MAY / NOV '2024

CA INTER – PAPER 1

ADVANCED ACCOUNTING

NEW SYLLABUS

AS CONCEPTS NOTE

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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, Consoloidation 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 (Amalgamtion) 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 eveything is available.

TABLE OF CONTENTS

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.

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:

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).

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.

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

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.

Definition of Inventory

Inventory is an Asset;
1. Held for sale in the ordinary course of business (FG)
2. in the process of production of such sale (WIP)
3. In the form of materials or supplies to be consumed in the production process or rendering of services (RM)

Inventories

Measurement of Inventory
Lower of COST or NRV
Whichever is lower

Cost Includes;
A. Cost of Purchase
B. Cost of Conversion
C. Bringing Cost

Net Realizable Value (NRV)

Estimated Selling Price
LESS
Estimated Cost of Completion
LESS
Cost necessary to make the sale

Cost of Purchase includes
A. Purchase price
B. Duties & Taxes (non-refundable)
C. Freight inward
D. Other expenses directly attributable to the acquisition UNTIL the goods reach the factory/godown
LESS
E. Duties & Taxes (Refundable)
F. Trade discount
G. Rebate
H. Other Similar Items

Cost of conversion
A. Direct Material and direct labour cost
B. Production Overhead
(i) VOH –> Based on Actual Production.

(i) FOH -> Based on Normal production capacity if actual output is less than normal capacity, else use actual output for OH recovery.

Bringing cost
Other Costs **necessary** to bring the Inventory to **present condition and location.**

EXCLUSIONS FROM COST
A. Interest cost subject to AS 16
B. Storage cost if incurred for Finished goods
C. SOH
D. Abnormal costs

AS 2 Is applicable for Inventories EXCEPT

1. Construction contracts (AS 7)
2. Financial Instruments (AS 13)
3. Biological assets
4. WIP of services

Cost Formula

Inventory is Not Interchangeable (Eg: Customised Inventory) → **Specific Identification Method**

Inventory is Interchangeable → **FIFO or Weighted Average,** *In certain cases ->* **Standard Cost Method or Retail Selling price Method**

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 seperately & will be included as part of cost for FG, however in certain cases where th FG itself falls below it's cost (i.e valued at NRV) then the RM used in these FG has to be revalued as it's 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

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

MACHINERY SPARES

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

DISCLOSURES

A. the accounting policy adopted to measure inventories including the cost formula used
B. The total carrying amount of Inventories Including classification as needed by the enterprise
Common classifications are
(i) RM and it's 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 derivate 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. *(Invt in shares are not considered here)*

Events OCCURING the after balance sheet date

" Events Occurring after the balance sheet date are those events both **favourable** and **unfavourable** that occur between the **balance sheet date** and the date on which financial statements are **approved** by the competent authority. "

Adjusting Events

Events which give **additional evidence** of a condition (or) situation of Assets (or) Liabilities on balance sheet date

Accounting Treatment

Adjust Corresponding Assets / Liabilities as on balance sheet date

Non – Adjusting Events

New Events relating to Assets (or) Liabilities on Balance sheet date (Eg : Fire after 31st march, new merger deal after 31st march etc)

Accounting Treatment

No Adjustment in Financial Statements, **However**

- if the amount (or) transaction is material and involves financial commitment, then disclose in the report of the approving authority (i.e. Director's Report)
- if the amount (or) transaction is material and is **AFFECTING GOING CONCERN**, then the event becomes an ADJUSTING event and treated just like an adjusting event (i.e. Fundamental Accounting Assumption is Affected)

Disclosure in Financial Statements

A. Nature of event &
B. An Estimate of the financial effect or statement that such estimate cannot be made.

Proposed Dividend adjustment

Proposed dividend is a Non – adjusting event, disclose only in Notes to Account.

Contingencies within the time scope of AS 4

Contingency is a condition or situation the outcome of which would be gain or loss is determined by occurrence or non-occurrence of one or more uncertain future events *(In detail in AS 29)*

Results in Loss

(Eg: probability of losing a legal case is high)

Treatment – Provide for Loss in Books of accounts

Results in Gain

(Eg: probability of Winning a legal case is high)

Treatment – No accounting in Books of Accounts (against concept of prudence)

Exception – If the Gain is VIRTUALLY certain. Then account it as it's no more contingency

AS 5 Net profit or loss for the period, prior period items & changes in Accounting Policies

Ordinary Activities

They are activities that are carried on by the enterprise as part of it's business and all **related** activities which are carried on in **furtherance** of **OR incidental** to **OR arising** from business.

Disclose Separately in the statement of Profit and loss every item of income/Expense whose nature is different **AND** size is material

Examples
1. Profit on sale of Inventory
2. Firing of employees
3. Loss on sale of unsold inventories during the year end

Extraordinary Activities

Items that arise from activities which are other than ordinary activities. These items are **usually non-recurring in nature**

Disclose Separately in the statement of Profit and loss in a manner that their **impact on the current profit or loss** can be perceived.

Examples:
1. Attachment of property of enterprise
2. Earthquake

Prior Period Items

Prior period items are income or expenses which arise in the current period as a result of **errors or omissions** in the preparation of financial statements of one or more prior periods

Disclose Separately in the statement of Profit and loss in a manner that their **impact on the current profit or loss** can be perceived.

Examples
1. Arithmetical errors
2. Misinterpretation of facts
3. Mistakes in applying accounting policies

Exceptional Items

These are not defined in AS 5 or Schedule III
Certain items of Income or Expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Examples

1. Litigation settlements
2. Disposal of long term Investments / Fixed Assets
3. Writing down Inventory to NRV as well as reversal of write downs
4. Restructuring activies of an enterprise and the reversal of any provision for the costs of restructuring (Eg : Merger)
5. Legislative changes having retrospective application (Eg : Retrospective change in labour laws)
6. Other reversal of provisions

Change In Accounting Estimate

Accounting estimates are amounts determined where **reliable** measurement **cannot** be made.
Accounting Estimate may change due to ;
1.Result of new information
2. Change in circumstances

Quantify the effect and disclose;
1.Effect on current year profits.
2.Effect on future profits

Examples
1. Change in useful life of asset
2. Change from WDV to SLM
3. Provision for bad debts.

Change in Accounting Policy

What is an Accounting policy **AND** when can you change and accounting policy – AS 1.
(Refer to AS 1)

Quantify effect of change and disclose;
1. Impact on current year profits.
2. Impact on Future profits.

Examples:
1. FIFO to Weighted Average
2. Revaluation Model to Cost Model.

What is not a change in Accounting Policy?

A. The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

B. The Adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions.

Note

Where Items of Income or Expenses within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, **the nature and amount of such items should be disclosed separately**

AS 7 Construction Contracts

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)

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)*

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**

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

Provision for expected losses

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

enforceable losses
Provision should NOT be made

AS 7 Construction Contracts

Percentage of Completion should not be used if the Outcome of Contract CANNOT be ascertained

How to Determine the Outcome of a Contract?

In case of a Fixed Price Contract

- Contract **revenue** can be **measured reliably**
- Probable that **future economic benefits** will flow to the enterprise
- Contract costs and **stage of completion** can be reliably measured
- Contract **cost** can be **clearly identified** and **reliably measured** for comparison with prior estimates

In case of a Cost plus contract

- Probable that **future economic benefits** will flow to the enterprise
- Contract **costs attributable to the contract** whether or not specifically reimbursable can be **clearly identified** and **Measured Reliably**

Final Output of the Contract

can be reliable Measured

- Revenue and costs recognized as per percentage of completion method **considering the stage of completion** of contract at reporting date.

Cannot be Reliably measured

- Revenue should be recognized **only to the extent of contract costs incurred**, of which recovery is probable
- Costs should be **recognized as an expense in the period in which they are incurred** AND An expected loss on the construction contract should be recognized as an expense immediately

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** & **recognized 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.

Recognition Criteria

General Conditions

1. No uncertainty in **Amount**
2. No uncertainty in **Ultimate Collection**

(if there is uncertainty? – deffer to the extent of uncertainty)

Specific Conditions

Use by others of Enterprise Resource

1. **Dividend** –> When right to receive is established (i.e. when declared)
2. **Interest** –> On accrual based on time propotion basis.
3. **Royalty** -> as per term's of agreement (Generally accrual basis)

Rendering of services

Service involving single Act (Completed Service Method) eg : Swiggy delivery

Service involves Multiple Acts (Percentage of completion method) eg : Wedding events

Sale of Goods

When the seller has transferred the **property** to the buyer for **consideration**.

And transfers significant **Risk** & **Rewards** to the buyer

Seller can record sales where delivery is delayed at Buyer's request & requests seller to hold goods if;

A. Goods are specifically identified & cannot be transferred to another customer
B. Delivery is delayed at Buyer's Request
C. Goods are ready to be delivered to the buyer.

Special Cases

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

The Following is not Included in the Term "Revenue"

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

Definition of PPE

A. Used in production (or) supply of goods (or) services,
B. for rental to others,
C. for administrative purposes,
D. Expected to be used for more than one period
E. Not held for sale in ordinary course of business.

AS 10 N.A to

1. Biological Assets
(eg : Living animals & plants) except **bearer plants**.

2. Wasteful assets
(Natural resources like iron ores)

What are Bearer plants? (Eg : Mango trees)

- It is used in production (or) supply of agricultural produce.
- It is expected to bear produce for more than 12 months.
- Has a remote likelihood of being sold as agricultural produce except for incidental scrap sale.

Cost of an Item of PPE

Includes

Purchase Price
It includes price paid to vendor for purchase of PPE (Including Non-refundable duties and Taxes and excludes trade discounts and rebates)

Any directly attributable costs
(Cost necessary to bring the Asset to the present condition and location, necessary for it to operate the way in which management intended it to operate)

Decommissioning, Restoration and similar liabilities
(i.e. estimated cost to dismantle the asset)

Includes
1. Cost of employee benefits (i.e. direct labour costs)
2. Cost of site preparation
3. Initial delivery and handling costs, installation & assembly costs.
4. professional fees
6. cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing that asset to that location & condition

Excludes
1. Cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
2. Initial operating losses
3. Cost of relocating or reorganising part or all of the operations of an enterprise

Excludes

- Cost of opening a new facility or business. (inauguration costs)
- Cost of introducing a new product or service (including costs of advertising and promotional activities)
- Cost of conducting business in a new location or with a new class of customer (including staff training costs)
- Administrative and other general overhead

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

- Items of PPE experience significant & volatile changes in Fair Value – **" Carry Revaluation every year"**
- Items of PPE experience insignificant changes in Fair Value – **" carry Revaluation once in 3-5 years"**

Accounting treatment on Revaluation

Revaluation Results in

INCREASE
Credit to revaluation surplus under owner's interest

Exception
when the PPE is subsequently **increased** after it was initially decreased, recognise the increase in statement of Profit and loss account to the extent of initial decrease.

DECREASE
Charged to Statement of profit and loss account

Exception
when the PPE is subsequently **decreased** after it was initially increased, recognise the decrease in Revaluation reserve to the extent of initial increase and debit the balance in statement of profit & loss account.

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

When the Item of PPE is;
- Retired
- Disposed

Some of the surplus may be transferred when the asset is used by the enterprise –> Amount transferable would be ;
[Depreciation based on revalued amount – depreciation based on original cost**]**

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

On disposal of asset by means of;
- Sale
- Entering into a finance lease (or)
- Donation

When no Future economic benefits are expected from it's use (or) disposal

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 of 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 typres 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

Foreign Currency Transactions

Any Transaction denominated in foreign currency

- **Recognition** (i.e. when will I record in the books)
  - Recognize on **"Date of transaction"**
  - On Balance Sheet Date
  - On Settlement date
- Measurement (i.e. at what value will I record the same?)
  - Measure using **"exchange rate on date of transaction"**
  - Measure using **Closing Rate ***
  - Measure using **"exchange rate on date of settlement"**

Initial Recognition

Subsequent Recognition (Monetary Items Only)

Exchange difference arising on Subsequent Recognition -> **CHARGED TO P&L**

* 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

Foreign Operations

Types of Foreign Operations ;

1. Integral Foreign Operations (Dependent Branches)
2. Non-Integral Foreign Operations (Independent Branches)

Foreign Exchange Contracts

- Intended for trading purpose or speculation
  - Premium or discount arising on the contract is ignored
  - At each BS date the contract is marked to market and loss / gain is recognized in P&L
  - Also, The profit or loss arising between the Selling price and Purchase price of the contract is recognised.
- Not intended for trading purpose or speculation (i.e. Hedging)
  - Premium or discount arising at the Inception of such forward contract should be amortized as income or expense over the life of the contract

AS 11 The effects of changes in Foreign Exchange Rates

Important Definitions

Term	Definition
Exchange rate (ER)	Home currency per unit of foreign currency
Home Currency	Currency in which FS are prepared
Foreign currency	Other than Reporting currency
Closing rate	ER on Balance sheet date
Average Rate	(Closing rate + Opening rate) / 2
Monetary Items	Are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. (Trade receivables , Trade payables , BR/BP , Bank loan etc.)
Non-Monetary items	Assets and liabilities than monetary items (E.g. : FA, Investments, Inventories) Carried at either historical Value (or) Fair value

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&l
or
2. Adjusted with the cost of the asset.

Option once exercised is IRRECOVECABLE.
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.

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AS 12 Accounting for Government Grants

Grant Definition:

* Refers to any assistance from government in cash (or) in kind

Government includes:

1. State and central government
2. Government department and agencies
3. Other similar bodies whether local, National (or) International

Grant does not include:

1. Assistance in form other than grants (e.g. Tax Exemptions)
2. Government participation in ownership of enterprise

Types of grant

Monetary Grant (Cash)

Debit: BANK

Grant in the nature of promoter's Contribution
CREDIT: Capital Reserve

Grant for Specific Fixed Asset

Depreciable Fixed Asset:
CREDIT: Cost of Fixed Asset
(or)
Deferred income method

Non-Depreciable Fixed Asset:
CREDIT: Capital reserve
(or)
CREDIT: Cost of fixed Asset

Revenue Grant
CREDIT: P&L Account
(or)
Reduce from Expense

Non-Monetary Grant (Kind)

Concessional Grant:
DEBIT: Asset
CREDIT: BANK
(At concessional value)

Free of Cost
DEBIT: Asset
CREDIT: Capital Reserve
(At Nominal Value)

Refund of Grant:

DEBIT whatever was CREDITED earlier,
Balance to be credited to income statement.

Note: Post refund, provide depreciation PROSPECTIVELY

Conditions for Accounting:

1. Reasonable assurance that enterprise will comply with the conditions attaching to it.
2. The Grant will be received.

AS 13 Accounting for Investments

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 om 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

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 *(Cum - Price inclusive of Dividend/Interest)* *(Ex - Price excluding Dividend/Interest)*	if investment is purchased at Cum-Rights and later on the MV of such investments after becomimg Ex-rights is reduced below cost, reduce the amount received on sale of rights until the CV is equal to MV.

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

AS 13

AS 15 Employee Benefits

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

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)

Salary and wages

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

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 Employee Benefits

Short term Compensated Leaves (Paid leaves)

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

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 unitlized leaves

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

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*

AS 15 Employee Benefits

Post employee Benefits

Defined Benefit Plan

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)**

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.

Key Terms under PUCM Method

1. **Current service cost** : It is the yearly present value of acturial 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 cummulatively 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 acturial 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 **(Cummulative balance)**	XXX
5. (-) Benefits paid	XXX
6. +/- Changes in Acturial Assumptions	XXX
7. Closing Liability (Acturial Assumption)	**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**

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 Acturial Assumptions	XXX
7. (-) Gain on curtailment	XXX
8. Changes in return on assets	XXX
9. Total expenses debited to Pnl Account	**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 16 Borrowing Costs

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Borrowing Cost → Definition of Borrowing Cost → Definition of Qualifying Asset → Yes → Additional Conditions of Capitalization → Then → Capitalize the **Borrowing Cost** if it is related to Acquisition or construction or production of **Qualifying assets**

Borrowing Cost includes:

1.Interest

2.Commitment charges

3.Amortization of premium or discounting charges

4. Amortization of ancillary costs related to borrowing

5.Finance charges in a finance lease

6.exchange difference on foreign currency borrowing to the extent attributable to interest

(Refer note "C" below)

Definition of Qualifying Asset: Qualifying asset means an asset **which necessarily takes substantial period** of time to get ready for intended use (or) sale.

General Conditions

1. There should be future Economic benefits
2. Costs should be reliably measured

Specific Conditions for commencement of capitalization (Capitalise only if all 3 are MET)

1. Borrowing cost should be incurred
2. Expenditure should be incurred
3. There should be Activity on the Qualifying asset *(Physical, technical or administrative activity)*

Measurement of Borrowing Cost

Specific Borrowing : Capitalize Actual borrowing cost incurred

General Borrowings : Capitalize at WACB **(Weighted average cost of borrowing).**

Note A: Reduce income from short term Investments If any for specific borrowing

Note B: This standard is not applicable for owners funds, However it's applicable in cases where preference shares are classified as a liability

Suspension of Borrowing Cost

<u>Avoidable Suspension:</u> Borrowing Cost Should not be capitalized

<u>Unavoidable suspension:</u> Borrowing cost should be capitalized

<u>Cessastion</u>

Cease capitlisation when asset is substantially ready. However, Where borrowing cost comprises of multiple assets and where some assets are ready and capable of independent use stop capitalisation for assets which are ready for use.

<u>Disclosure</u>

A. Total Borrowing cost incurred

B. LESS: Borrowing cost capitalized

C. Borrowing cost recognized as expense (A-B)

D. Note : AS 16 is applicable in cases where preference shares are classified as a Liability.

Note C: Foreign exchange gain -> Credited to PnL
Foreign exchange loss -> **Lower of;** Actual exchange loss (or) difference between interest on local currency borrowings and interest on foreign currency borrowings

AS 17 Segment Reporting

How to identify number of segments for an entity → Identification of Reportable segments → How many of these identified segments are to be reported ? → Apply Test for Reportable Segments

Business 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.**

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

Geographical Segment

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 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 17 Segment Reporting

Segment Revenue

Includes :
1. External Revenue
2. Internal revenue
3. Common revenue allocated on a reasonable basis

Excludes :
1. Extraordinary items as per AS 5
2. Interest , Dividend etc. unless operations are of Financial Nature (E.g. : Banks)

Segment Expenses

Includes :
1. Expenses incurred through external transactions
2. Expenses incurred through internal Transaction
3. Common expenses allocated on a reasonable basis

Excludes :
1. Extraordinary items as per AS 5
2. Interest , Dividend etc. unless operations are of Financial Nature (E.g. : Banks)
3. Income tax (Corporate item)

Segment Assets

Includes :
1. Assets which are directly identifiable with the segment
2. Common assets allocated on a reasonable basis.

Excludes :
1. Income Tax (e.g. : Advance tax , Outside investments)

Segment Liabilities

Includes :
1. Liabilities arising from external transactions directly attributable to business (E.g. : RM Payables)
2. Common liabilities allocated on a reasonable basis

Excludes :
1. Corporate items (E.g. : provision for tax , dividends , Debentures etc.)

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AS 18 Related Party Disclosures

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

“ All Related party Relationships where there is Control ”

Disclose what ?

- Name of the Related Party
- Nature of relationship

Note: Disclose even if there are ZERO transactions

All Related Party Transactions

Disclose what?

- Name of Party
- Nature of Relationship
- Nature of Transaction
- Amount – Either value (or) proportion.
- Amount O/s (Receivable/payable)
- Amount written off (or) written back
- Any other material information for better understanding of financial statements.

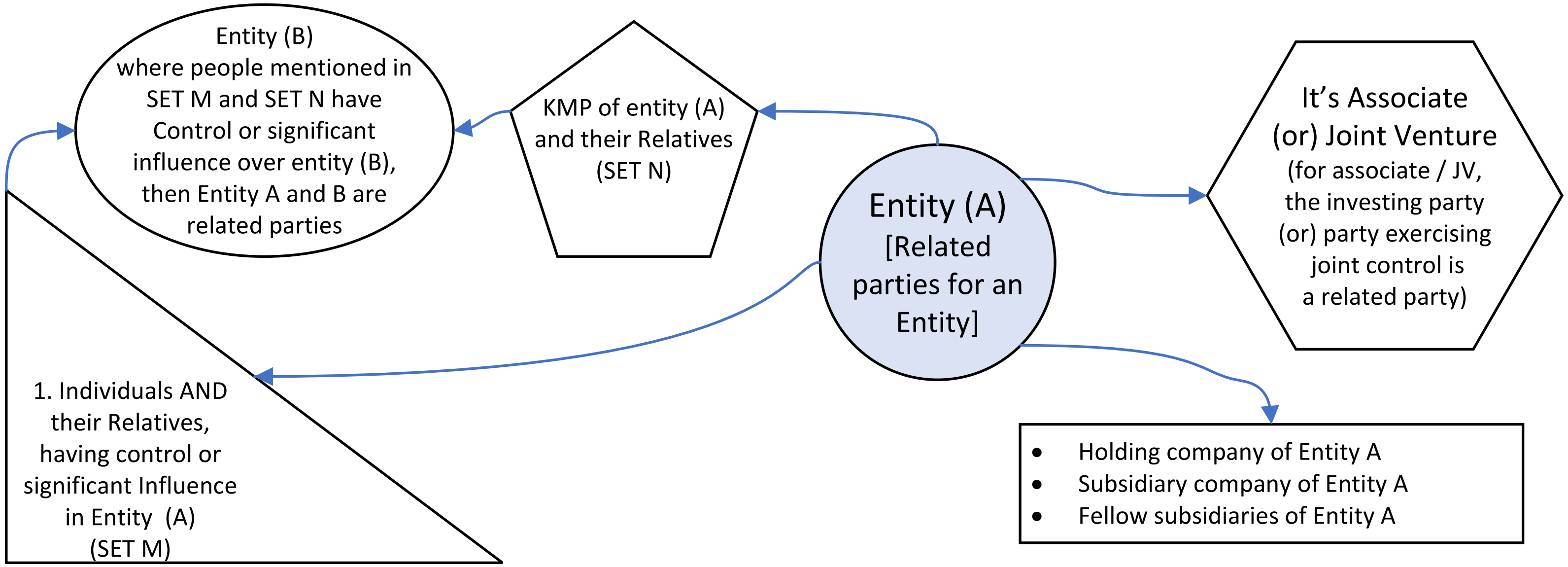
Exemptions from Disclosures in AS 18

1. Intra – Group relationships/ transactions in the case of consolidated financial statements.
2. Transactions between 2 state controlled enterprises
3. 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.

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)

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.**

Interest rate Implicit on Lease
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_

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)

Residual Value

Guaranteed Residual Value
Amount **agreed** to be paid at the end of the lease period **either** by lessee (or) a third party.

Unguaranteed Residual Value (UGRV)
Difference Between Residual value (RV) and Guaranteed residual value (GRV)

Minimum Lease payments (MLP)

MLP From standpoint of Lessee
Aggregate of payments during the lease period and **GRV** from lessee

MLP From standpoint of Lessor
Aggregate of payments during the lease period and **GRV** from lessee (or) any **third party**

Unearned Finance Income (UFI)

Gross Investment in lease (GIL) – PV of Gross investment in lease (PV of MLP from standpoint of lessor + PV of UGRV)

Gross Investment in Lease (GIL)

Gross investment in Lease (GIL) = MLP from standpoint of lessor + unguaranteed Residual value (UGRV)

Net Investment in Lease (NIL)

Gross Investment in lease (GIL) – Unearned Finance Income (UFI)
[Value at which asset is recorded in books of lessor at the inception of lease]

Initial Direct Costs

Costs such as Commissions, legal fees, **incurred by lessor** in negotiating the lease – These are immidiately recognised in PnL or Amortised over the lease term against the finance income

Accounting for Profit/Loss on Sale and Lease back Transactions (SLB)

SLB transactions results in a Finance lease
The profit/Loss should be treated as **Revaluation profit/Loss** and should **NOT** be recognised in Pnl Account.
The Gain/Loss should be deferred and **amortised** over the lease period in the same proportion of depreciation

SLB transactions results in a Operating Lease

1. Profit / Loss should be recognised in PnL Account.
2. However, if the sale is at **other than** fair value then;
A. Profit/Loss upto FV –> Should be recognised in PnL Account

B. Profit/Loss beyond FV –> Should be deferred and amortised over 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)

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**.

V

(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 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)*

Disclosures by LESSOR
1. A Recon between Gross investment in leave 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

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

Note 1

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

(#) : Cumulative preference shares: Deduct whether dividend Is declared or not
Non-cumulative preferences 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:

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

2. Ascertain rights adjustment factor:

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

3. Apply rights adjustment factor to the opening shares

4. Compute WANES

Computation of Diluted EPS

$$\text{Diluted EPS} = \frac{\text{Profit available to Equity shareholders (after adjustment for diluted earnings) } \textit{(Note 1)}}{\text{Average number of weighted equity shares outstanding during the period } \textit{(assuming the conversion of diluted potential equity shares} \text{ (Note 2)}}$$

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, Equioty 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".

AS 22 Accounting for Taxes

Timing Difference

Permanent Timing Difference

Differences between taxable Income and Accounting income for a period that originates in one period and **do not reverse** subsequently
Eg: fine for Late payment of tax

No Need to create DTA / DTL

Temporary Timing Difference

Differences between taxable Income and Accounting income for a period that originates in one period and are **capable of reversal** in one or more subsequent periods.

Where Taxable Income < Accounting Income = Create DTL ***(Eg: Higher depreciation in IT books)***

Where Taxable Income > Accounting Income = Create DTA (Eg: Interest Not paid U/s 43B)

Items contributing to DTA

Unabsorbed Depreciation or Carried forward business loss -> Create DTA only if **virtual** certainty exists

Other items -> Create DTA if **reasonable** certainty exists

Note : The carrying Amount of Deferred Tax ASSET should be reviewed at each balance sheet date

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

*1. **Accounting Income** = Net profit or loss for a period, as reported in the statement of profit and loss account before accounting for Income Tax.*

*2. **Taxable Income** = Amount of Income determined as per Tax laws based on which Income tax payable is determined.*

1. DTA / DTL **Should NOT be** discounted to their present value

Measurement

2. Current Tax = Measure using existing Tax rates

3. deferred Tax = Measure using enacted Tax rates as on the Balance sheet date (Unless different rates are proposed in Budget -> Use such announced rate.

Disclosures & Offsetting

1. Disclose seperately in Balance sheet under a separate heading

2. An enterprise can offset DTA with DTL if ;

A. The enterprise has legally enforceable right to set off assets against liabilities representing current tax

B. DTA & DTL relate to taxes on income levied by the same governing tax laws.

TAX Holiday

1. This is the period during which Income tax payable is NIL, Hence

2. Timing difference originating and reversing in Holiday period – IGNORE (No need to create DTA/DTL) AND

3. Timing difference reversing in Tax holiday period – IGNORE.

4. Timing difference originating and reversing in period other than holiday period – Create DTL/DTA

MAT

1. Mat is in the nature of Penal tax

2. Payment of a higher amount where Normal tax is Nil or Zero

3. Deferred Tax should be computed only on the basis of Normal Tax and not on the basis on MAT

AS 24 Discontinuing Operations

Discontinuing operation is a **Component** of the enterprise, that the enterprise pursuant to a single plan is;

A. Disposing off "**Substantially in its entirety**" the component through a single sale transaction by demerger (or) spin off (or) hive off the component to the enterprise shareholder.

B. Disposing off the **component assets** in a piecemeal manner and settling the liabilities individually.

C. Termination by **abandonment**

That represents a **Major** line of business (or) geographical area of operations AND that is identified separately for **operating** AND **financial Reporting** purpose.

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.

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AS 26 Intangible Assets

Asset
Asset is a resource arising from past events which is **controlled** by the enterprise from which future economic benefits are expected
(Higher income, savings in cost or both)

Intangible Asset
it is an IDENTIFYABLE non-monetary asset **without physical substance** held for use in production of goods, rendering of services (or) administrative purpose and not for sale

Recognition criteria (measure initially at cost)
1. There should be future economic benefits
2. The costs should be reliably measured

Internally generated Intangible asset – Classify into R&D Phase

Research and Development

Internally Generated Goodwill
It is not recognised as an asset in the books as it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

Research Phase
Original **Planned** investigation for gaining new scientific knowledge, design, process etc
(eg :Activities aimed at obtaining new knowledge, search for alternatives etc)

Development Phase
Application of existing knowledge of knowledge gained from research for deriving commercial benefit/future economics benefit

Intangible Items
Intangible items are ficticious assets, these have to be immidiately debited to Pnl Account unless they form part of cost of an intangible asset (Eg : Advertisement, preliminary expenses)

Accounting Treatment

Recognise as Expense, because while the expenditure is spent we are uncertain about development, subsequent success of research will not influence the accounting treatment

Capitalize Subject to the Following;
1. The Development is **technically feasible,** so that it can be sold later.
2. cost should be reliably measured
3. there should be future economic benefits
4. entity should have **intent** to putting it to **commercial use**
5. there should be availability of **technical, financial and other resources**
6. ability to use and sell the intangible asset

(eg : design, construction, testing of pre-production or pre-use prototypes or models, designing of jigs, moulds & dies involving new technology etc, operation of pilot plant, testing of chosen alternatives for new and improved systems, processes, materials and products.

AS 26 Intangible Assets

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, liencenses, 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.

AS 28 IMPAIRMENT OF ASSETS

Impairment Loss =

Carrying Amount (CV) Minus **Recoverable Amount (RV)**

No Impairment if RV > CV

Carrying Amount (CV): Original Cost (-) Accumulated depreciation (-) Accumulated Impairment if any *I.e. Book value of the asset or CGU.*

Recoverable Amount (RV): Higher Of

Net selling price
" is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties **less the costs of disposal"**

Value in Use
(It is the present value of the future cash flows expected to be derived from an asset or cash generating unit)

Non Applicability of AS 28

A. Inventories (AS 2)
B. Construction Contracts (AS 7)
C. Financial Assets including Investments (AS 13)
D. Deferred Tax assets (AS 22)

When to Test for Impairment ?

Internal Indicators

A. Evidence of **Physical Damage** & **obsolescence** of assets
B. **Economic performance** of asset is worse or will be worser than expected
C. **Adverse effect due** to ;
(a) Asset is idle
(ii) Discontinuing or restructuring of operation
(iii) plan to Disposal of asset or reassessing useful life

External Indicators

A. **Significant fall in market value** of the asset More than that expected in the usual passage of time.
B. Market interest rate increased significantly Leading to **increase in discount rate**
C. Adverse effect due to
(a) Technological changes (ii) Legal changes
(iii) Economic changes (iv) market changes
D. The carrying amount of the net assets of the reporting enterprise is more than its market capitalization.

Note : If an indicator is triggered, the remaining useful life, the depreciation method or the residual value has to be reviewed even if no impairment loss is recognized

AS 28 IMPAIRMENT OF ASSETS

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 it's 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

AS 28 IMPAIRMENT OF ASSETS

Accounting for Impairment Loss

Individual Asset

Charge to Revaluation surplus if available

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

Impairment for a CGU

What is Cash Generating Asset (CGU)?
-> Smallest Identifiable group of assets
-> Generates cash flows
-> Independently from other group of assets

CV of CGU - Recoverable Value of CGU

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

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

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.

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)

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.

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

<u>Allocated on a Reasonable & Consistent Basis</u> Perform **BOTTOM UP test ONLY**	<u>**CANNOT BE** Allocated on a Reasonable & Consistent Basis</u> 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 Annualy.
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
- cots 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.

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The classroom