AS- Intro.

AS → written policy documents.
↳ Recognition, Measurement, Presentation & Disclosures.

SMC

Advantages & Disadvantages of AS.

1) Uniformity
2) Comparability.
3) Disclosures

1) Rigidity
2) AS cannot be compared with Global standards.
3) AS cannot override Law
4) Multiple choice in accounting is eliminated.

Applicability of AS.*

Q9 AS of which Q7 AS are active.

Enterprise -

- Corporate
  - SMC → AS-3 & 17 exempt rest all apply.
  - Non-SMC → All Q7 AS apply
- Non-Corporate.
  - L-I → Large → All AS apply.
  - L-II, L-III, L-IV → MSME
    - AS-20, 21, 23, 25 & 27 does not apply.
    - L-II → AS-3 & 17 exempt
    - L-III & IV → AS-3, 15, 17, 18, 24 exempted & few Para's of some AS also exempted

SMC

All the 5 cond^n to be satisfied:-

1) Not Listed & not in process Listing
2) Not a Bank, Finan. Inst & Insurance Co.
3) Turnover $\leq$ ₹250 Cr. in immediately preceding FY
4) Borrowing $\leq$ ₹50 Cr. at any time during immediately preceeding FY
5) Not a Holding or subsidiary of a Non-SMC.

Non SMC

→ If any of the cond^n is not satisfied

A Co. other than SME.

↳ I

Any 1 out of 5 cond^n

1. Listed or in process of Listing
2. Bank, Finan. Inst., Insurance Co.
3. Turnover > ₹250 Cr.
4. Borrowing > ₹50 Cr.
5. Holding or Subs. of a Co. satisfying above cond^n.

↳ II

Any 1 out of 3

Turnover > 50 Cr $\leq$ 250 Cr.
Borrowing > 10 Cr $\leq$ 50 Cr
Holding or Subs. of a Entity satisfying above cond^n.

↳ III

Any 1 out of 3

T/O > 10 Cr. $\leq$ 50 Cr
Borr > 2 Cr $\leq$ ₹10 Cr
Holding or Subs. of Entity satisfying above cond^n.

↳ IV

Residuary

1) T/O $\leq$ 10 Cr.
2) Borr. $\leq$ ₹2 Cr.

Trust & Co-op. societies.

↓

Exempted from scope of AS.

↓

If do not involve in commercial transaction even of an insignificant Amt.

AS-1 Disclosure of Accounting Policies.

↳ Notes to Accounts.

→ A·P → principles & methods of applying these principles.

eg. Valn Inventory → FIFO, WAM, ASP, Std·costing.

Valn PPE → cost, Revaln

Govt. Grant → Deduct from cost

Recognise as DGrs.

→ A·P. is selected by management

→ Auditor's responsibility is to check whether A·P. adopted are properly followed.

→ *An entity should have multiple A·P., no single set of A·P. can be applied to various transactions.

→ **Basis of selection of A·P.**

- Primary consideration
  - ↓
  - True & Fair view.
- Secondary consideration
  - ↓
  - i) Substance over form
  - ii) Prudence
  - iii) Materiality.
    - Quantity → ↓ Amt. ↑
    - Quality. → ↓ Nature

→ **Changes in A·P.**

Yes, only if required

i) By Law or iii) Management Discretion.

or ii) By AS

→ **Disclosure for changes in A.P.**

If change in A.P. has material effect on Finan. stats. then disclose.

a) Fact & Reason. (mandatory)

b) Quantifiable effect of change either in part or full, only if ascertainable.

FIFO 100
WAM 80
20
GP
C.S Stk

→ **Disclosure of A.P.**

What to disclose? → Significant AP

Where to disclose? → Notes to Accounts

How to disclose? → At one place

Exception to Disclosure.

Fundamental Accounting Assumptions:-

a) Going Concern
b) Accrual
c) Consistency

} If not followed then only disclose.

AS-2 Valuation of Inventory.

→ Inventory → FGs, WIP, RM, Spares & Loose tools.

→ **Scope:- AS 2 does not apply** *

a) WIP of services
b) WIP of const^{n} contracts.
c) Shares & securities held as stock in trader.
d) Livestock & Agricultural produce. (NRV)
e) Minerals, Oils, Natural Gas, petroleum (NRV)

→ **Measurement or Val^{n} of Inventory.**

Valued at lower of,
a) Cost &
b) NRV.

Val^{n} of cost	For Manufacturer	For Trader
3 elements of cost	FGs = 1+2+3	FGs = 1
1) Purchase cost	RM = 1	or 1+3
2) Conversion cost		
3) other cost		

1) **Purchase cost :-**

Purchase price	xx
(-) Trade Disc.	(xx)
(+) Non-Refundable Tax	xx
(-) Refundable Tax	(xx)
(+) Transport, Handling	xx
(+) Loading & unloading	xx

(+)	Tolls	xx
(+)	weighment charges	xx
(+)	Transit Insurance	xx
(+)	Any directly attributable cost of Purchases	xx
		xx

2) Conversion cost

Labour & Overheads.

Variable → VCPU = Total Variable Cost / Actual Prodn

Fixed.

Normal Prodn > Actual Prodn → underabsorption → FCPU = Fixed cost / Normal Prodn

Actual Prodn > Normal Prodn → overabsorption → FCPU = Fixed cost / Actual Prodn.

Joint products & By Products.

Main product → Net Joint cost to be allocated on a reasonable & consistent manner, to the Joint product in the proportion of NRV @ split off point.

↳ incidental scrap → value @ NRV & deduct from Joint cost

eg. Joint Cost = 140,000
Product A = 2000 (NRV is ₹ 80)
Product B = 1800 (NRV is ₹ 100)
By Product C @ NRV ₹ 4000
Show allocation of Joint cost ?

Sol^{n}:- Net Joint cost = 140,000 − 4000 = ₹ 136000

Proportion of NRV @ split off

NRV of A	= 2000 × 80	= ₹ 160,000	} 8 : 9
NRV of B	= 1800 × 100	= ₹ 180,000	

∴ Allocation of Net Joint Cost

A = $136000 \times \frac{8}{17}$ = ₹ 64000

B = $136000 \times \frac{9}{17}$ = ₹ 72000

3) Other Cost :- Cost incurred to bring the Inventory to its present Location & Condition.

↓ Point of sale
eg. Transport, Handling, Loading, Tolls, Insurance, etc. Factory to POS.

↓ Saleable condition.
g.→ Primary packing
→ Storage cost (only if it is integral part of prod^{n} or enhances the value of product)
→ Borrowing cost (only if inventory is a Qualifying asset as per AS-16)

Exclusion from Cost of Inventory. (charged to P/L)

a) General & Admin OH.
b) Selling & Distⁿ OH
c) Storage cost
d) Borrowing cost
e) Abnormal losses.

Cost Formula for Inventory valⁿ.

↓

Inventory

Non-Interchangeable	Interchangeable.
↓	↓
High value & Low volume.	Low value & High volume
↓	↓
Specific Identification Method to derive valⁿ of Inventory.	FIFO, WAM, Retail Method.

NRV

a) FG → Est. SP — xx
(-) Est. selling cost — (xx)
NRV — xx

b) WIP → Est. SP of FG — xx — 100
(-) Est. selling cost — (xx) — (5)
(-) Est. further cost — (xx) — 95
NRV — xx — (20)
— — 75

c) RM → No NRV, as no intention to sell.

Valⁿ of RM depends on FGs.

→ If FGs valued @ cost, RM valued at cost (NRV > cost)

→ If FGs value @ NRV, RM valued at lower of Cost & Replacement cost (NRV < cost)

Soln

Purchase price	= 16000 × 160	=	2560,000
(-) Refundable GST	= 16000 × 10	=	(160,000)
			2400,000
(+) Transport cost			140,160
Purchase cost			2540,160

Ordered Qty	= 16000
(-) 2% N.L.	= (320)
Expected Qty.	15680
(-) Actual Qty. Recd.	(15500)
Abnormal loss.	180

∴ Purchase cost p.u. = 2540,160 / 15680 = ₹162 per kg.

∴ Value of Ab. loss = 180 × 162 = ₹29160

∴ Value of closing stk. = (15500 − 13600) × 162

= ₹307,800

Soln

Cost p.u. of R.M X = 200 - 10 + 10 + 20

= 220 p.u.

Cost per unit of Fin Y

RM	220
Labour	60
OH	40
FOH	10
	330

a) NRV of Fin Y = ₹400

∵ NRV > Cost of Fin Y, Fin Y valued at cost ₹330 p.u. & R.M. X will also be valued at cost ₹220 p.u.

Value of Inventory

a) Fin Y = 1200 × 330 = 396000

b) RM X = 500 × 220 = 110,000

506,000

b) NRV of Fin Y = ₹300

∵ NRV < cost of Fin Y, Fin Y valued at NRV ₹300 p.u. & RM X will be valued at Replacement cost of ₹150 being lower the cost ₹220 p.u.

∴ Value of Inventory

a) Fin Y = 1200 × 300 = 360,000

b) RM X = 500 × 150 = 75000

435,000

AS-4 → Contingencies & Events occuring after the B/S. Date.

↓

AS-29

23-24

B/S. Date 31/3/24

Finan. stats prepared by Management & sent for approval to Approval Authority. 15/5/...

Finan. stats are approved. 30/6/24

24-25

Any Event between B/S. Date to Date of Approval.

Events → Favourable or unfavourable for the entity.

Events.

Significant Events

Adjusting Event

↓

Adjustments to Assets & Liabilities are required for the current period.

Non Adjusting Event.

↘ only a Disclosure is required in the Report of Approving Authority. (eg. Co. → BOD Report)

Insignificant Events.

↓

Ignore, for the current period.

2 conditions.

i) There is a situation or condition existing on the B/S. Date

ii) Event occuring after B/S. Date provides additional evidence or information to assist in estimation of

amount relating to condition on the B/s. Date.

Exceptions to Non-Adjusting Events.

* i) Any Event after B/s. Date which ceases going concern of an enterprise.

Adjustment ⇒ Finan. Stats. prepared on Liquidation basis

ii) Retrospective changes in tax rate after the B/s. Date.

23-24 → 25%.

May 15/24 → 20%. w.e.f. 1/4/23

24-25...

Adjustment ⇒ change the Prov. for tax & Deferred tax as per New Rates for 23-24.

23-24 ↓ 20%

* Proposed Dividend | Dividend declared after the B/s. Date, no adjustment in B/s. as there is no obligation to pay, only a Disclosure is required.

Any Event occuring after Approval of Finan. Stat. shall be ignored as per AS-4.

AS-12 Accounting for Govt. Grants.

Govt. Grants.
↓
Assistance.
in Cash | in Kind

Govt.
↓
Central, State, Govt. Agency or Dept., Local Authority, International Govt.

Scope.

1) Tax Holidays.
2) Govt. contⁿ in Equity of Business.
3) Assistance from Govt. to which money value can't be assigned.

Recognition Criteria.

↓

An Entity should have reasonable assurance :-

a) That the condⁿ of grant will be satisfied. &
b) Grant will be received.

Accounting of Govt. Grants.

Grant → Revenue Nature → P/L immediately or deferred over a period of time.

Capital Nature → Recognised to Capital Reserve A/c.

Types of Govt. Grant (GG)

i) Non-Monetary G.G. (Asets)

ii) Monetary GG (cash)

I) Non-Monetary GG

↓

Anset.

For free	or	For concessional rate.
↓		↓
Recognise Anset at Nominal value e.g. ₹500, ₹1000, etc.		Recognise the asset at concessional rate of Acq^n.

II) Monetary GG

i) GG Received for Depreciable Anset.

GG → (–) Cost of Anset

Bls.

Anset		100
(–) GG		(40)
		60
(–) Dep^n 10%		(6)
		54

P/L

To Dep^n	6		

GG → Cr. to Dfrd Alc. set up Deferred income

Bls.

Dfrd		40	Anset 100
(–) Amt.^{n} 10%		(4)	(–) Dep^n 10% (10)
		36	90

Net Anset = 54

P/L

To Dep^n	10	By Amt^n of GG	4

Net Dr 6

2) GG Recd for Non-Depreciable Asset (Land)

If cond^n are satisfied
↓
Cr. the GG to Capital Reserve Alc.

If cond^n are not yet satisfied
↓
Cr. to DGCI Alc & amortise over the period of satisfying the cond^n.

3) GG Recd. for Revenue Nature items, or for providing immediate benefits to the entity or for compensating the past losses.

eg. Govt. incentives, Govt. bears part of expenses, Medical facilities to employees, Compensations received for past losses, etc.

GG → Cr. to P/L Alc.

If benefit is for more than an accounting year, Cr. to DGCI Alc & amortise over the period of benefits.

4) GG Recd. as a Capital subsidy or Promoter Contribution
↓
Cr. to Capital Reserve.

Refund of Govt. Grant *

Cond^n not satisfied.

→ De-recognise the Govt. Grant from Finan. stats.

i) If GG was (-) cost of asset, on refund (+) WDV of asset for the year of refund.

JE → Asset A/c ..... Dr.
To Bank A/c.

→ After Refund, the WDV of asset will revise.
→ Depⁿ charge will revise.

ii) If GG was Cr. to Dlrs A/c, on refund Dr. to Dlrs A/c only to the extent of Cr. bal. available & balance Dr. to P/L A/c.

B/s.

	Dlrs	40	Asset	100	
Refund 3rd yr.	(-) Amtⁿ for 2 yrs.	(8)	(-) Depⁿ 2 yrs	(20)	10%.
		32.	WDV	80	
	(-) Refund	(32)	Nil		

P/L

		By Amtⁿ of GG	8
To Refund of GG	8		

JE DGG A/c ..... Dr.
P&L A/c ..... Dr.
To Bank A/c.

iii) If Grant was Cr. to P/L, on refund Dr. to P/L.

iv) If Grant was Cr. to Capital Reserve A/c, on refund Dr. to Capital Reserve.

i) Cost of Machine 4000,000
(-) GG Recd (1600,000)
2400,000

$$\text{Dep}^n = \frac{2400,000 - 800,000}{4} = ₹400,000$$

WDV of Machine for 4yr. 3 = 2400,000 − (2 × 400,000)
= ₹1600,000

On Refund of GG ₹1600,000, charge it to the Machinery Alc.

JE ⇒ Machinery Alc ..... Dr. 1600,000
To Bank Alc. 1600,000
(Being Govt. Grant refunded)

∴ Revised WDV = 1600,000 + 1600,000 = ₹3200,000

∴ Dep^n for 4yr. 3 onwards = $\frac{3200,000 - 800,000}{2}$ = ₹1200,000

ii) Cost of Machine = ₹4000,000
DGG Alc = ₹1600,000

$$\text{Dep}^n = \frac{4000,000 - 800,000}{4} = ₹800,000$$

$$\text{Amt}^n \text{ of GG} = \frac{1600,000}{4} = ₹400,000$$

∴ WDV of Machine at 4yr. 3 = 4000,000 − (800,000 × 2)
= ₹2400,000

Deferred Cr. bal of DGG Alc } = ₹600,000 − (2 × 400,000)
= ₹800,000

On Refund, charge ₹800,000 to DGG Alc & balance ₹800,000 to P/L Alc.

JE → DGG Alc ..... Dr. 800,000
P/L Alc ..... Dr. 800,000
To Bank Alc. ₹1600,000
(Being Govt. Grant Refunded)

WDV of Machine ₹2400,000 & Dep^{n} charge of ₹800,000 will remain same after Refund of Govt. Grant.

AS-13 Accounting for Investments.

Investments → Assets held for earning income (interest, dividend, rent & Capital Appreciation.)

↓

Accounting is covered in AS-13.

↓

eg. Eq. sh., Pref sh., Land & Bldg., Bonds, Debt, Gold, Silver, MF's., etc.

Scope:- AS-13 does not apply

i) Accounting for incomes on investments. (AS-9 & 19)
ii) Investment in lease (AS-19)
iii) Banking Co., NBFC, Insurance co., Asset Management Co., Venture Capitals.
iv) Investments under Retirement benefit plans.

Investment Types.

Current Investments	Non-Current Investments.
↓	↓
Intends to hold for ≤ 12m.	Intends to hold for > 12m.

Measurement of Investments.

I) Initial Measurement → on the date of acq^n.

a) Separate Acq^n

Cost = Purchase price + Brokerage + GST on Brokerage + Non-Refundable GST + Stamp duty + Transfer charges + Registration. + Any cost directly attributable to purchases.

b) Acquired by issue of shares or securities.
Cost = Fair value of securities issued.

c) Acquired by exchange of another asset
Cost = Fair value of asset given up or
Fair value of investment taken up
whichever is more clearly evident.

d) Pre-Acq^n Int. & Div. → Deduct it from cost of Investments, considering it as recovery of cost.

e) Bonus shares
Cost = Nil.
Recognise only the Qty within original Investment A/c.

f) Right shares.

Offer Accepted
↓
Cost = Amt. paid to co. for Acq^n.
↓
Recognise with the original Investment.

Cost = 120 MP = 100
Renounce = 30
(-) 20 Invt.
10 Cr P/L

Cost = 120
(-) Renounce = (20)
Cost = 100 = MP = 100

Renounced offer.
↓
Renouncement price, which is a profit to be recognised to P/L.
→ If originals shares were acquired on cum-right basis & now Mkt. price after rights is lower than cost, then renouncement price deduct from cost only to the extent that Cost = Mkt. price.

Subsequent Measurement i.e. Carrying value of Invt. on B/s. Date. ***

a) **Current Investments** :- Carry at Lower of Cost & Fair value.

If FV is lower, provide for reduction in value by charging loss to P/L.

b) **Long Term or Non-Current Investments** :-

Carried at cost, unless there is reduction in value which is other than temporary in nature. Loss if any will be provided by charging to P/L.

Reclassification of Investments *

a) Current → Non-Current

CA —Transfer→ NCA

Trf @ Lower of Cost or FV on the date of reclassification
Any Gain/Loss on reclassification should be recognised to P/L immediately.

b) Non-Current ⟶ Current

NCA —Transfer→ CA

Trf. @ Lower of Cost or Book value on the date of reclassification.

Gain / Loss on Disposal of Investment.

↓ Record to P/L

↓ Sale of Investments.

AS-16 Borrowing Cost

Accounting treatment of Borr. cost.

- Capitalise
- Charge to PL

Def of Borr. cost → Interest & other cost, it includes.

a) Int. & commitment charges.
b) Disc. on Issue & Premium on Redemp^n of Borr. cost, only to the extent amortised.
c) Ancilliary cost, only to the extent amortised.
d) Finance cost under a Finance lease or H.P.
e) * Exchange difference on foreign currency borrowings only to the extent regarded as adjustment of interest cost.

1000,000 / 10 = 100,000

Recognition criteria of Borr. cost

If Borr. cost is directly attributable to const^n, acq^n or prod^n of a Qualifying asset
↓
Capitalise the Borr. cost to the cost of asset for the Relevant period.

Any other Borr. cost
↓
Charge to P/L A/c for the period

Qualifying Asset :- An asset which takes substantial period of time to get ready for its intended use or

↓
PPE
IA
Invt. Prop.

Sale.
↳ Inventories.

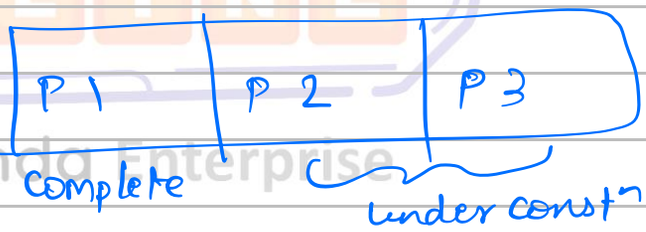
Substantial period is a period of 12m. . longer or shorter period can be justified.

* const^{n} of an asset → Generally a Q.A.
* Assets readily available for use upon its acquisition are not QA.
* Inventories produced in large Quantities, over short period are not Q.A.

Relevant period → (Commencement of capitalisation upto cessation of capitalisation) excluding the suspension period only if its Abnormal in nature.

1/4/22 to 30/9/24
30 months. -3m.
= 27m

work Suspend.
Out to Dec. 23
27m



Measurement of Borr. Cost.

i) Specific Borrowing :- Borr. is directly related to the Q.A. . Borr. cost w.r.t. specific borr. should be Capitalised to the Q.A.

∴ Borr. cost to be Capitalised } = Actual Borr. cost incurred
(-) Incomes earned from Temp. Investments out of Borrowed funds

$100 \times \frac{9}{12} \times 10\% = xx$

ii) Non-specific or General Borrowing :-

Calculate wtd. Avg. Borr. Rate or Capitalisation Rate ∵ the funds utilised from the respective source cannot be determined.

$$\text{Cap. Rate} = \frac{\text{Actual General Borr. cost}}{\text{Total o/s. General Borrowed funds}} \times 100 = \%$$

Borr. cost to be Capitalised = Funds utilised for the QA × Cap. Rate % × $\frac{\text{o/s. period}}{12}$

Borr. to be Capitalised ≤ Actual General Borr. cost

Q.14 Calⁿ of Avg. Expenditure on Factory Bldg.

1/4/17 → $300,000 \times \frac{12}{12} = 300,000$

31/5/17 → $240,000 \times \frac{10}{12} = 200,000$

1/8/17 → $400,000 \times \frac{8}{12} = 266,667$

31/12/17 → $360,000 \times \frac{3}{12} = 120,000$

886,667

Specific	General*
200,000	686,667

Cal^{n} of Capitalisation Rate

General Borrowing Cost } = 400,000 × 9% × 12/12 = 36,000

(+) 500,000 × 12% × 12/12 = 60,000

(+) 300,000 × 14% × 12/12 = 42,000

138,000

∴ Capitalisation Rate } = 138,000 / (400,000 + 500,000 + 300,000) × 12/12 × 100

= 11.5% ⇒

∴ Borr. Cost to be Capitalised

a) Specific Borr. cost = 200,000 × 8% = 16000

b) General Borr. cost = 686667 × 11.5% = 78967

94,967 ⇒

Cost of Factory & Borr. cost to be Capitalised } = 1300,000 + 94967

= ₹1394967 ⇒

JE Factory Building A/c ..... Dr. 1394,967

To WIP of Factory Building A/c 1300,000

To Interest cost A/c. 94,967.

(Being cost of Factory & Borr. cost Capitalised).

Treatment of Exchange Diff. on Foreign Currency Borr. related to Q.A.

Foreign Currency Borrowing → Cost → Actual
- Interest — Step 1 — 100
- Exc. Diff. Loss. — Step 2 — 30

130

Local Currency Borrowings → Cost → Notional.
- Interest — Step 3 — 115

145

Foreign Currency Borr. cost or Local Currency borr. cost whichever is lower shall be Capitalised.

Step 4 → Adjustment of Interest = Interest on Local Currency Borr. (-) Interest on Foreign Currency Borr.

Step 5 → Exch. Diff. Loss to be charged to P/L (As per AS-11) = Exch. Diff. Loss (-) Adjustment of Interest

If Local cost > Foreign cost, entire foreign cost will be capitalised & Step 4 & 5 not required to be calculated.

AS-5 Net Profit or Loss for the period, Prior period items, changes in Accounting Policies.

Objective:- Classification & Presentation of items in P&L, accounting treatments for changes in Acct. Policies & Est.

P&L → for a particular period (1/4 to 31/3)

↓

All items in P&L should be for the same period, unless otherwise required by AS-5. i.e. Prior Period Adjustments.

P&L

- Ordinary Items
  - Normal Items → No separate disclosure
  - Exceptional Items. → Material items by size or Nature or Incidence. → Separate Disclosure.
- Extra Ordinary Items (EOI) → Distinct from ordinary activities of Business. EOI determine by Nature & not by occurrence. e.g. Loss by fire, theft, Natural calamity, Loss due to enemy attack, Attachment of property by Tax Authority.
- Prior Period (PPI) Items. → Errors or omissions of prior period arising in current year. → Separate disclosure.

Refund of Govt Grant, etc.
↓
Separate disclosure is required.

Exceptions to Prior Period Items.

i) Arrears of wages or salary or Retrospective increase in wages or salary due to court's order or management discretion, paid during current year.

ii) Changes in Accounting Estimates.

P/L	
NPBT	xx
(±) Adjustments for	
a) Exceptional items xx	
b) EOI xx	
c) PPI xx	xx (xx)
NPBT after adjustments.	xx

Acct. Estimates.

eg. Life of asset, scrap value, NRV, Provisions, Dep^n method, etc.

Acct. Est → are made on situation or cond^n existing at the time preparing Finan. stats.

If cond^n change in future, Acct. Est. needs to be changed. Such a change in Acct. Est. is not a PPI or EOI by Nature.

Prov. for tax = 100 → Dr. ord. item.

120/20 effect of change Dr. P/L → ord

The effect of change shall be classified in P&L using the same classification for the estimate.

Acct. Policy changes.	i) New trans. introduced in enterprise, new Acct. Policy adopted, is not a change in Acct policy.
Law or As or Management	ii) A New trans. replaces an old one, new policy adopted for new trans., is not a change in Acct. policy.

AS-9 Revenue Recognition.

Timing of Recognition & situation in which revenue recognition is postponed.

Revenue → Gross inflow of cash, receivables or other consideration, arising
→ in ordinary activities of the business.
→ From sale of goods, provision of services & from use of enterprise resources by others yielding interest, royalty & dividend.

Scope As-9 does not apply on:-

i) Revenue from Const^{n} contracts (As-7)
ii) —u—ıı— Govt. Grants (As-12)
iii) Revenue from Leases (As-19)
iv) Insurance Revenue from contracts with customer (IRDAI)
v) Gains realised or unrealised on Assets.

Recognition of Revenue.

i) **Sale of Goods** → Check Performance obligation of seller.

↓

when it is met, recognise the revenue. i.e. the risk & rewards incidental to ownership of goods are substantially transferred to the buyer.

ii) Provision of services.

Services.

Divisible services	Indivisible services.
↓	↓
Revenue recognise on Proportionate completion method.	Rev. recognise only on completion of service.
Revenue & cost both get recognised so no violation of Matching concept.	Exp. on services incomplete on the Bls. Date should be trfd. to WIP of service to avoid violation of Matching concept.

iii) Use of enterprise resources by others.

a) Royalty → on Accrual basis considering the terms of Agreement.

b) Interest → on Accrual basis.

Dls. Amt. × Rate × $\frac{\text{Dls. Period}}{12/365}$.

c) Dividend :-

i) Interim → Cash basis.

ii) Final → Recognise revenue only when the Right to Receive dividend is established.

↓

when declared in AGM.

*Exception :- Holding Co. will recognise final div. from subs. Co. when it's proposed in B.O.D. meeting.

22-23 & 24-25

J.K. SHAH ONLINE a Veranda Enterprise

* **Uncertainity of collection**

i) existing at the time of recognition of revenue, postpone the recognition till the uncertainity exist.

ii) arising after the recognition of revenue, create provision for doubtful debts for the amt. uncertain to be collected.

Special cases.

1) consignment sales → when goods are sold by consignee.
2) C.O.D. sales → Cash is collected.
3) conditional sales → when conditions are satisfied
4) Sale on Approval basis. → Recognise revenue at the earlier of:-
   a) Acceptance given by buyer or
   b) Expiry of acceptance period.

5) * Delivery of goods delayed upon buyer request.
   → Recog. revenue if
   a) Billing & Goods accepted buyer. &
   b) Goods are distinctly identified by seller- &
   c) Goods are readily available for delivery.

AS-20 Earnings Per Share (EPS)

$P/E = \frac{MPS}{EPS}$ $\quad MPS = PE \times EPS.$

EPS.

BEPS ✓ DEPS.

$BEPS = \frac{\text{NP attributable to Eq. sh. holders}}{\text{Weighted Average No. of Equity shares (WANES).}}$

NPBT	xx
(±) Adjustments for	
Exceptional items	
Extra Ord. items	xx (xx)
Prior Period items	
NPBT after Adj.	xx
(-) Tax	(xx)
NPAT	xx
(-) Pref. Div	(xx)
NP available for ESH.	xx

10000 × 9/12 = 7500

1/5 to 31/3

10.5/12

25/5

116.

FV = 10 → 10,000

FV = 5 → 20,000

20000 × 5/10 = 10,000 Equivalent sh. of ₹10

FV = 10 , PV = 6 @ 20000 sh.

$\frac{20000 \times 6}{10}$ = 12000 sh.

e.g. On calⁿ of WANES.

1/4/23 100,000 sh. of ₹. 10 each fully paid up.

1/4/23 150,000 sh. of ₹ 5 — " — " —

1/7/23 Bonus shares in ratio 1:2

1/10/23 50,000 shares issued of ₹ 10 each, ₹ 6 paid up.

1/2/24 Final call of ₹ 4 was made & paid by 40000 shares only.

Calculate WANES?

Soln Calⁿ of WANES.

$100,000 \times \frac{12}{12}$ = 100,000

(+) $150,000 \times \frac{5}{10} \times \frac{12}{12}$ = 75,000

(+) $\left(100,000 \times \frac{1}{2} \times \frac{12}{12}\right)$ = 50,000

(+) $\left(150000 \times \frac{1}{2} \times \frac{5}{10} \times \frac{12}{12}\right)$ = 37500

(+) $50000 \times \frac{6}{10} \times \frac{4}{12}$ = 10,000 (Oct to Jan.)

(+) $40000 \times \frac{2}{12}$ = 6,666 } Feb. & Mar.

& $10,000 \times \frac{6}{10} \times \frac{2}{12}$ = 833 }

WANES. 79,999

Restatement of EPS.

Current year → Bonus, split, consolidation, Right issue.

CY EPS not comparable to EPS of previous period.

20-21	21-22
NP = 200,000	NP = 250,000
WANES = 50,000	Bonus = 1:1 = 50,000
BEPS = 200,000 / 50000	WANES = 50000 + 50000 = 100,000
= ₹4	BEPS = 250,000 / 100,000 = ₹2.5

Restate BEPS of 20-21

BEPS = 200,000 / 50000 + 50000 = ₹2

1/4 to 3/6 Bonus?

1/7 → Bonus

Right issue.

$$\left.\begin{matrix}\text{Theoratical Ex} \\ \text{Right price}\end{matrix}\right\} = \frac{\text{Fairvalue of Existing shares} + \text{Proceeds from Rights}}{\text{Total No. of Eq. shares.}}$$

$$\left.\begin{matrix}\text{Bonus Element} \\ \text{Right Factor}\end{matrix}\right\} = \frac{\text{Fair value of shares prior to Right}}{\text{Theoratical Ex - Right price}}$$

1.04
1.05

Soln

2016

NP = 1100,000

WANES = 500,000

$\therefore$ BEPS = $\frac{1100,000}{500,000}$ = ₹2.2

2017

NP = 1500,000

Theoratical Ex Right price } = $\frac{500,000 \times 21 + 100000 \times 15}{600,000}$

= $\frac{1,20,00,000}{600,000}$ = ₹20

Bonus Element = $\frac{21}{20}$ = 1.05

WANES* = $\left(500,000 \times 1.05^{*} \times \frac{2}{12}\right) + \left(500,000 + 100,000\right) \times \frac{10}{12}$

= 87500 + 500,000

= 587500

BEPS = $\frac{1500,000}{587500}$ = ₹2.55

Restated BEPS for 2016.

BEPS = $\frac{1100,000}{500,000 \times 1.05}$ = ₹2.10

DEPS. → If presence of Potential Eq. sh.

↓

eg. Convt. Debt. & Pref. sh.
Share options & warrants
Contingent shares.

$$DEPS = \frac{\text{Adjusted NP available for ESH}}{\text{WANES including potential Eq. sh.}}$$

Adj. NP.

i) w.r.t. Convt. Debt.

NP for ESH	xx
(+) Int. on Debt	xx
(-) Tax lost on Int-saved	(xx)
Adj. NP	xx

ii) w.r.t. convt. pref.

NP for ESH	xx
(+) Pref. Div.	xx
Adj. NP.	xx

→ In case of Convt. Debt & Pref. sh. all the Eq. sh. issuable on conversion are potential shares.

→ Option & warrants, only the Bonus element shares are potential shares.

$$\text{Shares if issued @ Fair value} = \frac{\text{Proceeds from options}}{\text{Fair value.}}$$

Potential Eq. sh. = Shares issued under options
(-) Shares issued at Fair value.

Sol 17 $\quad BEPS = \dfrac{1200,000}{500,000} = ₹2.40$

DEPS.

Shares if issued @ Fair value $= \dfrac{100,000 \times 15}{20} = 75000$ sh.

$\therefore$ Potential Eq. sh. $= 100,000 - 75000 = 25000$ sh.

Adj. NP = NP for ESH $= ₹1200,000$

$\therefore$ DEPS $= \dfrac{1200,000}{500,000 + 25000} = ₹2.29$

AS-17 Segment Reporting.

↓

Disclosing segment Information.

↓

Distinguishable component of an enterprise.

↓

A separate part of enterprise having its own operations & finances.

Titan
Fastrack
Tanishq
Eye plus
Taneira
} B.S.

Segments.

Business segment
↓
on the basis products & services

Geographical segments.
↓
on the basis of locations.

Primary & secondary

↓ ↓

Detailed Disclosure — Brief Disclosures.

↓

Segment Report

→ segment which Pre-dominantly affects the risk & rewards of the enterprise.

Para 27 → Materiality Test. for Reportable Segment

Any 1 out of 3 Test to be satisfied.

a) **Revenue Test.**

Segment Revenue ≥ 10% of Total segment Revenue.

Internal & External Revenue both.

A 100 ✓
B (80) ✓
C (20) ✓
D (50) ✓
E 15 ✓
F 15 ✓

b) **Result Test** (Profit or Loss Test)

Segment Result ≥ 10% of Higher of
a) Total Profits in all segments
or
b) Total Losses in all segments.

Consider the losses as an absolute number.

150 × 10% = 15
130

c) **Asset Test**

Segment Assets ≥ 10% of Total Segment Assets.

Exclude DTA

Para 28 → Allows Management to consider any segment as Reportable even if it has not satisfied Para 27 cond^n.

Para 29 → Overall Test

Total External Revenue from all Reportable Segments ≥ 75% of the Total Enterprise Revenue.

If 75% threshold is not satisfied then management will consider few more segments as reportable even if they have not satisfied Para 27 cond^{n}, to satisfy 75% limit.

AS-26 Intangible Asset

IA → An identifiable, non-monetary asset, without physical substances, used in production, providing services, rental to others & for admin. purpose.

eg. Patents, Goodwill, copyright, T.M., Brands, Franchise, Licences, softwares, etc.

Recognition criteria :- All the 3 cond^{n}

i) Probable future economic benefits.
ii) Control of Enterprise (Legal control)
iii) Cost can be measured reliably.

Measurement of IA

- Initial measurement
  - ↓
  - on the date of Acq^{n}
  - ↓
  - Original cost
- & Subsequent measurement
  - ↓
  - on the Bls. Date.
    - Cost model
    - Revaluation model.
      - ↓
      - Same as AS-10.

Initial measurement of IA.

i) Separate Acq^n

Cost = Purchase price
(-) T.D.
(+) Non-Refundable Purchase taxes
(-) Refundable Purchase taxes
(+) Any cost attributable to bring the IA to its present condition.
↓
Legal fees, Professional fees, Installation, Stamp duty, Registration.

ii) Acquired by issue of shares or securities.

Cost = FV of the shares or securities issued.

iii) Acquired by exchange of another asset.

Cost = FV of the asset given up or
FV of the IA taken up,
whichever is more clearly evident.

iv) Acquired through Govt. Grant.

at free of cost → nominal value.
at concessional rate → concessional rate.

v) Acquired under a Scheme Amalgamation.

Cost = FV of the asset, only if it meets recognition criteria.

vi) Self Generated IA

eg. Goodwill, Brand, T.M.

Cost = Nil

So such IA are not recognised in the finan. stats.

vii) Self Generate I.A. in the process of Research & Development.

→ Research cost cannot be capitalised as an I.A., so charge to P&L A/c in the period in which its incurred.

→ Development cost can be capitalised as an I.A. only if it satisfies the Para 44 conditions i.e. recognition criteria.

a) Technical feasibility &
b) Ability &
c) Intention &
d) Future economic benefit i.e. Active market &
e) Resources → Finance, Technology, material, man power &
f) Cost of development can be measured reliably.

If above all the cond^{n} are not satisfied then the development cost cannot be capitalised.

Amortisation.

→ Life of IA ≤ 10 yrs., but a longer life can be justified.

→ Systematic allocation → Method of Amortisation

to be followed should reflect the pattern in which future economic benefits are expected from the IA. If pattern cannot be determined then follow SLM.

→ Review the life of IA at each B/S. Date as well the pattern of benefit. If the life of IA has changed, the charge of Amtⁿ will be revised & if the pattern of benefit changes, then method of Amtⁿ should be changed. Such a change is a change in Acct. Est. as per As-5 requiring prospective effect.

→ Residual value, its rebutabbly assumed to be Nil.

Cases where Residual value ≠ Nil

i) Binding sale Agreement, Residual value = Agreed Price.

ii) Presence of Active market for IA at end of useful life } Residual value } = Est. MKt price

Subsequent Expenditure: If such Exp. increases the efficiency of asset beyond its orginal efficiency or capacity, Capitalise to the cost of IA or else charge to P/L.

De-recognition of IA.

a) on disposal → Sale, exchange, donate, finance lease.

b) when no future economic benefit is expected either from use or sale of IA.

Any Gain / Loss on de-recognition of IA will be recognised to P&L A/c.

Disclosures ⇒ same as AS-10.

AS-10 Property, Plant & Equipment.

PPE → An Asset held for
production of goods,
provision of services,
Rental to others,
Admin. purpose.

eg. Machine, Land, Bldg, Computer, Furniture, etc.

Scope :- AS-10 does not apply.

1) Biological Assets → Living Animal & Living Plants except Bearer Plant.
2) Rights to explore & extract Minerals, Oils, Natural gas, etc. (Wasting asset)
3) Assets held under Finance Lease (AS-19)

Recognition criteria → 3 cond^n

1) Control
2) Future economic benefits
3) Cost can be measured reliably.

Measurement criteria.

- Initial
  - ↓
  - on the date of Acq^n
    - ↓
    - At original cost
- Subsequent
  - ↓
  - on the Bs. date.
    - Cost
    - Reval^n

Initial Measurement

i) Separate Acquisition.

Cost =	Purchase price	xx
(-)	Trade Disc.	xx
(+)	Non-Refundable taxes	xx
(-)	Refundable	(xx)
(+)	Cost directly incurred to bring the asset to present cond^n & location	xx
		xx

AS-7 Construction Contracts.

↓

Long term contracts.

↓

Revenue Recog. in the books of contractor.

AS-7 follows Percentage of Completion Method (PCM) for recognition of revenue & cost.

2 types of contracts.

Fixed price contract | Cost plus contract.

PCM → stage of completion.

↓

Cost to cost Method to determine the stage of completion i.e. PCM.

$\frac{20}{100} \times 100 = 20\%$

$$PCM \rightarrow \frac{\text{Cost incurred till date}}{\text{Total Est. cost}} \times 100$$

Recognition of Revenue, Cost, Profits & Losses.

Revenue.

a) Agreed contract price
b) Escalation claims.
c) Reimbursement of cost.
d) Variations in work
e) (-) Penalties for delays.
f) (+) Incentives for early completion.

Cost.

1) Material, Labour, OH
2) Dep^n on Plant & Equip.
3) Insurance, Hire charges.
4) Transport charges. etc.

Exclusions from cost

1) General & Admin. OH
2) selling cost
3) Dep^n on idle assets.
4) R&D (AS-26)

a) **when the outcome of the contract can be measured reliably.**

- Rev. & Cost are recognised on PCM basis.
- PCM → $\frac{\text{Cost incurred till date}}{\text{Total Est. cost}} \times 100 = \%$
  - ↳ (cost till date + further Est. cost)
- Revenue to be Recognised = (Total Est. Revenue × % of completion) (-) Revenue already recognised
- **Est. Result of the contract (i.e. Profit or Loss)**

Est. Profit or (loss) = Total Est. Revenue (-) Total Est. cost

= +ve or -ve

+ve → Profit → Recognise the proportionate profits arising each year to P&L.

-ve → Loss → Recognise the total loss in the 1st year itself by creating provision for losses.

Prov. for loss = Total EST. loss (-) Current year loss.

↳ (Revenue − cost for

the year)

b) When the Outcome of the Contract cannot be measured reliably.

Recognise the Revenue only to the extent of cost incurred.

AS-11 The Effects of changes due to Foreign Exchanges Rates.

1) Accounting for Foreign Currency Transactions.
2) Translation of Finan. stats. of Foreign Operations.
3) Accounting for Forward Exchange Contracts.

I) Foreign currency Transactions.

Initial recognition

→ Translate to Reporting Currency, by measuring at spot rate of exchange.

→ If volume of transactions are too high, consider Average rate of exchange.

→ * on date of settlement the exchange rates may be different, so gain / loss arising due to changes in exchange rates will be immediately recognised to P/L A/c.

→ Unsettled items on the B/s. Date.

Monetary items	Non-Monetary items.
Translate to closing rates & the exchange differences to be recognised to P&L as Gain or Loss.	Remain at its original cost i.e. no effect for the exchange rate difference.

$10000 × 60 = 600000

1$ = 80

Treatment of Para 46A:

→ Applicable only in case of Long Term Foreign Currency Monetary items.

Long Term Foreign Currency Monetary Items.

Loans

Related to Depreciable Fixed Asset

↓

Exchange difference arising during the period, shall be Capitalised to the cost of Asset.

If Gain → (-) Asset

If Loss → (+) Asset.

Dep^{n} on Asset will be charged on the net value after above adjustments.

Others.

↓

Exchange difference arising during the period will be accumulated in a separate account known as FCMITDA. & amortise to P/L over the term of repayment

If loss → FCMITDA → Dr. i.e. -ve balance

If Gain → FCMITDA → Cr. i.e. +ve balance.

After amortisation to P/L the balance leftover is FCMITDA will be presented in B/s. under Reserves & Surplus as a +ve figure if gain or -ve figure if loss.

$\frac{100,000}{5} = 20,000$

100,000 − 20,000 = 80,000 Dr.

	Rs
FCMITDA	(80000)