CHARTS ON ACCOUNTING STANDARDS

Revise these Charts by watching Free Lectures of Rohan Sir on YouTube at "Contact Vsmart" Channel

Link: https://youtu.be/br62O_QgrxQ

AS 1 "Disclosure of Accounting Policies"

1. Accounting Policies Means

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

Selection of accounting policies is the responsibility of the management.

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

Primary consideration

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

Other Major consideration

Prudence

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

Substance over

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

Materiality

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

2. Fundamental Accounting Assumption in preparation of financial statements

Going concern

It is assumed that business would continue for foreseeable period.

Consistency

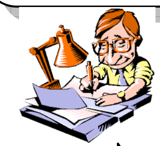
it is always assumed that same accounting policies would be followed every year.

Accrual Assumption

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

AS – 2 Valuation of Inventories (Chart)

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



Valuation of Inventory

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

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

Cost of Purchase

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

Cost of Conversion

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

Absorption of Factory Overheads

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

Example

Other Cost

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

Cost of inventory should be ascertained in following manner

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

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

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

Net Realisable Value of

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

3. Valuation of Raw Material

Its valuation is fully based on the valuation of Finished Goods

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

Examples →

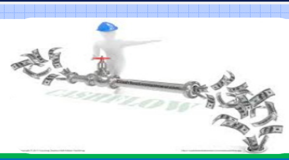
Or

4. Disclosure Requirements – The financial statement should disclosed

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

Cash Flow Statement

1. Cash Flow Statement Means



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

Cash Inflow/ Outflow from Operating Activity

These are the principal/ Main revenue generating activities of the enterprise.

Cash Inflow –

1. Cash Sales 2. Cash received from Debtors /Commission and Fees etc….

Cash Outflow

1. Cash Purchases. 2. Cash operating expenses. 3. Payment of wages/ Income Tax.

Cash Inflow/ Outflow from Investing Activity

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

Cash Inflow-

1. Sale of fixed assets 2. Sale of investment
3. Interest received
4. Dividend received

Cash Outflow

1. Purchase of fixed assets
2. Purchase of investment

Cash Inflow/ Outflow from Financing Activity

Activities that result in change in the size and composition of the capital (including Preference share capital in the case of a company) and borrowings of the enterprise

Cash Inflow-

1. Issue of shares/debentures 2. Proceeds from long term, short term Loans/ borrowings

Cash Outflow

1. Cash repayments of amounts of Loan. 2. Redemption of shares & debentures. 3. Interest Dividends paid

2. Presentation of Cash Flow Statement

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

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

Direct Method

Major classes of gross cash receipts & cash payments are disclosed.

Indirect Method

Reconciles from net income to cash provided by operating activities Indirect Method

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

3. *Disclosure Required*

- Components of Cash & Cash Equivalents
- Reconciliation of the amounts in CFS with amounts reported in Balance Sheet.
- Management comments on special areas.

AS 4 - CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET

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

Adjusting Events are

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

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

Example of Adjusting Events

Insolvency of customer - Conditions:

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

Exceptions to the rule of Non-adjusting event

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

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

Non-Adjusting Events are

If Conditions of Adjusting events not satisfied

Do not require adjustment of Assets or Liabilities.

Disclose Non - Adjusting events in report of Approving authority if significant (e.g., Board's Report)

What to disclose

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

Examples of Non Adjusting Events

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

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

Issues Discussed in AS-5

Presentation & Disclosure of

Ordinary Activities

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

Examples

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

Exceptional items (Ordinary Acitivities)

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

Examples -

-Profit /Loss on sale of Asset

- Theft of Cash/Stock

-Litigation Settlements

Disclosure

Ordinary Activities required Separate Disclosure of Nature and Amount

Extraordinary Activities

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

Examples

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

Disclosure

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

Prior Period Items.

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

Examples

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

Disclosure

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

Presentation and Accounting Treatment of

Changes in Accounting Estimates

A change in the estimated amount in any items of FS

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

Examples

Changes in the -

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

Disclosure

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

Changes in Accounting Policies

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

Allowed only if-.

-Required by Statute

- Required by AS or

- Leads to better presentation of FS.

Examples

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

Disclosure

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

AS 10 – PROPERTY, PLANT AND EQUIPMENT (PPE)

1. *Let us see "What is PPE"*

It is Tangible Assets

- **Expected to be used during more than a period of 12 months**
- **Held for use in**
  - **Producing Goods**

  - **Providing Services**

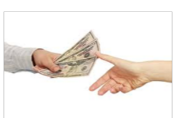
  - **Rental to others**

  - **For Administration Purpose**

2. *Recognition of Plant, Property and Equipments*

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

Initial Recognition & Measurement



Asset is acquired by

Payment of Cash/Credit

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

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

Self construction

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

Exchange with another assets & by issue of

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

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

Subsequent Recognition & Measurement

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

- Yes → Capitalise along with PPE

&

- No → Charge to P&L Statement

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

3.

Important Points

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

4.

Retirement of PPE

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

Replaced By

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

5.

Accounting disposal

COST Model

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

Revaluation Model & Revaluation surplus exist

Profit/Loss on disposal should be transferred to P&L;
After disposal, if any Revaluation surplus exists - transfer to General reserve (Revenue reserves)

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

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

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

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

This Standard guides in

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

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

Monetary items

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

Therefore following items are monetary items:

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

Non monetary items

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

Example :Prepaid expenses, Advances given to suppliers.

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

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

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

3. Currency

Reporting Currency - currency in which financial statements are presented.

Foreign currency - currency is other than the reporting currency.

4. Recording of Foreign currency transactions entered by the entity

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

5. Based on classification of foreign operation

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

  Difference - Transfer to P & L

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

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

  FCTR – Foreign Currency Transaction Reserve

6.

Types of Forward Contract

Forward Contract entered for its own purpose

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

Forward Contract entered for Trading/ Speculation

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

AS 12 - Accounting for Government Grants

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

Two conditions must be satisfied for recognition of Government Grant

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

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

1. Govt. Assistance /Grant in form of Cash

Grant Received - related to Specific Asset

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

Grant Received - related to Revenue Expenses

- Credit to P & L A/c as other income in a systematic basis (Matching Concept)

2. Govt. Assistance /Grant in form of kind

Received at Free of cost, Record at Nominal Value

Received at Concessional Price, Record it at acquisition Rate

Refund of Government Grant

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

Related to Revenue

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

Relating to promoters Related to Fixed Asset

Debit Capital Reserve

Related to fixed Asset

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

Disclosure under Accounting Standard - 12

- Accounting Policy followed for government Grants.
- Nature & Extent of Government Grants recognized in Financial Statement.

AS 13 - Accounting For Investments

1.

Investment is a

Asset (Not held as Stock in Trade)

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

2.

Recognition and Measurement of Investment

Initial Recognition

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

Subsequent measurement on BS date

Based on classification

Current Investment

Two conditions to be satisfied

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

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

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

Long term Investment

Which is not a current investment

Always valued at COST
Exception: Reduce carrying amount if

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

3.

Sale of Investments

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

4. Classification of Income from Investments

PRE Acquisition Income

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

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

POST Acquisition Income

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

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

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

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

Right Issue

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

Rights shares

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

Exception to the above rule - when the following two conditions are satisfied, the accounting treatment differs:
1. The investments must be acquired on cum-right basis; and
2. Market value of such investments came down below the cost of investment immediately after the issue of right shares;
(Under above 2 situations, income received by sale of rights is credited to investment account in cost column to bring the carrying amount to the market price.)

4. Disclosure

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

AS – 16 Borrowing Cost

This Accounting Standard Prescribes rules for accounting treatment for borrowing costs

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

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

1. Commitment charges

2. Amortisation of discounts/premiums on loan

3. Finance leases charges

4. Ancillary costs

5. Exchange differences arising from foreign currency borrowings

Let us see how to "Recognise Borrowing Cost"

Borrowing costs directly related to

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

Qualifying Asset → **Capitalise along with Asset**

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

What is Qualifying Asset......? → **Asset that takes a substantial period of time to get ready for Its intended Use or Sale**

Examples of Qualifying

A. Tangible - plant and machinery, Building
   Intangible Assets: Patent
B. Investment Property.
C. Inventories that require a substantial period.

Capitalisation of Borrowing Costs

The standard has given guidance on the following points:

Commencement of Capitalisation (When to start capitalisation)

When ALL of the following conditions are satisfied

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

Suspension of Capitalisation (When to suspend)

When there is NO active development or active development is interrupted.

Stop or cease of Capitalisation (When to stop)

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

How much amount should be capitalised?

If funds are specifically borrowed for obtaining a qualifying asset

Capitalization rate on basis of actual costs

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

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

Compute capitalisation rate based on weighted average rate of costs; total capitalization cannot increase actual borrowing cost incurred

Disclosures

The entity should disclose the following in its financial statements:

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

AS 17 SEGMENT REPORTING

1. Important Concepts

What is Segment Reporting?	Disclosure/Reporting of Information of product and Location of Entity based on Sales, Profit, Assets, and liabilities is known as Segment Reporting.
Core Element of AS – 17	Core Element of this standard is reporting more than Accounting
Why Segment Reporting?	To gives very good understanding of the company to the stake holders, so that stake holders can take informed decisions.

2. Types of Segment

Business Segment

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

Geographical Segment

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

3. Important Definitions

Segment Revenue	Direct revenue + Allocated + Inter segment {Except extraordinary items, finance income & Investment income}
Segment Expense	Direct expense + Allocated + Inter segment {Except extraordinary items, Finance expense, Income-tax expense and General Admin expense}
Segment Asset	Operating assets + directly attributable assets
Segment Liabilities	Operating Liabilities + Directly attributable liabilities
Segment Result (Profit/ Loss)	Segment Revenue – Segment Expenses

4. Is every segment reportable?

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

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

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

5. Disclosure

1. Primary segment 2. Secondary segment

Let us see Primary Disclosure

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

Business Segment Disclose above Points

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

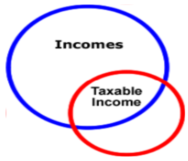
AS 22 Accounting For Taxes on Income

1. Types of INCOME

Accounting Income

Profit or loss for a period before deducting tax expense

Taxable income



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

2. Reasons for differences between accounting income and taxable income

Timing difference

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

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

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

Permanent difference

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

The following items are income or expense either for accounting or income tax purpose and it will never be reversed in life. Hence the entity need NOT defer the tax expense for future years.

(a) Agricultural Income;
(b) Expenses disallowed U/S 40A;
(c) Dividend income; (It is shown as income in accounting but it won't be taxed)
(d) Penalties or fines;
(g) Employers' contribution to unapproved provident fund.

Note: Permanent differences do not result in deferred tax asset or deferred tax liability.

Deferred Tax Asset (DTA)

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

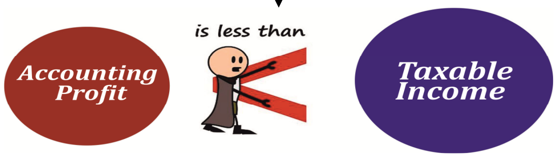
(Entity will receive benefit of tax paid in future years)

Deferred Tax Liability

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

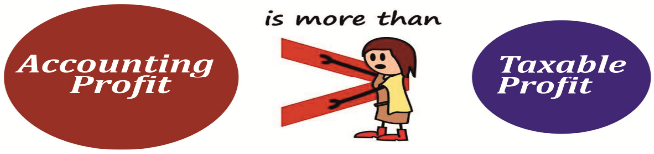
DTA shall be recorded only if there is reasonable certainly that sufficient future taxable income will be generated against which such deferred tax can be adjusted

Accounting Profit < Taxable Income



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

Accounting Profit >Taxable Profit



AS 1 Disclosure of Accounting Policies

Question No. 1 **RTP May 2017**

Mini Ltd. was making provision for non-moving stocks based on no issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2016 based on technical evaluation:

Total value of stock	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Question No. 2 **RTP Nov 2017**

A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full

price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements?

Question No. 3 **RTP May 2018**

J Ltd. had made a rights issue of shares in 2016. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).

(ii) Provide for permanent fall in the value of investments - this fall had taken place over the past five years - the provision being ₹ 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

AS 2 "Valuation of Inventories"

Question 1

X Co. Limited purchased goods at the cost of ₹ 40 lakhs in October, 2014. Till March, 2015, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2015.

Question 2

The company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2014 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2014-15. This would result in decrease in profit by ₹ 5 lakhs. Comment

Question 3

In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

Question 4

From the following information, ascertain the value of stock as on 31st March, 2012:

Particulars	₹
Stock as on 01-04-2011	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales

Question 5

You are required to value the inventory per kg of finished goods consisting of:

	₹ per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is ₹ 20 lakhs. 4,000 kgs of finished goods are in stock at the year end

Question 6

Calculate the value of raw materials and closing stock based on the following information:

Raw material X Closing balance	500 units

	₹ Per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150

Finished goods Y Closing Balance	1200 units

	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units. Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.
(ii) Net Realizable Value of the Finished Goods Y is ₹ 300.

Question 7

Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

1) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.
2) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.
3) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

   Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

AS – 4 Contingencies And Events Occurring After The Balance Sheet Date

Question 1

You are an accountant preparing accounts of A Ltd. as on 31.3.2011. After year end the following events have taken place in April, 2011:

(i) A fire broke out in the premises damaging, uninsured stock worth ₹ 10 lakhs (Salvage value ₹ 2 lakhs).

(ii) A suit against the company's advertisement was filed by a party claiming damage of ₹ 20 lakhs.

Describe, how above will be dealt with in the accounts of the company for the year ended on 31.3.2011.

Question 2

MEC Limited could not recover an amount of ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company for the year ended 31-3-2011 were finalized by making a provision @ 25% of the amount due from that debtor. In May 2011, the debtor became bankrupt and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in books of account for the year ended 31-3-2011?

Question 3

A major fire has damaged the assets in a factory of a Limited Company on 5th April - five days after the year end and closure of accounts. The loss is estimated at ₹ 10 crores out of which ₹ 7 crores will be recoverable from the insure₹ Explain briefly how the loss should be treated in the final accounts for the previous year.

Question 4

A Company entered into an agreement to sell its immovable property to another company for ₹ 35 lakhs. The property was shown in the Balance Sheet at ₹ 7 lakhs. The agreement to sell was concluded on 15th February, 2011 and sale deed was registered on 30th April, 2011. You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2011.

Question 5

In Raj Co. Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2011 was detected in May, 2011. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2011. Decide.

Question 6

A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

AS 5 "Net Profit /Loss For The Period, Prior Period Items & Changes In Accounting Policies"

Question 1

When can a company change its accounting policy?

Question 2

A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2010-2011.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2011. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

Question 3

X Co. Ltd. signed an agreement with its employees union for revision of wages in June, 2012. The wage revision is with retrospective effect from 1.4.2008. The arrear wages Upto 31.3.2012 amounts to ₹ 80 lakhs. Arrear wages for the period from 1.4.2012 to 30.06.2012 (being the date of agreement) amounts to ₹ 7 lakhs.

Decide whether a separate disclosure of arrear wages is required.

Question 4

Goods of ₹ 5,00,000 were destroyed due to flood in September, 2009. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2012, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2012.

Question 5

S.T.B. Ltd. makes provision for expenses worth ₹ 7,00,000 for the year ending March 31, 2011, but the actual expenses during the year ending March 31, 2012 comes to ₹ 9,00,000 against provision made during the last year. State with reasons whether difference of ₹ 2,00,000 is to be treated as prior period item as per AS-5.

Question 6

A company created a provision of ₹ 75,000 for staff welfare while preparing the financial statements for the year 2010 - 11. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to ₹ 1,00,000. The accounts were approved by Board of Directors on 15th April, 2011

Explain the treatment of such revision in financial statements for the year ended 31st March,2011

AS 10 – PROPERTY PLANT AND EQUIPMENT (PPE)

Question 1

Obtained PPE fair value is 5,00,000 through exchange of gold. (Book value of gold is ₹ 4,00,000) journalise.

Question - 2

PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

Particulars	₹
Materials (including excise duty of ₹ 50,000, CENVAT credit is available for 50% of the duty paid)	16,00,000
Direct Expenses	3,00,000
Total Labour charges (200 out of the total of 600 men hours worked, on installation work)	6,00,000
Spare parts and tools consumed in installation	60,000
Total salary of supervisor (time spent for installation was 25 % of the total time worked.)	24,000
Test run and experimental production expenses	23,000
Consultancy changes to architect for plant set up	9,000
Total Office & Administrative Expenses (4 % is chargeable to the construction)	9,00,000
Depreciation on other assets used for the construction of this asset	15,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized.

Question 3

During the current year 2014-15, X Limited made the following expenditure relating to its plant building:

Particulars	₹ in lakhs
Routine Repairs	.4
Major Overhaul expenses incurred once in 3 years	1
Partial replacement of roof tiles (useful life is 4 years)	2.5
Substantial improvements to the electrical wiring system which will increase efficiency	10

What amount should be capitalized?

Question :- 4

Indigo Airline purchase one aircraft for ₹ 600 Cr. Components are - Engine ₹ 400 Cr., Aircraft Body ₹ 200Cr. Life of Engine is 10 years And of body 20 years Show accounting treatment for recognition and Depreciation.

Question 5

A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and 2000 residual value, for three years The estimate of remaining useful life after third year was reassessed at 5 years Calculate depreciation as per the provisions of Accounting Standard 10 "Depreciation Accounting".

Question 6

During the year 2014-15, P Limited incurred the following expenses on machinery: ₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 7 lacs on replacement of part of a machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

Question 7

During the year M/s Progressive Company Limited made additions to its factory by using its own workforce, at a cost of ₹ 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was ₹ 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ₹ 6,00,000. Comment whether the directors' contention is right in view of the provisions of Accounting Standard 10 "PPE"?

Question No. 1 RTP May 2018

Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar. You are required to calculate the amount of the profit or loss on forward contract
to be recognized in the books of the company for the year ended 31st March, 2017.

Question No. 2

Opportunity Ltd. purchased an equipment costing ₹ 24,00,000 on 1.4.2015 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = ₹ 60.00 and ₹ 62.50 as on 1.4.2015 and 31.3.2016 respectively. First installment was paid on 31.3.2016. The entire difference in foreign exchange has been capitalised. You are required to state that how these transactions would be accounted for.

Question No. 3

Kalim Ltd. borrowed US$ 4,50,000 on 01/01/2016, which will be repaid as on 31/07/2016. X Ltd. prepares financial statement ending on 31/03/2016. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2016	1 US$ = ₹ 48.00
31/03/2016	1 US$ = ₹ 49.00
31/07/2016	1 US$ = ₹ 49.50

Question No. 4

A Ltd. purchased fixed assets costing ₹ 3,000 lakhs on 1.1.2016 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 1.1.2016 and 31.12.2016 respectively. First instalment was paid on 31.12.2016. The entire difference in foreign exchange has been capitalised.
You are required to state, how these transactions would be accounted for.

Question No. 5

Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹ 48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd?

AS 12 "ACCOUNTING FOR GOVERNMENT GRANTS"

Question 1

Supriya Ltd. received a grant of₹ 2,500 lakhs during the accounting year 2010-11 from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2011-12, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS-12.

Question 2

A Ltd. purchased machinery for ₹ 40 lakhs. (Useful life 4 years and residual value₹ 8 lakhs) Government grant received is₹ 16 lakhs. Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:

(1) the grant is credited to Fixed Assets A/c.

(2) the grant is credited to Deferred Grant A/c.

Question 3

Santosh Ltd. has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed ₹ 2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12 examine, whether the treatment of both the grants is correct.

Question 4

M/s A Ltd. has set up its business in a designated backward area with an investment of ₹ 200 Lakhs. The Company is eligible for 25% subsidy and has received ₹ 50 Lakhs from the Government. Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company.

AS - 16 "Borrowing Costs"

Question 1

GHI Limited obtained a loan for ₹ 70 lakhs on 15th April, 2010 from JKL Bank, to be utilized as under:

	₹ in lakhs
Construction of Factory shed	25
Purchase of Machinery	20
Working capital	15
Advance for purchase of Truck	10

In March 2011, construction of the factory shed was completed and machinery, which was ready for its intended use, was installed. Delivery of Truck was received in the next financial year. Total interest of ₹ 9,10,000 was charged by the bank for the financial year ending 31-03-2011.

Show the treatment of interest under AS 16 and also explain the nature of Assets.

Question 2

On 1st April, 2011, Amazing Construction Ltd. obtained a loan of ₹ 32 crores to be utilized as under:

(i)	Construction of sea link across two cities: (Work was held up totally for a month during the year : due to high water levels)	₹ 25 crores
(ii)	Purchase of equipments and machineries	₹ 3 crores
(iii)	Working capital :	₹ 2 crores
(iv)	Purchase of vehicles	₹ 50,00,000
(v)	Advance for tools/cranes etc.	₹ 50,00,000
(vi)	Purchase of technical know-how	₹ 1 crores
(vii)	Total interest charged by the bank for the year ending 31st March, 2012	₹ 80,00,000

Show the treatment of interest by Amazing Construction Ltd

Question 3

Axe Limited began construction of a new plant on 1st April, 2011 and obtained a special loan of ₹ 4,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that were made on the project of plant were as follows:

₹

1st April, 2011	5,00,000
1st August, 2011	12,00,000
1st January, 2012	2,00,000

The company's other outstanding non-specific loan was ₹ 23,00,000 at an interest rate of 12%. The construction of the plant completed on 31st March, 2012. You are required to:

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16

"Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

Question 4

Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2013, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2014, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2014 was ₹ 11,00,000. During the year 2013-14, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

Question 5

M/s. Ayush Ltd. began construction of a new building on 1st January, 2014. It obtained ₹ 3 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 6,00,000	11% p.a.
₹ 11,00,000	13% p.a.

The expenditure that were made on the building project were as follows:

	Amount (₹)
January, 2014	3,00,000
April, 2014	3,50,000
July, 2014	5,50,000
December, 2014	1,50,000

Building was completed on 31st December, 2014. Following the principles prescribed in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building.

AS 17: Segment Reporting

Question No. 1

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

₹ in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

Question No. 2

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

Question No. 3

M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹ 10.00 crores. Segment X has ₹2.00 crores, segment Y has ₹ 3.00 crores and segment Z has ₹ 5.00 crores. Deferred tax assets included in the assets of each segments are X- ₹ 0.50 crores, Y— ₹ 0.40 crores and Z— ₹ 0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

Accounting For Taxes on Income

Question No. 1

Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortised preliminary expenses as per tax record	30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/ liability should be recognised as transition adjustment? Tax rate 50%.