has been paid by subsidiary to parent, it should be cancelled as follow
- from Income of Parent (Parent Share)
- from Consolidated Reserve + Surplus of CBS

(13) Special Points

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

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

(8) Same policies of subsidiary

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

Step1 Identify policies which are different for Parent and Subsy.

Step2 Select Parent Policies to be used on Subsidiary

Step3 Redraft Balance sheet of Subsidiary as per Step2.
Effect of change in policy should be given in PL of Subsidiary

Accounting Standard-22 : Accounting for Taxes on Income

Minimum Tax provision needed for this chapter
(i) Treatment of Donation Paid in PGBP
(ii) Disallowance under section 43B
(iii) Depreciation allowance under Section 32
(iv) Deduction for Preliminary Expenses under Section 35D
(v) Carry forward of losses
(vi) MAT under Section 115JB
(vii) Tax holiday on start ups
(viii) Disallowance of Provision under Section 36

① This standard is applicable to tax effects arising due to Income Tax. In India only Income Tax Act 1961 is applied for calculation of Taxable Income

② The objective of this standard is to apply accrual concept on tax effects. For this purpose Tax expense includes Current Tax and Deferred Tax. Also Assets and liabilities include Deferred Tax Assets or Deferred Tax Liabilities

③ Meaning
Deferred Tax Asset or liability is tax calculated on timing difference.
Deferred Tax Asset / Liab = Timing Difference × Regular Rate of Tax

Current Tax = tax calculated as per Tax laws

Tax expense = Current Tax ± Deferred Tax effect

Timing Difference are those differences in accounting income and taxable income, which are capable of Reversal in future. This arise due to various Tax provisions.

Permanent Differences are those differences in accounting income and taxable income which are NOT capable of Reversal in future. This can be due to permanent allowance or disallowance

Accounting Income means PBT
Taxable Income means income as per Tax laws

④ Calculation of Deferred Tax

Deferred Tax = [Allowance/Disallowance Capable of Reversal
OR
Loss capable of setoff
OR
Difference in Income as per Tax & Accounts, capable of Reversal] × Rate of Tax applicable during that year.

* Do not consider Prospective Tax Rates. Always consider Tax Rates of enacted or substantively enacted Tax Law on Balance sheet date.

⑤ Journal Entries

For creation of DT Asset	D. Tax Asset A/c Dr To P/L (Being DTA created)
For Reversal of DTax Asset	P/L A/c Dr To D. Tax Asset (Being DTA cancelled)
For creation of liability	P/L A/c Dr To DT Liability (Being DTL created)
For Reversal of liability	DTax Liab Dr To P/L (Being liab. cancelled)

* DTA/DTL will be shown in Balance sheet as non current Asset or non current liability.

Note: P/L Effects in above Journal Entries are shown in Tax Expense

Statement of PL Extract

PBT		xxx
Less Tax Expense		
Current Tax	xxx	
± Deferred Tax	xxx	xxx
PAT		

Balance sheet

Non current Liab	
D. Tax Liab	xxx
Non current Assets	
D. Tax Asset	xxx

⑥ Examples of Timing Difference

- Disallowance under Section 43B
- Depreciation allowance under Section 32
- Unamortised Preliminary Expenses under Section 35D
- Carry forward of losses under Section 72
- Contractor Income under Section 43CB (Though this Section is not applicable now but we are doing because ICAI question are still asked on it)
- Provisions under Section 36

⑦ Examples of Permanent Difference

- Donation
- Personal Expenses of Promoter etc.

⑧ Prudence limit

In case of DTL → No Prudence requirement

In case of DTA → DTA should be created if there is reasonable certainty that sufficient income (taxable) will arise, against which DTA can be set off.

OR

If company has carry forward of losses, then there is virtual certainty that sufficient taxable Income will arise in future against which such DTA can be adjusted.

(9) DTA/DTL should not be discounted

(10) Disclosure Requirements
- Always show DTA/DTL as Non Current in Balance sheet
- Give breakup of Components of DTA/DTL in notes to A/c.

(11) Deferred Tax in case of Tax holiday

Whenever any entity has tax holiday, then

- Timing difference, which arise and get reversed within Tax holiday are not relevant

Whereas

- Timing difference which arise in tax holiday but are expected to reverse after tax holiday are relevant.
DTA DTL is calculated on this difference

Accounting Standard-23

Accounting for Investments in Associate in Consolidated financial Statements

① meaning of Associate

Enterprise, in which investor has significant influence and which is neither subsidiary or Joint venture.

Significant influence means power to participate in financial and/or operating Decisions of investee. It can be through representation on Board of directors, policy matters etc.

It can be gained by 1) Agreement or Application of law
OR
2) Share ownership for 20% or more.

Assume 20% or more as significant influence unless proved otherwise
Similarly less than 20% as not significant influence unless proved otherwise.

② Associate can be Temporary or Permanent

Temporary means where influence is acquired and held to dispose off in near future or investee operates under long term restrictions which impair its ability to transfer funds to parent.

Temporary Associates are accounted using AS-13.
Permanent Associates are accounted using AS-23.

③ Treatment of Associate in Consolidated financial Statement

1) Investment are recorded at cost and adjusted for any post acquisition gain or loss. Goodwill is calculated and Identified alongwith.

Journal for recording calculation

Investment in Associate Dr — Post Gain Share
To Consolidated P/L

(Being Investment Revalued)

2) Adjustment for inter Company debt is not made

3) Before applying AS-23, financial Statements of Associate are updated.

4) Use Uniform Accounting policies

5) If Associate has proposed Dividend, do not treat as appropriation. Rather Associate profit should be before deduction of Proposed Dividend.

6) If Investment in Associate becomes negative, discontinue recording further loss in Associate.

7) Post Acquisition Profit of Associate should be calculated through P&L Appropriation A/c and these should be before deducting any dividend.

Any dividend paid by associate will be Eliminated by Parent in its investment

8) If shares are acquired in Steps, that is parts, then goodwill C/R should be calculated for each part

Accounting Standard-24
Discontinuing operations

① Meaning of Discontinuing operations

Discontinuing operation is component of an enterprise

a) That enterprise, pursuant to single Plan, is
- Disposing off in entirety by sale of component in scheme of demerger
  OR
- Disposing off in piecemeal by sale of substantially all assets of component
  OR
- termination through abandonment

b) That represents separate major business or geographical area of operations
AND
c) That is financially and operationally separable in financial statements

* If all of above (a, b, c) are satisfied, then it is considered DCO.

Note: check (i) It should be component of Enterprise
(ii) " " " based on single Plan approved by directors
(iii) " " " disposed off - sale Entirety
- sale Piecemeal
- abandonment
(iv) It should be reportable segment under AS-17
(v) " should have information + data separate from others

② Examples of activities which do not necessarily qualify DCO but might do so with other factors

(i) Gradual phasing out of Product line
* If entity is phasing out a product line, it does not represent major line/segment of entity. Hence not DCO

(II) Gradual shifting of Production from one segment to another Segment
* of shifting its resources of man and machine from one segment to another segment, it is not DCO, since segment is not being disposed off.

(III) Shifting of Location of Production activity

(IV) Closing a facility to improve production or Cost Savings (B.P.O)

(V) Discontinuation of Products in product line

③ Initial disclosure Event (IDE)

If any of following Event taken place, then such event date is called Initial disclosure event Date

(i) Entity has entered into binding sale agreement for selling Substantially all assets of component of Entity

OR

(ii) Entity has made a detailed formal plan for discontinuation and made public announcement of Plan

Note Disclosures under AS-24 starts in year in which IDE date occurs. It continues till year in which operations are actually discontinued.

④ Disclosure Requirements

(i) Description of DCO
(ii) Segment of business considered as DCO
(iii) Date of IDE
(iv) Expected period required for discontinuation of operations
(v) Carrying Amt of assets which are to be disposed off under DCO
(vi) Carrying Amt of liabilities which are to be settled under DCO
(vii) Pre tax profit/loss of DCO and tax Expense if any
(viii) Cash flows of DCO arising in operating, investing + financing activities
(ix) Revenue + Expenses of DCO in Profit + loss Account.

Accounting Standard-25 : Interim financial Reporting

① IFR is a kind of update on complete financial statement of last year. This helps users in timely, better and Reliable information.

IFR can be made in compliance with listing requirement or other reasons. Apply AS-25 in preparation of IFR

Clause 33 & 41 has no relation with IFR. It deals with interim financial Results, though measurement and recognition principles of AS-25 are applied in clause 33 & 41 reporting.

② Interim financial Report (IFR) means financial report containing either a complete set of financial statements, or set of condensed financial statements for interim period

Interim period means financial reporting period, shorter than full financial year.

* 1st year of operations may be shorter, still it is not interim period.

③ Contents of IFR

- Basic content should include Balancesheet
  P&L A/c
  Cashflow and
  Notes to Accounts
  for Interim Period and Comparative Period

- This Basic content can be full/complete, just like annual statements or condensed.

- If such statements are complete, consider Interim Period as complete period and prepare financial statements.

- If such statements are condensed, then Heads and Subheads should be as in most recent annual financial statement.

- Selected Notes to Accounts to Condensed Statements should be of significant Events and Transaction like
  - Decline in value of Inventory
  - Impairment losses
  - Gain/loss on sale of PPE
  - Reversal of Provision
  - Litigation settlement
  - Related party transaction
- Also statement of Policies, Methods and computations if changed.
- Nature seasonal, unusual Assets, Liab, Income, Expense
- " " change in estimate
- Disclosure of EPS, segment information
- " " Any Business Combination.

④ Period should be

Balance sheet Comparative → Year end previous year
Interim Period → last date of Interim period

Statement of PL
Interim Period = for Interim Period
For Year to Date current Period
Comparative = for Previous Year Interim Period
For Year to Date Previous year

Cash flow statement
Interim Period = Year to date current year
" " " Previous year

⑤ Recognition and measurement
- Accounting policies should be same as in most recent annual financial statements.

- Income/Revenue which is seasonal, cyclically, occasionally occurring, should not be deferred or prepost poned. Examples can be Royalty, Dividend etc. Hence record Income/Revenue as usual. Follow Accrual concept, wherever applies.

- Expense, cannot be deferred, unless appropriate. Hence all expenses, losses, which are seasonal, or infrequent cannot be deferred.

- If any change in Accounting estimates occurs during Interim period, its financial effect should be fully considered in Interim period.

- Where any Accounting policy is changed during interim period, its financial effect related to Interim period should be considered in interim period. Its Earlier effect will be adjusted in year to date statements.

(6) Variation

If at End of financial year, financial statements vary significantly from Interim financial Reports, then such variations considered as material, should be disclosed with reason.

(7) Entity should make best estimate for provision at End of each interim period. Any provision made Earlier will be cancelled.

Example

Make provision for Retirement benefits at end of each interim period and cancel any earlier provision made.

(8) Tax treatment

- Entity should make best estimate of its Tax Expense for Year

- It should calculate weighted Avg Tax Rate for full year and then apply this rate for interim period.

Accounting Standard-26 : Intangible Assets (I.A)

① Meaning of Intangible Assets

Intangible Assets are those assets which qualify the following conditions

- These are identifiable (i.e. can be separated from Entity and sold)
- These are non monetary (i.e. not Investments, debtor, Bank etc)
- These are not having physical Substance of its own
- These are held for production of goods or rendering Services

Goodwill is considered an Identifiable

Other Examples are Brands
Titles
Patent
Knowhow
Formulations
Software website
Franchise Rights (Royalty Paid on these right is expense)

② As per para 56, following are not Intangible Assets. These are written off as expense

Preliminary Expenses
Underwriting Commission
Discount on Issue of Securities
Startup Expenses / Pre operative Expenses
Advertisement Expense
Pre Incorporation Expense
Publicity Expense of new Product
Shifting of location expense
Staff Training

③ Recognition Conditions

IA should be recognised if both of following conditions are satisfied

(i) Future Economic Benefit from IA will probably flow to Entity

and (ii) Cost of IA can be reliably measured

(4) Initial Recognition

- Intangible Assets obtained from Govt as Govt Grant
  ↓
  Recognise @ Nominal value as per AS-12
- Intangible Assets Exchanged with other Assets
  ↓
  Recognise at fair value of IA obtained or fair value of Asset given, whichever is more clearly evident
- Self generated Intangible Asset
  ↓
  see point no (6)
- Intangible Assets Acquired/Purchased
  ↓
  Recognise it @ cost incurred
  Meaning of cost in point (5)

(5) Meaning of Cost Incurred

Purchase Price	xxx
(-) Trade Discount	xxx
+ Import duties	xxx
Landed Price	xxx
+ GST where credit is not available	xxx
Cost Paid	xxx
+ Expenses incurred to obtain Title	xxx
+ " " " Install (software)	xxx
+ " " " Verify (Before Purchase)	xxx
+ " " " Purchase Commission	xxx
Cost Incurred	xxx

Note : Patent Registration Expense is also capitalised with Cost of IA

Note : Additional Import duties are like Surcharge/Cess in Income Tax

(6) Self generated Intangible Assets

- Goodwill, Title, Brands
  ↓
  Do not Recognise these as assets.
  If Goodwill is acquired in scheme of Amalgamation it is purchased Goodwill and recorded As per AS-14. This should be written off in 5 years.
- Other Self generated IA
  - Expense Incurred during Research Phase (Para 41)
    ↓
    These are Not Capitalised. These are Expense.
  - Expense incurred during Development Phase
    ↓
    These Expense will be Capitalised as IA upto Amount of future Economic Benefits (also called Recoverable Amt)

Research Phase

Note: Research Expense include failed Research

Note: Research means to obtain knowledge. It means establishment of technical feasibility.

Note: Once any expense is written off as research, it can never be capitalised again

Development Phase

Note: Development phase starts after technical feasibility has been established.

Amt capitalised in Development Stage cannot exceed (RA) Recoverable Amt. It is present value of Benefits expected after startups/Coming up from Use of IA discounted using cost of capital.

If value of IA exceeds RA, then excess value is written off as Impairment Loss.

Note: Packing cost is not capitalised

(7) Subsequent Expenditure on IA

If any IA has been fully developed and in use, but later entity incurs further expenditure, it will be

- capitalised, if such expenditure increases originally estimated future Economic Benefit.

- Expensed & written off in other cases.

Note: Expenditure incurred to defend in court any IA will always be written off.

(8) Amortisation of IA (Amortisation means Depreciation)

(i) Intangible Asset should be amortised from date when it is Ready for use.

(ii) Ratio of Amortisation should be
- Ratio of Benefit i.e. Expected future Cash flows from IA
- SLM, if above ratio cannot be estimated

(iii) Ratio of Benefit may change in future. Then Amortisation ratio will change prospectively.

(iv) Life of IA should be taken based on future Economic Benefit. If it cannot be estimated, consider it as 10 years. Lower life can be taken, but do not take higher life, unless justified.

(v) Always assume scrap value / Residual value of IA as nil.

Note: If Entity has not correctly amortised IA, then
Step 1 Calculate Correct value of IA as per AS-26
Step 2 Identify Existing Book value of IA
Step 3 Restate IA at correct value by adjusting it as prior period item.

Journal

Prior Period Item Dr (P/L) Step 2 - Step 1
Amortisation (P/L) Dr Current year Amortisation
To IA
(Being value of IA rectified)

(9) Disclosure Requirements

- Always disclose IA with name, nature, cost, Amortisation Book value etc
- If life is taken more than 10 years, give reason for higher life in notes to Accounts.

Accounting Standard - 27

Financial Reporting of Interest in Joint ventures

(1) order of application AS-21 1st order
AS 27 2nd "
AS 23 3rd "

(2) Meaning

Joint Venture is a Contractual arrangement, whereby two or more parties undertake an economic activity, which is subject to joint control.

Joint Control means contractually sharing of Control over Economic Entity

* Control means power to govern financial / operating policies of an economic activity so as to obtain benefits from it.

* Venturer is party to Joint venture

(3) forms of Joint ventures
(i) Jointly Controlled operations JCO
(ii) Jointly Controlled Assets JCA
(iii) Joint Controlled Entities JCE

(4) under J.C. operations, venturer do not create separate Entity but use own resources. Each party maintains own books and record its share of Expenses and Incomes. Generally all amts paid and received on behalf of Joint venture are recorded in Joint venture A/c

Later these Joint ventures A/c of each party are combined to prepare Draft Consolidated Profit & Loss A/c. Profits are shared in this case. It is similar to Memorandum Joint venture A/c.

(5) under Jointly Controlled Asset, each venturer record its own share of asset and liability. This is consolidated with other Assets and liabilities of firm. Any income and Expense are also recorded for each party on share basis.

* For sake of simplicity, it is better to prepare draft Combined Balance Sheet and P/L and then record share of Asset/liability.

⑥ Jointly Controlled Entity

Here a new Entity is formed for the purpose of operation. This Entity prepare its own books of accounts and financial Statements. These financial Statements are prepared as usual applying various accounting standards.

Books of Venturer

Each venturer record its share of Investment in J.V as Investment. If Investments are temporary, then such Investments are shown as per AS-13 in separate financial Statements as well as Consolidated financial Statements.

Meaning of temporary is same as in AS-23.

If Investments in Joint Venture are not temporary, then AS-27 requires application of Proportionate Consolidation method. Under this method, while Consolidating, all asset & liabilities including income and Expenses are consolidated on line by line basis for proportionate amt.

* If any venturer receives any income from J.V, it is recognised using AS-9. Such party is called operator.

⑦ Transactions between venturer and Joint Venture

- Do not Record gain or loss on share of assets transferred to itself.
- Gain or loss can be recorded on share of assets sold to other venturer.
- If decline in market prices have been reported, then loss can be recorded on own share of asset also.

Transactions can be - purchase of asset for JCO + JCA
- Purchase from JCO/JCA
- Sold to JCO/JCA

Accounting Standard 28 : Impairment of Assets

① This is not applicable on level II, III and IV Entities. Also this AS does not apply to assets covered by

AS-2
AS-7
AS-13
and AS-22

Hence this AS applies to Property Plant + Equipment and Intangible Assets.

② Basic Terms

Impairment loss = Carrying Amount - Recoverable Amount

Carrying Amt means book value after depreciation and amortisation at year End. (This is after any revaluations)

Recoverable Amount = higher of value in use (VU) or
= Net selling Price (NSP)

③ Accounting Treatment of Impairment loss

(a) Journal Entry
Revaluation Reserve Dr 1st Pref
Impairment loss in P&L Dr
To Asset
(Being Impairment loss recorded)

(b) Balance sheet Presentation

Asset cost	xxx
(-) Accumulated Dep	xxx
(-) Impairment loss	xxx
	xxx

(c) Depreciation of future periods will get reduced due to impairment loss

(d) Income Tax does not allow this, hence create Deferred Tax Assets on it

(4) Indication of Impairment loss

External Indicators
(i) Market Price of Asset has declined Substantially
(ii) Unfavourable market Conditions against Entity in regard to demand, technology, Govt policies etc
(iii) Market Interest Rates have increased substantially
(iv) Low market Capitalisation

Internal Indicators
(i) Poor Economic performance by asset
(ii) Company has plan of Discontinuation or restructuring
(iii) Physical damage to asset

(5) Calculation of Recoverable Amount

(A) Calculation of value in use

- It means present value of net cash inflows from Continuous use of asset and its residual value
- Such net cashflows should be reasonable and supportable to assumptions of management
- Generally most recent management forecasts and Budgets are used for calculation of net inflow
- Net inflow means Gross Inflow – outflows to generate inflow
- outflows include repairs for which management is committed
- Discount Rate should be pretax CAPM.
- Cashflows should be taken for maximum 5 years, unless justified.
- Value in Use is Calculated before Finance Cost and Taxes.

(5) Net selling Price

= Expected Sale Price of Asset − Estimated selling Expenses
Excluding Tax & finance costs.
(Example can be Commission)

Expected selling Price is based on binding sale Price / Price in Active market or Best Judgement of management

Note: Calculation of both VIU and NSP is not required, if it can reliably calculate Impairment loss.

⑥ Cash Generating Unit (CGU)

CGU is the smallest identifiable group of assets working together to generate cashflows that are largely independent

Generally, if asset is capable of generating cash flows on independent basis, then such single asset is CGU. If such asset is damaged and will not be used in future consider it as separate asset, not part of CGU.

7) Treatment of Goodwill and Corporate Assets.

(i) Perform Bottom up test, if goodwill and Corporate Assets can be allocated on reliable basis.

(ii) Perform Bottom up test and Top down test if goodwill & Corporate assets cannot be allocated on reliable basis.

* Under Bottom up Test
- Allocate Goodwill and corporate assets to CGU; in consistent / Reliable Ratio
- Compare CGU carrying Amt including Goodwill with Recoverable Amt of CGU.
- Calculate Impairment loss in CGU
- Allocate such Impairment loss 1st to Goodwill and Balance to other Assets in CGU in ratio of carrying Amts.

* Under Top down approach
- Combine all CGU Carrying Amt after applying Bottom up approach.
- Add Goodwill and Corporate Assets
- Calculate Impairment loss
- Allocate Impairment loss 1st to G/W (not impaired earlier)
  2nd to Corporate Assets.

Corporate Assets are Administrative assets like H.O Building and Research assets.

I) Reversal of Impairment loss

(A) Indication are

External (i) Market value of Assets increased substantially
(ii) favourable market condition
(iii) Market Int Rate has decline substantially

Internal (i) Company has incurred Capital Expenditure on asset
(ii) Increase in Economic performance of asset

(B) Impairment loss of Goodwill is not Reversed

(C) Reversal is lower of following
- RA - CA

or

- Impairment loss recorded Earlier - Saving in Depreciation

(9) Disclosure Requirement.

(I) Impairment loss recorded in P&L

(II) " " " " Revaluation Reserve

(III) Impairment loss Reversed during the year

(IV) Segments affected by Impairment

(V) Indicator used for Calculations

(VI) Assumption applied in Calculation of RA.

(VII) CGU and its Identification

Accounting standard-29 : Provisions, Contingent Liabilities & Contingent Assets

① This AS deals with
(i) Provision
(ii) Contingent Liabilities and losses
(iii) Contingent Assets or gains

② Provisions
It means liabilities measured using substantial degree of Estimation

Items	Occurance	Amt	Remarks
creditors	sure	sure	Liab
Provision for warranty	Unsure	Unsure	Provision
Provision for taxation	Sure	Unsure	Provision
Provision for Refund	Unsure	Sure	Provision

③ Definition of Provision

Provision is a present obligation arising out of past Events, which will result in outflow of Resources and amount can be reliably measured.

④ Hence Provision has following Elements

(i) It is present obligation : means whose chance of occurance are more than not

(ii) arising out of past Event : Some event has occured in past which has eliminated any other alternatives

(iii) Which is expected to result in outflow of Resources

(iv) Which can be measured reliably using
(a) Expected value method i.e. Probability × Loss Amt
OR
(b) Possible outcome method or most likely outcome method where management calculate its amount

Note: While Calculating Amt of Provision, we should not deduct any expected gains of future

Note: Recovery assets or Idemnification assets will be recorded as separate assets if its realisation is virtually certain.

In P/L, Expense of Provision will get reduced with such recovery asset.

In Balancesheet Provision will be shown along with Recovery asset.

⑤ Examples of Provisions

Generally in following situations, Provision is created

(a) Provision for Warranty on Products: In such cases, companies create provision based on past Experience.

Provision Amt = Sale Amt × % of Warranty exercised

(b) Financial guarantees. This is considered as provision, when chances of default by other party are high.

(c) legal Disputes like court cases, Tax disputes, Provision should be made, if possibility of loss is high.

(d) Provision for Restructuring Sometimes business needs to be restructured for which companies make plans in advance. Provision should be made for Expected cost of Restructuring. It should not be made for normal operating Expenses or Staff Training or Shifting/Relocation Expenses.

⑥ Contingent Liabilities/losses

It is possible obligation arising from past Event which is expected

to arise on occurance or non occurance of uncertain future events
Also, it includes present obligation for which provision was not made due to
- non outflow of resource or
- it could not be measured reliably.

Possible obligation means whose chance of occurance is upto 50%.

Note: Treatment of Contingent Liabilities
It should be disclosed in Notes to financial Statements.

⑦ Contingent Assets/Gains

These are unplanned and unexpected events, which will give rise to inflow of Resources in future and whose occurance is not yet certain.

Note: -: No Treatment for Contingent Gains/Assets. Not even disclosure.

Note: If such gain is virtually certain, then it is not contingent gain. It should be recorded as gain when it becomes virtually certain

(AMENDED AS PER GUIDANCE NOTE OF ICAI JAN 2022)

Preparation of financial statements

(A) Format of financial Statement - Schedule-3, Division-I

(B) Special Law Applications
- Calculation of managerial Remuneration
- Dividend declaration Rules

(A) Format of financial Statements

Format of financial statements is given by Schedule-III of The Companies Act 2013. It has following Divisions

- Division I → To be applied by Companies applying AS → Applicable to Intermediate of CA Exams.
- Division II → To be applied by companies applying Ind AS
- Division III → To be applied by NBFC.

Division II and Division III → Not in course

Division - I

- Format of P&L and Notes
- Format of Balance sheet and Notes
- General Points.

Format of "Statement of Profit and Loss"

Particulars	Note	Current yr	Previous Year
Revenue from operations		xxx	xxx
Other Income		xxx	xxx
Total Income	(A)	xxx	xxx
Cost of material consumed		xxx	xxx
Purchase of stock in Trade		xxx	xxx
Change in inventory of finished goods, WIP and stock in Trade		xxx	xxx
Employee Benefit Expense		xxx	xxx
Finance Cost		xxx	xxx
Depreciation and Amortisation		xxx	xxx
Other Expenses		xxx	xxx
Total Expense	(B)	xxx	xxx

Profit Before Exceptional and Extraordinary items	(A-B)	xxx	xxx
Less Exceptional items - litigation कानूनी झगड़ा		xxx	xxx
Extraordinary items - Abnormal. Ex: Hurricane / Fire		xxx	xxx
Profit Before Tax		xxx	xxx
Less Tax Expense (Current Tax Deferred Tax)		xxx	xxx
Profit after Tax		xxx	xxx
E.P.S Basic and Diluted		xxx	xxx

E.P.S → $\frac{\text{Earning}}{\text{No. of share}}$

NOTES on Statement of P/L

Meaning & Special Requirements	Examples
Revenue from operation - Principal or Ancillary Revenue generating Activities of Companies Trading, Sale	· Sale of Product + Services X · Grants and donations · Other operating Revenue Less Excise Duty if any.
Other Income - Other than Revenue from operations. - Do $\boxed{\text{not}}$ include Negative Expense. creditor 10,000 full & final 4000 1000	· Interest Income · Dividend " · Gain on sale of Asset · Loss on Sale of Asset upto Gain Asset · Other Non operating Income - Commission · Transfer fees · Discount Income - Sale of Scrap → Roddi
Cost of Material Consumed - It means only Raw Material - Disclosure of opening and closing Raw Material is not required.	Purchase of Raw Mat is adjusted with opening and closing stock of Raw Material. Food for Hotel Company Store and spare consumed
Purchase of stock in Trade - Include only goods Purchased for Resale	Purchases of Stock in Trade

Change in Inventory - Difference in opening and closing finished goods, Stock in Trade & WIP - No need to $\boxed{\text{Disclose}}$ opening & closing Just disclose change. - It will be $\boxed{\text{Zero}}$ if opening, closing are same / Expected to be same	Change in Inventory
Finance Costs -	- Interest Cost ब्याज - Cost of arranging Borrowing funds.
Other Expenses * Director are Not Employee Audit Fees	बाकी का Loss - Consumables in office - Preliminary Exp. written off - Discount given - Director Fee - Director Remuneration. - P.D.D. created / Cancelled
Employee Benefit Expenses - Directors are not Employees.	- Salary & wages - Contribution to P.F - ESOP Expense - Staff welfare
Exceptional and Extraordinary items	- Abnormal losses or gain - Litigation Settlement Exp - Retro law Expense.

Depreciation is for PPE (Tangible Assets)

Amortisation is for Intangible Assets.

Question

Prepare Profit + Loss

		DEBIT	CREDIT	
Sale	RFO		10,00,000	
Opening stock	Raw mat C.M.C →	5000		
	WIP	6000		
	finished goods	8000		- Change in stock
	Stock in Trade	2000		(→) Cl. stock
Purchase	Raw material →	200000		
	Stock in Trade	100000		=> Purch. Trade
Salary + wages		200000		=> Empl. Benefit
Contribution to P. fund (Provident)		80000		=> EBE
Depreciation		30000		=> Dep
Goodwill written off	Amortisation	20000		=> D
Rent Income	- Non op. Income		40000	OI
Profit on sale of machine			50000	OI
Carriage outward		6000		OE
Carriage inward		8000		OE
Advertisement		9000		OE
Dividend Income			1000	OI
Interest		15000		FC
Loss by fire		10000		extraordinary
P.D.D Expense		5000		(Exception hav. amt)

Closing stocks are Raw mat 20000, (WIP 10000 and Stock in Trade 12000; finished goods 8000

P&L

to PDD D → B/S Debtors

Question

Prepare P&L A/C of X Ltd for 2022-23.

X Ltd has 10000 Equity Shares of ₹10 each.

Sale of goods	RFO		30,00,000
Sale of services	RFO		5,00,000
Purchase of Raw material	CMC	700000	
Op. stock of Finished goods		50000	
" " Raw material		40000	
Salary & wages	EBB	300000	
Director sitting fees (meeting fees)	Other	30000 Dis	
Gain on sale of Bitcoins	PPE, OI		40,000 Dis
C.S.R Expense		25000 OE Dis	
Depreciation of PPE		30000 Dep	
Dividend Income			700000 OI
Rental Expense		40000 OE	
Interest Expense		90000 FC	
Income in Survey	OI		50000
Auditor Remuneration	OE	8000	
Discount Income	OI		6000
Discount Expense	OE	18000	
Transfer fee	OI		5000
Loss due to fire	EOI	50000	
P.D.D Expense	OE	6000	
P.D.D Liability	B/S Debtor		6000

Adjustment: Closing stock Raw 35000

" " Finished 80000

Tax Rate 30%

Format of Balance sheet

Particulars	Note	C.Y	P.Y
Equity and Liabilities			
Shareholder funds			
Share Capital		xxx	xxx
Reserve + surplus		xxx	xxx
Money against share warrants		xxx	xxx
Share Application Pending Allotment		xxx	xxx
Non current Liabilities (Beyond 12m)			
L.T. Borrowing		xxx	xxx
Deferred Tax Liabilities		xxx	xxx
Other L.T. Liabilities		xxx	xxx
LT Provisions → Gratuity		xxx	xxx
Current Liabilities (upto 12M)			
ST Borrowings		xxx	xxx
Trade Payable - MSME		xxx	xxx
- others		xxx	xxx
Other C. Liabilities		xxx	xxx
STerm Provision		xxx	xxx
		xxx	xxx
Assets			
Non current Assets			
PPE and Intangible Asset			
PPE		xxx	xxx
Intangible Assets		xxx	xxx
Capital WIP		xxx	xxx
I. Asset under Development		xxx	xxx
Non current Investment		xxx	xxx
Deferred Tax Assets		xxx	xxx

M - Micro
S - Small
M - medium
E - Enterprises

L.T. Loan + Advance	xxx	xxx
Other Non Current Asset	xxx	xxx
Current Assets		
Current Investment	xxx	xxx
Inventory	xxx	xxx
Trade Receivable	xxx	xxx
Cash and Cash Equivalent	xxx	xxx
ST Loan + Advance	xxx	xxx
Other Current Asset	xxx	xxx
	xxx	xxx

NOTES

S-III = follow

Items	Requirement	Presentation
Share capital	• Disclose for each class Number and Amt of Share (FV) Pick up value	Authorised S/capital Nos X Amt XXX
	• Disclosure Authorised Subscribed, Issued & Paid up Capital	Issued, Subscribed & called up Nos X Amt XXX
	• Reconciliation Statement Beginning and End. X	(-) calls in Arrear XXX
	• Rights, Preferences of each class. X	Paid up S/cap XXX
	• Shareholders holding more than 5% shares X	MCQ.
	• Bonus/Non Cash Consideration for 5 years (Nos and class) Source of Bonus not Required.	Disclosure

Reserve & Surplus

Capital Reserve xxx
Cap. Redemption Reserve xxx
Security Premium xxx
Deb. Redemption Reserve xxx
Revaluation Reserve xxx
ESOP Reserve xxx
Retained Earnings xxx
(Can be Negative)

LT Borrowings

- It can be from Directors → ST
- Current maturities are
  - shown as ST Borrowings
  - as deduction in LT Borrowings
- Show Secured, Unsecured
- Show nature of security
- Show Term of Loan
- Show Source of loan (Director/Bank etc)

Bonds xxx
Debentures xxx
Deposit xxx
Fixed Deposit xxx
Deferred Payment Liabilities xxx
Finance lease Liabilities xxx
→ car finance Loan

Deferred Tax Liab/Asset

- Tax Calculated as per AS-22
- It is not actually paid.

Other LT Liabilities → Payable of Long term in nature like Creditors for machines.

LT Provisions → Provision for Retirement Benefits

ST Borrowings → Bank overdraft / Cash credit
Loan Repayable on demand
" " to Related Parties
Deposits
Other Loan

Current maturities of LT Borrowings along with source of Borrowing

Trade Payable

- Give Ageing schedule
  0-12m
  12-24m
  24-36m
  others
- Give it for MSME and others
- Include Bills Payable

Other current liab

31/3/1

- Accrued Interest / Bill pay / Exp payble
- Income Received in Advance
- unpaid/ unclaimed Dividend
- Application money for Refund
- unpaid matured Deposit Loan

2016 ~~Proposed Dividend~~

3

3

ST Provision

- Provision for Tax less Advance Tax

PPE

Always show Cost, Acc. Dep
" " Reco. Statement
(OBalance, Addition, Deletion, Closing Balance
Depreciation op, charged, closing)

If asset held for sale show it as current Asset

Classify them as Land, Building, Plant + Equipment
Furniture, fitting, vehicle, Office Equipment, leased Assets.

Intangible Assets

- G/W, Brand, Software, Title, mining Rights

- Give Reco. as above

Non current Investment

- Show Investment Property, Investment in Equity, Pref shares, Govt Bonds, Debentures, Mutual Fund, Partnership firm

- Show value Basis (cost or fair value)

- " Quoted, unquoted, Provision for Decline

Long term Loan & Advance

- Capital Advance
- Advance to Related Party

- Show details of Secured, unsecured, etc

Other Non Current Assets

- LT Receivable (Sale of Plant)
- Security Deposit
- Give Ageing schedule
- Show Good, Doubtful
- " Unsecured, Secured

Current Investment

- Show Investment Property, Investment in Equity, Pref Shares, Govt Bonds, Debentures, Mutual Fund
- Show value Basis (Cost or fair value)
- " Quoted, unquoted, Provision for Decline

Inventory

- Disclose details of Raw mat, WIP, Stock in Trade and finished goods

- Stores

- Loose Tools (If meet definition of PPE, then it is shown as PPE)

- Show mode of valuation

Trade Receivable

- Give Ageing schedule (Generally given 6m or more)

- Include B/Receivable

- Show unsecured, secured

- Reduce P.D.D

Cash and Cash Equivalent

- Show Non Scheduled Bank separately
- Include Cash, Bank, cheque in hand
- Margin money
- Bank Deposit (0-12 month)

STL & Advances

- Loan to Directors / Related Parties
- Small Advances
- Staff Advance
- Secured/Unsecured

Other CA

- Balance items like Accrued Int
- Advance Tax less P/Tax
- Prepaid Expenses

जिनका होने का chances ...

Contingent Liability → court

दावा / झगड़े

नहीं मानते Liab

- Claims against companies, not acknowledged as debt

वादे

- Guarantee and Commitments

B/L

2

ICAI Imp - Uncalled liability on Partly Paid shares

- Contract Pending execution

B/R - (Bills discounted not matured) डर लगा रहा है

- Proposed Dividend

- Unused Borrowings from Banks disclosure

Liab

Meaning of Current and Non Current

CA Asset

Asset is current if any of condition satisfied

stock Debtor

a) Expected to be realised in normal operating cycle (Debtor) or intended for Sale / consumption in operating cycle. (Finished, Raw)

b) Held primarily for Trade SIT

Investment, land, Building.

c) Expected to realise within 12 months after reporting date

Cash

d) Cash and Cash Equivalent. Bank

* Normal operating cycle is time between

Acquisition of asset for Processing and

Realisation of Cash.

FN

* If can't calculate operating cycle, assume 12 months

SIT → Debt → cash = 3m

Raw material → WIP → FN → Debtor → cash — 5yr OC

1/1/23 1 1 1 1 1

OC Deb 10

OC 0il

O.C

O.C

DLF Land 3yr → cash 3yr → Debtor 3yr = 9yr

Current

Liability is classified as current if

Trade creditor / trp payable - Expected to be settled in operating cycle
Pay

- Held for Trade? Premium by Insurance Co → Held for Trade

- Due to be settled within 12 months after reporting date. loan Cr Cai STB

- Entity does not have unconditional right to defer settlement of liability for at least 12m after Reporting date

OCL

Entity के पास नहीं है, आपीको

General Points

Conflict = AS & Co. Low = Co. Low

(1) Conflict of AS and S-III, then apply AS (not S-III)

(2) Round off Mandatory → From
Do not round of at from

Total A

Total Income (Revenue from operation and other Income)

- less than 100 cr → Round off in Hundred, lakh, millions.
- 100 cr or more → " " millions, crores.

(3) Format items are minimum line items. These can be increased if needed.

(4) Cash flow not Required by One person company and Startup companies.

(5) Any Income + Expense exceeding (1% of Revenue or ₹ 100000 whichever is higher) should be disclosed.

6) Payment made to
- Auditors
- Directors
- CSR expense

] Disclosure must

Auditor can be paid for Audit fee, Tax Matters, Law matters Management services, Other services, out of Pocket Expenses.

7) from 1/4/21 Disclosure Required for
- Undisclosed Income in Tax survey
- Details of Crypto/Virtual Currency (Trade, Profit/Loss etc)

- Benami Properties
- Name of valuer
- Date of Becoming Wilful defaulter
- Relationship with struck off companies

2 NF Co

8) Ratios
- Current
- Debt Equity + Debt Service coverage
- ROE, ROCE, ROI
- Turnover Ratio - Inventory, T. Receivable/Payable
- N.P. Ratio

Adjustments

1) Revaluation of PPE

PPE
To Revaluation Reserve
(Being PPE Revalued)

2) Treatment of Proposed Dividend (upto year end) = Disclosure

3) Concept of Corporate Dividend Tax Deleted

4) for any Error, Journalise Rectification Entry like

- Sale of asset shown as Suspense A/c

Suspense A/c Dr
Acc. depreciation Dr
To PPE
To gain on sale
(Being PPE sold)

- Purchase include Advertisement Expense

Adv. Expense Dr
To Purchase
(Being Purchase rectified)

- Salary include installation of Machine

Machine Dr (+)

To Salary (−)

(Being expence capitalised)

- B/R dishonoured and declared Bad

Bad debts Dr

To B/R

(Being B/R written off)

5) Charge Depreciation

Depreciations

To Acc. Depreciation

(Being Dep charged)

P&L Acc Dr

To Dep.

(Being Dep written off)

6) Issue of forfeited shares

Share Capital Dr (Reiss. Price - Calls unpaid)
To Capital Reserve

7) Outstanding Expense

Expense A/C Dr
To Expense Payable (~~Trade Payable~~)
or OCL
(Being expense recorded)

8) Prepaid Expense

(Other C.Asset)
Prepaid Expense Dr
To Expense
Being prepaid Expense Recorded)

9) Accrued Interest Shown in Loan liability

Loan Liability Dr
To Accrued Interest (Other Current Liab.)
(Being Interest Rectified)

10) Purchase A/C

To op. Stock	xxx	By Adjusted Purchase or COGS	xxx
To Purchase	xxx		
		By Cl. Stock	xxx

11) Make Provision for Doubtful Debts

Provision for D.D Expense Dr
To P.D.D
(Being P.D.D Expense recorded)

P/L A/c Dr
To P.D.D. Expense
(Being P.D.D. Expense written off)

12) Calculate Tax on PBT

STP or Prov. Tax & AVTAX

Tax Exp.

(B)

Managerial Remuneration

- For Private Ltd Companies
  - No Limit
- Public Limited
  - Maximum Remuneration can be higher of
    - As per section 197
      - overall Limit is 11% of Profit calculated under section 198.
        - (Powerful) Managing Director/Manager or Whole time Director(s)
          - only 1 MD or manager → 5% of Profit
          - 2 WTD or more → 10% of Profit
        - Other Director
          - without MD manager or WTD → 3% of Profit
          - with MD/manager or WTD → 1% of Profit
    - or
    - Schedule V
      - Remuneration for loss making company or Inadequate Profit company
        - see next Note

* These Limit can be Increased by approving it in special Resolution (Earlier Central Govt Approval was needed, now Removed)

* Approval of creditors to whom Defaulted is Required.

Note: Schedule V

Range of Effective Capital	other than Independent Directors Maximum Remuneration Per Person Per Year	for Independent Directors Maximum Remuneration Per Person Per Year
Negative to less than 5Cr	60 lakh p.a	12 lakh p.a
from 5Cr to less than 100Cr	84 lakh p.a	17 lakh p.a
from 100Cr to less than 250Cr	120 lakh p.a	24 lakh p.a
from 250Cr & Above	120 lakh p.a + 0.01% of Effective Capital exceeding 250Cr	24 lakh + 0.01% of Effective Capital exceeding 250Cr

* These limit can be Increased by approving it in Special Resolution (Earlier Central Govt Approval was needed, now Removed)
* Approval of creditors to whom Defaulted is Required.

Calculation of Effective Capital

EC = Eq. Share Cap + Pref Share Capital + Security Premium

+ other free Reserve / losses + LT Debt / Loan / Deposits
+ Capital Reserve if cash Realised
Less Investments in case of Non Invt Companies.
Less Losses / Preliminary Expenses not written off

* Do not include Revaluation Reserve or Share Application money Pending allotment, Short term Liabilities or Advance for shares to be issued, Capital Reserve if not Realised in cash

NOTE Calculation of Profit as per Section 198

PBT (Correct Profit) Before Director Remuneration	XXX
(+) Depreciation Charged	XXX
- Depreciation as per section 123 or Schedule - II	XXX
- Unrealised Profit / Revaluation Profit (if included above)	XXX
Profit under section 198	XXX

* Director sitting fees is allowed and hence consider it as normal expense.

No limit on Director sitting fees.

Note: Managerial Remuneration is treated as expense and if not paid, then liability.

Excess Remuneration Paid is Staff Advance.

Question

Draft Statement of P/L of A ltd non Invt company

Sale	70,00,000
Other Income	10,00,000
	80,00,000
Cost of Material Consumed	300000
Purchase	20,00,000
Change in Stock	100000
Employee Benefit	300000
finance Cost	400000
Depreciation	100000
Other EXP	10,00,000
	4200000
PBT	3800000
Tax Expense	10,00000
PAT	2800000

Balance sheet

S/Capital	5000000
R/S	10,00,000
NCL - LT Borrowing	90,00,000
CL - Trade Payable	80,00,000
	230,00,000
PPE	50,00,000
NC Investment	10,00,000
CA	1,70,00,000
	2,30,00,000

Other Expense include Manager Remuneration of ₹600000 Dep Schedule II 300000. Reserve + Surplus include Revaluation Reserve 300000.

Calculate M. Remuneration assuming 1 WTD, 1 PTD and 1 Independent Director.

Divisible Profit (Section 123 of The Companies Act 2013)

Company Can pay dividend out of

Current year Profits

↓

Allowed from Divisible Profits of Current year without limits.

↓

Calculation of Current Year Divisible Profit

Net Profit	xxx	
+ Dep Charged	xxx	SLM
– Dep as per S-II / Section 123	xxx	
Divisible Profit	xxx	

This depresiation is given by Co. Act
This dep. includes
current yr
+
Arrear ~~of~~ Dep

Accumulated Past Profit

↓

Allowed with limits.

↓

Limits given by Companies Declaration of Dividend Rules 2014

↓

Lower of following

(i) Accumulated free Profits (P/L + General Reserve) Less 15% of ESC + PSC

OR

(ii) 10% of Paid up S/Capital (ESC + PSC) + Acc. Free Reserve (P/L + G/R)

Note: Rate of Dividend shall not exceed more than Avg Rate of Dividend in Past 3 years.

Question XLtd has

ESC	5500,000
10% PSC	20,00,000
P&L Accumulated	10,00,000] Past
G/R "	200000

In past XLtd has distributed 6% Avg Dividend. Company wants to use past Profit to distribute 40% as Dividend.

Current year Divisible Profit is ₹ 300000

Calculate how much dividend can be distributed?

I) Current Year Divisible Profit = 300,000
Less : Prefrence = 200,000
Profit for Equity share 100,000

II) Dividend from Acc Profit
(a) Avg Rate of past 3 yr. 6% × 55,00,000 = 3,30,000 (PUSC)

(b) 10% Paid up E+ Prf S/C + Acc Reserve
5500,000 + 20,00,000 + 12,00,000 = 8,70,000

(c) Acc Reserve 15% ESC+PSC
12,00,000 − 15% · 55,00,000 + 20,00000 = 75,000

Divident from Past Profit = 75,000

Total = $\frac{175000}{5500,000}$ = 3.18%

Question

	9% PSC	20,00,000
	ESC	50,00,000
	GR (Past)	10,00,000
	PLr (Past)	9,00,000
Profit After Tax	Current PAT	7,00,000

Avg Dividend past 3year 10% (9)
Company wants to declare @ 12%

Check can company distribute 12% as dividend?

I) Current Yr Profit — 700,000
(-) 9% 20,00,000 — 180,000
Profit availiable for — 520,000

II) Past Profit
a) 10% 50,00,000 = 500,000

b) 10% (20,00,000 + 50,00,000 + 1900,000) = 890,000

c) ACC Profit − 15% Paid up S/C
1900,000 − 15% × 70,00,000 = 850,000

Company want to Pay 12% 50,00,000 = 600,000
(-) 520,000
use past ~~800,000~~ 80,000

Question

9% PSC 20,00,000
ESC 50,00,000
GR (Past) 10,00,000
P&L (Past) 9,00,000
(H.W) Current PAT 7,00,000
Avg Dividend past 3 year 40%
Company wants to declare @ 35%

Check can company distribute ~~12%~~ 35% as dividend?

Cash Flow Statement (Accounting Standard - 3)

[All Companies except one person company are required to prepare CFS]

① Cash Flow Statement is a statement specifying flow of cash and cash Equivalents during a period.

It should classify flows into

- Cash flow from operating Activities
- Cash flow from Investing Activities
- Cash flow from Financing Activities

② Cash Flow Statement is prepared to understand main sources of Inflows and outflows of Cash and Cash equivalents. It is useful to analyse Cash management policies of Entity and Business Valuation Information.

- This Statement is useful in analysis of flow of Cash and Cash Equivalents.

- This Statement is also useful for identifying Over trading / Under trading in Entity.

- This helps in Better Comparison
- " " " improvement in budgets.

③ Cash and Cash Equivalents means - Cash in hand

- Cash at Bank

- Marketable Securities

Where marketable securities means Investments which are readily realisable within 3 months like Treasury Bonds etc.

④ Cash flow from Investing Activities means flow of cash arising from fixed assets and Investments including Interest Income from Investments.

Note: for financial Institutions like Banks, Investments are operating items and Interest on such Investments is also operating in nature.

Examples of Cash flow from Investing Activities

- Sale/Purchase of Property Plant + Equipment
- " " " Investments (other than Marketable)
- Interest on Investments
- Pre Acquisition dividend
- Post Acquisition dividend

(5) Cash flow from financing Activities means flow of cash and cash equivalents arising from Share Capital and Borrowings including service cost on them.

Service cost on Share Capital is Dividend Paid
" " " Borrowings is Interest Paid

Examples of Cash flow from financing Activities

- Issue of Share Capital
- Receipt of Security Premium
- Issue of Debentures
- Payment of Interest
- Payment of Dividend

(6) Cash flow from operating Activities means flow of Cash and Cash equivalent from activities of operation and residual activities i.e. flows which are neither financing nor investing in nature. Cash flow from operating Activities can be derived by applying either

- Direct Method (Para 18a of AS-3)
- Indirect Method (Para 18b of AS-3)

Examples of operating Activities - Direct method

- Cash Sale
- Collection from Debtors
- Payment to creditors
- Payment of operating Expenses
- Payment of Tax etc

(7) Preparation of Cash Flow Statement directly from Cash A/c, Bank A/c and Marketable Securities A/c. Here we need just 3 ledgers.

Step 1 Combine Cash and Cash Equivalents

- Cash A/c
- Bank A/c
- Marketable Securities A/c

Step2 Eliminate Contra items in these ledger

Step3 Balance items are posted directly in Cash Flow Statement.

(8) Preparation of Cash Flow Statement from 2 Balancesheets and additional information.

Here we need Various ledger. Information extracted from these ledger will be used to prepare Cash flow statement.

Cash flow from operating Activities is calculated using Direct method ie. selecting Cash/Bank in operating ledgers.

Cash flow from operating activities is calculated using Indirect method ie selecting non cash items in operating ledger.

Note: Direct Method is applied by Insurance Companies whereas listed companies apply Indirect Method (SEBI Requirement)

Note: Indirect Method provides better information for valuation tools, hence it is preferred.

Note: following steps are applied in preparing various ledgers

Step1 : Prepare various ledgers from available information by applying Best Assumptions.

Step2 Select items of Cash/Bank or Non Cash Non operating Items to calculate CFOA

Step3 Prepare Cash Flow Statement.

9. How to prepare various ledgers?

(9A) P&L Appropriation Account

To General Reserve created	xxx	By Balance b/d	xxx
To other Reserve Created	xxx	By Net Profit/PAT	xxx
To Dividend Paid	xxx	By General Reserve written back	xxx
To Corporate Dividend Tax (Now deleted but Question exist)	xxx	By other Reserve written Back	xxx
To Bonus Share	xxx		
To Premium on Redemption of Preference Share	xxx		
To Premium on Buy Back	xxx		
To Balance c/d	xxx		
	xxx		xxx

Note: All items relating to Shareholder (Equity or Preference) will be shown in P&L App A/c like Distribution to them.

Note: Any tax on such distributions is also Appropriation item.

Note: Transfer between Reserve is also appropriation.

(9B) Fixed Assets / Property Plant and Equipment A/c

- If gross and Accumulated Dep is given
  or
  If net and Opening, closing Accumulated Depreciation is given
  ⇓
  Apply Gross Method i.e.
  Prepare - Gross Fixed Asset at Cost A/c
  - Accumulated Depreciation A/c
  - Asset Disposal A/c.

- If Net values are given
  ⇓
  Prepare Fixed Assets (Net) A/c

* Accumulated Depreciation is also called Provision for Depreciation.

Gross method

Gross Assets A/c

To Balance b/d	XXX	By Asset Disposal A/c	XXX
To Bank - Purchase	XXX	By Revaluation of PPE	XXX
To Revaluation of PPE	XXX	By Balance c/d	XXX

Accumulated Depreciation / Provision for Dep A/c

To Asset Disposal A/c	XXX	By Balance b/d	XXX
To Balance c/d	XXX	By Depreciation charged	XXX

Asset Disposal A/c

To Gross Asset	xxx	By Acc. Depreciation	xxx
To gain on sale (P/L)	xxx	By Bank - sale	xxx
		By Asset written off	xxx
		By loss on sale (P/L)	xxx

Net method

To Balance b/d	xxx	By Bank - sale	xxx
To Bank - Purchase	xxx	By loss on sale	xxx
To Revaluation of PPE	xxx	By Asset written off	xxx
To gain on sale	xxx	By Revaluation of PPE	xxx
		By Depreciation (P/L)	xxx
		By Balance c/d	xxx

Note: If Question is silent about date of Sale or Purchase of asset, assume 1st day of Year.

Note: If depreciation rate is given, with information about Sale/Purchase is missing then amount of depreciation is to be Calculated as follows

All Sale Purchase are on 1st day of Year

⇓

$$\frac{\text{Closing Balance of PPE}}{1-\text{Rate}} \times \text{Rate}$$

Sale Purchase have dates other than 1st day of year

⇓

Calculate Dep on each transaction assuming x

(9C) Investment Account

To Balance b/d	xxx	By Bank - Sale	xxx
To Bank Purchase/Sale	xxx	By loss on Sale	xxx
To gain on sale	xxx	By Bank - Pre	
To Bonus	NiL	Aquisition Dividend	xxx
		By Balance c/d	xxx

(9D) Dividend A/c / unclaimed Dividend A/c / Dividend Payable A/c

(Do not prepare Proposed Dividend)

To Bank - Dividend Paid	xxx	By Balance b/d	xxx
		By P/L App - Dividend Declared	xxx
To Balance c/d	xxx		

Note: If question does not have information about dividend declared & dividend paid, then best assumption is always assume opening dividend payable get paid during the year.

Note: Dividend Amt = Dividend Rate x PAID UP share Capital

Note: Preference Dividend is also calculated and presented just like above equity dividend.

Note: If Question declares Equity dividend but is silent as preference dividend, then best assumption is that preference dividend has also been declared.

(9E) Taxation A/c or Provision for Tax A/c or Tax Payable A/c

To Balance b/d (Advance Tax)	xxx	By Balance b/d (Provision for Tax)	xxx
To Bank - Tax Paid	xxx	By P&L (Provision for Tax made)	xxx
To TDS deducted	xxx	By Bank - Income Tax Refund	xxx
To Balance c/d (Provision for Tax)	xxx	By Balance c/d Advance Tax	xxx

Note: If Q is silent on Tax Paid + Provision for Tax made during the year, Best assumption is that opening Tax liability (if any) was paid during the year.

Note: Tax is always assumed to be of business. Hence recorded in P&L A/c. (In non company case it is treated as drawings and shown in Capital A/c)

(9F) Interest Receivable A/C

To Balance b/d	xxx	By T.D.S	xxx
To Interest Income (P/L)	xxx	By Bank - Int Received	xxx
		By Balance c/d	xxx

Note: If Q provides rate of Interest on Investment then calculate Interest on Investments as Int Income based on rate.

Note: Always assume all transaction of Sale Purchase on 1st day.

(9G) Debentures/Bonds A/C

To Bank - Redemption	xxx	By Balance b/d	xxx
To Share Capital - Conversion	xxx	By Bank - Issue	xxx
To Balance c/d	xxx	By P/L R.F	xxx

(9H) Share Capital A/c

To Bank Buy Back	xxx	By Balance b/d	xxx
To Bank - Premium on Buy Back	xxx	By Bank - Issue	xxx
		By Debenture - conversion	xxx
To Balance c/d	xxx	By Pr. App (Bonus)	xxx
		By CRR Bonus	xxx

Note: If security Premium is also received, then it is financing activity.

Security Premium A/c

		By Balance b/d	xxx
		By Bank Premium Received	xxx
To Balance c/d	xxx		

Preference Share Capital A/c

To Bank Redemption	xxx	By Balance b/d	xxx
		By Bank - Issue	xxx
To Balance c/d	xxx	By Pr App (B.F)	xxx

(9I) Interest Payable A/c

To Bank - Int Paid	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P&L - Expence	xxx

Note: If Int is to be calculated

= Liability x Rate of Interest

It is also called hidden Adjustment.

This ledger can be avoided.

(9J) Debtors

To Balance b/d	xxx	By Provision for D.D	xxx
To change in Debtors (B.F)	xxx	By Balance c/d	xxx

Provision for Doubtful debt A/c

To Debtors - Bad debt	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P/L - Provision made	xxx

(9K) Capital Reserve A/c / Revaluation Reserve

		By Balance b/d	xxx
		By Revaluation of Asset	xxx
To Balance c/d	xxx		

(11) Calculation of CFOA under Indirect Method

Profit Before Taxation	xxx
Non operating items	
+ Depreciation PPE	xxx
+ Amortisation of Intangible Asset	xxx
+ Loss on Sale of PPE/Investment	xxx
- Gain " " " "	xxx
- Interest Income/Dividend Income	xxx
+ Interest Expense	xxx
+ Premium on Redemption of Debent	xxx
+ Provision created	xxx
Operating Profit Before Working Capital Change	xxx
± Change in operating Current Asset or	
± " " operating Current Liabilities	

10. − Increase in operating CA	xxx
+ Decrease in operating CA	xxx
+ Increase in " CL	xxx
− Decrease " " "	xxx
Cash Profit Before Tax & EOI	xxx
Less Tax Paid	xxx
Cash Profit Before EOI	xxx
Less EOI (operating)	xxx
CFOA	xxx

(12) <u>Revaluation</u> of Current Assets/Liab.

If Question provides information that few assets or liabilities have been revalued upward or downward then, in such cases

Step 1 Calculate correct value of Asset/Liab ignoring Revaluation.

Step 2 Find out Revaluation Amt and Eliminate its effect. (Since it does not have any effect on cash flow)

- Reserve/Surplus will also get changed
- Asset/Liab. " " " "

Step 3 Start Cash Flow after eliminating effect of Revaluation.

13 Special items

(13A) Meaning of Cash and Cash Equivalents

It include,

Cash in hand	xxx
+ Cash at Bank	xxx
+ Demand deposits with Bank (These are v. short term FD)	xxx
+ Any foreign exchange held (foreign currency x closing Rate)	xxx
	XXX

Hence Any liquid Investment which is

- very short term
- has no significant Risk
- is Readily Realisable (i.e. Market Exists)

Bank Overdraft is not Bank Balance, hence it is financing activity.

(13B) Cash at Bank means Bank Balance as per Cash Book (Not Pass Book)

(13C) Extraordinary items are Abnormal items like
- Abnormal Loss by fire
- settlement of law suit
- settlement gain by lottery
- Insurance claims

These are shown in CFS as separate item. as last item.

(13D) Treatment of Govt Grants

Govt Grants are treated as follows

Receipt of grant for land = Investing Activity

" " " as promoter = financing Activity

" " for PPE/capital Grant = Investing Activity

" " " Expenses = operating Activity.

* Amortisation of Capital grant

since PBT includes amortisation of grant as income, it should be deducted from PBT in OA.

(13E) Proceeds of calls in Arrears

It is financing activity

(13F) underwriting Commission Paid

It is also called financing activity.

(13G) for financial Institutions like Banks

Stock Brokers, non Banking finance Companies

following is relevant.

Loan & Advance Granted ⇒ OA

Int on Loan Earned ⇒ "

Purchase of shares, Bonds, options, Derivative ⇒ OA

Earnings from " " " " ⇒ OA

* Loan & Advance to Supplier and Employees is

Always considered operating activity. Similarly

Int Earned from such Supplier is also OA.

(14) CFS Should have following disclosures

(i) Reconciliation of Cash and Cash Equivalent opening and closing Balance.

(ii) Significant Non Cash Transaction should be disclosed.

(iii) Unused Borrowings should be disclosed

(iv) Cash & Cash Equivalent not available for use should be disclosed.

Buy Back of Securities (Section 68 to 70 of Companies Act 2013)

1. BuyBack means cancellation by repayment of securities (generally Equity Shares). Buy Back is a way to repay capital. Buy Back is used by companies to
   - Increase controlling share
   - Avoid takeover by other person
   - Improve capital based Ratios like Debt Equity Ratio or Dividend per share Ratio
   - Helps management by lower participation by shareholder.

2. BuyBack is restricted by certain limits imposed by section 68. The reason for such restriction is to secure creditors of company.

   Apart from restrictions, Section 68 and 69 require compliance, which again improve security of creditors of company.

   Only fully Paid Equity shares can be bought back. This also improves security of creditors.

3. Following journal Entries are required for buyback

(i) Equity Share Buy Back A/c Dr
  To Bank
Being amt paid on share BuyBack

(ii) Equity share Capital A/c Dr — Paid up Capital
Premium on Buy Back Dr — Excess Amt paid up
  To Equity share Buy Back A/c
(Being share Buy Back adjusted with Capital)

(iii) Security Premium / General Reserve or P/L A/c Dr
(1st Pref) (2nd Pref)
  To Premium on Buy Back
(Being Premium on Buy Back adjusted)

(iii) Revenue Reserve A/c Dr
To Capital Redemption Reserve
(Being CRR created)

* we can use security Premium also

Note: Amount of CRR should be
Paid up value of capital Bought Back x
(-) fresh issue of any shares xxx
for the purpose of Buy Back
CRR Required xxx

Note: If sufficient funds are not available for payment, assume Bank OD.

Note: Sometimes question requires sale of Investment or Raising loan then follow question requirements.

Note: After BuyBack, Balance Sheet should be prepared with note in capital about Buy Back. This is requirement of S-III

Note: Revenue Reserve means free Reserves i.e.
- General Reserve
- P&L A/c
- Retained Earnings
- Surplus
- Dividend Equalisation Reserve

Note: CRR can be used only for Bonus Issue of Shares (Section 69)

④ Additional Journal Entries

(i) Sale of Investment Bank A/c Dr
To Investment
(Being Investment Sold)
* Diff in P&L as gain/loss on sale of Investment

(II) Raising Bank loan

Bank A/c Dr
To Bank loan
(Being loan raised)

(III) Buy Back Expense

B.Back Expense A/c Dr
To Bank
(Being expense Paid)

* Buy Back expense will be written off in P/L.

(IV) Issue of Pref shares (will affect CRR Amount)

Bank A/c Dr
To Pref share Application & Allotment
(Being amt received on application)

Pref share Application & Allotment Dr
To Pref share capital
(Being amt transferred)

(V) Issue of Debentures (Does not affect CRR)

Bank A/c Dr
To Debenture Application & Allotment
(Being debentures Application received)

Debenture Application & Allotment Dr
To Debentures
(Being amount t/f)

(VI) Cancellation of own Debentures held as Investment

Debentures (Liab.) A/c Dr — Paid up Amt
To Investment in own Deb — Book value
To gain / loss on cancellation — B.F
(Being own Debentures cancelled)

* gain on cancellation will be t/f to P/L A/c.

(VII) Redemption of Pref. Shares (Section 55)

- Pref. share capital Dr Paid up Amt
  Premium on Redemption Dr Excess Amount
  To Pref share holder
  (Being amt transferred)

- Pref Shareholder A/c Dr
  To Bank
  (Being amount paid)

- Revenue and Surplus Dr
  To Premium on Redemption
  (Being Premium on Redemption W/off)

* Company is covered by Section 133 ⇒ P/L/GR (ICAI assumes)
  " " Not " " " " ⇒ S/Premium, P/L, GR

* In Buy Back Security Premium is assumed to be free Reserve Hence we always use security premium, then General Reserve, but not in Section 55

  Revenue Reserve Dr
  To CRR
  (Being CRR created under section 55)

  * Rule for CRR calculation is same as in Buy Back i.e. after Reducing fresh issue made for the purpose.

(VIII) Bonus Share Issue

CRR A/c Dr
Other Reserve Dr
To Bonus Issue
(Being Bonus announced)

Bonus Issue Dr
To Share Capital
(Being Bonus allotted)

Note: Transfer

Gain/loss on sale of Investment/Fixed Asset	= P/L
Gain/loss on cancellation of own Debentures	= P/L
ESOP cancellation	= G. Reserve
Eshare BuyBack Premium Paid	= Security Premium, then Revenue Reserve
Pref Share Redemption (Section 133 Company)	= Revenue Reserve
Pref Share Redemption (Non Section 133 Company)	= Security Premium, then Revenue Reserve
CRR (S-55)	= only Revenue Reserve
CRR (S-69)	= Allowed from S/Premium but ICAI use only Revenue Reserve + give note
BuyBack Expenses	= P/L
Bonus Issue	= CRR, then S/Premium then Revenue Reserve

5) Section 68 (Theory)

(i) Sources of BuyBack

- Fresh Issue of any Shares for BuyBack

OR

- Free Reserve (Including Security Premium)

* If source of Earlier issue of shares, it should not be of same kind.

(ii) Conditions of BuyBack

- Allowed by Articles of Association
- Shares should be fully Paid
- Special Resolution to be passed in General Meeting

Exception: If BuyBack is of less than 10% of Total Paidup capital + Free Reserve then special Resolution is not Required, but Board Resolution is Required.

(iii) Limit on Buy Back

(A) If Buy Back is of Equity Shares, then take lower of

(a) 25% of [Total Paid up value (Eq + Pref) + Free Reserve]

(b) Ratio of $\frac{\text{Secured + Unsecured Debt}}{\text{Post Buy Back Paid up S/Capital + Free Reserve}} \leq \frac{2}{1}$

(c) 25% of No of E Shares (Paid up Equity Share Capital)

(B) Other Securities (Not in our course)

(iv) Other Compliance

(a) Follow regulation of SEBI and Company Rules in this regard or pay penalty.

(b) Post Buy Back, submit Solvency Certificate and Statement of Buy Back to authorities

(c) Do not make fresh issue for 6m of same kind of securities

(d) Do not further Buy Back for 1 year

(e) Buy Back can be from open Market or Shares held by Employees under ESOP or proportionate Buy Back

* For Section 68, security Premium is free Reserve

⑥ Section 69

This Section requires creation of CRR, if Buy Back is from free Reserve or security Premium. CRR will be of nominal value of Capital Bought Back. CRR can be used for Bonus Issue

⑦ Section 70

Prohibit Indirect Buy Back through subsidiary company or Investment company

⑧ Limit (in formulas)

BuyBack can be lowest of following

(a) 25% of Number of Equity shares = No of Shares to be Bought Back

or

(b) $\dfrac{25\% \text{ of [Total Paid up Capital Equity + Pref + Free Reserve including Security Premium]}}{\text{BuyBack Price}}$

= No of Share That can be Bought Back

(c) $\dfrac{\left(\begin{array}{l}\text{Total Paid up capital} \\ \text{(Equity + Pref)}\end{array} + \begin{array}{l}\text{Free Reserve including} \\ \text{S/Premium}\end{array}\right) - \frac{1}{2}\text{Debt}}{\text{BuyBack Price + Paid up Value per Equity Share}} =$

No of Share That can be Bought Back

* Debt here means All Liabilities (LT, ST, Current) without Provisions.

Example : Calculate how many shares can be Bought Back assuming Buy Back Price is ₹12 per Share

E Share Capital (₹10 each)	₹10,00,000
S/Premium	₹300000
G/Reserve	₹200000
Debt	₹2700000

Amalgamation, Absorption and External Reconstruction
(Accounting Standard-14 : Accounting for Amalgamation)

Topics
a) Calculation of Purchase Consideration
b) Books of New Company, in case of purchase
c) Books of New Company, in case of merger/Pooling of Interest
d) Books of Old Company

① Meaning

- Amalgamation means where two or more Companies are combined to form a new company. The general reason are economies of scale.

- Absorption means where existing company takes over another Existing company. The general reason is to reduce competition or growth

- External Reconstruction means one existing company is restructured to form new company. The general reason is to restructure capital/business.

* Internal Reconstruction means saving a bankrupt Company by changing its debt or altering its share capital. Its external structure remains same.

* In our exams Absorption or take over means combination of Companies. This is generic word. AS-14 specifies Amalgamation/Absorption or external Reconstruction to be
- In nature of Purchase
- In nature of Merger/Pooling of Interest method

* Demerger/Spinoff means splitting off company into two or more companies. This chapter is in CA final.

② Books of New Companies in case of Purchase
Following Journal Entries are required

(a) Business Purchase A/c Dr. P.C
To Liquidators of old company P.C
(Being business purchased)

(b) Sundry Assets A/c Dr Agreed value
To Debenture holder Agreed value
To Sundry Liabilities Agreed value
To Business Purchase P C
(Being Sundry Asset/Liab taken over)

* Any difference will be recorded as Goodwill/Capital Reserve

(c) Liquidation of old company Dr PC
To Eq share Capital
To % Pref share Capital
To Cash
To Security Premium
To Any other Payment
(Being P.C Paid)

(d) for payment by new company other than P.C
Expence of old co paid
Good will Dr
To Bank
(Being amt paid)

(e) Payment to creditor/Debenture taken over
Creditor Dr
Debenture holder Dr
To Bank
To New debenture
To Security Premium
(Being payment made to liabilities)
* In case of discount on issue of Debenture, it will be written off against P/L of new Company.

(f) Payment of formation Expenses
Preliminary Expense
To Bank
(Being Preliminary Exp Paid)
* These will be written off in P/L A/c

(g) for creation of Statutory Reserve

Amalgamation Adjustment Dr *
To Export Profit Reserve
To Investment allowance Reserve
To Foreign project Reserve
To Shipping Reserve
} **

* Show in Balancesheet as negative item "Amalgamation Adjustment"

** These reserves are created under tax laws

Note: Above Entry is reversed, when period of such reserve is expired

(h) Contra Elimination
Payable (Creditor/BP/Loan) Dr
To Receivable (Debtor/BR/Loan)
(Being contra cancelled)

(i) Elimination of Unrealised Profit on stock

Upstream	Downstream
Goodwill/Capital Reserve Dr	P/L A/c
To stock	To stock
(Being stock Reserve created)	(Being stock Reserve created)

Note: Finally in Balancesheet, Either Goodwill or Capital Reserve should appear

Note: format should be as per S-III.

③ Calculation of Purchase Consideration (P.C)

(i) P.C. will be either given in question or calculated.

(ii) Calculation of P.C can be by
- Net Payments method NPM (ES + Pref)
- Net Assets method or Residual Method NAM

* Apply NPM if complete payment details for Payment to Equity shareholder and pref shareholder is given in question. In other cases use Net Assets method

(iii) Calculation of PC under Net Payment method

Payment To	Payment In	Working	Amount
ESH	Eq share/P share/Cash etc	xxx	xxx
PSH	" " "	xxx	xxx
			xxx

As per AS-14, Payment made by New Company to Equity + Pref shareholder is called consideration. Hence any other payment made by new company will Not be included in P.C

(iv) Calculation of PC under Net Assets method

Sundry Assets takenover at agreed values	xxx
+ Goodwill " " " " "	xxx
- Sundry liabilities " " " " " (including debentures at agreed values)	xxx
P.C	xxx

Payment in	Pref share	xxx
" "	Equity Share	xxx
" "	Cash	xxx
" "	Other forms	xxx
	PC	xxx

Match

Note: for calculation of number of shares to be issued, question may provide Swap Ratio or Exchange Ratio. In such cases no of shares are calculated using Swap Ratio.

Alternatively, if question provide market value or fair value of BOTH companies Equity Shares, then

$$\text{No of share to be issued} = \frac{\text{Value of old Co share} \times \text{No of old Co. share}}{\text{Value of new company share}}$$

Also, if question requires calculation of Intrinsic Value (kind of fair value) for company, then

$$\text{Intrinsic value} = \frac{\text{Fair value of Assets} - \text{Fair value of Liab.} - \text{Fair value of PSH}}{\text{No of Eq. shares of company}}$$

* Here fair values are Agreed values if given, else use Book values.

* Intrinsic Value also called Break up value or Net worth per share or Net Asset Value is not calculated for Pref shareholder.

Example A ltd taken over B ltd (having 200000 E share of ₹10 each)

Case A: A ltd will issue 3 Equity shares of ₹10 each @ 12 each against 4 Equity shares of B ltd

Case B: A ltd will issue necessary Equity shares to Equity shareholder of B ltd based on value of shares. Value A ltd share ₹12, B ltd ₹20

Case C: A ltd will issue necessary Equity shares to ESHolder of B ltd

Case D: A ltd will issue 3 Equity share for 4 Equity shares held. Value of share of A ltd is 12/-. Also A ltd will pay cash in accordance with intrinsic value of shares

Case E: A ltd will issue necessary shares to Shareholder of B ltd based on Intrinsic value of shares

Step1 : Check Swap Ratio is given → Use Payment method

↓

No

Step2 Share value (not Par value / Paid value)
↳ i.e. Market value/Fair value
of E shares of Both Companies
is given → Use Payment method

↓

NO

Step3 Do Question requires Calculation of
Intrinsic Value of Both Companies → Use Payment method

↓

No

↓

Use NAM

(5) Treatment of Debentures

Debenture holders are recorded in P.C in N.A.M @ Agreed value. Then are later recorded by new company in its Books @ agreed values but Journalized using premium/Par/Discount values, as given in Question

Generally we tabulate it in Rough

Agreed value Method - I = Agreed value Method - II

OLD Book value × Redemption Terms = New Book Value × New Issue Terms

OLD Book value → Always available in Q

Redemption Terms → will be given or assume Par value — 1st Assumption

New Book Value → generally missing value

New Issue Terms → will be given or assume Par — 2nd Assumption

Examples : Assume in all cases Book value of Debentures of old Co ₹5,000

Case A : Debentures are takenover by new company

Case B : Debentures are takenover by new company at 10% Premium to be settled by issue of new Debentures at 5% Premium.

Case C : new Company will issue debentures at 5% discount to pay old company debentures at 20% Premium

Case D : new Company took over Debentures of old company and agreed to pay by issue of 5100 debentures at 5% premium

Concept of Statutory Reserve

(i) Journal Entry for creation of Statutory Reserve

Amalgamation Adjustment A/c Dr
    To Statutory Reserve
(Being Statutory Reserve created)

- Amalgamation Adjustment is shown as negative Reserve in Reserve + Surplus of new Company
- Statutory Reserve is shown in Balance sheet as positive Reserve + Surplus
- List of Statutory Reserve is given below
  - Investment Allowance Reserve
  - Export Profit Reserve
  - Foreign Project Reserve
  - Shipping Reserve
  - Mining Reserve etc

(ii) Journal Entry for cancellation of Statutory Reserve

Statutory Reserve A/c Dr
    To Amalgamation Adjustment
(Being Statutory Reserve cancelled)

* If Question says time period for statutory Reserve is pending, Journalise for creation and upon time period ending, cancel statutory Reserve.

Concept of unrealized Profit on stock

(i) Identify stock 'in hand' from sales Company Purchases (A) xx
Rate of Profit on sale earned by seller company (B) xx

unrealized Profit = A×B xxx
(−) change in value of stock due to different Agreed value xxx
unrealized Profit to be Adjusted in Journal xxx

Entries already given earlier.

(8) Best Assumptions

To Pay Equity shareholder → Discharge in Equity shares of new Company
" " Pref " → " " Pref shares " " "
" " Debenture holder → " " Debenture " " "
(same rate)

If question does not provide
- Information about No of shares and value of share, assume shares are issued at Par
- Information about No of shares and value of share, but share are issued at premium, whose premium is also missing, assume same number of shares, that are in old co, to be issued by new Company.

(9) Nature of Reserves

Reserve & surplus

Free Reserves
(means dividend can be Paid out of them)
↓
P/L, G/R, Retained Earning
Surplus A/c, Balance in Appropriation A/c
Dividend Equalisation Reserve, Revenue Reserve

Non free Reserves
(Means not available for distribution and dividend)

Limit placed by Company law or AS or Guidance Note of ICAI or Company (self) or other laws (except Income Tax)
↓
Revaluation Reserve (AS-10)
Security Premium (Section 52)
Workmen Compensation fund (Factory act)
Investment fluctuation fund (Banking)
Contingency Reserve (Electricity Comp. act)
Called Specific Reserve can have time limit.
CRR (section 55 + 69)
DRR (Section 72)
Capital Reserve (S-III)
Profit Prior to Incorporation S-III
ESOP Reserve (Guidance Note)

Limit placed by Income Tax
↓
Invt Allowance Reserve
Export Profit Reserve
Foreign Project Reserve
Shipping Reserve
Mining Reserve
Tea & Coffee Reserve
↓
Called specific Reserve. Have time limit

Note: Following are not Reserves, but Liabilities
- Employee Provident fund
- Provision
- Retirement Gratuity fund
- Workmen Profit Sharing fund
- Contingent Liability
- Workmen Compensation fund to the extent mentioned as Liability.

(10) Books of old Company

Step 1 Transfer all Items of Balance Sheet at Book value to various Accounts
- Equity Share Capital to Equity shareholders
- All Reserve / Surplus, Losses (Free, Non free) to Eq shareholders
- Pref share capital to Pref shareholders A/c
- Cash if not taken over by new Company to Cash A/c
- Other Items to Realisation A/c

Step 2 Sell Assets and Liabilities as Specified in Question

(A) For assets and liab not taken over → Cash A/c Dr
To Realisation
(Being asset sold)
or Realisation Dr
To Cash
(Being liab Paid)

* Liability settled against any asset No Entry
* If Q is silent on realisation of asset (which has not been taken over) assume No Realisation.
- If Q is silent on payment of liability (which has not been taken over) assume Payment at Book value

(B) Takeover of Assets + Liab by new Company

New Company Dr P.C
To Realisation P.C
(Being Sundry Assets + Liab taken over by new Co)

Step 3 Payment of Realisation Expense (Old Company)

Realisation Dr
To Cash
(Being amt Paid)

Step 4 Check Book value of PSH + settlement value in PC for PSH
If both are not equal, record gain/loss on realisation

Excess Payment to PSH = Realisation
To PSH
(Being excess Amt Recorded)

Short Payment to PSH PSH
To Realisation
(Being short Amt recorded)

Step 5 If new company makes payment to old company for Expenses or old company which not takeover are being paid by new company in cash then record Receipt of cash
Cash A/c Dr
To Realisation
(Being amt Realised)

* Payment which already made above.
* A shortcut Exist of neither Receiving nor payment made in above case.

Step 6 Close Accounts.
(i) Realise PC from New Company
(ii) Distribute it to ESH + PSH
(iii) Close Realisation + its Profit/loss is t/f to ESH
(iv) Any difference in Cash A/c is t/f to ESH A/c
(v) ESH/PSH will tally.

(11) Updation of financial Statements-

If Balance sheet given in question and date of Amalgamation/Absorption are not same, then Balance sheet should be updated.

- If Question provides Net Profit for Gap Period, then missing fig is Cash
- " " does not provide Net Profit for Gap Period, then missing fig is net Profit

⑫ Merger / pooling of Interest Method

Under Merger, Accounting is done as if Entities have combined (not purchased or sold). These merger schemes are approved in court and are subject to following conditions

(i) All Assets and All Liabilities of transferor (old) Company should be transferred to transferee (new) Company

(ii) Such transfer should be @ Book value only (No change allowed)

(iii) Same Business should be carried on by transferee Company which was being done by old company

(iv) Equity shareholders holding at least 90% of Equity share capital should agree to become Equity shareholder of transferee company

(v) Such agreed shareholder should be paid in Equity shares only.

__Note:__ To check Merger in Question

- Question specifies Purchase or Merger. follow Question
- Question does not specifies anything, but
  All Assets / Liab takenover ?
  Takenover at Book Value ?
  P.C Paid to Equity shareholders in E share only ?
  If all answers are Yes, it is merger.

(13) Journal Entries in Merger (New Company)

(i) Business Merger A/c Dr — Consideration
To Liquidator of Old Company — "
(Being Business merged)

(ii) Sundry Assets Dr — Book value
To Sundry Liab — Book value
To Reserves & Surplus of old Co — @ Book value
To Business Merger
(Being S. Assets / Liab combined)

* Any difference is either General Reserve Or P&L A/c.

* Do not take Debit Reserves/Surplus in above Entry.

(iii) Liquidator A/c Dr
To E Share Capital
To P Share Capital
To Security Premium
(Being P.C Paid)

(iv) P&L/G.R A/c Dr
To Cash
(Being expense Paid)

(v) P&L/GR A/c Dr — (Upstream or Downstream)
To Stock
(Being U.P Eliminated)

(vi) No Entry for Statutory Reserves

(vii) Entries for contra, Preliminary Expense Paid, underwriting Commission paid, new public issue are all Same.

(14) Difference between Purchase and Merger

Purchase	Merger
• Selected Asset/Liab can be taken over	All assets and Liab are taken over
• Taken over at new values or Book value	Taken over at Book values only
• Difference b/w PC and Net Asset taken over is Goodwill/CR	Difference is called G/R or P/L
• Reserve and Surplus not taken over by new Company	These are taken over by new Co.
• Expenses Paid by new Company for old Company are adjusted to Goodwill	Expense are adjusted in P/L or G/R

Internal Reconstruction

(1) Internal Reconstruction means altering rights of shareholder and/or creditor in such way that organisation increase its period of going concern. This reconstruction can be by following methods
a) Share Subdivision or Share Consolidation
b) Changes in Shareholder Rights
c) Capital Reduction Scheme
d) Share Surrender Scheme

(2) Companies are restructured internally under
a) Resolution Plan (RP) of IB Code or
b) Under Scheme made for Adjustment of Shareholder Rights

(3) Steps Involved in IBC

Application to NCLT for Insolvency

Appointment of Insolvency Resolution Professional (IRP)

IRP collects information about claims from creditors and Constitute Committee of Creditors COC

COC appoints Resolution Professional. He can be same as IRP

RP formulates Resolution plan based on admitted claims

Resolution plan is approved by COC

Resolution Plan is approved by NCLT, Govt. authorities + Shareholders

Execution of Resolution Plan ⇒ Do Accounting for it.

If at any stage Resolution plan cannot be approved, company goes into liquidation

Journal Entries

(4) for subdivision and consolidation of shares

Pref /Equity share Capital (₹ old Face value) Dr Paid up capital
To Pref/Equity Share Capital (₹ new face value) Paid up share Cap
(Being share capital subdivided or consolidated from ------ shares of ₹ old F.V to ₹ Paid up value ------ shares of ₹ new F.V paid up)

(5) for converting share capital to stock capital

Equity share capital (₹ old face value) Dr Paid up Capital
To Equity STOCK Capital Paid up Capital
(Being share capital converted into stock capital)

* In Balance sheet, don't write Authorised share capital or Issued & Paid up share capital. Instead write Authorised capital and Issued/Paid up capital

* If authorised capital is increased/decreased, we do not journalise any entry. It is based on Board Resolution and hence just disclosed. It is not any transaction

Reconversion

Equity Stock Capital A/c Dr Paid up capital
To Equity SHARE Capital (₹ New FV) Paid up Capital
(Being stock capital converted to share capital)

(6) For Scheme of Reduction of Capital

(i) Eq/Pref share capital (old F.V) Dr Paid up capital
To Eq/Pref share capital (new FV) New Paid up Capital
To Capital Reduction/Reconstruction A/c/Capital Reconstruction A/c/Internal Recons A/c (B.F)
(Being capital Reduced)

* Capital Reduction (by whatever name called) is a special Account and it must be closed at End. For this purpose, we generally prepare Capital Reduction A/c.

(i) for changes in value of assets and liabilities
Asset A/C Dr / Liability A/C Dr   change in value
To Capital Reduction
(Being asset/liab. changed)

* Above Entry may be reversed based on change in values

(ii) for Sale/settlement of Asset/Liability (recorded in books)

Bank A/C Dr
To Asset
To Capital Reduction B.F
(Being asset sold)

Liability A/C Dr
To Bank/Share capital
To Capital Reduction
(Being liabilities paid)

(iv) for settlement of Contingent liabilities

Contingent liability does not have any credit Balance. It just a footnote. Examples are
Pref. Dividend in Arrears
Bills discounted not yet matured
Capital commitments
legal disputes

If Contingent liabilities is waived/cancelled ⇒ No Entry

If Contingent liability is Paid or unrecorded liability is paid or Expenses of Reconstruction are paid or penalty calculated and paid on contract

Capital Reduction
To Bank
(Being amt paid)

(v) for fresh issue of shares/Debentures
Bank A/C Dr
To Share Capital
To Debentures
(Being share/Debentures issued)

* Entries can be formalised through Application A/C

(VI) for writing off losses

Capital Reduction A/c Dr
To P/L
To Sundry Assets
To losses appearing in Balance Sheet like Preliminary Expenses
(Being sundry Assets and losses written off)

* Sometimes opening Balancesheet is missing due to which P/L Balance is also missing, in such cases, prepare opening Balancesheet to calculate losses at start

(VII)

Balance in Capital Reduction A/c

If credit Balance
↓
T/f it to Capital Reserve
↓
Capital Reduction Dr
To Capital Reserve
(Being amt T/F)

If debit Balance
↓
use existing Reserves, G/R, P/L, security Premium to eliminate debit Balance
↓
G/R Dr
P/L Dr
Security Premium Dr
To Capital Reduction
(Being amt T/F)

Note: Always make Balancesheet in S-III format after above Entries
Also report issue of share capital for non cash consideration
name of Company should include "And Reduced" after its name

Note: If a creditor has multiple debts, then all debt should be transferred to personal Account before settlement

Note: Claim of creditor means Amt due to creditor including Interest

① Journal Entries in case of Share Surrender Scheme

(i) For share surrender by shareholder

Eq share capital/Pref share capital Dr   Paid up capital
    To Eq share cap(₹FV)/PS capital(₹FV)   New paid up capital
    To Share Surrender A/c
(Being share capital exchanged)

* Sometimes shares are not exchanged but only surrendered, then journal would be

Share capital Dr
    To share surrender
(Being capital surrendered)

(II) When share surrendered are converted to any specific class, then

Share surrender A/c Dr
    To EShare/PShare surrender A/c
(Being share surrender converted)

(III) When share surrender are settled with liability

Eq share surrender/PShare surrender A/c Dr
    To Eq/Pref share capital
(Being surrendered share transformed)
AND
Liability A/c Dr
    To capital Reduction
Being liability cancelled due to share surrender

* If liability is cancelled without share surrender, it will be journalised as usual

Liability A/c Dr
    To Capital Reduction
(Being amount FIF)

(iv) Share Surrendered, not utilised will be now cancelled

Eq Share Surrender / Pref Share Surrender Dr
To Capital Reduction
(Being Share Surrendered Cancelled)

* Any Balance in Share Surrender must be cancelled by above Entry

* All other Entries remain same

(8) Amalgamation / Absorption with Internal Reconstruction

If question specifies that company is being restructured internally
and
also Amalgamation / Absorption occurs
then

Step 1 Apply Concept of Internal Reconstruction followed by

Step 2 Apply Amalgamation Accounting of AS-14

Branch Accounting

① Following Topics are covered

(i) Dependent Branch
(ii) Independent Branch - Domestic
(iii) ,, ,, - Foreign
(iv) Books of Headoffice

② Branches are extension of business. All Branches are controlled by Head office (H'O). Branches can be
(a) Dependent which are small Branches. These do not maintain own Books of Accounts. These prepare returns and tables, which are given to H'O for Accounting purposes.
All Accounting is done by Head office for Branch. Hence called Dependent Branch.
(b) Branch that maintains full books of Accounts are called Independent Branch. These can be Domestic or foreign

Example

Name of Branch	Maintain Books	Type
SBI Branch Delhi	Yes	
SBI ,, New York	Yes	
KFC ,, Amritsar	NO	

③ Dependent Branches
In this case, H'O will maintain necessary entries, so as to calculate Profit or loss of Branch. Such Entries can be journalised using any method
(I) Debtors method
(II) Stock and debtors method
Profit/loss can be calculated using final Accounts method

(4) Debtors method

following Accounts are prepared

Branch Account

To opening Balance			By opening Balance		
Debtors	XXX		creditors	XXX	
Stock @ S.P	XXX		Outstanding Balance	XXX	XXX
Cash / Petty Cash	XXX				
Fixed Assets	XXX		By opening Stock Reserve		XXX
Prepaid Expenses	XXX	XXX			
			By Goods sent to Branch - Returns		XXX
To Goods sent to Branch at S.P		XXX			
			By Remittances - cash sent to H.O		XXX
To Bank - Cash sent to Branch		XXX			
			By Goods sent to Branch - Loading		XXX
To Goods sent to Branch - load Returns		XXX			
			By Cl. Balances		
To closing Balance			Debtors	XXX	
creditors	XXX		Stock @ Selling Price	XXX	
Outstanding Exp	XXX	XXX	Cash / Petty Cash	XXX	
			Fixed Assets	XXX	
To Stock Reserve - closing		XXX	Prepaid Expenses	XXX	XXX
To Profit B.F		XXX	By Loss (B.F)		XXX
		XXX			XXX

Goods sent to Branch A/c

To Branch - Goods Returns	XXX	By Branch - Goods sent	XXX
To Branch - load on goods sent	XXX	By Branch - load on Returns	XXX
To Purchases / Trading	XXX		

Stock Reserve A/c

To Branch - op stock Reserve	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By Branch closing stock Reserve	xxx

following memorandum Accounts can be prepared if needed. Branch debtors Account is always prepared

Branch Debtor A/c

To Balance b/d	xxx	By Discount/Allowance	xxx
To credit sale (net of Returns)	xxx	By Bad debts	xxx
		By collection from debtors	xxx
		By Balance c/d	xxx

Branch Stock @ selling Price

To Balance b/d	xxx	By Goods sent to Branch - Return	xxx
To Goods sent to Branch	xxx	By Sale at S.P	xxx
To Surplus (B.F)	xxx	By Shortage	xxx
		By Abnormal + normal loss	xxx
		By Balance c/d	xxx
	xxx		xxx

Branch Cash A/c

To Balance b/d	xxx	By Petty Expenses	xxx
To Cash from H.O	xxx	By Balance c/d	xxx

Note: Always assume, if silent, that
- Sale is credit sale
- Return of sale is credit sale Return
- Branch Remits all collections immediately after paying Expense & liabilities
- Discount Allowed is Cash Discount
- All expenses of branch are paid by H.O.

Note: Treatment of Abnormal & normal loss

In Branch A/c — No Treatment

In Stock A/c — Both will be credited to calculate correct closing stock.

Example : following are few transactions for April 20XX

- H.O sent goods to Branch ₹10 lakh
- " " cash " " ₹ 2 lakh
- Branch sold goods on cash ₹ 50000
- " " " " credit ₹ 60000
- collection from debtors by Branch ₹ 350000
- Branch paid Expenses ₹ 180000
- Baddebts of Branch ₹ 30000
- Discount allowed to debtors ₹ 20000

At month End, closing stock of Branch is ₹ 800000 . Journalise for H.O + Branch

Example : following are transactions of H.O and Branch

- HO sent goods ₹ 2000000 to Branch
- " " cash ₹ 1 lakh " "
- Branch sale (cash) ₹ 7 lakh
- " " credit ₹ 15 lakh
- Branch paid Expense ₹ 70000
- Branch Remittance to H.O ₹ 120000
- Branch Baddebts ₹ 50000
- Branch collection from debtors ₹ 60000

closing stock at Branch ₹ 300000.
Journalise for H.O and Branch.
Prepare final A/c of Branch
Consolidate Branch with H.O
Consolidate Branch with H.O assuming Branch does not maintain Books of A/c

Note: Trade Discount is not Journalised. It reduces Sale Price whereas Cash Discount is Journalised as Expense.

Note: Default Assumptions are that
Goods sent to Branch are @IP
Sale is @ Selling Price
Purchase is @ Cost
Goods Returned by Debtors are @ ....
Stock at Branch @........
Stock at H.O @ ....

Note: Always remember that HO and Branch are treated as separate persons for Accounting purposes. Later these are consolidated for presentation to Shareholders.

Note: $\frac{1}{3}$ of Cost = $\frac{1}{4}$ Sale

$\frac{1}{5}$ Sale = $\frac{1}{4}$ of Cost

(5) Final Accounts method

Under this method, following Accounts are prepared
Trading A/c
Profit + loss Account

Trading A/c

To opening stock @ cost	xxx	By sale	xxx
To goods sent to Branch at cost price	xxx	By Abnormal loss (cost price)	xxx
To G.P	xxx	By cl. stock @ cost	xxx

Profit + loss A/c

To Expenses	xxx	By G.P	
To Abnormal loss	xxx		
To Net Profit	xxx		
	xxx		xxx

Note: Treatment of Normal loss - No Treatment
" " " Abnormal loss → Shown above
But if we prepare stock A/c then both normal & Abnormal loss are credited to it.

Note: Sometimes Branch sells goods to other Branches at Invoice Price then, final A/c are prepared at Branch level will be at I.P. Any closing stock of goods at I.P will be made at C.P. For this purpose stock Reserve should be adjusted in Branch P/L.

Branch P/L A/c

To closing stock Reserve (on stock held by other Branches which was Invoiced by this Branch)	xxx	By G.P	xxx
To Expenses	xxx	By op. stock Reserve (on stock held by other Branches which was Invoiced by this Branch)	xxx
To N.P			

(6) Stock and Debtor method
Under this method, following accounts are prepared

Branch Stock at I.P A/c

To op. stock	xxx	By goods returned to H.O	xxx
To goods sent to Branch	xxx	By Sale net of Return	xxx
To surplus on sale B.F	xxx	By Abnormal loss	xxx
		By normal loss	xxx
		By closing stock	xxx

Branch Debtor A/c

To Balance b/d	xxx	By Discount/Allowance	xxx
To credit sale (net of Return)	xxx	By Bad debts	xxx
		By collection from Debtors	xxx
		By Balance c/d	xxx

Branch Adjustment A/c

To goods Returned to H.O - load	xxx	By op. stock reserve	xxx
To Abnormal loss - load	xxx	By goods sent to Branch - load	xxx
To Normal loss - full	xxx	By surplus from Branch stock	xxx
To closing stock - load	xxx		
To G.P	xxx		
			xxx

Branch Profit & loss A/c

To Abnormal loss - cost	xxx	By G.P	xxx
To Expenses	xxx		
To net Profit	xxx		

Example: H.O sent goods to Branch at cost + 25%.

Opening Stock at I.P	50000
goods sent to Branch	150000
Sale net of Return	140000
Abnormal Loss	70000
Normal loss	5000
Expenses	20000

All sales were in Cash and Branch does not have other asset/liab

Prepare Trading/P/L A/c. Assume Branch Remits cash after paying its expenses.

Note. If Q is silent about method, use either Debtor method or Stock and debtor method. Do not apply final A/c method.

If Stock and Debtor method is applied, it gives all missing fig. for other methods.

Note. If Branch does not having loading, i.e. goods are invoiced at Cost only then Branch Adjustment A/c will have only following items

Branch Adj A/c

To G.P	xxx	By Surplus (from Branch Stock A/c)	xxx

⑦ Dual Profit Situations

Sometimes Branch is neither fully dependent, nor fully Independent. Generally this happens when H.O provides more independence in terms of day to day actions and H.O controls limited items.

Example can be Wholesale Trade by H.O and Branch are Retail outlets. Here H.O invoices goods at Wholesale Price and Branch sells them at Above wholesale Price. Hence dual profit/Pricing Situation arises.

Another example can be Branches allowed to purchase and sale goods without involving H.O

Accounting Treatment

In such cases, Branch will prepare its own draft/Memorandum Accounts to calculate profit/loss. Such Accounts can be prepared by using either Stock and debtor method or final A/c method. These are prepared from Branch point of view.

H.O will Consolidate profit specified by Branch. It will have to adjust

Stock Reserve in its P&L A/c as follows.

H.O P&L A/c

To closing stock Reserve (Stock held by Branch on which H.O has invoiced)	xxx	By G.P of H.O	xxx
To Expenses	xxx	By Profit of Branch	xxx
To Profit	xxx	By op. stock Reserve (Stock held by Branch on which H.O had invoiced)	xxx

Similarly if Branch A sells goods to Branch B on independent Basis Branch A P&L will be as follows.

Branch P&L A/c

To closing stock Reserve (on stock held by other Branches which was invoiced by this Branch)	xxx	By G.P	xxx
To Expenses	xxx	By op. stock Reserve (on stock held by other Branches which was invoiced by this Branch)	xxx
To N.P			

(8) Journal Entries - Basic Entries for Independent Branch

Books of H.O	Books of Branch
(i) Goods sent by H.O to Branch	
Branch Dr	Goods sent by H.O Dr
To goods sent	To H.O
(Being goods sent)	(Being goods recd)
(ii) Goods Returned by Branch to H.O	
Goods sent Dr	H.O Dr
To Branch	To Goods sent
(Being goods Returned)	(Being goods returned)
(iii) Cash sent to Branch	
Branch Dr	Cash Dr
To Cash	To H.O
(Being amt sent)	(Being amt Recd)
(iv) Debtors of Branch paid to H.O directly	
Cash A/c Dr	H.O
To Branch	To Debtors
(Being amt Received)	(Being amt Received by H.O)
(v) Asset of H.O, used by Branch to be depreciated	
Branch	Depreciation
To Asset	To H.O
(Being asset depreciated)	(Being depreciated)
(vi) H.O Rent Paid by Branch	
Rent	H.O
To Branch	To Cash
(Being Rent Paid)	(Being Rent Paid)

Hence
In the Books of H.O
Branch A/c Balance will Always be equal and opposite to Balance in H.O A/c in Books of Branch.

(9) Domestic/Local Independent Branches - Reconciliation

Reconciliation Entries

Books of H'O	Books of Branch
(a) Goods sent to Branch but not received by it	
No Entry	Goods in Transit Dr To H'O (Being goods in transit recorded) * Correct Entry should be Goods sent by H'O Dr To H'O (Being goods sent) * GIT should be included in Cl'stock of branch.
(b) Cash sent by Branch, not received by H'O	
Cash in transit Dr To Branch (Being cash in transit recorded)	- No Entry -
(c) Abnormal loss in transit to be recorded by H'O	
Loss in transit Dr To Branch (Being loss recorded)	- No Entry -
(d) Abnormal loss in transit to be recorded by Branch	
- No Entry -	Loss in transit Dr To H'O (Being loss recorded)
(e) Expense allocated by H'O to Branch, not recorded by Branch	
No Entry	Expenses Dr To H'O (Being expense recorded)
(f) Income allocated by H'O to Branch, not recorded by Branch	
No Entry	H'O Dr To Income (Being Income recorded)

(g) Branch purchased Assets whose Account is to be maintained by H.O

Fixed Asset Dr	H.O
To Branch	To Branch
(Being asset recorded)	(Being Asset Recorded)
* If payment is made by H.O Entry would be	- No Entry -
Asset Dr	
To Bank	
(Being asset purchased)	
* Depreciation on such asset	
Branch Dr	Depreciation
To Asset	To H.O
(Being Dep charged)	(Being Dep charged)

Note: Apart from above, Entries may be required for normal Accounting at H.O or Branch.

Note: If Branch deals with other Branches, it is assumed that transactions are with H.O instead of other Branches. H.O will journalise following

Receiving Branch Dr
To giving Branch
(Being Inter Branch transaction recorded)

for above Entry, H.O will Combine all Inter Branch Transactions and then pass single Journal Entry.

Example following information is available. H.O invoices goods to Branch at selling price less 20%. Branch sells goods at Cost to H.O + 80%.

	H.O	Branch
Opening Stock	10,00,000	200000
Purchase	500000	-
Goods sent to Branch	120000	
Sale	600000	1000000
Abnormal loss	50000	30000
Normal loss	10000	6000
Sundry Expense	30000	10000

H.O Sale to customers at selling Price which is equal to Branch Sale Price. Prepare H.O Trading A/c and Branch final A/c

(10) Consolidation of Branch and H.O

Step 1 : Apply Reconciliation Entries

Step 2 : Prepare H.O and Branch final Accounts based on Trial Balance provided
* such Trial Balance should be after all Reconciliation Entry passed in Step 1 above
* If closing stock is missing, it should be calculated by preparing Branch Stock A/c @ I.P or H.O Stock @ Cost
* If Question provides any adjustment, it should be adjusted in final A/c.

Step 3 Incorporation Entries / Consolidation Entries

Books of H.O	Books of Branch
(i) For incorporation of Profit/loss	
Branch A/c Dr	P/L A/c Dr
To P/L	To H.O
(Being profit incorporated)	(Being profit t/f)

* Instead of above Entry, following Entries can be made by H.O

Branch Dr
To Branch Trading A/c
(Being credit items incorporated)

Branch Trading A/c Dr
To Branch
(Being debit items incorporated)

Branch A/c Dr
To Branch P/L
(Being other Income of Branch incorporated)

Branch P/L A/c Dr
To Branch
(Being Expenses incorporated)

(ii) For incorporation of Asset/Liab.

Assets Dr
To Liab
To Branch
(Being asset/Liab incorporated)

H.O Dr
Liab Dr
To Assets
(Being asset/Liab T/F)

(ii) for Stock Reserve
P&L A/c Dr
To Stock Reserve) Provision for unrealised profit
Being Stock Reserve created on closing Stock

* opening Stock Reserve will be cancelled by T/F to P&L by H.O

Example: following are transaction of Branch
(i) Goods sent to Branch ₹100000 IP ₹120000
(ii) Branch sold goods for ₹85000 - Sale was at 20% above I.P
(iii) Debtor Paid ₹70000, Discount ₹1000
(iv) Expenses of Branch paid by H.O ₹12000
(v) Branch remitted to H.O ₹60000

- Calculate profit of Branch by Debtor Method, Stock & Debtor Method and final A/c
- Prepare in books of H.O Branch A/c assuming Branch calculates it Profit (own level)
  Also prepare final A/c of Branch
- Prepare final A/c of Branch assuming Branch is independent. for this purpose make Trial Balance of Branch and Branch A/c. Also incorporate Balance sheet of Branch.

(11) Foreign Independent Branch

Step1: Convert Trial Balance of Branch to local currency.

* Apply Rules of AS-11 (IFO or NIFO)

* If Question requires adjustment to be made in Trial Balance itself then make adjustments in Trial Balance before conversion

* If Stock is missing, then prepare Branch Stock @ I.P in foreign currency and later convert it

* Trial Balance Should be after rectification and reconciliation if any.

Step2: Prepare H.O and Branch final A/c.

If Stock of H.O is missing, calculate it at cost to H.O

Step3 Prepare Consolidated final & Journalise Incorporation Entries.

Note: Manager Commission will be paid in foreign currency, since he is Branch manager, managing in foreign currency. For this purpose, we may need to prepare Branch trading P/L in foreign currency.

(12) Foreign Branch or foreign H.O

Whenever H.O and Branch are in different countries, ie they have different currencies, then following points are relevant.

Step 1 Convert Branch Currency to H.O Currency.

If H.O is in India (₹), Branch is in USA ($), then Branch Trial Balance in ($) will be converted to (₹).
For this purpose conversion Rules given in AS-11 will be applied.

Note: Conversion Rules of AS-11

Generally Branch is considered as Integral foreign operation (IFO), but if question specifies, Branch can be Non Integral foreign operation (NIFO). [Best Assumption is IFO]

Items	Conversion Rule IFO	Conversion Rule NIFO
(i) Fixed Assets, Investments, Depreciation	Rate on Date of Transaction	Closing Rate
(ii) Current Assets, Current Liab and other long term Liab.	Closing Rate	Closing Rate
(iii) Inter related Accounts like H.O A/c, Goods sent to Branch A/c, Remittance Account etc.	Actual Balance in H.O Books	Actual Balance in H.O Books
(iv) Opening Stock	Opening Rate	Op. Rate
(v) All other Incomes and Expenses [Depreciation covered in (i) Point]	Average Rate	Average Rate

Note: Any difference in Trial Balance is considered as
IFO ⇒ Exchange Difference, Treated as Income/Expense in P/L A/c

NIFO ⇒ Translation Reserve, Treated as Reserve/Surplus in Balance sheet.

Note: Before Converting Trial Balance, Adjustments will be incorporated In Trial Balance. if Question has mentioned. Otherwise Adjustments will be done later in final A/c

Note: If closing stock is missing, Calculate Stock of Branch in its OWN currency. Such stock will be converted using Closing Rate

Step2 Reconciliations are not required here. since Currency is different.

Step3 Prepare final A/c of HO and Branch.

Step4 Incorporate Branch in HO