Contents of Handwritten Book

Introduction to Accounting Standards

Standards are of two types

1. Accounting standards
2. Indian accounting standards.

Accounting standards:

(these are applicable to intermediate students of ICAI examination)

Following points are relevant.

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 till now accounting standard 1 to 29 are issued except accounting standard six and eight which have been withdrawn.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

Benefits of Accounting Standards

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

Objectives of Accounting Standards

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

Issues dealt by accounting standards deals are

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

Process of issue of accounting standards is as follows.

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

Indian accounting standards.

Indian accounting standards are based on global standards.

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

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

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

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

How much are Ind AS and Global Standards different?

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

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

Reasons or significance of global standards.

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

Chapter 2

Framework for preparation and presentation of financial Statements

① following are users of financial Statements

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

② following are underlying Assumptions

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

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

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

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

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

3 Qualitative Characteristics of financial Statements (गुणवत्ता)

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

4 Components of financial Statements

- Balance sheet
- Profit and Loss Statement.

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

(5) Elements of financial Statements

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

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

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

Equity (Capital)
Assets Less Liabilities

It is Residual Interest.

It changes due to
- Transactions with shareholders
  Fresh Issue, Redemption, Buy Back, Dividend/Drawings
- Profit/Loss

Income
Increase in Resources without increase in Liabilities

Expense
Decline in Resources without increase in Assets.

(6) Measurement Bases in financial Statements

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

(7) Accounting Equation

Assets − Liabilities = Equity

(8) Capital Maintainance Concept

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

Financial Capital Concept | Physical Capital Concept

Financial Capital Concept

Based on Historical Cost

Closing Capital	XXX
Less opening capital	XXX
Maximum drawing	XXX

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

Closing Capital	XXX
Less	
Indexed opening Capital	XXX
	XXX

Indexed opening Capital

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

Here Index is of General Inflation Rate

Physical Capital Concept

Closing Cap.	XXX
Less	
Indexed opening Capital	XXX
	XXX

Indexed Opening Capital

$$= \text{Opening cap} \times \frac{\text{Closing Index}}{\text{Opening Index}}$$

Here Index is Inflation in goods in which Entity deals.

Application of Accounting Standards and Ind AS
as on 1.7.2023

COMPANIES

Rules of Transfer

(i) from Non SMC to SMC
(Big to Small level)

No Exemption for 2 Consecutive years.

(ii) from SMC to Non SMC
(Small to Higher level)

No Comparatives needed for Exempted part

BIG Companies

Application of Ind AS

Ind AS are applying on following Companies

(i) Companies which are listed or in process of listing in India or outside India for any shares, Bonds etc

OR

(ii) whose Net worth ≥ 250 Cr at End of previous year
Net worth means Shareholders funds.

* Ind AS are not applicable to Bank and Insurance Companies even if it qualifies above

Companies other than applying Ind AS

Non SMC

non small and medium Companies
These Companies will apply all AS from 1 to 29 Except 6+8

No Exemption or Relaxation

following are Non SMC
- Banking Companies
- Insurance Companies
- Certain financial Institutions
- Companies whose Turnover > 250 Cr in immediately previous year (Excluding other Incomes)
- Companies whose Borrowings > 50 Cr at any time in previous year (Include Public Deposits)

Small and medium Companies

It applies all A.S but has option to avail exemptions and relaxations of following
Full Exemption AS. 3,17,20
Partial Exemption AS-15
Disclosure Exemption 19,28,29
Also Exemption is available from AS 21,23,27 and 25 if Company is not preparing Consolidated and Interim Reports.

Balance Residual Companies

Non Corporate Entities

Partnership, LLP, Society, Trust, etc, Engaged in Commercial Industrial or Business Activities (Wholly/Partially)

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

Accounting Standard-1 : Disclosure of Accounting Policies

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

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

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

FIFO method or Weighted Avg Method.

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

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

③ Examples of Accounting Policies

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

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

(4) Main Principles of AS-1

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

4A

Disclosure Requirements

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

4B How to select Accounting policies

Primary Considerations

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

Secondary Considerations

Prudence

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

Substance over form

Give more Importance to facts than Law

Example

H.P Machine not legally owned it recorded.

Materiality

Draft Policies for material items only

Immaterial Policies not to be disclosed.

4C

Change in Accounting Policy

Reasons for Change

↓

(i) Better Presentation

(ii) Compliance with Law

(iii) Compliance with AS

Treatment for Change

↓

Disclosure should be given for following

(i) Old Policy

(ii) New Policy

(iii) Reasons of Changing Policy

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

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

4D

Fundamental Accounting Assumptions (FAA)

Going Concern

It means it is always assumed that business will continue forever. No need to cease or curtail operations. If Entity is not in position to continue in forseeable future, disclosure is required.

Here Prepare financial Statement on Non Going Concern Basis.

Accrual

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

Consistency

Means it is assumed that same policies will be followed consistently each year. If any Policy is temporary disclosure is Required.

Accounting Standard-2 Valuation of Inventories

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

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

* for Trade of Agri products apply AS-2 as usual.

(2) Inventories are assets

- Held for Sale in ordinary course of business

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

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

④ Valuation of Inventories - Rules

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

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

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

(5) Calculation of Net Realisable Value

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

NRV for finished Goods or Stock in trade

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

NRV for work in Process

Estimated Selling Price	XXX
Less " Selling Expense	XXX
Less " Cost of Completing WIP	XXX
NRV for WIP	XXX

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

(6) Calculation of Cost Price

Cost price can be calculated by applying various cost techniques like

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

Generally Actual cost technique is applied.

(7) Calculation of Cost based on Actual Cost Technique

(i) Cost of material

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

(ii) Cost of Conversion

	Direct Labour Cost per unit	xxx
+	" Cost " "	xxx
+	Production / Factory overhead (Variable) per unit	xxx
+	" " " (fixed) "	xxx
	Total Cost per unit	xxx

Note: Fixed Production Overheads per unit

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

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

Note: Following are not included in Costs

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

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

Note: for calculating Material purchase Price Entity may apply cost formula like FIFO or Weighted Average or other methods

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

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

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

(8) Retail Price technique

Under this technique cost is calculated using

Retail price	xxx
Less G.P. Ratio	xxx
	Cost

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

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

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

10 Disclosure requirements

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

- Disclose Inventory classification with Amounts.

Example

Altd has following data

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

Entity can claim input tax credit for 2/- per unit.
Entity applies average cost formula. following expenses are incurred

Freight and Insurance ₹ 10000

Loading/unloading ₹ 50000

Normal loss 4000 units and Abnormal loss 1000 units.
Units Produced 32000, Whereas Budgeted units were 50000
It incurred Variable factory overheads @ 2 per unit. fixed Production overhead ₹50000. Labour Cost per unit 6/-
Direct Expenses ₹ 3/- Per unit.

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

Calculate Cost of Stock.

(Answer: Total Material Cost 792000)

Mat Cost per unit ₹ 24

Closing stock	finished	126000
	Raw mat	-
Abnormal Loss		24000

Accounting Standard - 3 Cash Flow Statement

All Concepts of this Standard Covered in Chapter Cash flow statement

Cash Flow Statement (Accounting Standard-3)

[All companies except one person company are required to prepare CFS]

① Cash Flow Statement is a statement specifying flow of cash and cash equivalents; during a period.

It should classify flows into

- Cash flow from operating Activities
- Cash flow from Investing Activities
- Cash flow from Financing Activities

② Cash Flow Statement is prepared to understand main sources of inflows and outflows of cash and cash equivalents. It is useful to analyse cash management policies of Entity and Business Valuation Information.

- This Statement is useful in analysis of flow of Cash and Cash Equivalents.

- This statement is also useful for identifying Over trading / Under trading in Entity.

- This helps in Better Comparison
- " " " improvement in budgets.

(3) Cash and Cash Equivalents means - Cash in hand
- Cash at Bank
- Marketable Securities

where marketable securities means Investments which are readily realisable within 3 months like Treasury Bonds etc.

(4) Cash Flow from Investing Activities means flow of Cash arising from fixed assets and Investments including Interest Income from Investments.

Note: for Financial Institutions like Banks, Investments are operating items and Interest on such Investments is also operating in nature.

Examples of Cash flow from Investing Activities

- Sale/Purchase of Property Plant + Equipment
- " " " Investments (other than Marketable)
- Interest on Investments
- Pre Acquisition dividend
- Post Acquisition dividend

(5) Cash Flow from financing Activities means flow of cash and cash equivalents arising from Share Capital and Borrowings including Service cost on them.

Service cost on Share Capital is Dividend Paid

" " " Borrowings is Interest Paid

Examples of Cash Flow from financing Activities

- Issue of Share Capital
- Receipt of Security Premium
- Issue of Debentures
- Payment of Interest
- Payment of Dividend

(6) Cash Flow from operating Activities means flow of Cash and Cash equivalent from activities of operation and residual activities i.e. flows which are neither financing nor investing in nature.
Cash Flow from operating Activities can be derived by applying either
- Direct Method (Para 18a of AS-3)
- Indirect Method (Para 18b of AS-3)

Examples of operating Activities - Direct method

- Cash Sale
- Collection from Debtors
- Payment to creditors
- Payment of operating Expenses
- Payment of Tax etc

⑦ Preparation of Cash Flow Statement directly from Cash A/c, Bank A/c and Marketable Securities A/c. Here we need just 3 ledgers.

Step 1 Combine Cash and Cash Equivalents

- Cash A/c
- Bank A/c
- Marketable Securities A/c

Step 2 Eliminate Contra items in these ledger

Step 3 Balance items are posted directly in Cash Flow Statement.

(8) Preparation of Cash Flow Statement from 2 Balancesheets and additional information.

Here we need various ledger. Informations extracted from these ledger will be used to prepare Cash Flow Statement.

Cash Flow from operating Activities is Calculated using Direct Method i.e. selecting Cash/Bank in operating ledgers.

Cash Flow from operating activities is calculated using Indirect Method i.e. selecting non cash items in operating ledger.

Note: Direct Method is applied by Insurance Companies whereas listed companies apply Indirect Method (SEBI Requirement)

Note: Indirect Method provides better information for valuation tools, hence it is preferred.

Note: following steps are applied in preparing various ledgers

Step1 : Prepare various ledgers from available information by applying Best Assumption.

Step2 Select items of Cash/Bank or Non Cash Non operating items to calculate CFOA

Step3 Prepare Cash Flow Statement.

(9) How to prepare various ledgers?

(9A) P&L Appropriation Account

To General Reserve created	xxx	By Balance b/d	xxx
To Other Reserve Created	xxx	By Net Profit/PAT	xxx
To Dividend Paid	xxx	By General Reserve written back	xxx
To Corporate Dividend Tax (Now deleted but Question exist)	xxx	By Other Reserve written Back	xxx
To Bonus Share	xxx		
To Premium on Redemption of Preference Share	xxx		
To Premium on Buy Back	xxx		
To Balance c/d	xxx		
	xxx		xxx

Note: All items relating to Shareholder (Equity or Preference) will be shown in P&L App A/c like Distribution to them.

Note: Any tax on such distributions is also Appropriation items.

Note: Transfer between Reserve is also appropriation

(9B) Fixed Assets / Property Plant and Equipment A/c

If gross and Accumulated Dep is given
or
If net and opening, closing Accumulated Depreciation is given

⇓

Apply Gross Method ie.
Prepare - Gross Fixed Asset at Cost A/c
- Accumulated Depreciation A/c
- Asset Disposal A/c.

If Net values are given

⇓

Prepare Fixed Assets (Net) A/c

* Accumulated Depreciation is also called Provision for Depreciation.

Gross method

Gross Asset A/c

To Balance b/d	xxx	By Asset Disposal A/c	xxx
To Bank - Purchase	xxx	By Revaluation of PPE	xxx
To Revaluation of PPE	xxx	By Balance c/d	xxx

Accumulated Depreciation / Provision for Dep A/c

To Asset Disposal A/c	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By Depreciation charged	xxx

Asset Disposal A/C

To Gross Asset	xxx	By Acc. Depreciation	xxx
To gain on sale (P/L)	xxx	By Bank - sale	xxx
		By Asset writtenoff	xxx
		By loss on sale (P/L)	xxx

Net Method

To Balance b/d	xxx	By Bank - sale	xxx
To Bank - Purchase	xxx	By loss on sale	xxx
To Revaluation of PPE	xxx	By Asset writtenoff	xxx
To gain on sale	xxx	By Revaluation of PPE	xxx
		By Depreciation (P/L)	xxx
		By Balance c/d	xxx

Note: If Question is silent about date of sale or Purchase of asset, assume 1st day of Year.

Note: If depreciation rate is given, with information about Sale/Purchase is missing then amount of depreciation is to be Calculated as follows

All sale Purchase are on 1st day of Year

⇓

$$\frac{\text{Closing Balance of PPE}}{1 - \text{Rate}} \times \text{Rate}$$

Sale Purchase have dates other than 1st day of year

⇓

Calculate Dep on each transaction assuming x

(9C) Investment Account

To Balance b/d	xxx	By Bank - Sale	xxx
To Bank Purchase	xxx	By loss on Sale	xxx
To gain on sale	xxx	By Bank - Pre	
To Bonus	Nil	Aquisition Dividend	xxx
		By Balance c/d	xxx

(9D) Dividend A/c / Unclaimed Dividend A/c / Dividend Payable A/c

(Do not prepare Proposed Dividend)

To Bank - Dividend Paid	xxx	By Balance b/d	xxx
		By P&L App - Dividend Declared	xxx
To Balance c/d	xxx		

Note: If question does not have information about dividend declared & dividend paid, then best assumption is always assume opening dividend payable get paid during the year.

Note: Dividend Amt = Dividend Rate × PAID UP share Capital

Note: Preference Dividend is also calculated and presented just like above equity dividend.

Note: If Question declares Equity dividend but is silent on preference dividend, then best assumption is that preference dividend has also been declared.

(9E) Taxation A/c or Provision for Tax A/c or Tax Payable A/c

To Balance b/d (Advance Tax)	xxx	By Balance b/d (Provision for Tax)	xxx
To Bank - Tax Paid	xxx	By P/L (Provision for Tax made)	xxx
To TDS deducted	xxx	By Bank - Income Tax Refund	xxx
To Balance c/d (Provision for Tax)	xxx	By Balance c/d Advance Tax	xxx
	____		____

Note: If Q is silent on Tax Paid + Provision for Tax made during the year, Best assumption is that opening Tax liability (if any) was paid during the year.

Note: Tax is always assumed to be of business. Hence recorded in P/L A/c. (In non company case it is treated as drawings and shown in Capital A/c)

(9F) Interest Receivable A/C

To Balance b/d	xxx	By T.D.S	xxx
To Interest Income (PL)	xxx	By Bank - Int Received	xxx
		By Balance c/d	xxx
	—		—

Note: If Q provides rate of Interest on Investment then calculate Interest on Investments as Int Income based on rate.

Note: Always assume all transaction of Sale Purchase on 1st day.

(9G) Debentures/Bonds A/C

To Bank - Redemption	xxx	By Balance b/d	xxx
To Share Capital - Conversion	xxx	By Bank - Issue	xxx
To Balance c/d	xxx	By P/L B.F	xxx
	—		—

(9H) Share Capital A/c

To Bank Buy Back	xxx	By Balance b/d	xxx
To Bank - Premium on Buy Back	xxx	By Bank - Issue	xxx
		By Debenture - conversion	xxx
To Balance c/d	xxx	By Pr. App (Bonus)	xxx
		By CRR Bonus	xxx

Note: If security premium is also received, then it is financing activity.

Security Premium A/c

		By Balance b/d	xxx
		By Bank Premium Received	xxx
To Balance c/d	xxx		

Preference Share Capital A/c

To Bank Redemption	xxx	By Balance b/d	xxx
		By Bank - Issue	xxx
To Balance c/d	xxx	By Pr App (B.F)	xxx

(9 I) Interest Payable A/c

To Bank - Int Paid	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P/L - Expense	xxx

Note: If Int is to be calculated

= Liability x Rate of Interest

It is also called hidden Adjustment.

This ledger can be avoided.

(9 J)

Debtors

To Balance b/d	xxx	By Provision for D.D	xxx
To change in Debtors (B.F)	xxx	By Balance c/d	xxx

Provision for Doubtful debt A/c

To Debtors - Bad debt	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P/L - Provision made	xxx

(9K)

Capital Reserve A/c / Revaluation Reserve

		By Balance b/d	xxx
		By Revaluation of Asset	xxx
To Balance c/d	xxx		

General Reserve A/c

To CRR – Transfer	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By P/L App – created	xxx

Capital Redemption Reserve A/c

To Share Capital Bonus	xxx	By Balance b/d	xxx
		By General Reserve	xxx
To Balance c/d	xxx	By P/L App	xxx

(10) Preparation of cashflow from operating Activities using direct method

Cash collection from Debtors	xxx
Cash Paid to creditors	(xxx)
" " " operating Expenses	(xxx)
CFOA Before Tax	xxx
(-) Tax Paid	xxx
CFOA Before EOI	xxx
(-) EOI	xxx
CFOA	xxx

(11) Calculation of CFOA under Indirect Method

Profit Before Taxation	XXX
Non operating items	
+ Depreciation PPE	XXX
+ Amortisation of Intangible Asset	XXX
+ Loss on Sale of PPE/Investment	XXX
− Gain " " " "	XXX
− Interest Income/Dividend Income	XXX
+ Interest Expense	XXX
+ Premium on Redemption of Debent	XXX
+ Provision created	XXX
Operating Profit Before Working Capital Change	XXX
± Change in operating current Asset or	
± " " operating current Liabilities	

1? − Increase in operating CA	xxx
+ Decrease in operating CA	xxx
+ Increase in " CL	xxx
− Decrease " " "	xxx
Cash Profit Before Tax & EOI	xxx
Less Tax Paid	xxx
Cash Profit Before EOI	xxx
Less EOI (operating)	xxx
CFOA	xxx

(12) <u>Revaluation</u> of Current Assets / Liab.

If Question provides information that few assets or liabilities have been revalued upward or downward then, in such cases

Step 1 Calculate correct value of Asset/Liab ignoring Revaluation.

Step 2 Find out Revaluation Amt and Eliminate its effect. (Since it does not have any effect on cash flow)

- Reserve/Surplus will also get changed
- Asset/Liab. " " " "

Step 3 Start Cash flow after eliminating effect of Revaluation.

(13) Special items

(13A) Meaning of Cash and Cash Equivalents

It includes,

Cash in hand	xxx
+ Cash at Bank	xxx
+ Demand deposits with Bank (These are v. short term FD)	xxx
+ Any foreign exchange held (foreign currency x closing Rate)	xxx
	xxx

Hence Any liquid Investment which is

- very short term
- has no significant Risk
- is Readily Realisable (i.e. Market Exist)

Bank Overdraft is not Bank Balance, hence it is financing activity.

(13B) Cash at Bank means Bank Balance as per Cash Book (Not Pass Book)

(13C) Extraordinary items are Abnormal items like

- Abnormal Loss by fire
- Settlement of law suit
- settlement gain by lottery
- Insurance claims

These are shown in CFS as separate items. as last item.

(13D) Treatment of Govt Grants

Govt Grants are treated as follows

Receipt of grant for land = Investing Activity

" " " as Promoter = Financing Activity

" " for PPE/capital Grant = Investing Activity

" " " Expenses = operating Activity.

* Amortisation of Capital grant

since PBT includes amortisation of grant as income, it should be deducted from PBT in OA.

(13E) Proceeds of calls in Arrears

It is financing activity

(13f) Underwriting Commission Paid

It is also called financing activity.

(13g) For financial Institutions like Banks, Stock Brokers, non Banking finance Companies following is relevant.

Loan & Advance Granted ⇒ OA

Int on Loan Earned ⇒ "

Purchase of Shares, Bonds, Options, Derivative ⇒ OA

Earnings from " " " " ⇒ OA

* Loan & Advance to Suppliers and Employees is Always considered operating activity. Similarly Int Earned from such Supplies is also OA.

(14) CFS should have following disclosures

(i) Reconciliation of Cash and Cash Equivalent opening and closing Balance.

(ii) Significant Non Cash Transaction should be disclosed.

(iii) Unused Borrowings should be disclosed

(iv) Cash & Cash Equivalent not available for use should be disclosed.

Accounting Standard-7 : Construction Contracts

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

Example of Construction Contract

Contract to Construct Building/Dam/Road/Airport etc

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

③ How to Calculate Revenue & Profit in Cost plus Contract

Contract Revenue Recognised = Approved Cost + % margin on it

Calculation of Profit/loss on Contract

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

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

Apply percentage of Completion method. following steps are applied

Step 1 Identify Elements of Contract at year End

(a) Contract Revenue

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

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

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

(b) Contract Cost

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

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

Step 2 Calculate Degree of Completion/Stage of Completion

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

Cumulative means Cost Incurred from Beginning of Contract till this date

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

Step 3 Calculate Profit/loss

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

Step 4 check Provision for foreseeable loss

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

Note: Provision created in Earlier years will be cancelled.

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

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

6) Formats

Profit/loss Account

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

Balance sheet

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

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

Debtor A/c

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

7) Disclosure Requirements

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

* Gross Debtor or Gross Creditor means

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

Accounting Standard- 9 : Revenue Recognition

① This AS is Not applicable on revenue arising from sale of PPE, Sale of Investments, Sale of Intangible Assets or Revaluation of Non current Assets or Revaluation of Current assets / PPE / Investments or Revaluation / Realised gains of foreign Exchange Construction Contracts, Leases, H.P., Govt Grant, Insurance Companies

② Revenue means gross inflow of cash and Receivables arising out of Sale of goods or rendering of services or Interest or Dividend / Royalty in ordinary course of business. Hence this AS deals with

- Revenue from Sale of goods
- " " Rendering of services
- " " Interest / Dividend and Royalty.

③ Revenue from Sale of goods should be recorded, if both of following conditions are satisfied

(i) No uncertainity regarding consideration or its ultimate collection
and
(ii) Goods have been transferred to buyer

Note: Goods transferred to buyer can be as follows

(i) By delivery of goods to Customer along with Risk + Reward
(ii) By delayed delivery to Customer at his request but risk + Reward transferred to Customer.

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

Note: Sale in special Cases

(A) Consignment / Agency
- Record Sale when goods are actually sold by agent

(B) Goods sold on approval basis
- Record Sale when approval received from customer or Period of Rejection Expires.

Note: Sale return is recorded separately from Sale.

* Revenue in case of agency relationship is Commission not Gross collections.

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

(4) Revenue from Services

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

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

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

(6) Repurchase agreement:-

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

(7) Disclosure Requirement

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

Accounting Standard - 10 Property, Plant and Equipments

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

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

Note: Biological Asset means living animal or Plant.

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

following are not bearer plants

(a) plants which are cultivated for harvest (like wheat) like Lumber.
(b) Plants cultivated to produce agricultural Produce, when there is very low chance of harvesting plants
(c) annual crops (like wheat)

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

life more than 12m
Bharat Tent house → $\boxed{\text{Chairs, Utensils, decoration Material}}$ ⇒ for Rent
⇒ Tangible
∴ It is PPE

life more than 12m
Aldine Venthrues → $\boxed{\text{Chairs, Machine}}$ ⇒ for use Yes
⇒ for tangible Yes
It is PPE

③ Recognition Conditions

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

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

and

(ii) Its cost can be reliably measured.

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

Solution 100

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

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

and

(ii) Its cost can be reliably measured

In the given case, ABC Ltd has purchased one machine for ₹4,00,000 whose method of production has changed before receipt of delivery. Now this machine has no future Benefits, hence it cannot be Recognised as asset.

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

Journal Entries (i) for Recording Loss and Liability

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

(ii) for Payment

Creditor/Vendor Dr
To Bank
(Being amt paid)

(iii) for writing off loss

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

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

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

(4A) By Exchange

Exchange has commercial substance
↓
Record PPE @ fair value of asset given.
If such fair value is not reliable, then consider fair value of asset Received.

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

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

be adjusted in PPE

Cash
 To PPE

or

PPE
 To Cash

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

* If Q is silent assume Commercial Substance Exist

(4B) Self Constructed PPE

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

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

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

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

(4C) Acquired PPE or Purchased PPE

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

Elements of Cost

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

Hence Cost of PPE should be

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

Meaning of Purchase Price

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

Meaning of Directly attributable Cost following are included in Directly attributable Cost of Asset i.e. Cost incurred to bring asset to present Condition & location necessary for operating in intended manner by management

(i) Cost of Employee Benefit which are directly Working on PPE to make it Ready for intended use. Other Staff Cost are not Directly attributable

(ii) Cost of site preparation

(iii) Cost of initial delivery and handling Costs of PPE

(iv) Installation of PPE / Assembly Cost of PPE

(v) Cost of Testing / Trial Run of PPE net of Sale proceeds

(vi) Professional / Consultant Expenses.

Following costs are NOT included in Cost of PPE

(i) Pooja / Muhurat / opening ceremony Cost of PPE.

(ii) Cost of introducing new product to new market like Advertisement Expenses.

(iii) Administration, selling and Distribution Expenses

(iv) Abnormal Loss

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

(VI) Operating losses of Entity (∵ these would continue even if asset not Exist)

(VII) Staff Training

(VIII) Relocation / Relocating Expenses of old PPE or operations

(IX) Interest for Deferred credit

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

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

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

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

* Gain/Loss on Sale of PPE is transferred to P/L

* Subsequent Recognition should be capitalised if Benefits of asset increase, than originally Estimated.

(5) Subsequent Measurement

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

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

	Cost Price	xxx
(-)	Depreciation	xxx
		xxx

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

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

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

Examples of classes

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

(v) furniture

(vi) Plant & Machine

(vii) Office Equipments etc.

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

Note : subsequent Revaluation Loss is adjusted in R. Reserve if any. & 1st loss adjusted in P/L, subsequent Gain adjusted in P/L to the extent of 1st loss. Balance in Rev. Reserve.

(6) Depreciation

(i) Depreciation should be charged on Components Basis.

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

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

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

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

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

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

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

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

(X) Depreciation Amt may be zero, if its Residual Value is more than Book value. No Depreciation on Freehold Land.

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

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

(XI) Depreciation method, useful life, Residual Value can be changed due to review by Entity. Depreciation will be Calculated

☞ Prospectively due to change in above.

(XII) If any Insurance claim is Received on PPE, it should be credited to P/L A/c and Asset should be Derecognised as (By transfer to P/L A/c) if it has been sold. Record Insurance claim when virtually certain. Record Asset @ fair value if received free.

(XIII) change in method of Depreciation is change in Accounting estimate

(7) Disclosure Requirement

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

AS-11 The effect of changes in Exchange Rates

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

② Foreign Exchange Transactions

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

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

(ii) Subsequent Recognition

At each Balance sheet date, entity should remeasure monetary items using closing exchange rate.

Non monetary items should Not be remeasured.

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

Examples of monetary items :→ Cash, Bank, Debtor, B/R, B/P, Advances, Loan, Creditor, Expense Payable.

Examples of Non monetary item :→ Share Capital, Retained Earnings, fixed Assets, Investments, stock.

(iii) Treatment of Exchange difference

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

③ Forward Exchange Contracts

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

In case of Hedging

Ex. Diff is calculated as follows

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

This premium is written off as Expense in P/L over period of contract.

In case of speculative Contracts

Forward Rate	xxx
Less Settlement Rate	xxx
Loss or Profit	xxx

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

④ Sometimes Exchange Difference are treated in Borrowing Cost. (Refer Notes written in AS-6)

(5) Foreign operation (foreign Branch)

FO can be of two types
(i) Integral foreign operation (IFO)
(ii) Non Integral foreign operation (NIFO)

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

Other Branches are called NIFO.

AS-11 provides Rates for conversion.
(Already dealt in Branch A/c).

(6) Disclosure Requirement

- Foreign Exchange Policy should be disclosed

- Closing Exchange Rate should be disclosed

———— x ————

Accounting Standard- 12 : Accounting for government grants

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

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

② Govt Grants are recognised when following conditions are satisfied

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

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

③ Type of grants

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

(3A) Revenue Grant

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

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

Presentation

Revenue Grant is presented in P&L A/c

Option A : Record it as separate item in P&L or Show it as other Income

OR

Option B Reduce it from expense incurred.

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

Examples of Revenue grant can be

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

(3B) Grant for fixed Assets/PPE

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

Net method	Gross method

Net Method

Reduce grants from fixed Assets

Journal

Bank A/c Dr

To Fixed Asset

(Being grant received)

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

Fixed Asset Dr

To Bank

(Being grant added to Asset)

Depreciation will be Revised on prospective basis.

Gross Method

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

Bank A/c Dr

To Deferred Grant

(Being grant received)

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

Deferred Grant A/c Dr

To P/L

(Being amt transferred)

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

Note: Upon Refund of grant

Deferred Grant Dr Book value

P/L Dr B.F

To Bank Amt Refunded

Being amt refunded

3(C) Non Monetary Grant

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

(i) On Receipt of asset as grant

Asset A/c Dr (Nominal value)

To Capital Reserve

(Being asset received)

Note: These assets are not depreciated.

(ii) Upon Refund of such grant

Capital Reserve

To Asset

(Being grant Refunded)

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

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

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

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

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

(4) Disclosure Requirements

(i) Govt Grant Recognition policy should be disclosed.

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

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

Accounting Standard - 16 Borrowing Cost

① following concepts are covered by this Standard

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

② **Meaning and Treatment**

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

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

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

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

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

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

(iii) Meaning of Q.A

normally

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

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

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

Examples of QA and Non Q.A

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

③ Calculation of Borrowing Cost to be Capitalised

Specific Borrowing only

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

Step2 Calculate any Interest Earned on idle funds

Step3 Calculate Net Borrowing Cost (Step1 − Step2)

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

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

General Borrowing with Specific Borrowing.

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

Step2 Calculate General Borrowing Rate

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

Step3 Calculate B·Cost to be capitalised on

- Specific Borrowing XXX
- General Borrow XXX

XXX

Step4 Calculate Cost of Asset

Cost Incurred XXX
+ B·Cost Capitalised XXX

xxx

Step 5 Journalise

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

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

Lower of following should be treated as Borrowing Cost

- Exchange loss OR
- (Borrowing Cost if Local Borrowings were raised) less (Actual Borrowing cost on foreign Borrowings)

(5) Period of Capitalisation

Commencement of Capitalisation

When all of following are satisfied Capitalisation should commence

- B. Cost is being incurred
- Expenditure on development is being incurred

Suspension of capitalisation

If development is suspended during extended Period due to Abnormal Reasons, then

Cease or Stopping or Cessation of Capitalisation

If asset is Ready for use Wholly or Partially OR

• Development has started	Capitalisation should be suspended	Borrowing Cost is not being incurred, Capitalisation should stop.

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

——— × ———

Accounting Standard - 17 Segment Reporting

① This AS is applicable to Companies and non Companies (not applying 2nd AS).
Exemption is available for
Small and Medium Entities
Non Corporate Entities level II, III & IV
This A.S establishes
Principles of Reporting financial Information about different Products & services that Entity Produces or different geographical areas

* If Entity makes CFS, then segment Report not needed in SFS.

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

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

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

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

* Can be one country or Region of Country.

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

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

* check Internal Reporting System of Entity.

* for primary segment, reporting is more comprehensive

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

⑧ How to Select Reportable segments ?

A segment is included in segment Report on separate basis, then such segment is reportable.

Segments which do not qualify as reportable segments are included in segment report on collective basis called other segments.

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

Materiality Test

Limit 1 Segment Revenue is 10% or more of Total Segment Revenue (Internal & External)

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

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

Comparability Test

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

Overall Test

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

⑨ Meaning of

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

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

Do not include Interest Income, Dividend Income, Gain on sale of Investment EOI

(B) Segment Result means profit/loss of segment

Segment Revenue	xxx
less Segment Expense	xxx
Segment Result	xxx

Where segment expense means

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

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

(C) Segment Assets

fixed Assets of Segment + Intangible Asset	xxx
+ current Assets of Segment	xxx
	xxx

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

Note: Int Expense of Bank OD and other operating liabilities not included unless segment of primary financial nature.

Note: If interest included in Segment Asset because of AS-16, Consider it an Expense and give disclosure

Note: Do not include Tax, Borrowing, General Expenses.

Segment liab. are also calculated. It include Trade Payable, Expense Payable Accrued Expense, Advance, Warranty, claims etc. (Int not included here unless taken in results.)

(10) Inter Segment Transfer Policy

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

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

Also Report other policies like
- Meaning of Segment Revenue, Result,
- Ratio of Allocation

* Any change in above is also disclosed

(ii) Format of Segment Report

Reportable Segments

Primary Segment Report

(I)

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

(II) Secondary Segment Report

Sl	Particulars	Segment A	Segment B	Segment C	Segment D	Total
I	External Revenue 10% or more	xxx	xxx	xxx	xxx	xxx
II	Capital Expenditure during the year	xxx	xxx	xxx	xxx	xxx
(III)	Total Assets, 10% or more	xxx	xxx	xxx	xxx	xxx

Accounting Standard 20 : Earning per share (EPS)

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

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

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

In FM, we uses Basic EPS

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

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

⑤ Calculation of Earnings attributable to Equity shareholders (Earnings)

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

Note:

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

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

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

6) Calculation of weighted Average of outstanding Equity shares during the period

Outstanding means those shares which have been issued and subscribed

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

a) Fresh Issue: Date on which consideration becomes Receivable
(Deduct Buy Back as Reverse of Fresh Issue)
b) Bonus Issue: Date is not relevant. Consider it for complete year

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

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

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

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

7) Treatment of Partly Paid Equity Shares or shares having different face value?
Include such shares in BEPS if these are Entitled to Dividend.
In such cases, EPS is calculated on per Rupee of Share Capital basis. Here all shares are converted into share of ₹1 each and EPS is calculated per ₹ share. EPS is recalculated based on its actual paid up/Face value.

8 Treatment of Bonus Shares

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

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

It means date of issue of Bonus is not relevant.

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

9 Equity shares upon Conversion

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

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

10 Treatment of Right Issue

Whenever any entity issues Right Shares, following steps are applied

Step 1 : Calculate fair value Ex Right

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

Step 2 Identify Paid Part and Bonus Part

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

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

Step 3 Consider
Paid portion of Right Share from date of issue
Bonus " " " " Beginning of Reporting Period

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

* COO = continuing ordinary operations

(11) Diluted Earnings per Share

$$\text{Diluted EPS} = \frac{\text{Earnings attributable to Equity shareholders (Total / } \ne \text{ Not COO) after considering effect of Potential Equity shares}}{\text{Weighted Avg of outstanding Eq. shares during the period after considering effect of Potential Equity Shares}}$$

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

- Convertible Pref shares (not cumulative)
- Vested or not options or ESOPs (Generally most Dilutive)
- Share warrants
- Convertible Pref. shares
- Partly Paid Shares not Entitled to Dividend
- Contingently Issuable Shares

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

यह मानो की Potential Equity Share अब Equity Share Capital बन चुके हैं, from date of issue of potential E shares

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

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

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

(13) DEPS should always be less or Equal to BEPS. If DEPS after calculation is more than BEPS, then assume BEPS is equal to DEPS.
form COO
form COO

(14) Disclosure Requirements;

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

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

Accounting Standard - 24
Discontinuing operations

① Meaning of Discontinuing operations

Discontinuing operation is component of an enterprise

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

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

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

Note: check (i) It should be Component of Enterprise
(ii) " " " based on Single Plan approved by directors
(iii) " " " disposed off - Sale Entirety
- Sale Piecemeal
- abandonment
(iv) It should be reportable Segment under AS-17
(v) " should have information + data Separate from others

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

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

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

(III) Shifting of Location of Production activities

(IV) Closing a facility to improve production or cost savings (B.P.O)

(V) Discontinuation of Products in product line

③ Initial disclosure Event (IDE)

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

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

OR

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

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

④ Disclosure Requirements

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

(AMENDED AS PER GUIDANCE NOTE OF ICAI JAN 2022)

Preparation of financial Statements

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

(B) Special Law Applications

- Dividend Declaration Rules

(A) Format of financial Statements

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

Division I
↓
To be applied by Companies applying AS
↓
Applicable to Intermediate of CA Exams.

Division II
↓
To be applied by companies applying Ind AS

Division III
↓
To be applied by NBFC.

Division II and Division III
↓
Not in Course

Division - I

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

Format of "Statement of Profit and Loss"

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

Profit Before Exceptional and Extraordinary items	(A-B)	XXX	XXX
Less Exceptional items		XXX	XXX
Extraordinary items		XXX	XXX
Profit Before Tax		XXX	XXY
Less Tax Expense (Current Tax Deferred Tax)		XXX	XXY
Profit after Tax		XXX	XXX
E.P.S Basic and Diluted		XXX	XXX

NOTES on Statement of P/L

Meaning & Special Requirements	Examples
Revenue from operation - Principal or Ancillary Revenue generating Activities of Companies	• Sale of Product + Services • Grants and donations • Other operating Revenue Less Excise Duty if any.
Other Income - Other than Revenue from operation. - Do not include Negative Expense. (upto gain Amt)	• Interest Income • Dividend " • Gain on sale of Asset (-) Loss " " " " " • Other Non operating Income. • Transfer fees • Discount Income • Sale of Scrap
Cost of Material Consumed - It means only Raw Material - Disclosure of opening and closing Raw material is not required.	Purchase of Raw Mat is adjusted with opening and closing stock of Raw Material. Food for Hotel Company Store and spare consumed
Purchase of stock in Trade - Include only goods Purchased for Resale	Purchases of stock in Trade

Change in Inventory - Difference in opening and closing finished goods, stock in Trade & WIP - No need to Disclose opening & closing Just disclose change. - It will be zero, if opening, closing are same/Expected to be same	Change in Inventory
Finance Costs	- Interest Cost - Cost of arranging Borrowing funds.
Other Expenses - Advertisement - Bad debts, Rent, - Factory/Admin/Selling O/H - Dealer Aids - Commission + Travel Exp - Carriage outwards - Insurance + Freight	- Loss on sale of Asset - Consumables in office - Preliminary Exp. written off - Discount given - Director fee - Director Remuneration. - P.D.D. created/cancelled
Employee Benefit Expenses - Directors are not Employees.	- Salary & wages - Contribution to P.F - ESOP Expense - Staff welfare
Exceptional and Extraordinary items	- Abnormal losses or gain - Litigation Settlement Exp - Retro law Expense.

Depreciation is for PPE (Tangible Assets)

Amortisation is for Intangible Assets.

Question

Prepare Profit & Loss

		DEBIT	CREDIT
Sale			10,00,000
Opening stock	Raw mat	5000	
	WIP	6000	
	finished goods	8000	
	Stock in Trade	2000	
Purchase	Raw material	300000	
	Stock in Trade	100000	
Salary & wages		200000	
Contribution to P.fund		80000	
Depreciation		30000	
Goodwill written off		20000	
Rent Income			40000
Profit on sale of machine			50000
Carriage outward		6000	
Carriage inward		8000	
Advertisement		9000	
Dividend Income			1000
Interest		15000	
Loss by fire		10000	
P.D.D Expense		5000	

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

Question

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

X Ltd has 10000 Equity shares of ₹10 each.

Sale of goods		30,00,000
Sale of services		500,000
Purchase of Raw Material	700000	
Op. stock of Finished goods	50000	
" " Raw material	40000	
Salary & wages	300000	
Director sitting fees	30000	
Gain on sale of Bitcoins		40,000
C.S.R Expense	25000	
Depreciation of PPE	30000	
Dividend Income		700000
Rental Expense	40000	
Interest Expense	90000	
Income in Survey		50000
Auditor Remuneration	8000	
Discount Income		6000
Discount Expense	18000	
Transfer fee		5000
Loss due to fire	50000	
P.D.D Expense	6000	
P.D.D Liability		6000

Adjustment Closing Stock Raw 35000

" " Finished 80000

Tax Rate 30%

Format of Balance Sheet

Particulars	Note	C.Y	P.Y
Equity and Liabilities			
Shareholder funds			
Share Capital		xxx	xxx
Reserve + Surplus		xxx	xxx
Money against Share Warrants		xxx	xxx
Share Application Pending Allotment		xxx	xxx
Non Current Liabilities			
L.T. Borrowing		xxx	xxx
Deferred Tax Liabilities		xxx	xxx
Other L.T. Liabilities		xxx	xxx
LT Provision		xxx	xxx
Current Liabilities			
ST Borrowings		xxx	xxx
Trade Payable - MSME		xxx	xxx
- Others		xxx	xxx
Other C. Liabilities		xxx	xxx
STerm Provision		xxx	xxx
		xxx	xxx
Assets			
Non current Assets			
PPE and Intangible Asset			
PPE		xxx	xxx
Intangible Assets		xxx	xxx
Capital WIP		xxx	xxx
I. Asset under Development		xxx	xxx
Non Current Investment		xxx	xxx
Deferred Tax Assets		xxx	xxx

L.T. Loan + Advance	xxx	xxx
Other Non Current Asset	xxx	xxx

Current Assets

Current Investment	xxx	xxx
Inventory	xxx	xxx
Trade Receivable	xxx	xxx
Cash and Cash Equivalent	xxx	xxx
ST Loan + Advance	xxx	xxx
Other Current Asset	xxx	xxx
	xxx	xxx

NOTES

Items	Requirement	Presentation
Share capital	• Disclose for each class Number and Amt of Share	Authorised S/capital
	• Disclosure Authorised Subscribed, Issued & Paid up Capital	Nos X Amt xxx
	• Reconciliation Statement Beginning and End.	Issued, Subscribed + called up
	• Rights, Preferences of each class.	No x Amt xxx
	• Shareholders holding more than 5% shares	(-) calls in Arrears xxx
	• Bonus/Non Cash Consideration for 5 years (Nos and class) Source of Bonus not Required.	Paid up S/cap xxx

Reserve & Surplus

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

LT Borrowings

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

Bonds xxx
Debentures xxx
Deposit xxx
Fixed deposit xxx
Deferred Payment Liabilities xxx
Finance lease Liabilities xxx

Deferred Tax Liab / Asset

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

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

LT Provisions → Provision for Retirement Benefits

ST Borrowings →
- Bank overdraft
- Loan Repayable on demand
- " " to Related Parties
- Deposits
- Other Loan
- Current maturities of LT Borrowings along with source of Borrowing.

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

Other Current Liab

- Accrued Interest
- Income Received in Advance
- Unpaid/ Unclaimed Dividend
- Application money for Refund
- Unpaid matured Deposit

ST Provision

- Provision for Tax less Advance Tax

PPE

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

If asset held for sale show it as current Asset

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

Intangible Assets

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

- Give Reco. as above

Non current Investment

- Show Investment Property, Investment in Equity, Pref Shares, Govt Bonds, Debentures, Mutual Fund, Partnership firms

- Show value Basis (cost or fair value)

- " Quoted, unquoted, Provision for decline

Long term Loan & Advance

- Capital Advance
- Advance to Related Parties

- Show details of Secured, unsecured, etc

Other Non Current Assets

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

Current Investment

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

Inventory

- Disclose details of Raw mat, WIP, Stock in Trade and finished goods
- Stores
- Loose Tools (If meet definition of PPE, then it is shown as PPE)
- Show mode of valuation

Trade Receivable

- Give Ageing schedule (Generally given 6m or more)
- Include B/Receivable
- Show unsecured, secured
- Reduce P.D.D

Cash and Cash Equivalent / Cash and Bank Balance

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

STL & Advance

- Loan to Directors / Related Parties
- Small Advance
- Staff Advance
- Secured/Unsecured
- Prepaid Expenses,
- Advance Tax less P/Tax

Other CA

- Balance items like Accrued Int

Contingent Liabilities

- Claims against companies, not acknowledged as debt
- Guarantee and Commitments
- Uncalled liability on Partly Paid shares
- Contract pending execution
- Bills discounted not matured
- Proposed Dividend
- Unused Borrowings from Banks
- Arrears of Preference Dividend

Meaning of Current and Non Current

Asset is current if any of condition satisfied

a) Expected to be realised in normal operating cycle or intended for Sale/consumption in operating cycle.

b) Held primarily for Trade

c) Expected to realise within 12 months after reporting date

d) Cash and Cash Equivalent.

* Normal operating cycle is time between Aquisition of asset for Processing and Realisation of Cash.

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

Liability is classified as current if

- Expected to be settled in operating cycle
- Held for Trade
- Due to be settled within 12 months after reporting date.
- Entity does not have unconditional right to defer settlement of liability for at least 12m after Reporting date

General Points

(1) Conflict of AS and S-III, then apply AS (not S-III)

(2) Round off Mandatory

Total Income (Revenue from operation and other Income)

- less than 100 cr → Round off in Hundred, lakh, millions.
- 100 cr or more → " " millions, crores.

(3) Format items are minimum line items. These can be increased if needed.

(4) Cash Flow not Required by One person company and Startup Companies.

(5) Any Income + Expense exceeding (1% of Revenue or ₹ 100000 whichever is higher) should be disclosed.

6) Payment made to
- Auditors
- Directors
- CSR expense

Disclosure must

Auditor can be paid for Audit fee, Tax Matters, Law Matters, Management Services, Other Services, out of Pocket Expenses.

7) from 1/4/21 Disclosure Required for
- Undisclosed Income in Tax Survey
- Details of Crypto/Virtual Currency (Trade, Profit/Loss etc)

- Benami Properties
- Name of valuer
- Date of Becoming Wilful defaulter
- Relationship with Struck off Companies

8) Ratios
   - Current
   - Debt Equity & Debt Service coverage
   - ROE, ROCE, ROI
   - Turnover Ratio - Inventory, T. Receivable/Payable
   - N.P. Ratio

Adjustments

1) Revaluation of PPE

PPE
To Revaluation Reserve
(Being PPE Revalued)

2) Treatment of Proposed Dividend (upto year End) = Disclosure

3) Concept of Corporate Dividend Tax Deleted

4) for any Error, Journalise Rectification Entry like

- Sale of asset shown as suspense A/c

Suspense A/c Dr
Acc. Depreciation Dr
To PPE
To gain on sale
(Being PPE sold)

- Purchase include Advertisement Expense

Advt Expense Dr
To Purchase
(Being Purchase rectified)

- Salary include installation of Machine

Machine Dr
To Salary
(Being expence capitalised)

- B/R dishonoured and declared Bad

Bad debts Dr
To B/R
(Being B/R written off)

5) Charge Depreciation

Depreciation
To Acc. Depreciation
(Being dep charged)

P/L A/c Dr
To Dep.
(Being dep written off)

6) Issue of forfeited shares

Share Capital Dr (Reiss. Price - Calls unpaid)
To Capital Reserve

7) Outstanding Expense

Expense A/C Dr
To Expense Payable
(Being expense recorded)

8) Prepaid Expense

Prepaid Expense Dr
To Expense
Being prepaid Expense Recorded)

9) Accrued Interest Shown in Loan liability

Loan Liability Dr
To Accrued Interest (Other Current Liab.)
(Being Interest Rectified)

10) Purchase A/C

To Op. Stock	xxx	By Adjusted Purchase or COGS	xxx
To Purchase	xxx	By Cl. Stock	xxx
	___		___

11) Make Provision for Doubtful Debts

Provision for D.D Expense Dr
  To P.D.D
(Being P.D.D Expense recorded)

P/L A/C Dr
  To P.D.D. Expense
(Being P.D.D. Expense written off)

12) Calculate Tax on PBT

* Always calculate Equity Dividend on Paid up capital.
  If Equity Dividend Paid, Pay Pref Dividend (show liability)
  If Q silent, NO Pref Dividend
  If Part of Interim Dividend on Pref. Paid, assume Balance is Payable

Divisible Profit (Section 123 of The Companies Act 2013)

Company Can pay dividend out of

Current year Profits

↓

Allowed from Divisible Profits of Current year without limits.

↓

Calculation of Current Year Divisible Profit

Net Profit	xxx
+ Dep Charged	xxx
− Dep as per* S-II / Section 123	xxx
Divisible Profit	xxx

* include Arrears of Dep.

Accumulated Past Profit

↓

Allowed with limits.

↓

Limits given by Companies Declaration of Dividend Rules 2014

↓

Lower of following

(i) Accumulated free Profits (P&L + General Reserve) less 15% of ESC + PSC

OR

(ii) 10% of Paid up S/Capital (ESC + PSC) + Acc. Free Reserve (P&L + G/R)

Note: Rate of Dividend shall not exceed more than Avg Rate of Dividend in Past 3 years.

Question X Ltd has

ESC	5500,000
10% PSC	20,00,000
P&L Accumulated	10,00,000
G/R "	200000

In past X Ltd has distributed 6% Avg Dividend Company wants to use past Profit to distribute 40% as Dividend.

Current year Divisible Profit is ₹ 300000

Calculate how much dividend can be distributed?

Question

9% PSC	20,00,000
ESC	50,00,000
GR (Past)	10,00,000
P&L (Past)	9,00,000
Current PAT	7,00,000

Avg Dividend past 3 year 10%
Company wants to declare @ 12%

Check can company distribute 12% as dividend?

Question

9% PSC	20,00,000
ESC	50,00,000
GR (Past)	10,00,000
P&L (Past)	9,00,000
Current PAT	7,00,000

Avg Dividend past 3 year 40%
Company wants to declare @ 35%

Check can company distribute 35% as dividend?