

MAY / NOV '2024

CA INTER - PAPER 1

**ADVANCED
ACCOUNTING**

NEW SYLLABUS

***AS CONCEPTS
NOTE***



CA CS KARTHIK MANIKONDA

+91 7550137279 | www.thecaclassroom.com

This Material belongs to Future CA _____
who will intent to score and will score 70+ in CA inter (New
syllabus) Advanced Accounting paper in CA inter May/Nov 24
exams.

Paper 2: Advanced Accounting Concept Books

**CA INTERMEDIATE (NEW) SYLLABUS
MAY / NOV – 2024**

CA CS KARTHIK MANIKONDA

every morning/night before you start studying, just visualize the moment you pass your exams when you click submit for your results, that feeling is magical, you and your well-wishers would love that emotion and that requires a lot of smart & hard work.

March 2024 Edition - 4

PREFACE

At the outset, I place a sincere thanks to all the readers of this material. Sincere efforts have been made to condense the subject into simplified notes, the content is drafted in such a way to help students understand concepts & revise the topics quickly the day before the exam.

Important to highlight that this material has been prepared keeping in mind the Study material issued by ICAI and the classes being watched, important to note to watch the classes before you read the text from this material.

I personally believe that for any subject at any level of the CA course, a conceptual understanding will enable you to remember the subject for life, more than solving 1000 different questions, understanding the concept will teach you to solve any question on your own.

Wishing you all the best for your exams!

Regards,

Karthik Manikonda

APPROACH TO THE SUBJECT

Step 1

Develop a liking towards the subject Advanced Accounting, Why? Advanced accounting is going to be your first exam and this paper will set the tone for the rest of your exams? For example did you know that depreciation is a saving? Do you know why Financial year is one year? Do you know why money is transferred to CRR? Do you know why we can't use securities premium for redemption of preference shares? Do you know why you are studying all these? LEARN THE WHY, learn the concepts and you will start loving the subject.

Step 2

Break down the subject into components and tackle each component with a different game plan, for instance Chapters like Amalgamation, Consolidation and Branch accounts by in itself will take 75 hours of your preparation, All other topics put together will take another 75 hours, So ensure that you know you invest your time smartly as well. Watch the lectures in detail to give you in-depth conceptual clarity on the subject and along with the lectures you would have already solved 250 plus questions covering all Study material questions. *(Watching lectures is only for those student's who have subscribed to the classes, **this material can be used independently without the lectures as well to help you revise each standard**)*

Step 3

Once you are done with one time reading, watching the lectures and understanding of the subject, ensure that you frequently revise the subject in periodical intervals, keep practicing and take up mock tests to stay in touch with the subject for your exams. They say practice makes you perfect which applies to every aspect of your life and there is no replacement for this, so believe me when I say this, final MOCK test before your main exam is equal to an attempt. NOT WRITING MOCK EXAM IS EQUAL TO ONE ATTEMPT LOST.

ACKNOWLEDGMENT

I would take this opportunity to thank my teachers and mentors Mr. CA MP Vijay Kumar sir, , Mr. CA B. Ganesh Prabhu sir, Mr Aneesh Noor Mohammed sir, Mrs Radhika Ma'am, Mrs Jayalakshmi Ma'am, Mr. CS Jayaraman sir (Late), Mr. CS Desikan Balaji sir (Late) Mr. CA K. Shriram sir (Late) who have guided me from a student to a Chartered Accountant and Company Secretary and also have been as a pillar of support post qualification.

I would also like to Thank my Family members Mr Shankar Rao, Mrs Ratnavalli, Mrs Vasantha Rani, Mr Rajesh Babu, Mrs Bharathi, Mr Ramesh Babu, Mr Shankar , Mrs Gomathi Shankar Mrs Nivedha Shankar and Mr. Rupesh who have been supportive of the profession I have chosen right from day 1 until date.

Lastly I would also like to thank my students Sowmya, Raunak, Gaurav, Sruthi, Aditi, Rakesh, Saranya, Sashank, Keethi, Sibi, Vijay, Yamini, Rizwan, Rishab, Nandha Kumar, Sumaiya, Rajaram, Naren who have helped in proof reading the material and giving valuable suggestions to bring the material to it's current standing.

Lastly would like to Thank Mr Hariharan Sir and Mrs Sangeetha ma'am who have been an immense support throught the lectures and the teaching journey.

Regards,

Karthik Manikonda

Important Note for Those appearing in Nov 24 CA inter exams

This Material Contains Rocket Notes for all AS Except for AS 14 (Amalgamation) AS 21 23 27 (Consolidation) Branch accounts , Preparation of Financial statements (Schedule 3) and branch accounts for which detailed Notes have been dictated in the class itself. All other AS are included here.

For any doubts whats app faculty on 75501 37279

Magic QR – DO NOT MISS THIS

WHAT will you get if you scan this QR??

- A. Access to CA Inter Advanced Accounting Accounting Standards Summary Notes for all AS
- B. Access to this Entire Law material Soft Copy PDF
- C. Amendments if any apart from the Book to be updated in the Drive Link
- D. Additional MCQ Questions and Case law Materials for Practise (Optional)
- E. ***MOST IMPORTANT*** - *This is only if you have also taken Law course.*

This Book Contains Two sets of Questions we will solve in Classes

- I. Book back Questions for each chapter
- II. Super 360 Questions from All chapters

The **answers** to all above questions (Book back and Super 360) as part of this material is not Available in this book, We would have discussed all these questions in the class, however even if you do not attend the class, You should practise these questions as they cover ICAI SM new syllabus, LAST 6 attempts ICAI RTP / Past exam questions and Additional Questions framed,

Once you finish practicing these, you would now have to check your answers right?

Hence, the Soft copy of the Key will be available to all of you by just Scanning the QR available below which takes you to a drive link where everything is available.



TABLE OF CONTENTS

S. No	Particulars	Page Range
1	AS 1 Disclosure of Accounting Policies	7
2	AS 2 Valuation of Inventories	8 - 9
3	AS 3 Cash Flow Statement	10
4	AS 4 Contingencies and Events occurring after the balance sheet date	11
5	AS 5 Net profit or loss for the period, prior period items & changes in Accounting Policies	12 - 13
6	AS 7 Construction Contracts	14 - 15
7	AS 9 Revenue recognition	16
8	AS 10 Property, Plant & Equipment	17 - 20
9	AS 11 The effects of changes in Foreign Exchange Rates	21 - 22
10	AS 12 Accounting for Government Grants	23
11	AS 13 Accounting for Investments	24
12	AS 15 Employee Benefits	25 - 29
13	AS 17 Segment Reporting	30 - 31
14	AS 18 Related Party Disclosures	32 - 33
15	AS 19 Accounting for Leases	34 - 36
16	AS 20 Earnings per share	37 - 38
17	AS 22 Accounting for Taxes	39
18	AS 24 Discontinuing Operations	40
19	AS 26 Intangible Assets	41 - 43
20	AS 28 Impairment of Assets	44 - 47
21	AS 29 Provisions, Contingent liabilities & Contingent Assets	48

Accounting Policies :
 “refer to **specific accounting principles** and method of applying those principles”, Adopted by the enterprise in the preparation and presentation of the Financial statements.

When can you change Accounting policy ?
 1. Required by statute/ Compliance with and AS
 2. It is considered that change would result in more appropriate presentation of financial statement.

Major points considered for selection and application of Accounting policies

Primary Criteria :
 “ Select a policy which gives a true&fair view of profit and loss statement

Secondary Criteria:

Disclosures:
 Where to disclose ? -> Financial statements -> Notes to account
 What to disclose ? -> Any deviation from accounting policies
 How to disclose ? -> At one place

Prudence:
 Provision should be created for all known liabilities and losses (even though only a best estimate can be made)
This Ensures that:
 (i) Profits are not overstated
 (ii) Losses are not understated
 (iii) Assets are not overstated
 (iv) Liabilities are not understated

Substance over form:
 Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely by their legal form

Materiality:
 FS Should disclose all material items i.e. the items the knowledge of which might influence the user of financial statement. (They can be both quantitative or qualitative).

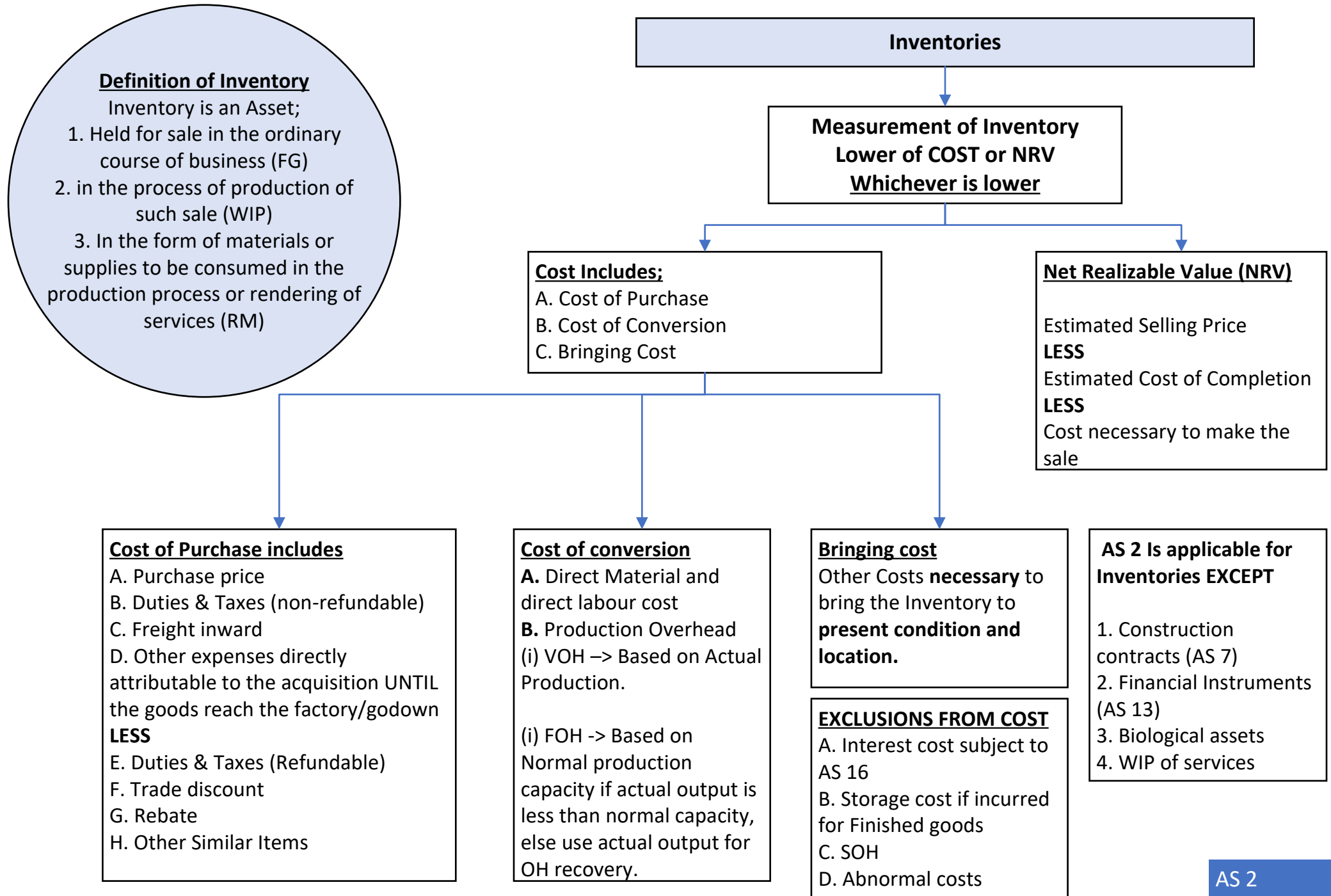
Change in Accounting Policy

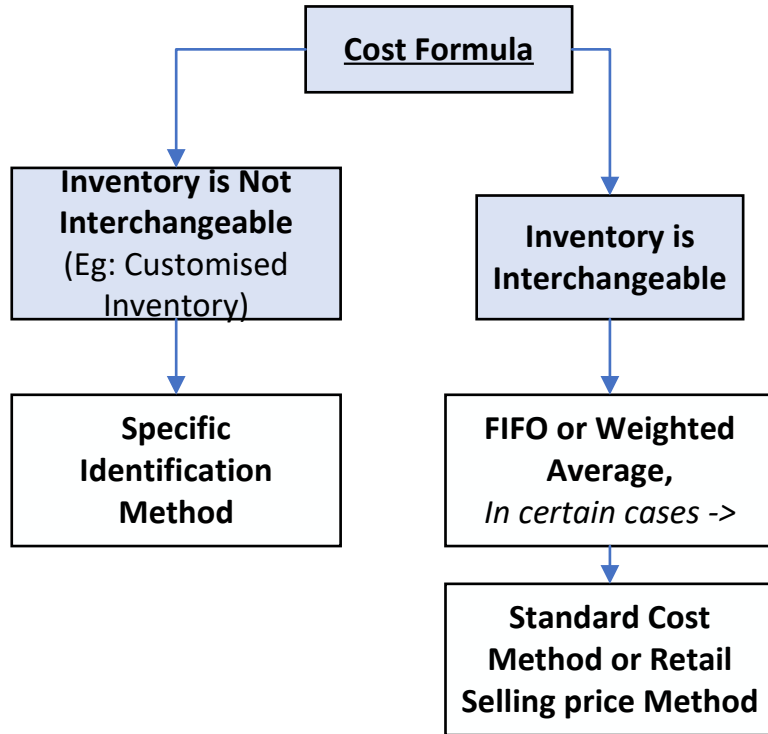
Material in the Current Period
 A. Amount Ascertained -> Amounts to be disclosed
 B. Amount not ascertained -> Fact to be disclosed

Not Material in the Current Period but ascertainable in later periods
 Fact of such change in later periods to be disclosed in current period.

What are fundamental Accounting Assumptions??
 1. Going Concern
 2. Consistency
 3. Accrual

Disclose the following only when these are not followed by the entity , it is generally deemed that these are always followed in preparation of FS.



**Valuation of Inventory**

1. FG or WIP → *Cost or NRV whichever is Lower*
2. RM → Usually there is a presumption that these RM will not be sold separately & will be included as part of cost for FG, however in certain cases where the FG itself falls below its cost (i.e. valued at NRV) then the RM used in these FG has to be revalued as its final product where such RM is used has lost value.

A. Cost of FG < NRV of FG ⇒ Value RM at cost only

B. Cost of FG > NRV of FG ⇒ Value RM at Replacement cost.

REVERSAL OF LOSS AT THE TIME OF VALUATION

If in Year 1 Cost of Inventory > NRV and we write off the loss to the Pnl Account and in Year 2 the same inventory remains unsold, in such a case, we will evaluate the NRV again and if now Cost < NRV then the loss earlier written off can be reversed.

Note : Treatment for Joint and By product

Joint Products → Joint costs upto Split off point to be allocated on a reasonable and consistent basis

By products → These are products that the Management has not intended to Manufacture → **HENCE** no proper accounting Records are Kept

Accounting Treatment

- Value By products at NRV
- Reduce such NRV from Gross joint product cost
- Allocate Net Joint cost to the Main products in the ratio of Sales,

MACHINERY SPARES

- General Spares which can be used interchangeably for any machine – AS 2 Inventory
- Specific Spare for a Particular item – AS 10 ppe

DISCLOSURES

- the accounting policy adopted to measure inventories including the cost formula used
- The total carrying amount of Inventories Including classification as needed by the enterprise
Common classifications are
(i) RM and its components (ii) WIP (iii) FG (iv) Stock in trade (v) Stores and Spares (vi) Loose tools

Classification of Cash flow Activities

Operating Activities

These are primarily derived from the principal revenue generating activities of the enterprise. These activities are essential to support the working capital of the enterprise. **(Direct or Indirect Method)**

- Cash receipts from sale of goods/ rendering of services
- Cash payment to supplier for goods/ services.
- Cash receipts and payments of taxes unless they can be specifically identified with Investing/Financing activities.
- Cash receipts and payments in relation to derivative contracts when such contracts are held for trading / speculative purpose.
- Cash flow arising from dealing in securities

Investing Activities

Represent the extent to which expenditures have been made for resources intended to generate future income and cash flows, i.e. they relate to acquisition and disposal of long term assets and Investments not included in cash equivalents. **(Only Direct Method)**

- Cash payments to acquire Property, plant and equipment (Including intangible assets). Payments in relating to capitalised R&D costs and self constructed fixed assets.
- Cash receipts from sale of PPE, intangibles and other long term investments.
- Cash receipts/ payments from derivative contracts except when such derivative contracts are held for trading/speculative purposes (i.e. held for investment) or when such receipts/ payments are classified as financing activities.

Financing Activities

These are activities that result in changes in the size and composition of the owner's capital (Including Preference share capital) and borrowing's of the enterprise **(Only Direct Method)**

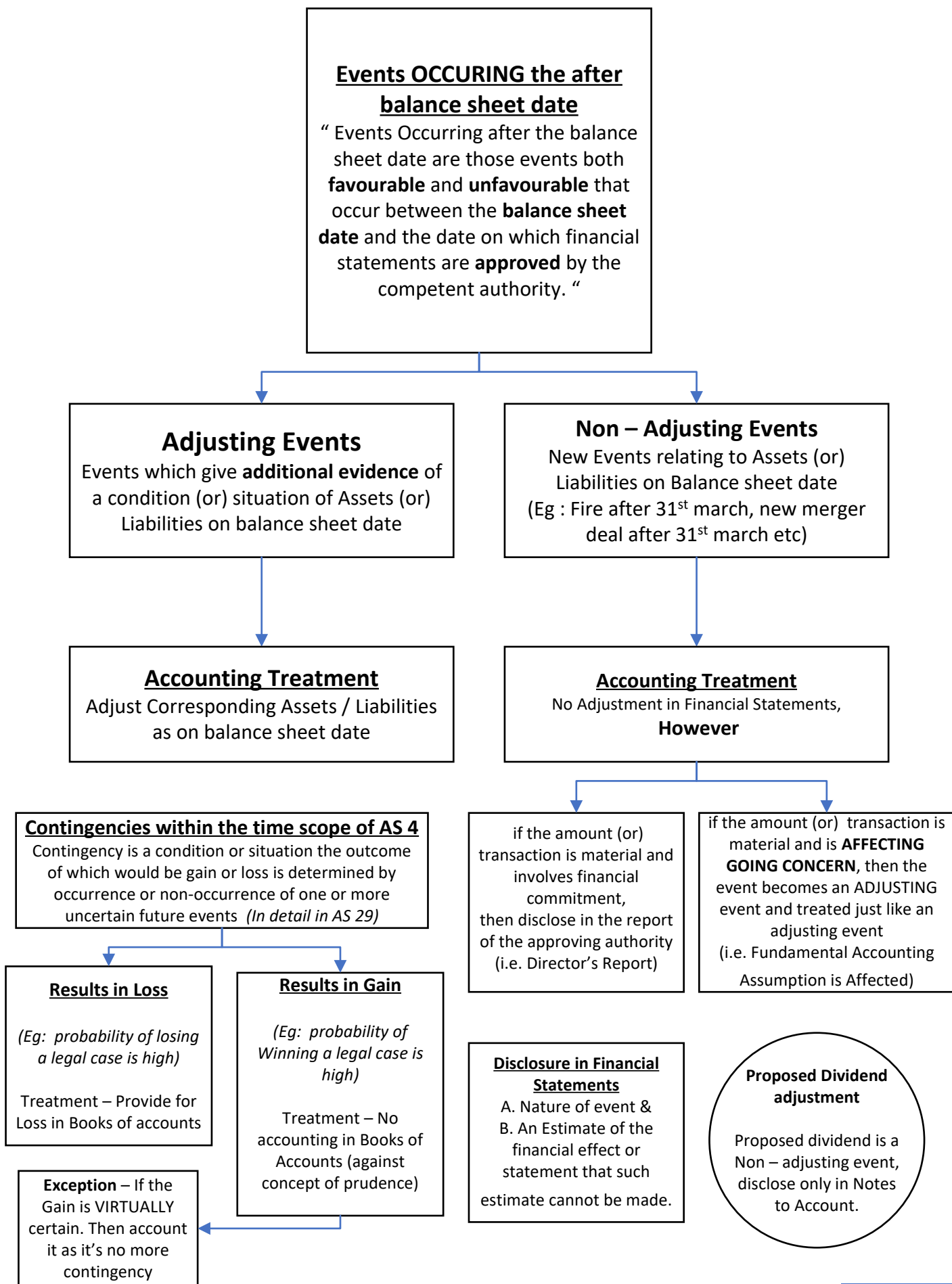
- Cash proceeds from issuing shares or other equity instruments (eg : warrants)
- Cash payments to owners to acquire or redeem the entity's shares. (Eg : Buy back)
- Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long term borrowings.
- Cash repayments of amounts borrowed (eg: Bank loan, debentures etc)
- Cash payments by lessee in a finance lease against outstanding liability

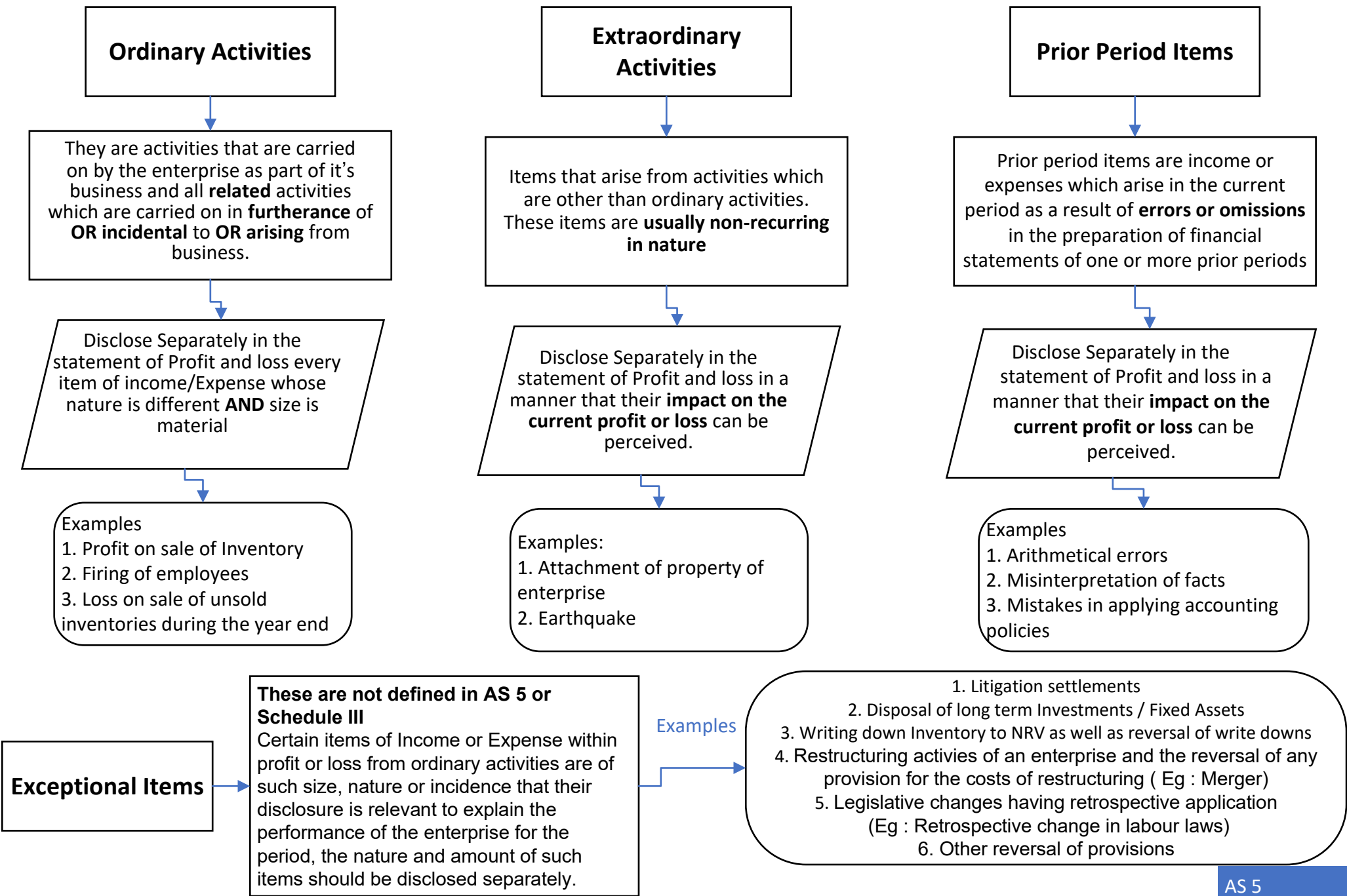
STEPS TO SOLVE A SUM IN AS 3 – Use format as prescribed in AS 3

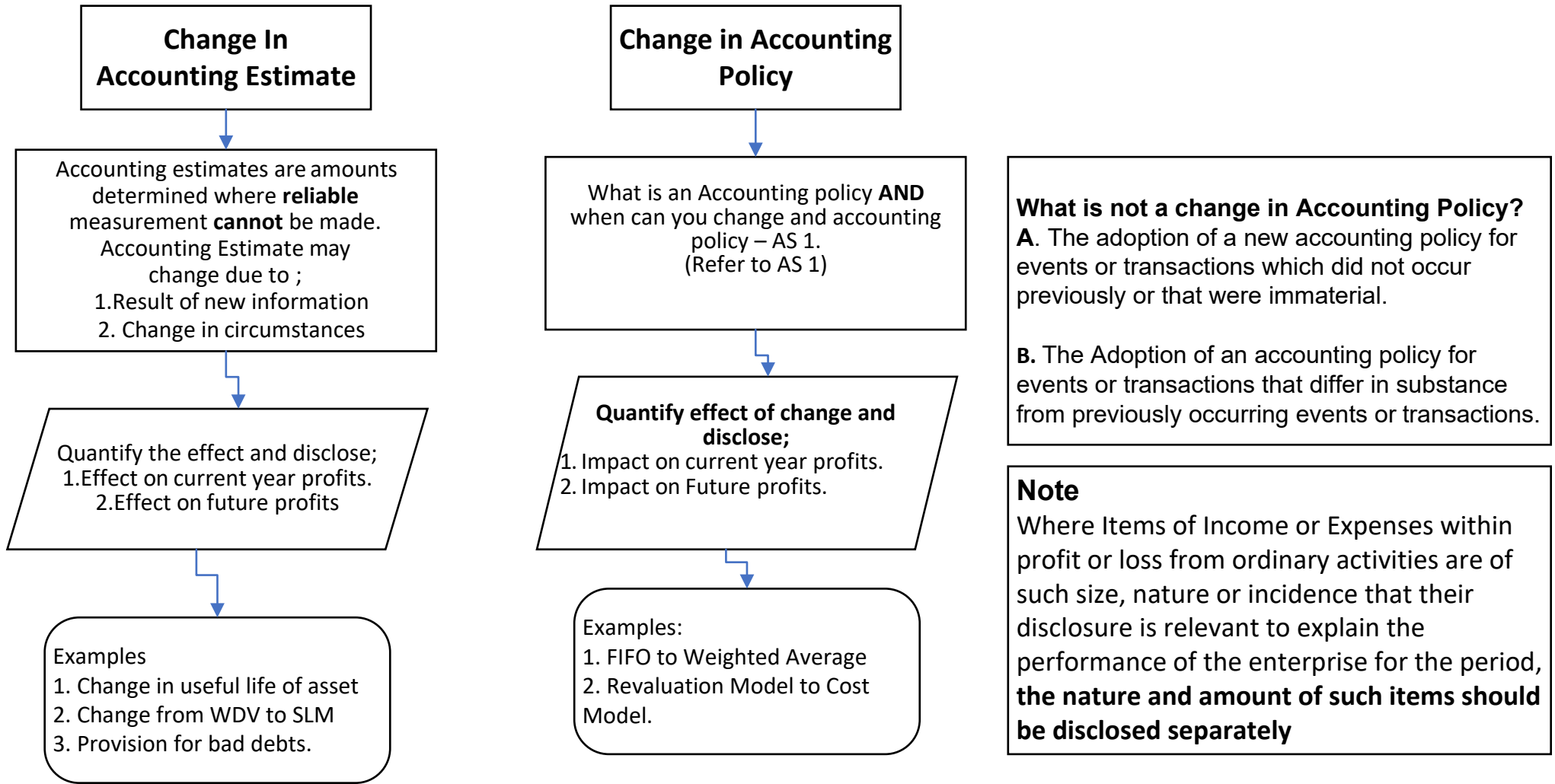
1. First, read through the problem and identify and classify all activities into the above three buckets.
2. Second, In **direct method** remember that all you have to do is prepare a vertical cash account classifying all transactions into receipts and payments to identify how much cash was received in the business and how much was used and how much is left (Opening cash + Receipts – Payments = Closing cash balance).
3. Third, In **Indirect method**, what we do here is we start from Net profit and make all logical adjustments to arrive at the cash generated, i.e. we know that Net profit is not equal to cash earned from operating items because of various non-cash items (Eg : Depreciation and other items present in the Pnl), then we make necessary adjustments for changes in working capital from BS and arrive at cash generated from operations. We are basically moving from Net profit for the year into arriving at cash generated from operating activities for the year.

Key Notes

1. Where an entity has cash and cash equivalents in Forex, the cash flow statement may not tally towards the end due forex Gain/loss on conversion of opening & closing balances, in such as case the entity has to provide a recon stating the reason for such difference
- #### 2. Cash and Cash equivalents
- A. Cash in hand & deposits repayable on demand with any bank or other financial institution
 - B. Any short term highly liquid investments that are readily convertible into cash with insignificant risk in change in value, short term investments are those which have a maturity of 3 months from the date of acquisition. *(Invnt in shares are not considered here)*







Construction Contract

It is a contract for construction of an asset (or) group of assets which are closely interrelated in terms of design and function.

(also includes contracts for destruction/restoration of an asset AND Contracts for rendering of services related to construction of assets)

Segmentation of Contracts vs Combination of Contracts

1. Generally the profit/loss arising from a contract is to be computed for each contract individually, whether the work is done individually or together;

A. separate proposals for each asset **B. cost and revenue for each asset can be identified** **C. each asset has been to separate negotiation** and the contractor and customer have been able to accept/reject that part of the contract relating to each asset. *(segmentation of contracts)*

2. In certain cases the profit/loss from a contract may be calculated in combination of two or more contracts or group of combined contracts for accounting purpose because in substance these contracts are part of a single project with an overall profit margin *(Combination of contracts)*.

Contract Revenue includes

1. Basic contract price
2. Claims/ reimbursements
3. Variations
4. Incentives
5. Less : Penalties

Provision for expected losses

Forceable losses

To be recognised in full irrespective of stage of the contract.

enforceable losses

Provision should NOT be made

Types of Construction contracts

Fixed price contract

(Contractor agrees to a fixed contract price subject to cost escalation)

Cost plus contract

(Contractor is reimbursed for allowable costs plus a % of these costs or a fixed sum)

Accounting for both to be done using percentage of completion method ONLY. (In the books of Contractor)

Revenue

A. Cost to Cost Method

1. **compute percentage of completion** (cost to date / cumulative cost incurred + estimated cost to complete) * 100

2. Current revenue = Contract price * percentage of completion – previously recorded revenue

B. Survey method

Architect/engineer to provide a certificate stating amount of work certified.

C. Physical measurement method (actually measure the amount of work completed)

Cost

No % of completion method for accounting costs, costs to be accounted as and when it is incurred.

Contract costs includes the following;

1. Expenses incurred directly attributable to the contract **net** of incidental income if any. (eg : site labour costs, cost of materials used, depreciation of Machinery used in site, costs of design and technical assistance etc)

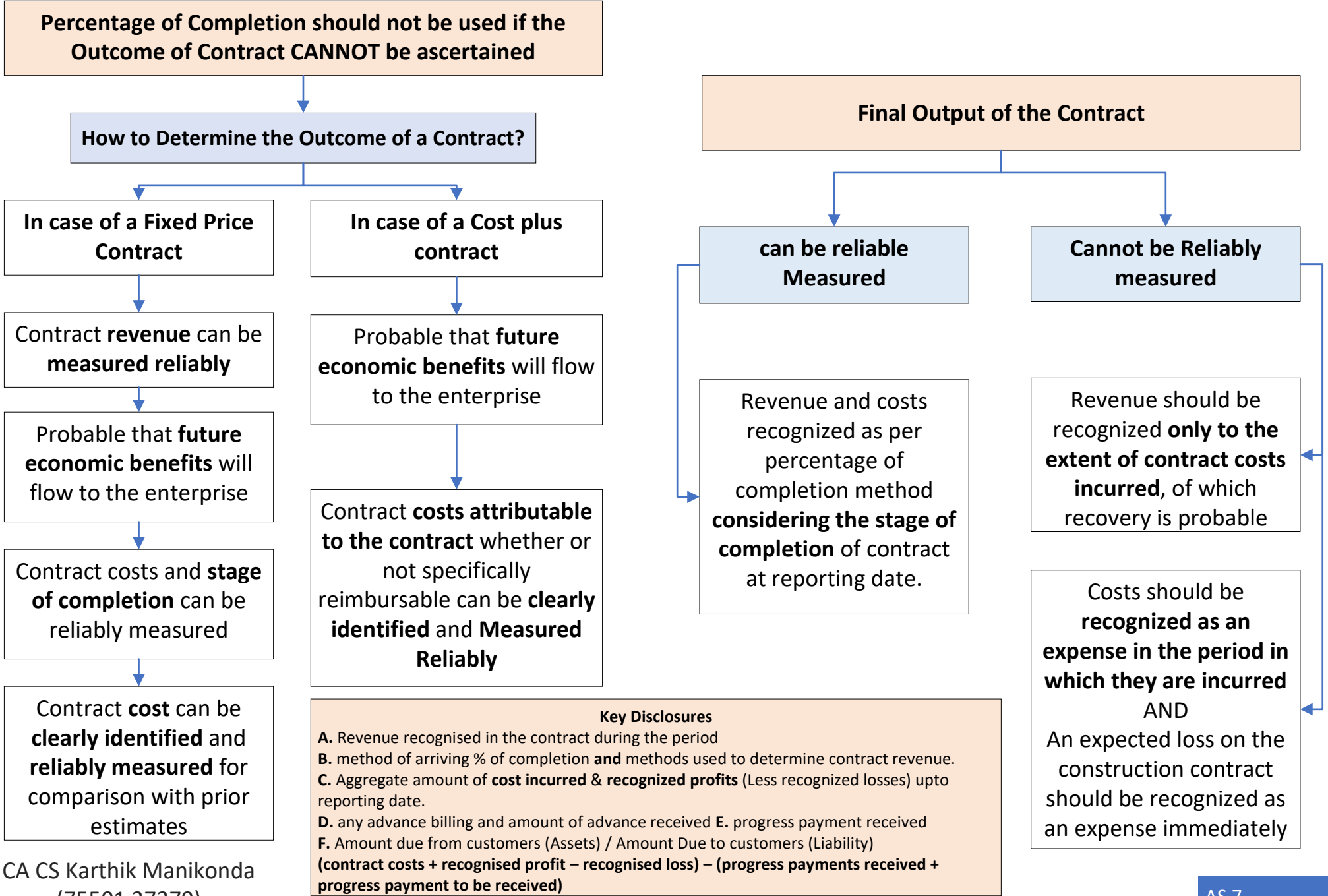
2. General OH allocated on a reasonable basis, interest subject to AS 16.

3. Other costs specifically chargeable to the customer based on Contract.

Costs does not include;

1. Admin OH 2. Finance costs 3. penalty paid

AS 7 Construction Contracts



Key Disclosures

- A. Revenue recognised in the contract during the period
- B. method of arriving % of completion and methods used to determine contract revenue.
- C. Aggregate amount of **cost incurred & recognised profits** (Less recognized losses) upto reporting date.
- D. any advance billing and amount of advance received
- E. progress payment received
- F. Amount due from customers (Assets) / Amount Due to customers (Liability)

(contract costs + recognised profit – recognised loss) – (progress payments received + progress payment to be received)

AS 9 Revenue recognition

AS 9 NA in the following cases:
AS 7, AS 19, AS 12 & Revenue of Insurance companies

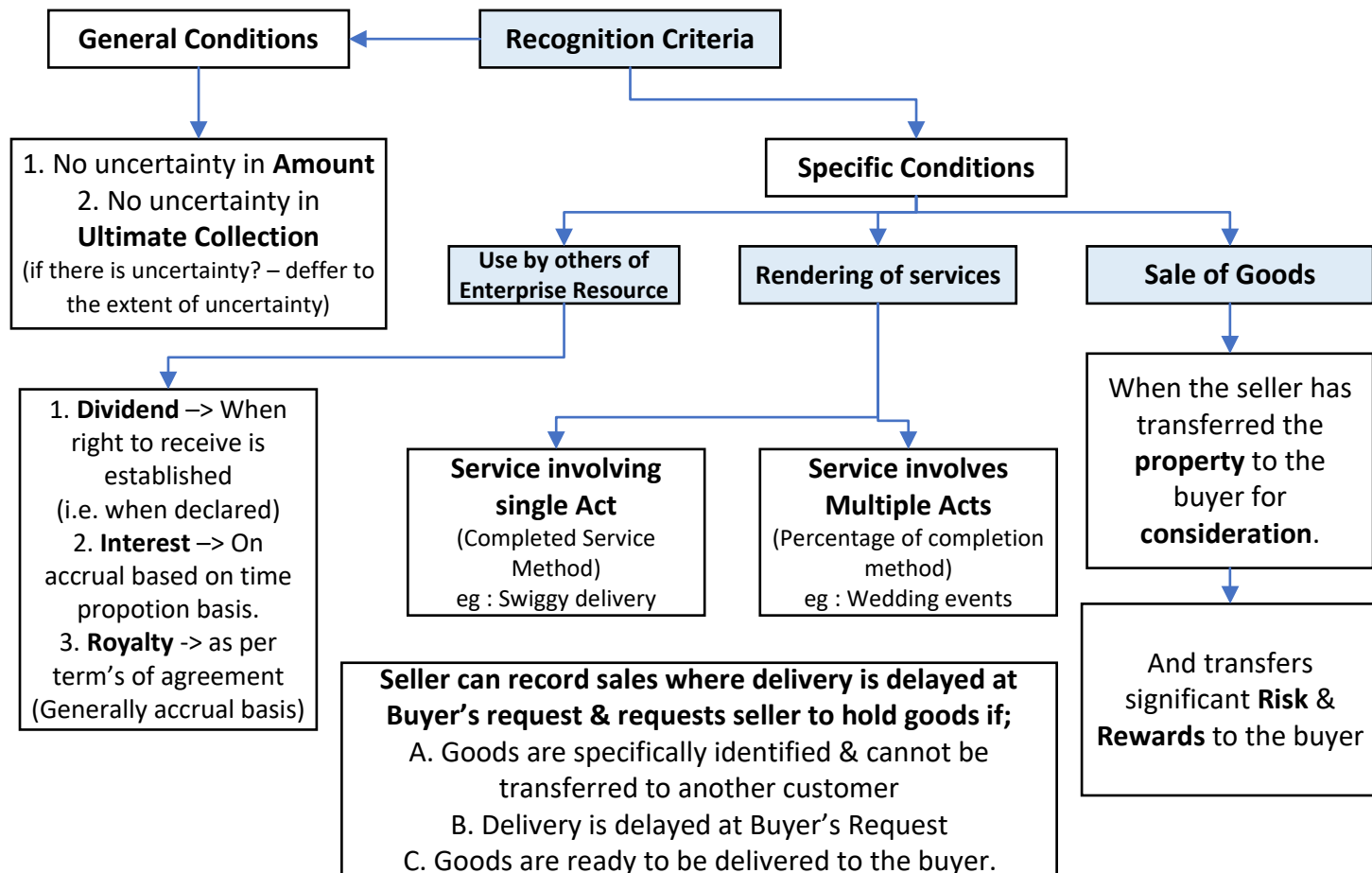
Definition – Revenue

Revenue means **GROSS** inflow of

- Cash
- Receivables
- Other consideration,

From, Sale of goods, rendering of services, use by others of enterprise resources yielding interest, dividend & Royalty, in the ordinary course of business.

GST is a liability payable to Govt and hence not part of Revenue.

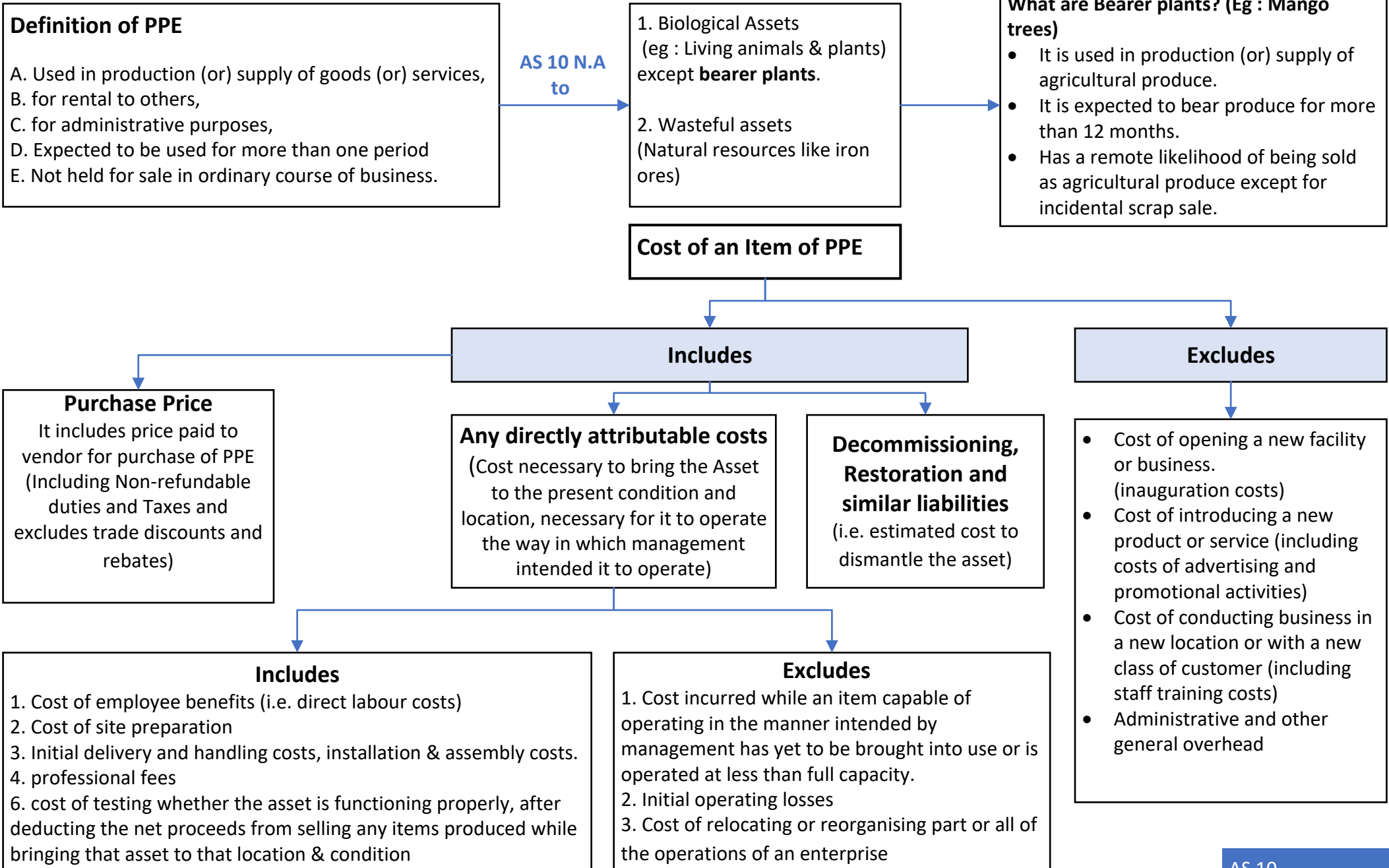


Special Cases

- In case of **Agency business** revenue should be recognized for "**commission**" only
- In case of **consignment sale**, risk and rewards are transferred only after goods are sold to **third party**.
- In case of **sale on approval basis**, revenue should not be recognized until goods have been formally accepted by the buyer or buyer has done an act which amounts to acceptance (including not responding within reasonable time where time is mentioned)
- for **warranty sales**, sales should be recognised immediately but provision should be made to cover the unexpired warranty.
- Special orders and shipments**, revenue to be recognised when goods are identified and ready for delivery
- Inter divisional sales/ Transfers** are not Revenue as per AS-9.

The Following is not Included in the Term "Revenue"

- Realized or Unrealized gains from holding of Non-Current Assets
- Unrealized gain from change in the value of Current/Non-current assets or Natural increase in herds/Agricultural or forest produce.
- Realized / Unrealized gains from changes in Forex rates or Forex translation.
- Realized / Unrealized gain from re-statement of a carrying amount of an obligation.



Measurement of cost of an Item of PPE in various cases

A. If payment is deferred beyond normal credit terms

- The excess of payment made over the cash price equivalent is recognised as interest expense over the period of credit unless such interest is allowed to be capitalised as per AS 16.

B. PPE acquired in exchange for a Non-Monetary asset (or) or a combination of monetary and Non-monetary assets

Measure PPE at **Fair value** (even if entity cannot immediately de-recognize) ± cash Unless

- A. Exchange lacks commercial substance (future cash flows of the entity are not expected to change)
 - B. fair value of the asset given up (or) received is not reliably measurable
- (In cases A & B, PPE = Carrying amount of Asset given up)**

C. PPE Purchased for a consolidated price / Composite consideration

(Lump sum payment for multiple assets, eg: Slump sale)

“The consideration should be allocated among individual assets in the ratio of FV of individual assets”

D. Cost for finance Lease and Govt Grant transactions are dealt in accordance with IND AS 116 & IND AS 20

E. Cost of Self Constructed Assets

- An Entity must record cost of self constructed assets at **COST**, abnormal items of wastage should not be included in this cost.
- Interest can be capitalized subject to AS 16.

Recognition of an item of PPE

Initial Recognition

The initial recognition of an item of PPE must be done using **Cost model** only.
[Cost – Any Accumulated depreciation – Any Accumulated impairment losses]

Subsequent Recognition (Measurement after recognition)

The entity should choose either

- Cost Model (or)
- Revaluation Model,

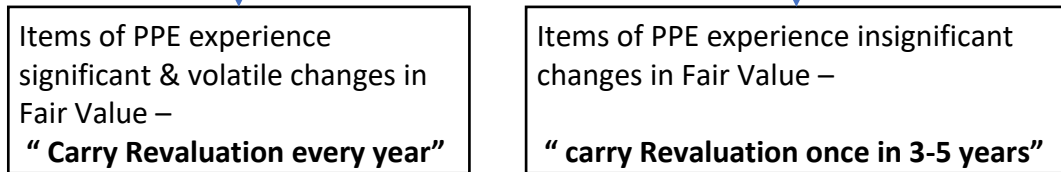
as it's accounting policy and should apply that policy to an **entire class** of PPE.

“A class of PPE is a grouping of assets of **similar nature & use** in operations of an enterprise” (eg: Land, P&M, F&F, office equipment etc)

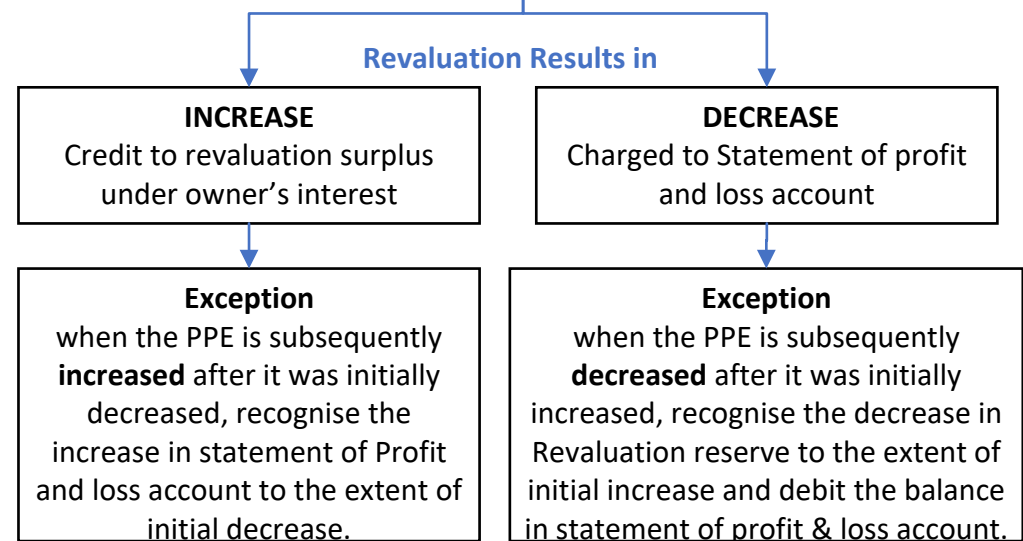
Revaluation Model

-> an asset whose fair value can be reliably measured **should** be carried at revalued amount. [FV on the date of revaluation – any subsequent accumulated depreciation – any subsequent accumulated impairment losses]

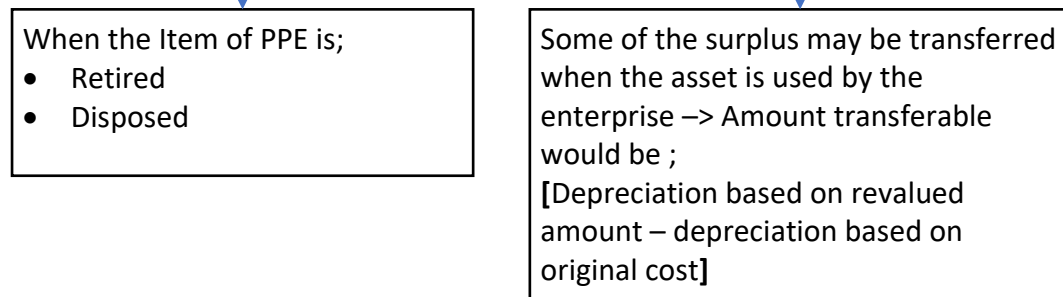
Frequency of Revaluation



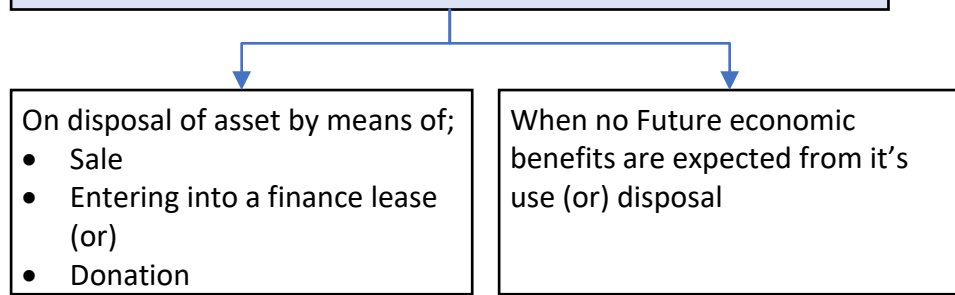
Accounting treatment on Revaluation



When can balance in Revaluation reserve be transferred to revenue reserve?



De - Recognition of an asset (The carrying amount of an item of PPE should be derecognised) – i.e. removing from the books



Retirement of an Asset
“Items of PPE retired from active use and held for disposal should be stated at the **lower** of Carrying Amount (or) NRV”

Compensation from 3rd Parties for items of PPE that were impaired, lost or given up
“ It is Included in determining profit or loss when it becomes determinable”

Methods of Depreciation

Straight Line Method

Results in a **constant** charge over the useful life of the asset **if the residual value does not change**

Diminishing Balance method

Results in a decreasing charge over the useful life of the asset

Units of Production method

Results in a charge based on the **expected use or output**

The enterprise has to select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset

The method selected is **applied consistently unless**
 A. there is a change in statute to better reflect the usage of asset
 B. there is a change in expected Pattern of benefits

Component Method of Depreciation

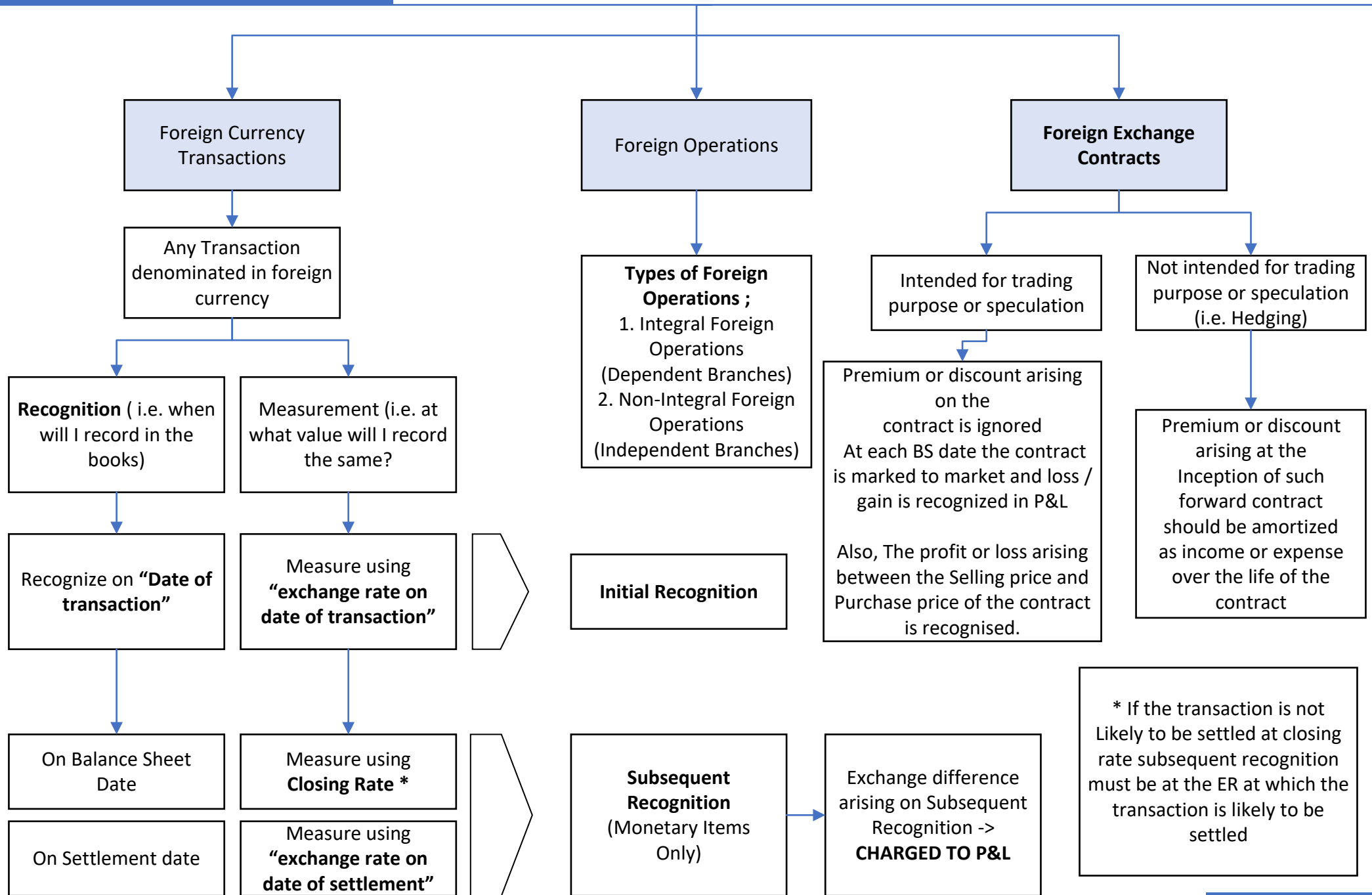
New addition in AS 10

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately. The enterprise allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates each part separately

In simple words, if there is a car worth 10 lakhs with an useful life of 15 years, every part of the car may not be actually having the same useful life of 15 years, for instance tyres might have an useful life of 5 years, in this case the value of tyres lets say Rs 1 lakh will be depreciated for 5 years and similarly each component will be depreciated seperately

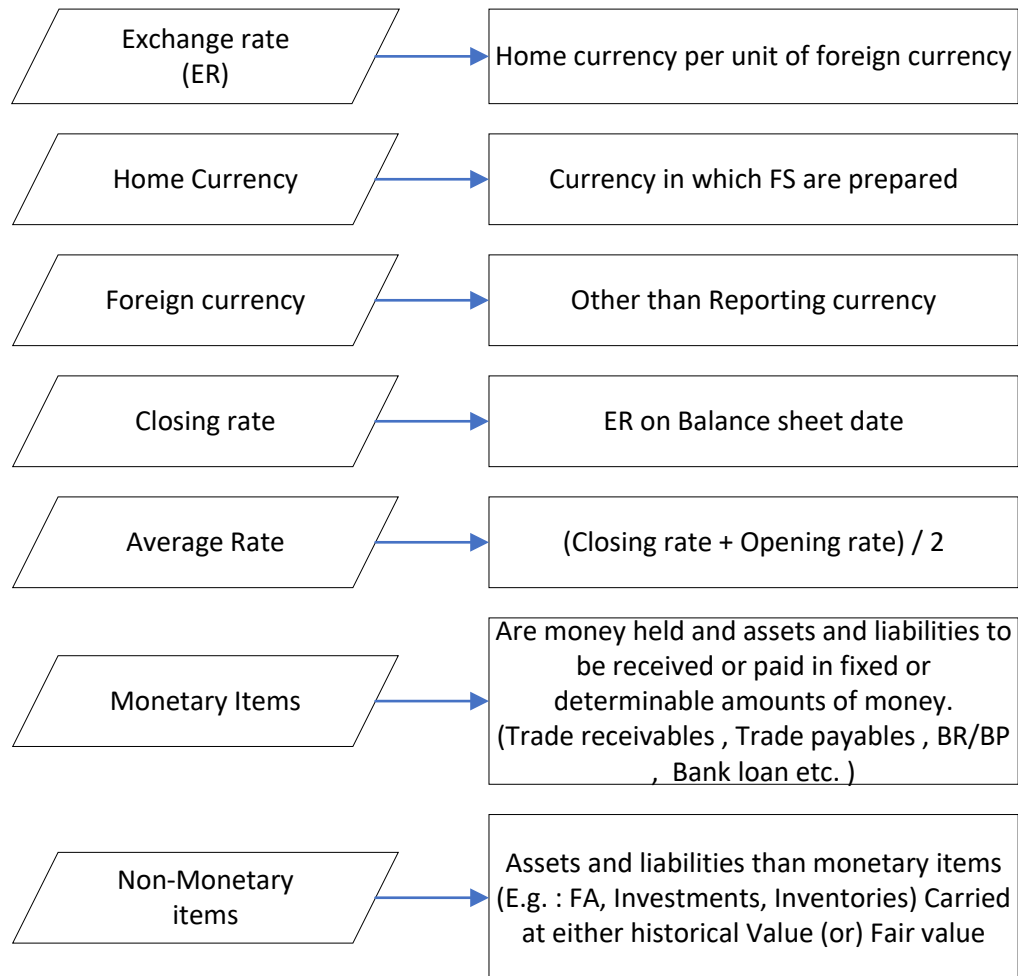
Depreciation method has to be reviewed on an annual basis at the end of each financial year and if there is a change account as per AS 5

AS 11 The effects of changes in Foreign Exchange Rates



* If the transaction is not Likely to be settled at closing rate subsequent recognition must be at the ER at which the transaction is likely to be settled

Important Definitions



Transitional Provisions :
Whenever there is a long term foreign currency borrowing for the purpose of a depreciable asset the exchange gain/loss on such borrowing can either be;

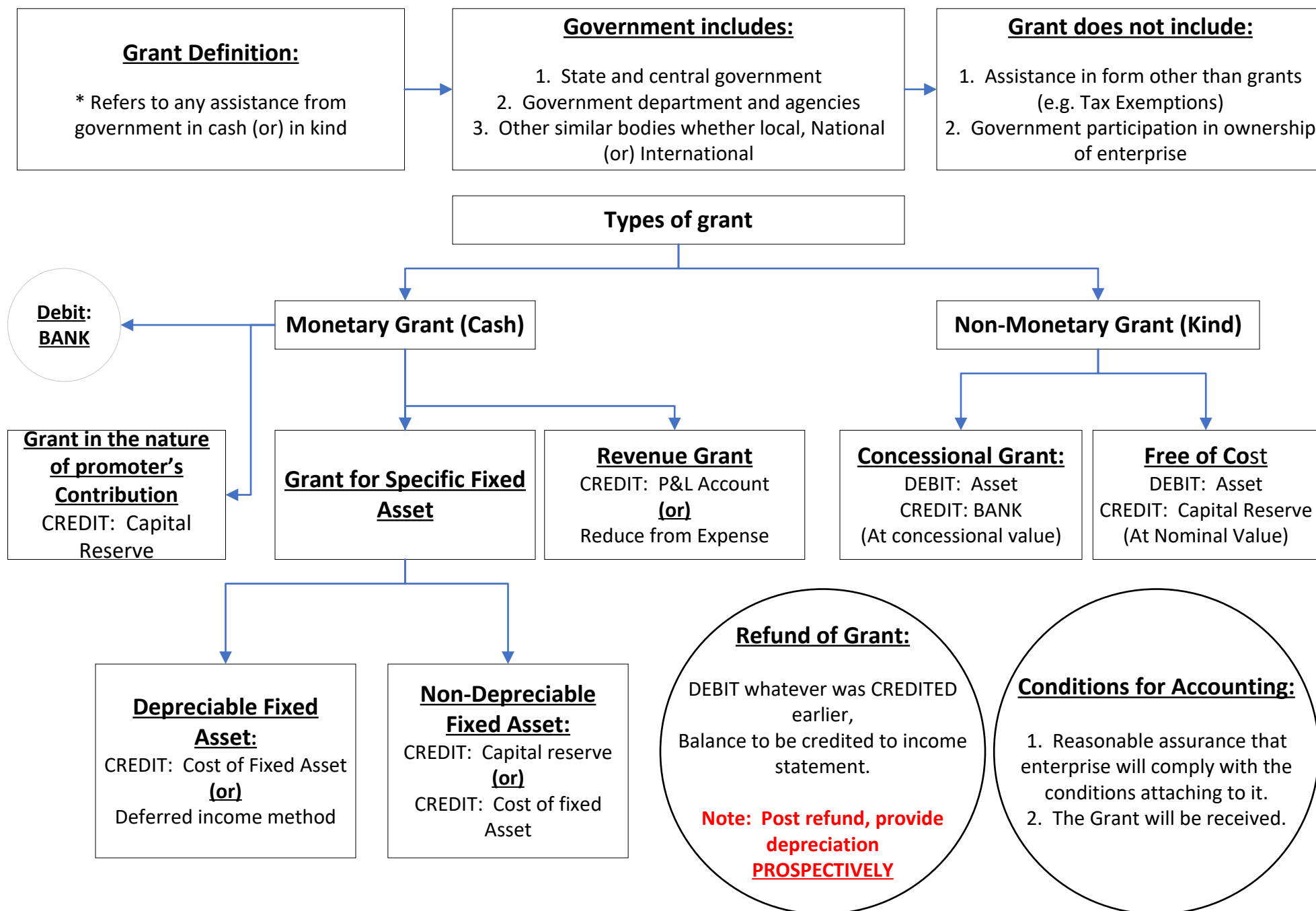
1. Charged to P&I
or

2. Adjusted with the cost of the asset.

Option once exercised is IRRECOVERABLE.
Period of borrowing : 6/12/07 to 31/3/20

In other cases
(i.e. Borrowing not used for Depreciable asset) then the exchange difference can be accumulated in " foreign currency monetary item translation difference (FCMITD) Account.

AS 12 Accounting for Government Grants



Types of Investments

Current Investment

Such investments are **readily realisable** and is **intended to be held for not more than one year** from the date on which such investment is made. *(Decide intention on the date of Purchase)*

Long Term Investment.

Investment Other than Current investment

Investment Property

It is an investment in land or building that is not intended to be occupied substantially for use by or in their operation of the investing enterprise. (Eg : an enterprise is purchasing a Land or Building for capital appreciation or earning rental income, but not used for its operations) – Investment property is accounted in accordance with the Cost model as prescribed in AS 10.

Cost of Investment

Cost of Investment comprises of Purchase price and other charges such as brokerage, fees and duties, Different scenarios are as under

Carrying amount of Investment (BV)

Current Investment

Lower of **Cost** or **Fair value**

Note: Any reduction in realisable value is debited to profit and loss account, if realisable value is increased subsequently, such increase to the **extent of cost** is credited to PnL.

Long term Investments

Usually carried at **COST**.

Note: Decline in value of investment which is **not temporary** -> reduce carrying amount of investment, Reverse such reduction when investment value increases and such an increase should not be temporary.

Valuation : Determined on an Individual Investment basis

Whenever any investment is **disposed** of, the difference between the carrying amount and net sale proceeds is recognised in the PnL Account

Reclassification of investment from Long term to Current Investment

Transfers are made at lower of **cost** or **carrying amount** at the date of transfer.

Reclassification of investment from Current to long term Investment

Transfers are made at lower of **cost** or **Fair Value** at the date of transfer.

AS 13 N.A to Banks, Mutuals funds, PFI, Venture capital funds, insurance companies, AS 19 & AS 15 cases

Case	Cost of Investment
Investment is acquired by issue of shares or other securities	Purchase price is the Fair value of securities issued
Investment acquired in exchange of another asset	Cost of investment is Fair value of asset given up (or) Fair value of Investment received, whichever is more clearly evident.
Pre-acquisition interest	Deduct such interest from cost of investment at the time of receipt of such interest whenever such interest was part of cost of investment
Dividend	Deduct from cost of investment when dividend is declared from pre-acquisition profits.
Rights shares <i>(Cum - Price inclusive of Dividend/Interest)</i> <i>(Ex - Price excluding Dividend/Interest)</i>	if investment is purchased at Cum-Rights and later on the MV of such investments after becoming Ex-rights is reduced below cost, reduce the amount received on sale of rights until the CV is equal to MV.

AS 15 Employee Benefits

Types of Employee Benefits

Short Term Benefits

Those which are payable in less than 12 months (Eg : Salary & Wages, paid annual leave, sick leave etc)

Post Employee benefits

These are payable after retirement (Eg: Gratuity, Pension)

Termination benefits

Eg: VRS or golden handshake payments

long term Benefits

These are payable after 12 months but before retirement (Eg : long service awards)

Short term Benefits ACCOUNTING

Compensated Leaves
(Next side)

Bonus and profit sharing

A. Enterprise has a present obligation as a result of past events

B. Reliable estimate of the obligation can be made

- Examples**
- 1. Performance bonus** -> Account when the same is given
 - 2. Statutory Bonus**
Bonus Act mandates -> Account when the service is rendered
 - 3. Retention bonus**
Bonus paid for employee not to leave – Account when he stays and is accrued to get the amount
 - 4. Profit sharing Plans**
Account whenever profit is earned

AS 15 covers all Employee benefits **Legal** (Eg: Salary) & **Constructive** (Eg: Festival Bonus)
Except share based payments

Such employee can be any employee, Full time or part time and payment can be formal or informal
AS 15 Does not define the term EMPLOYEE

Salary and wages

The expense has to be recorded when the employee service is performed
(I.e follow accrual, doesn't matter when it is paid)

Short term Compensated Leaves (Paid leaves)

Accumulating Leaves
(Leaves that can be carried forward to future years if not used)

Non- Accumulating Leaves
(Leaves that can't be carried forward)

A. Accumulated non-vested leaves

The paid leaves which can be carried forward to subsequent years but **cannot be encashed**

Accounting -> Provision to be made for unutilized leaves which are expected to be utilized
(This is an additional provision over & above the 12 months pay)

B. Accumulated Vested leaves

These paid leaves can be encashed when they leave the entity.

Accounting -> Always Create a provision for unutilized leaves

NO PROVISION SHOULD BE MADE FOR UNUTILIZED LEAVES

Eg: Maternity leave, if not utilized cannot be C/f in a few organisations

These should be accounted as and when they arise
(I.e paid to employee in the year as salary whether taken or not)

Other Long term Employee Benefits

Other Long term Benefits include

- A. Long term absence such as sabbatical leaves
- B. Jubilee or other long service benefits
- C. long term disability benefits
- D. Profit sharing or deferred compensation paid 12 months or more after the period in which it is earned.

Accounting : Same as post employment benefits

Termination Benefits

Termination Benefits are Paid where the employee is terminated (Fired) before his normal course of employment or where the employee leaves Voluntarily (VRS)

Accounting: Recognise Liability by debiting PnL Account
(However where termination benefits falls for more than 12 months – Use appropriate discounting rate)

Conditions for accounting

- A. Detailed formal plan for termination is duly approved
- B. A reliable estimate can be made of the obligation

Note : *Recognise contingent Liability as per AS 29 if it is not certain as to the number of employees who would exercise this option*

Post employee Benefits

Defined Benefit Plan

Defined contribution Plan (DCO)

1. Employer's obligation is restricted to the amount contributed (Eg : Pf Fund)

2. The Actual risk of Liability and Investment is **not borne** by the Employer

Accounting : Record Expenses (Contribution) as and when the obligation arises to contribute to the fund

The entity can have two types of funds

- A. Controlled fund by themselves – Trust
- B non controlled – Multi employer, state plan or insurance schemes.

1. The **employer is liable to pay the employee benefit** irrespective of the actual contribution.
2. The Actual risk of Liability and Investment is **borne** by the Employer.
3. The Entire liability (future benefit to employee) needs to be estimated using **Projected unit credit method (PUCM)**

Key Terms under PUCM Method

1. **Current service cost** : It is the yearly present value of actuarial estimate, this would later compound to the future value computed in the year of retirement.
2. **Past service cost** : Where there is a change in employee salary (*Current service cost*), the change has to be made cummulative as gratuity is computed using the last drawn salary, the cummulative impact of previous years is reflected here.
3. **Curtailment**: This is opposite of past service cost, meaning a **reduction** in current service cost
4. **Benefits paid**: Where an employee actually leaves, the money settled for him is called benefits paid, the assets are sold and the proceeds are used to settle the liability.
5. **Change in actuarial estimates**: Where the actuary changes the estimate, the current period has to be adjusted for cummulative change, this is reflected under actuary estimates
6. Contributions made
7. **Actual return**: This is **typically the balancing figure in Planned assets**, this reflects the realised / unrealised gain that is earned on a yearly basis after all other adjustment
8. **Expected Return** : This is the return that should have been earned on opening balance of assets and any other contributions made during the year

AS 15 Employee Benefits

Components of Defined benefit Obligation on liability side (Provision)

1. Opening Provision	XXX
2. + Interest cost	XXX
3. (+) Current service cost	XXX
4. (+) Past service cost (Cumulative balance)	XXX
5. (-) Benefits paid	XXX
6. +/- Changes in Actuarial Assumptions	XXX
7. Closing Liability (Actuarial Assumption)	XXX

Amount debited to Profit and loss account

1. Net of interest	XXX
2. + Interest on Liability	XXX
3. (-) Interest of Asset	XXX
4. (+) Current service cost (CY Amortized)	XXX
5. (+) Past service cost (Vested+unvested)	XXX
6. +/- Changes in Actuarial Assumptions	XXX
7. (-) Gain on curtailment	XXX
8. Changes in return on assets	XXX

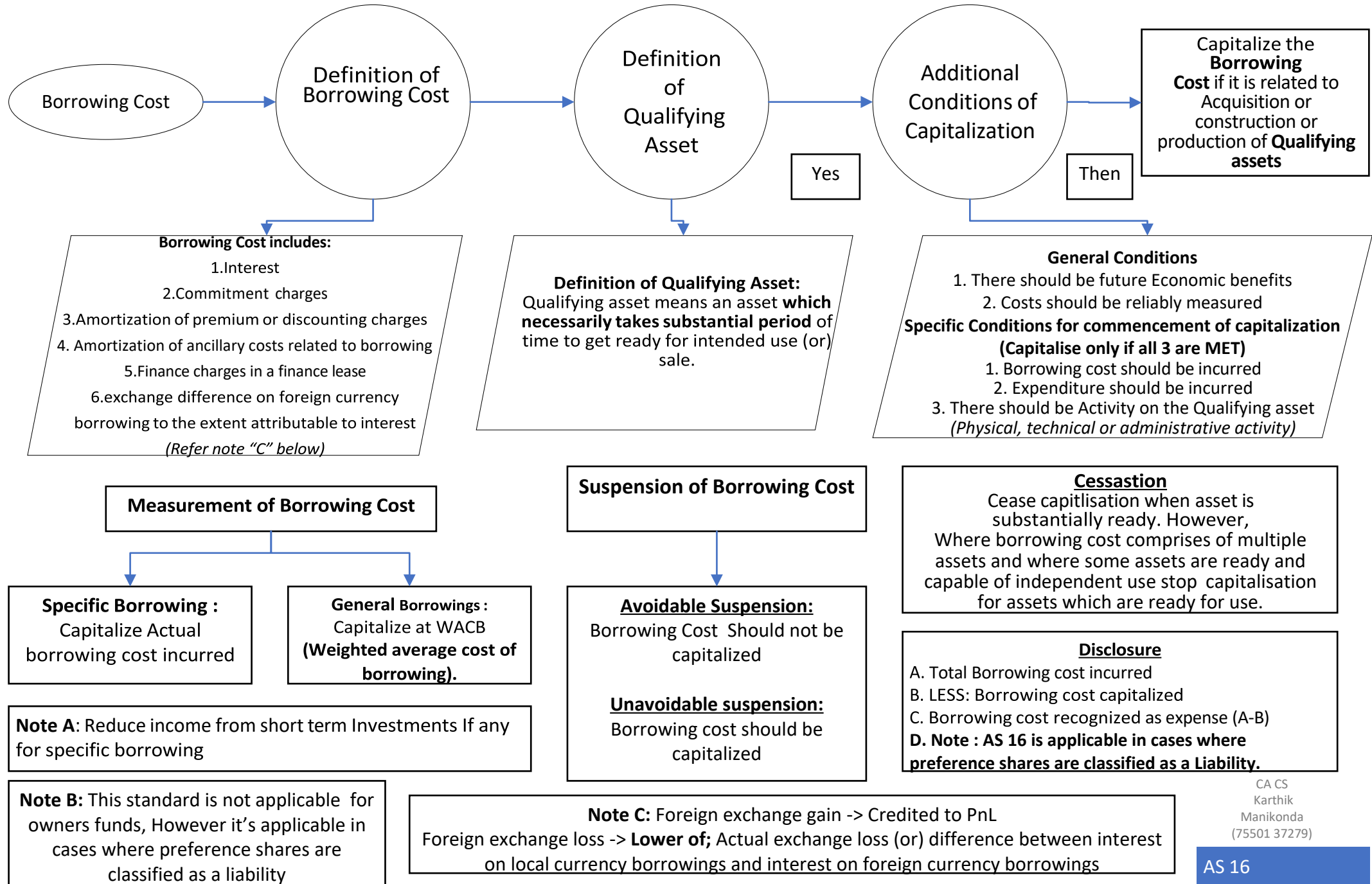
9. Total expenses debited to Pnl Account XXX

Components of Plan Assets in Balance sheet

1. Opening Fair Value of the Asset	XXX
2. + Interest earned (Expected Return)	XXX
3. (-) Benefits paid	XXX
4. (+ Contributions made	XXX
5. +/- Changes in Return (Actual Return)	XXX
6. Closing Fair value of the Asset	XXX

Asset / Liability Set off in Balance sheet

1. Closing Liability	XXX
2. (-) Closing Asset	XXX
3. Deficit/surplus	XXX
4. Net amount shown in balance sheet	XXX



AS 17 Segment Reporting



Business Segment

Geographical Segment

Distinguishable component of an enterprise, engaged in providing individual product (or) service (or) group of related product (or) service which is **DISTINCT** from other components of the enterprise based on **risk and rewards**.

Component of an enterprise providing goods and services in an economic environment whose **risk and rewards** are **DISTINCT** from other economic environments in which the entity operates

- Basis of identification ;**
1. Nature of products and services
 2. Method of Production
 3. Method of Distribution
 4. Class of customers
 5. Regulatory requirements

- Basis of Classification**
1. Currency risk
 2. Exchange control regulations
 3. Similarity of political and economic environment
 4. special risk associated with operating in specific areas
 5. proximity of operations.

Test for reportable Segments

1. **Revenue Test** = $\frac{\text{Segment Revenue}}{\text{Total Revenue}}$
(Revenue here = Both Internal + External)
2. **Asset Test** = $\frac{\text{Segment Assets}}{\text{Total Assets}}$
(In both the above tests each segment should comprise at least 10% of the overall threshold)
3. **Result Test** – Follow steps as below
 - A. Compute total Profit of all segments (let's say X) and total loss of all segments (Let's say Y) in absolute terms. (Ignore negative)
 - B. Take the higher of X or Y (Let's say Z)
 - C. Reportable Segment = $\frac{\text{Segment Result}}{Z}$
(Ever segment result that is at least 10% of Z above is a reportable segment, IGNORE NEGATIVE SIGNS for these steps)

Other Tests

4 Discretionary Test : The Management at their discretion can report any segment as a reportable segment

5. 75% Test : The **External revenue** of all reportable operating segments shall together be at least 75% of **overall External Revenue** of the company

Segment Policies :

A) Enterprise policies
AND
B) Policies specific to preparation of segment report.

1. Basis of allocation of common items
2. Inter-segment transfer pricing.

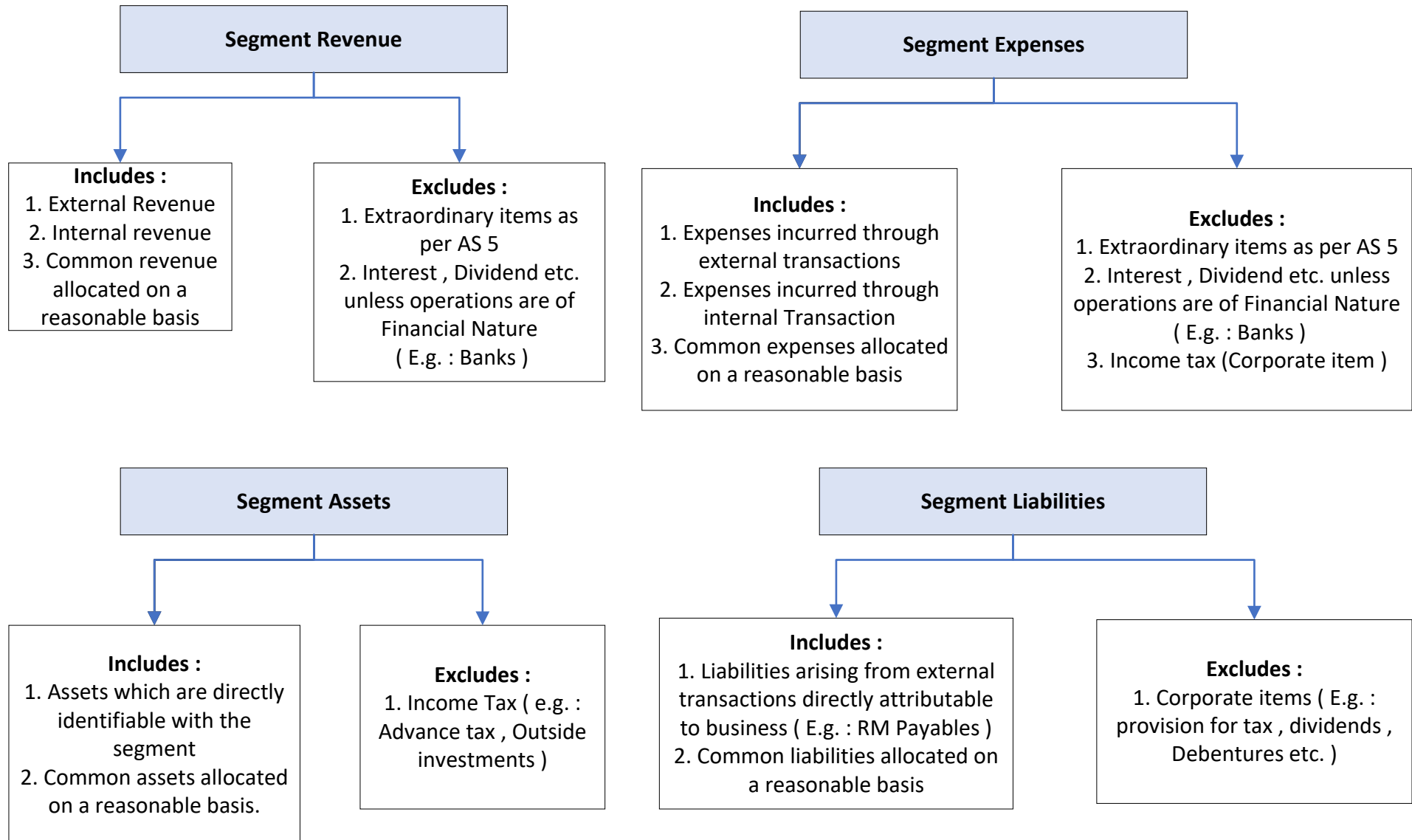
Secondary Reporting :

1. Revenue greater than 10% from EXTERNAL Customers
2. segment assets greater than 10% of total segment assets.
3. Additions to assets.

Comparatives

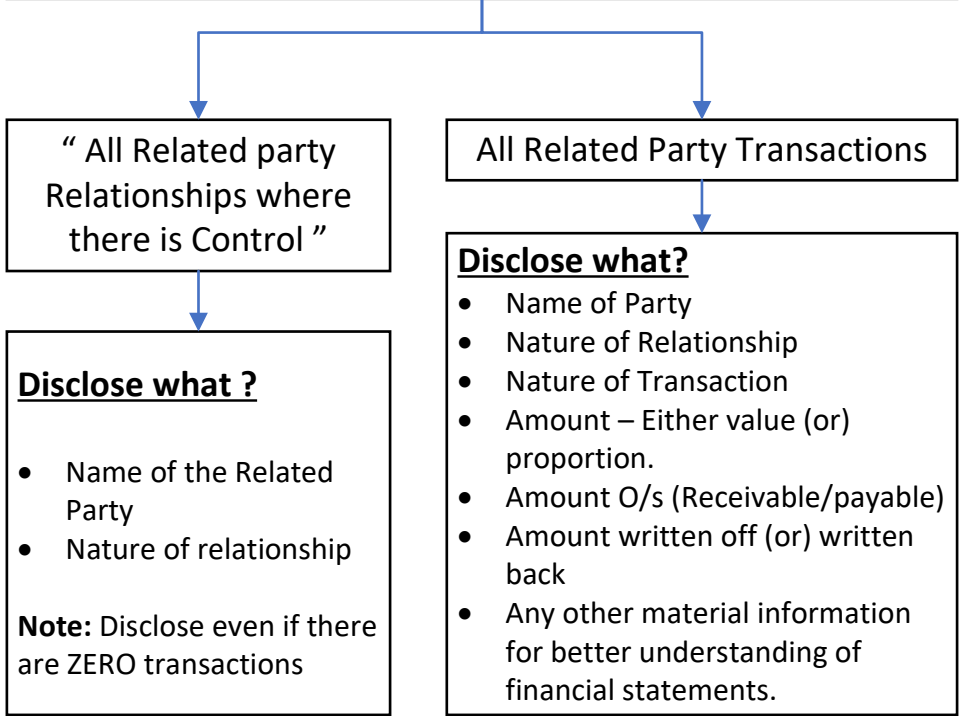
Where an operating segment is qualified in Y1 to be reportable based on Quantitative threshold then, such segment will be reported in Y2 even if the segment does not qualify the tests, Similarly a New segment qualified in Y2 then it's corresponding previous year figures should be reported.

This carryforward principle is applicable only for one year.



AS 18 Related Party Disclosures

What to report in AS 18 ? What are the reporting requirements?

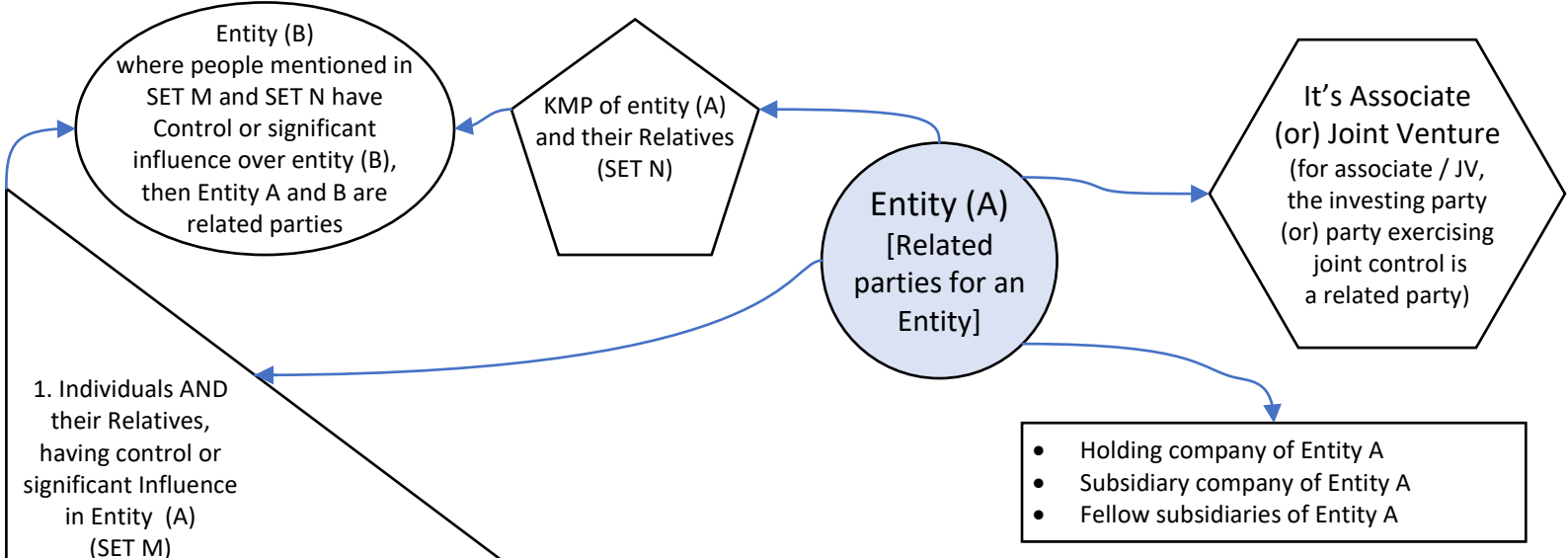


Exemptions from Disclosures in AS 18

- Intra – Group relationships/ transactions in the case of consolidated financial statements.
- Transactions between 2 state controlled enterprises
- where law permits confidentiality (Eg : Banking regulation Act)

Deemed NOT to be related parties (AS 18 – N.A)
(I.e. transactions that look like a transaction with control but AS 18 says otherwise)

- 2 Companies merely having a common director unless such a director is influencing policies in **both the companies in their mutual dealings**
- Sole supplier, Sole customer, Sole franchisee with whom the enterprise has a significant volume of business
- Providers of finance, trade unions, public utility providers, government departments & agencies including government sponsored bodies. **(Resulting in Economic Dependence)**



Key Definitions

Related Party Relationships

A party is related to another, if when at **any point of time**, there was either **control** (or) **significant influence**.

Control

- Voting power of more than half of nominal share capital, either directly or indirectly.
- Controlling the Composition of Board of directors.
- Substantial interest in Voting power, together with the power to direct affairs (**Financial & operating policies**) of the enterprise arising from Statute (or) agreement.

Significant Influence

Participation in the Financial (or) operating policies of the enterprise, but NOT control over the policies.

Key Managerial Personnel

KMP are personnel who have BOTH authority AND responsibility for planning, directing & controlling the affairs of the enterprise.

Relatives

Spouse, parents, brothers, sisters and children who MAY BE EXPECTED to influence (or) be influenced.

Joint Venture

Entity which is Jointly controlled by two or more parties through a **CONTRACTUAL ARRANGEMENT**. (*Does not depend upon voting power, rather depends upon ability to exercise voting power*)

Fellow Subsidiary

A company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

TEST FOR SIGNIFICANT INFLUENCE

TEST 1

Substantial interest in voting power(20% and above), it is **presumed** to give rise to significant influence, Unless demonstrated otherwise.

TEST 2

Absence of substantial interest, voting power of less than 20%, it is presumed that there is no significant influence unless demonstrated otherwise.

CA CS Karthik Manikonda (75501 37279)

Finance Lease

A lease where **substantial risk** and **rewards** are transferred to the lessee

Lease is an agreement which conveys "Right to use" an asset (tangible (or) intangible) to another party for a payment or series of payment for an agreed period.

Operating Lease

A lease which is **NOT** a finance lease

Indicators of a Finance Lease**5 Parameters (Deterministic in Nature)****Satisfy any one to be a Finance Lease**

1. the present value of lease payments is **substantially** equal to fair value of the asset.
2. the **lease period** is For major part of to the economic life of the asset even if it is not transferred.
3. the lessee has the option to buy the asset at the end of the lease period at **less than FAIR VALUE** & it is reasonably certain that the lessee will exercise this option.
4. the nature of the asset is a **specific** purpose asset.
5. The lease **transfers ownership** of the asset to the lessee by the end of the lease term

Indicators of a Finance Lease
3 Parameters (Suggestive in Nature)
Even if all are SATISFIED – NOT A Finance lease

1. **Lessee can cancel the lease** and bare the associated losses.
2. The gains or losses in **fluctuation in residual value** are accrued to the lessee
3. The lessee can continue the lease for a **secondary period a rent lower than market rate.**

Fair Value

A price at which an asset is exchanged (or) liabilities settled between knowledgeable parties, willingly parties in an arm's length transaction

Value at which asset is **recorded** in the **books of lessee** at the inception of lease, **however** record at other than FV where PV of MLP from stand point of lessee is less than the Fair value (FV)

This is the rate at which the present value (PV) of MLP from standpoint of lessor + UGRV is **equal** to the FV of the asset. (lessee to use this rate for discounting when IRR is known at the inception of the lease_

Interest rate Implicit on Lease

Incremental borrowing rate

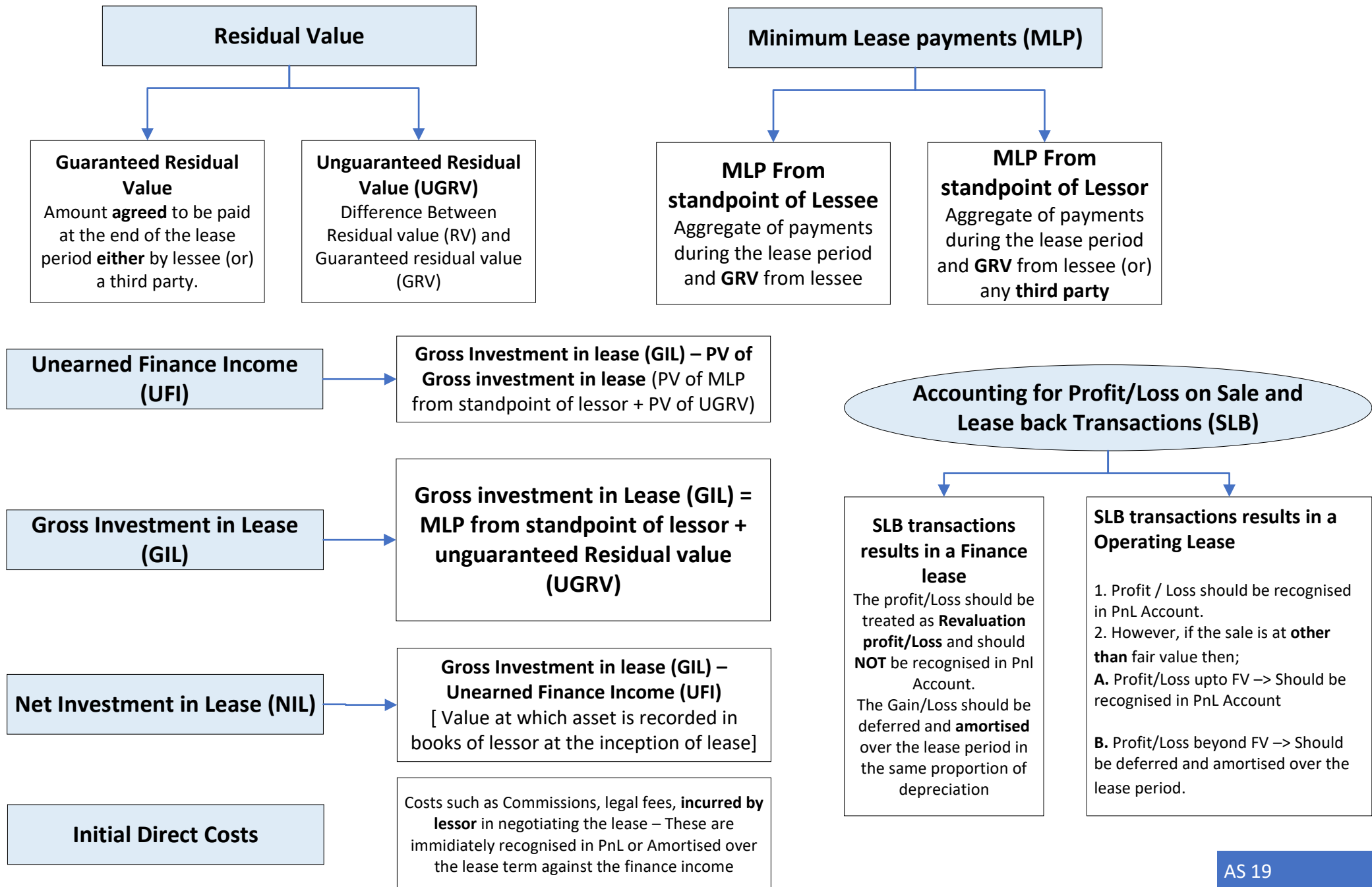
Rate at which the lessee can borrow a **similar** amount, for a **similar** period for security of a **similar** asset. (use this rate when IRR is not known)

Depreciation

Depreciation is provided in the books of the **lessee** in case of a finance lease & in the books of the **lessor** in case of a operating lease.

In case of a Finance lease

Depreciation has to be provided based on the **life of the asset** (not lease period), however if lessee is not expected to take ownership of the asset at the end of the lease period, depreciation should be computed based on the **lease period**.



Non – Cancellable Lease**A lease that is cancellable only**

- A. upon occurrence of some **remote contingency**;
- or
- B. with the **permission** of lessor
- C. if the lessee **enters into a new lease** for the same or an equivalent asset with the same lessor
- or
- D. upon **payment by the lessee of an additional amount** such that, at inception continuation of the lease is reasonably certain

Inception of Lease**Inception of the Lease**

EARLIER OF

- A. Date of Lease agreement
- AND
- B. Date of commitment of the parties to the principal provisions of lease

CONTINGENT RENT

It is a portion of lease payments that is NOT fixed in amount but it is based on a factor other than just passage of time (EG: percentage of sales, amount usage, Price indices market rate of interest etc)

Disclosures by LESSEE

1. Segregation of normal assets and assets under finance lease
2. CV for each class of assets
3. A Recon between total of MLP as on balance sheet date and their present value **AND the above should be shown for** (i) upto 1 year (ii) 1 to 5 years (iii) more than 5 years.
4. Contingent rent recognised in PnL.
5. Any sub-lease payments expected to be received under non-cancelable subleases.
6. Other general descriptions like (*restrictions imposed by the lease, basis for renewal of lease or how contingent rent payments are made*)

Economic Life

- A. The period for which the Asset is **economically usable** by **one or more users**
- OR
- B. the **number of production or similar units expected to be obtained** from the asset by **one or more users**.

(Greater than)

Useful Life

- A. The period over which the leased asset is expected to be used by the **lessee**
- OR
- the **number of production or similar units expected to be obtained** from the asset by the **Lessee**

Disclosures by LESSOR

1. A Recon between Gross investment in lease as on balance sheet date and the present value of MLP Receivable on BS Date **AND the above should be shown for** (i) upto 1 year (ii) 1 to 5 years (iii) more than 5 years.
2. Unearned Finance Income / UGRV accruing to lessor
3. Accumulated portion of uncollected MLP receivable
4. Contingent rent recognised
5. General description of Leasing arrangement of lessor and Accounting policy of Initial direct costs.

Computation of Basic EPS

$$\text{EPS} = \frac{\text{Profit available to Equity shareholders (Note 1)}}{\text{Weighted average number of equity shares outstanding}}$$

Note 1

PARTICULARS	AMOUNT
Profit available to Equity shareholders	XX
1. Net profit after tax (PAT)	XX
2. Less: Appropriation towards preference dividend (#)	(XX)
3. Profit available to Equity Shareholders (1 – 2)	XX

(#) : Cumulative preference shares: Deduct whether dividend is declared or not
 Non-cumulative preference shares: Deduct only if dividend is declared

Note 2

1. WANES can be computed either on a cumulative basis or individual level.
 WANES in case of partly paid up shares: Compute **equivalent number** of shares
 WANES in case of different paid up values: Compute **equivalent value** of shares
I.e different Basic EPS for each class of shareholders based on their Paid up Value. Equivalent value means each class of shares shall be converted into similar shares of same face value.

Different case which requires adjustments**1. Change in number of shares without change in Shareholders Funds**

E.g. Bonus issue/Share split/Consolidation of shares)

The number of equity shares outstanding before making such issue (e.g. Bonus) is adjusted for proportionate number of equity shares outstanding as if such issue (e.g. Bonus) had occurred at the beginning of the earliest period reported

2. Change in number of shares with corresponding change in Shareholders Funds at other than face value

(Rights issue)

1. Compute theoretical ex-rights price:

$$\frac{(\text{Aggregate fair value of shares immediately prior to exercise of}) + (\text{Proceeds from exercise of rights}) (\text{rights shares} * \text{issue price})}{\text{Number of share outstanding immediately after the rights issue}}$$

2. Ascertain rights adjustment factor:

$$\frac{\text{Fair value prior to rights}}{\text{Theoretical ex-rights price}}$$

3. Apply rights adjustment factor to the opening shares

4. Compute WANES

Computation of Diluted EPS

Profit available to Equity shareholders
(after adjustment for diluted earnings) (Note 1)

Diluted EPS =

Average number of weighted equity shares outstanding during the period
(assuming the conversion of diluted potential equity shares (Note 2))

Note 1

PARTICULARS	AMOUNT
1. Net profit as computed under Basic earnings of shares	XX
2. Add: Interest on convertibles	XX
3. Less: Tax impact on above interest	(XX)
4. Add: Dividend of preference shares of convertibles	XX
5. Add: Dividend distribution tax	XX
6. Numerator for Diluted EPS	XX

Note 2**WANES for Diluted EPS**

PARTICULARS	AMOUNT
1. WANES as per Basic EPS	XX
2. Add: Potential equity shares (##)	XX

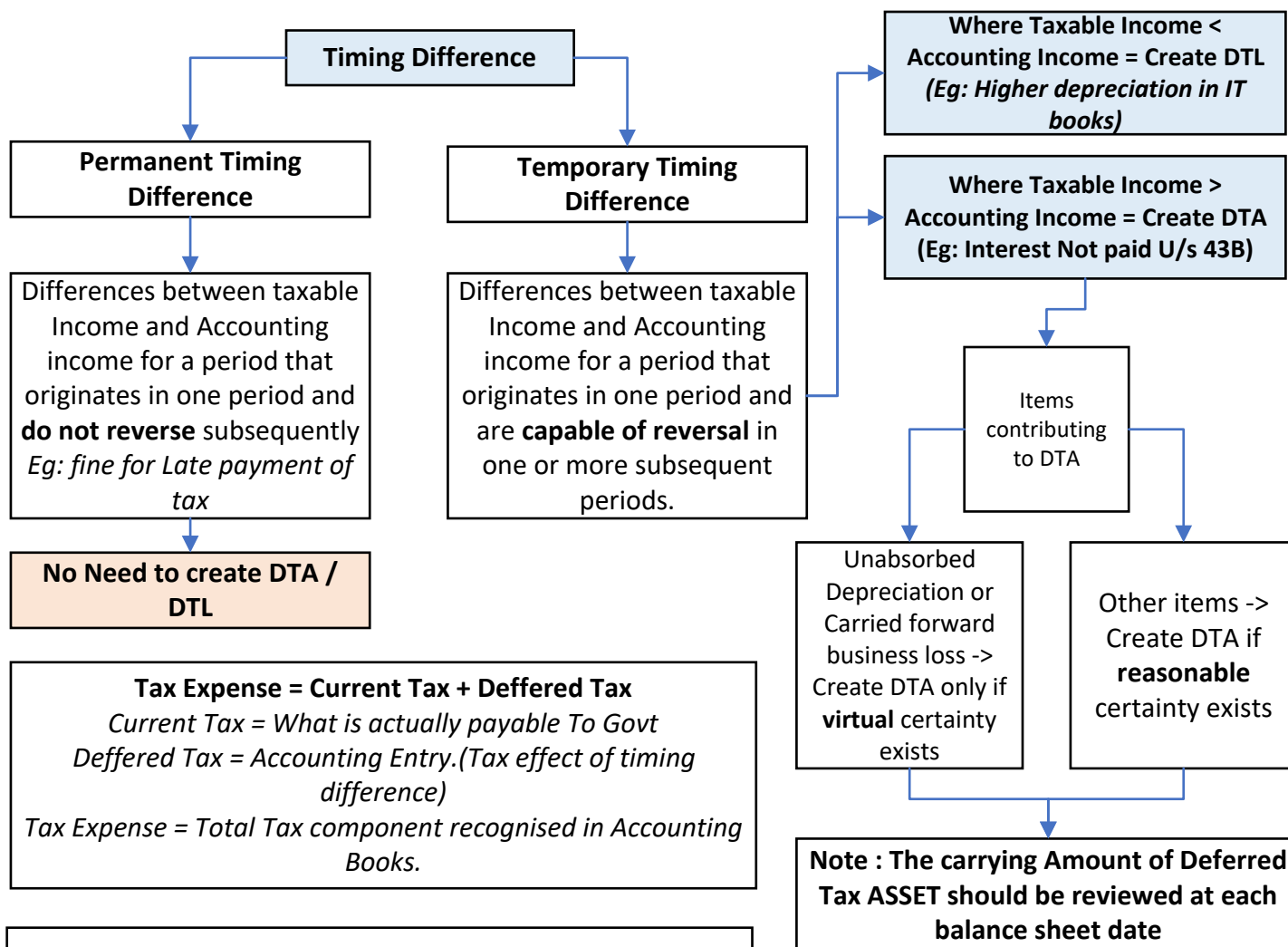
(##)

Potential Equity shares

1. Convertibles (Convertible preference shares/Convertible debentures)
2. Options and warrants (ESOP)
3. Contingently issuable shares

Key Notes

1. A partly paid up share where the holder is not entitled for dividend is treated as potential equity share for the purpose of **Diluted EPS**, **However treated as a fraction of a equity share if they are entitled to participate in dividends.**
2. When to include shares in WANES in certain cases where they are issued as a consideration for other than cash -> **INCLUDED ON THE DATE** when **CONSIDERATION** is receivable.
(For eg: for debt conversion on the date of conversion, Equity shares for exchange of liability, on the date when settlement becomes effective, when services rendered– Date of service.
3. Equity shares in case of Amalgamation, In case of **Purchase – INCLUDE in WANES** from the **date of acquisition** & In case of **Merger – From the beginning of the reporting period.**
4. Potential Equity shares are **Anti-Dilutive** when their conversion to equity shares would increase earning from **continuing operations** or decrease loss from per share from continuing operations. Note => Control Factor is “ Profit from Continuing operations”.



Tax Expense = Current Tax + Deffered Tax
Current Tax = What is actually payable To Govt
Deffered Tax = Accounting Entry. (Tax effect of timing difference)
Tax Expense = Total Tax component recognised in Accounting Books.

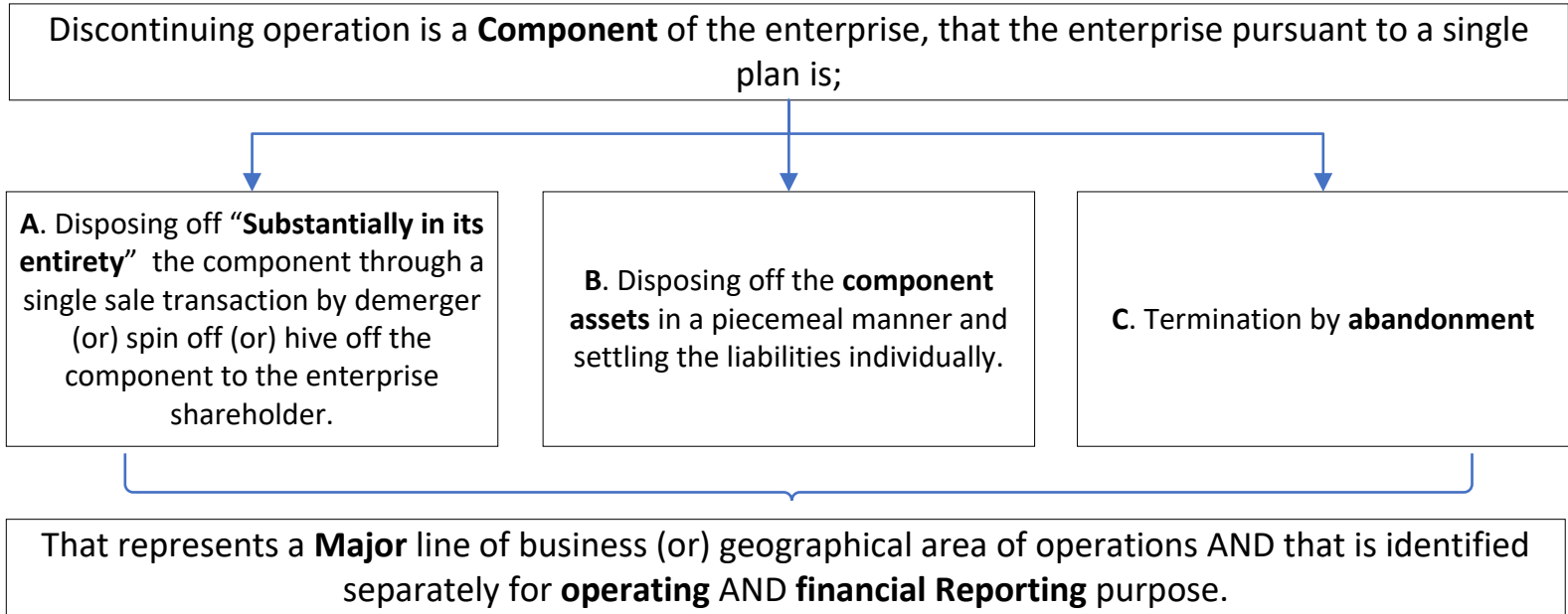
- Few Key Terms**
- Accounting Income** = Net profit or loss for a period, as reported in the statement of profit and loss account before accounting for Income Tax.
 - Taxable Income** = Amount of Income determined as per Tax laws based on which Income tax payable is determined.

- Disclosures & Offsetting**
- Disclose seperately in Balance sheet under a separate heading
 - An enterprise can offset DTA with DTL if ;
 - The enterprise has legally enforceable right to set off assets against liabilities representing current tax
 - DTA & DTL relate to taxes on income levied by the same governing tax laws.

- TAX Holiday**
- This is the period during which Income tax payable is NIL, Hence
 - Timing difference originating and reversing in Holiday period – IGNORE (No need to create DTA/DTL) AND
 - Timing difference reversing in Tax holiday period – IGNORE.
 - Timing difference originating and reversing in period other than holiday period – Create DTL/DTA

- DTA / DTL **Should NOT** be discounted to their present value
Measurement
- Current Tax = Measure using existing Tax rates
- deferred Tax = Measure using enacted Tax rates as on the Balance sheet date (Unless different rates are proposed in Budget -> Use such announced rate.

- MAT**
- Mat is in the nature of Penal tax
 - Payment of a higher amount where Normal tax is Nil or Zero
 - Deferred Tax should be computed only on the basis of Normal Tax and not on the basis on MAT



Examples of activities that do not necessarily satisfy criteria A. of the definition, but that might do so in combination with other circumstances include the following

- Gradual or evolutionary **phasing out** of a product line or class of service.
- **Discontinuing**, even if relatively abruptly, several products within an ongoing business
- **Shifting of production** facilities
- Closing of a facility to achieve productivity improvements or **other cost savings.**

Initial Disclosure event (IDE) – Trigger when AS 24 applies

EARLIER OF

Board approval of Formal plan of discontinuance **AND** public announcement

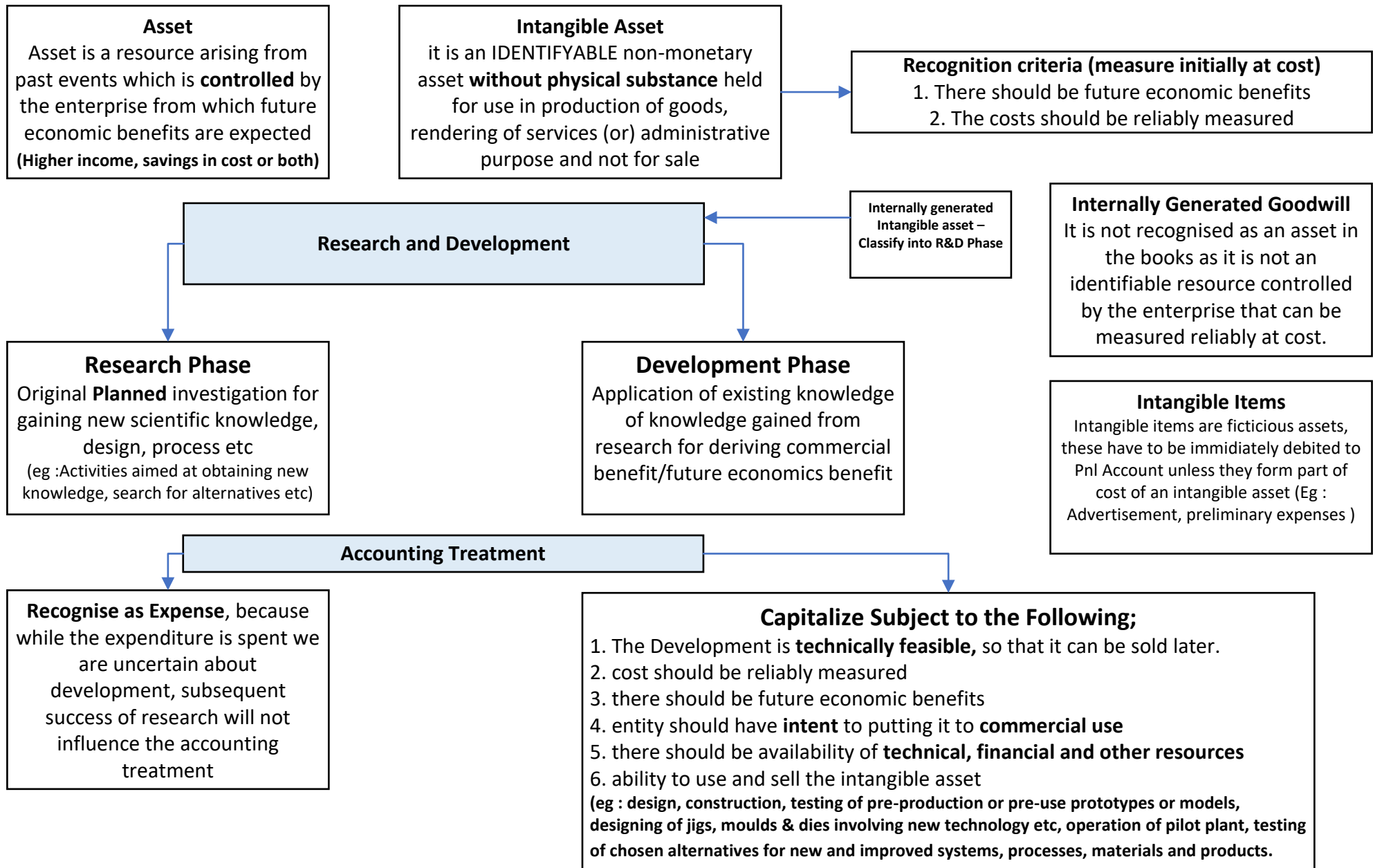
Enterprise entering into a **Binding sale agreement**

Withdrawal of plan of discontinuance
-> Disclose reason for withdrawal of discontinuance and stop disclosure as per AS 24

- Key disclosures**
- A description of the nature of discontinuing operation.
 - Nature and date of IDE
 - Period in which discontinuance is expected to be completed
 - Carrying amounts of the Assets to be disposed off and liabilities to be settled as on balance sheet date
 - Amount of revenue and expenses attributable towards DCO.
 - Amount of pre-tax profit and tax attributable towards DCO.
 - Amount of net cash flows attributable towards DCO (break up towards Operating, Investing and Financing activities)

- Important Notes**
1. All items below PBT(including PBT has to be broken down into continuing and discontinuing operations
 2. updating disclosures have to be provided every year until the year of sale
 3. if there are Multiple DCO information must be given for each DCO.

CA CS Karthik Manikonda (75501 37279)



Amortisation

The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of the useful life (**review amortisation period and method annual**)

Usually the presumption is that **useful life of an intangible asset does not exceed 10 Years**. However, the same is rebuttable (debatable)

If there is evidence that useful life is longer than 10 years, the same can be applied, however the entity has to validate the recoverable amount every year to check for any impairment loss.

Residual Value

The residual value of an Intangible asset is **ZERO, unless** there is a **commitment by third party** to purchase the asset at the end of the useful life (or) there is an **active market** for that asset and the RV can be determined with reference to that market

Subsequent Expenditure on Intangible asset
Subsequent expenditure on Intangible asset after it's purchase or completion should be debited to Pnl

Exception
Expenditure can be measured and attributed to the asset and it results in generation of future economic benefits excess of originally assessed standards

Cost of an Internally generated Asset

It is the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria.

1. Expenditure on **materials** and **services** used or consumed in generating the intangible asset.
2. the **salaries, wages** and other employment related costs or person engaged in generating the asset.
3. any expenditure that is directly attributable to generating the asset (eg : legal fees to register the asset with registry)
4. OH that are necessary to generate the asset and allocated on a reasonable basis.

EXCLUSIONS FROM COST

- SOH, AOH & other general OH unless these expenses can be directly attributable to making the asset ready for use
- Expenditure on staff training to operate the asset
- Initial operating losses before asset achieves planned performance

Methods of Amortisation – First choice – SLM, other options -> WDV (or) Units of production method

The method chosen should reflect the patten of benefits in which the assets economic benefits are consumed by the enterprise

Concepts present in AS 26 i.e. same as the concepts provided in AS 10.

- Exchange of asset
- Retirements and disposals
- Different methods of Amortisation (Depreciation in AS 10)

AS 26 Intangible Assets

An Active Market

Is a market where the following conditions exist

- A. Items traded in the market are homogeneous
- B. Willing buyers and sellers can be found anytime
- C. Prices are available to the public.

Identifiable

Where an intangible asset is clearly distinguishable from goodwill **AND** the asset is separable.

I.e Enterprise can **rent, sell, exchange** or **distribute** the specific future economic benefits attributable to the asset without also disposing of future economic benefits that flow from other assets used in same revenue earning activity.
Eg : Software built by a software company

Determination of Fair Value

1. If **Active Market Exists**
Then,
 - A. Quoted market price **OR**
 - B. Current bid price **OR**
 - C. Price of most similar recent transaction
2. If **Active market does not exist**

A. Amount that the enterprise would have paid

Scope Inclusion & Exclusions

Inclusions in Scope of AS 26

1. Expenditure on advertising, training, start up cost
2. R&D Activities
3. Rights under licensing activities for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
4. The underlying intangible asset in finance lease after it's initial recognition.

EXCLUSIONS FROM THE SCOPE OF AS 26

- Intangible asset held by another enterprise for sale in ordinary course of business (AS 2 & AS 7)
- Deferred tax assets (AS 22)
- Leases within the scope of AS 19
- Goodwill arising in AS 14 / AS 21
- Financial Assets
- Mineral rights & Expenditure on the exploration for non-renewable energy
- Intangible assets from insurance enterprise for contracts with policyholders
- Expenditure in respect of termination benefits

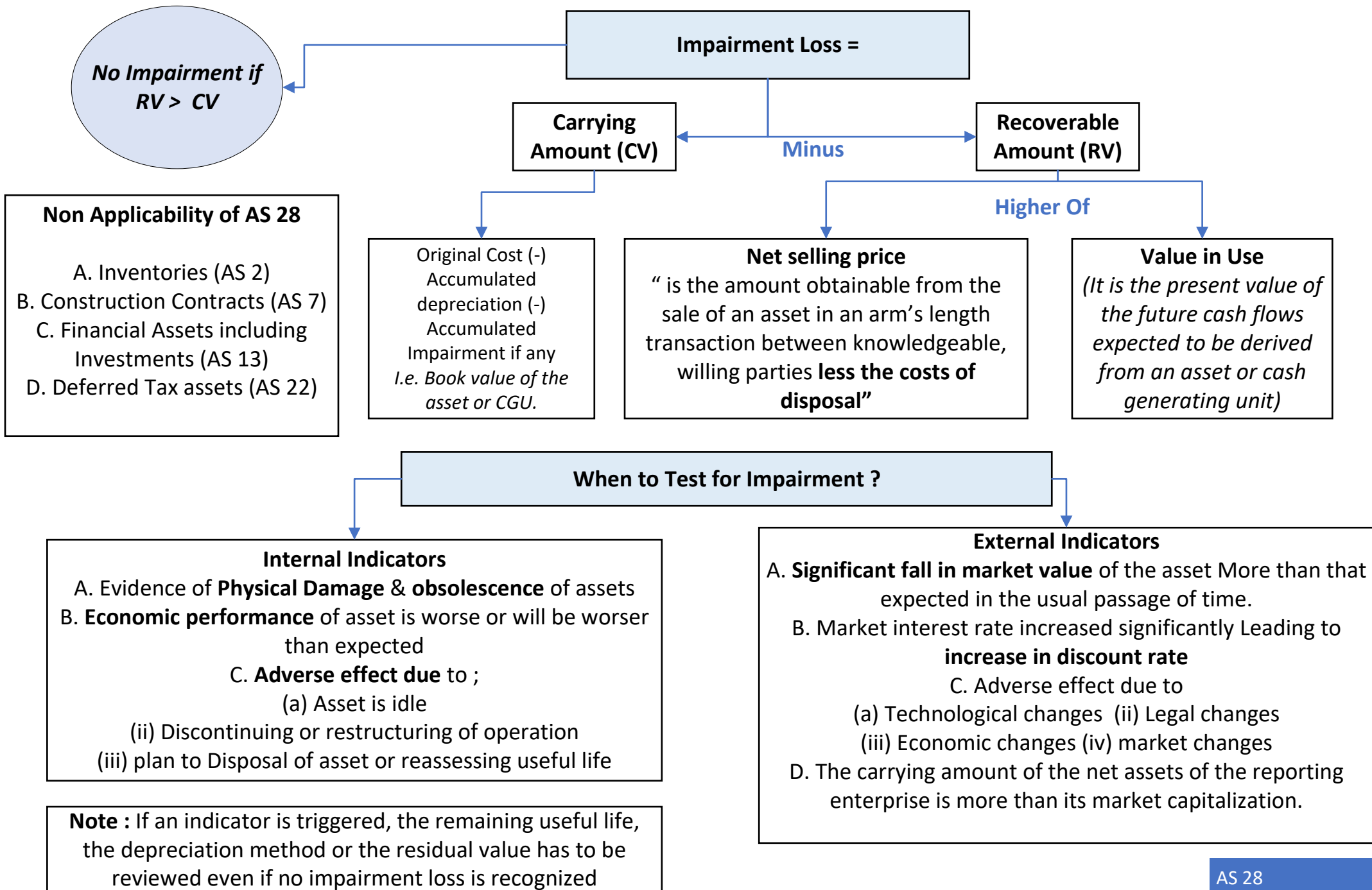
Useful Life

- A. The period over which the asset is expected to be used by the enterprise
- Or**
- B. The number of production or similar units expected to be obtained from the asset by the enterprise

KEY DISCLOSURES

1. Useful life & amortization method & rates used
2. The gross carrying amount at the start and end of the year
3. A reconciliation showing the movement of value due to additions, retirement, disposals, impairment loss, amortisation loss recognised.
4. Class of intangible assets used such as (Brand names, master heads, computer software, licenses, franchise, copyrights, patents, recipe, formulas, models, designs)
5. Amortised more than 10 years -> provide explanation
6. the amount of commitments for the acquisition of intangible asset if any
7. Details of pledge of intangibles if any.

CA CS Karthik Manikonda (75501 37279)



Value in Use

Future Cash Flows
(Note 1)

x

Discount Rate

1. It must be Pre-Tax rate that reflects current Market Assessments
2. Consider Time value of money + Risk specific to asset for which future cash flows estimates have not been adjusted.
3. if **Asset specific rate is NOT available**, then use
 - A. Entity's **WACC** if not, then
 - B. Entity's Incremental Borrowing Rate if not, then
 - C. Other Borrowing rates of the entity
4. Entity can use different rate for different periods if Value in use is sensitive to different risks in different periods

- INCLUDES**
1. Projections from **cash inflows** from use of assets
 2. Projections of **cash outflows** which **necessarily incurred** to generate the cash inflows from continuing use of the asset and can be directly attributable to the asset
 3. Net cash flows to be received or paid for the disposal of the asset at the end of its useful life (**Residual Value**)
 4. Cash flows used for Day to Day servicing (*Maintenance of the assets*)

- EXCLUDES**
1. **Future restructuring** which the entity is **not yet committed** for
 2. Any cash outflow for enhancing the assets performance (this is capitalised)
 3. Cash inflow or outflow from **financing activities**
 4. **Income tax payments** or receipts
 5. Cash flows that relate to obligations recognised as liabilities
 6. Cash inflows from an asset independent of the asset in review (*i.e. a different CGU or a different Independent asset*)

Foreign Currency Future cash flows

- A. Discount **Foreign currency cash flow** using **foreign currency discount rate**
- B. Convert the **Present value of Foreign currency** to functional currency using **spot rate. (AS 11)**

Note 1

Consider the following principles while evaluating Future cash flows

1. Reasonable / Supportable assumptions of Management
2. Greater evidence to external evidence
3. Most recent budgets or forecasts made by management
4. Recommended period is 5 years unless a longer period can be justified

Accounting for Impairment Loss

Individual Asset

Charge to Revaluation surplus if available

Charge to P&L thereafter if there is no revaluation surplus available.

Reversal of Impairment Loss for Individual asset

Initially Reverse to revaluation surplus to the extent of revaluation surplus had there been no Impairment Loss

Thereafter transfer it to P&L Account, to the extent of Carrying value. Gain > CV (Treat as Revaluation gain)

IMPORTANT NOTE

1. The Carrying value (CV) after reversal cannot exceed the CV of the asset had there been no impairment loss recognised for that asset (i.e. Impairment reversal cannot lead to revaluation of asset)

Impairment for a CGU

CV of CGU - Recoverable Value of CGU

CV of CGU includes
 A. CV of Individual Assets (minus liabilities that are necessary part of CGU)
 B. Allocable Goodwill
 C. Allocable Corporate Assets

Reversal of Impairment Loss for CGU

Accounting for reversal of Impairment loss for CGU

The reversal should first be accounted for;
 A. First, for assets other than goodwill on pro-rata basis based on the carrying amount of each asset in the unit.
 B. Then, to goodwill allocated to the CGU if any.

What is Cash Generating Asset (CGU)?

- > Smallest Identifiable group of assets
- > Generates cash flows
- > Independently from other group of assets

Higher of Net selling price less cost of disposal of CGU OR Value in Use of CGU
 Note : Reduce liabilities if any

Impairment Loss of CGU

A. FIRST write off with allocable goodwill
 B. Next, Allocate to other assets including Corporate Assets in the ratio of Carrying value other assets and corporate assets.

The CV of ASSET shall not be increased above the lower of

- A. It's recoverable amount (OR)
- B. the carrying amount (had there been no impairment recognised in previous years)

Reversal of an Impairment loss for Goodwill

AS 28 **does not permit the reversal of Goodwill** for change in estimates such as *(change in discount rate/amount or timing of future cash flows)* **UNLESS;**

- A. The impairment was **caused due to a specific external event** of an exceptional nature that is **not expected to recur**
AND
- B. Subsequent external events have occurred that reverse the effect of that event.

Allocation of Goodwill Or Corporate Assets

Allocated on a Reasonable & Consistent Basis
Perform **BOTTOM UP test ONLY**

CANNOT BE Allocated on a Reasonable & Consistent Basis
Perform **BOTTOM UP test & TOP DOWN Test, Both.**

1. **Bottom up Test** – Allocate Goodwill/Corporate asset and compute Impairment for CGU
2. **Top down Test** – Compute Impairment for the larger CGU (Entity as a whole) including goodwill and write off the loss to unallocated goodwill.

Impairment in case of discontinuing operations

The Board approval of formal plan of discontinuance is an indication that Discontinuing operation is impaired or previously recognized impairment loss to be reviewed

- A. Binding sale agreement case -> Compute Recoverable amount for the **entity as a whole**
- B. Piece meal distribution case -> Determine Recoverable amount for each Individual asset **unless they are sold in groups.**
- C. Termination by abandonment case -> Determine Recoverable amount for **each Individual asset.**

Disclosures in AS 28

1. For each class of assets, Each Individual Asset & Each CGU DISCLOSE -> Impairment loss recognized, Reversal of impairment loss, the amount of impairment loss adjusted & reversed against revaluation surplus of asset, the circumstances that led to impairment, nature of asset and which reportable segment it belongs to, the basis for selection of factors for Value in use (discount rate) and Estimated selling price.
2. Disclose for each Reportable segment as per AS 17 – The amount of Impairment loss recognized and reversed in Statement of Profit and loss account and Revaluation surplus.
4. For each CGU's **APART FROM ABOVE**-> Details of aggregation of assets of CGU and if there is any change for the same the reason for such change.

AS 29 Provisions, Contingent liabilities & Contingent Assets

Provisions

There is a **present obligation** arising from past events

The settlement of liability is likely to result in outflow of resources embodying economic benefits

A reliable estimate can be made

1. Provision is a liability which involves substantial degree of estimation
2. Provisions are **NOT** Accruals.
3. Debit Profit & Account & Create a liability & Review provisions Annually.
4. For each provision **DISCLOSE**: Carrying amount, additional provisions made, amounts used and unused amounts which are reversed.

Contingent Assets

Possible asset which may occur due to past events, of which realisation depends on **occurrence or non-occurrence** of one or more future events not wholly within the control of the enterprise

Accounting
Recognise as an asset only on **receipt**, until receipt, disclose in **Director's report**.

Restructuring Costs

(Restructuring is a program planned and controlled by the enterprise and materially changes either scope or business or manner in which business is undertaken.)

Includes

1. sale/termination of line of business
2. closure/location of business in a country or region
3. change in management structure
4. Fundamental re-organization that have a material effect on nature & focus of enterprises solution

Accounting: Provision for restructuring cost is recognised only when it meets the criteria for recognition of a provision, it should include only the **DIRECT EXPENDITURE** arising from restructuring & not associated with ongoing activities of the enterprise

Does not Include

- costs of retaining or relocating staff
- Marketing costs
- Investment in new system or distribution
- Expected loss on sale of assets due to restructuring.

Contingent Liability – Disclose in Notes to Accounts

Present (or) possible obligation arising from past events for which **EITHER**

There will be **NO** outflow of resources embodying economic benefits

Reliable Estimate **CANNOT** be made.

Possible obligation arising from past events, the settlement of which is based on **“occurrence or non-occurrence”** of one or more future uncertain events, not wholly within the control of the enterprise.

Reimbursements

1. An enterprise with a **present obligation** may be able to seek reimbursement of part or all of the expenditure from another party (eg : Insurance contract / warranty provided by supplier)

Accounting:

A. The reimbursement is treated as a separate asset and such a reimbursement should be recognised only when it is **virtually certain** that such amount will be received after settlement of the obligation. The provision will be accounted for separately. *(This is in most cases where the entity is liable for the costs in question)*

B. In case where the entity is not liable for the costs in question if third party fails to pay, enterprise is not liable and hence no need to create a provision in such cases.

ABOUT THE AUTHOR

Karthik Manikonda is a Chartered Accountant and Company Secretary by profession, he's Immensely passionate about teaching student's the subjects of Accountancy and Law at all Levels of the CA course.

The teaching style involves solely focusing on understanding the concepts and figuring out the "WHY" of every aspect that is part of the syllabus, the approach involves instead of learning what is there in the book, it is better to understand why something is there in the book.

The Author has a teaching experience of over 4 years and has worked with the Big4's and has practical experience of working with many Listed entities and large public and private companies. The user of this book can feel free to what's app the faculty on 75501 37279 for any subject related queries.

The Author is also an Advocate of Mental Health and is currently the founder of The Mind and Company, a Recognised Start up by the Government of India and Tamil Nadu.



MRP Rs 599