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**ACCOUNTING STANDARDS IN ITS SIMPLEST FORM**

**- By CA RADHA MADAM  
DIRECTOR, MASTER MINDS**

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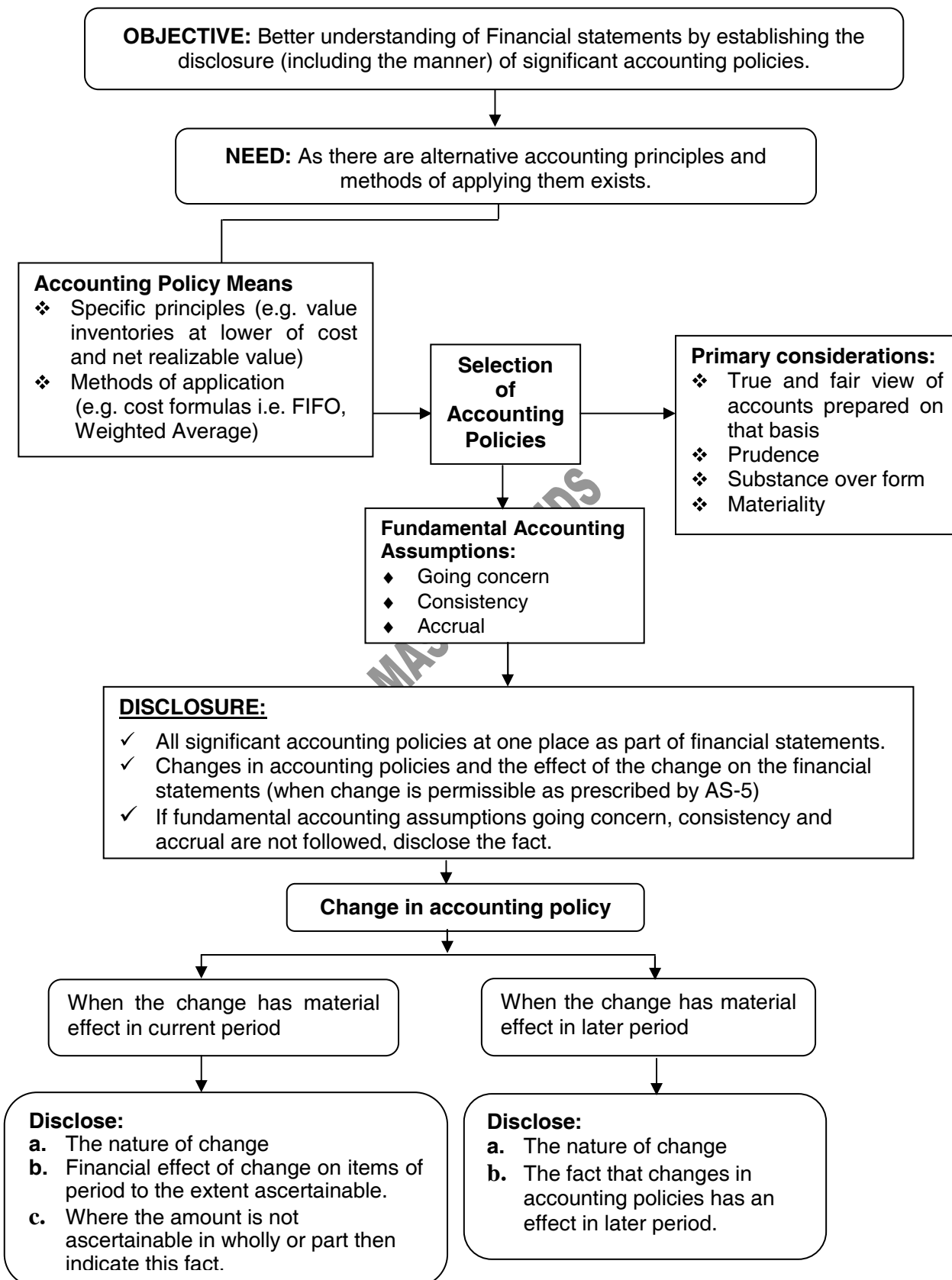
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## **ACCOUNTING STANDARDS (GROUP-I)**

### **AS – 1: DISCLOSURE OF ACCOUNTING POLICIES:**

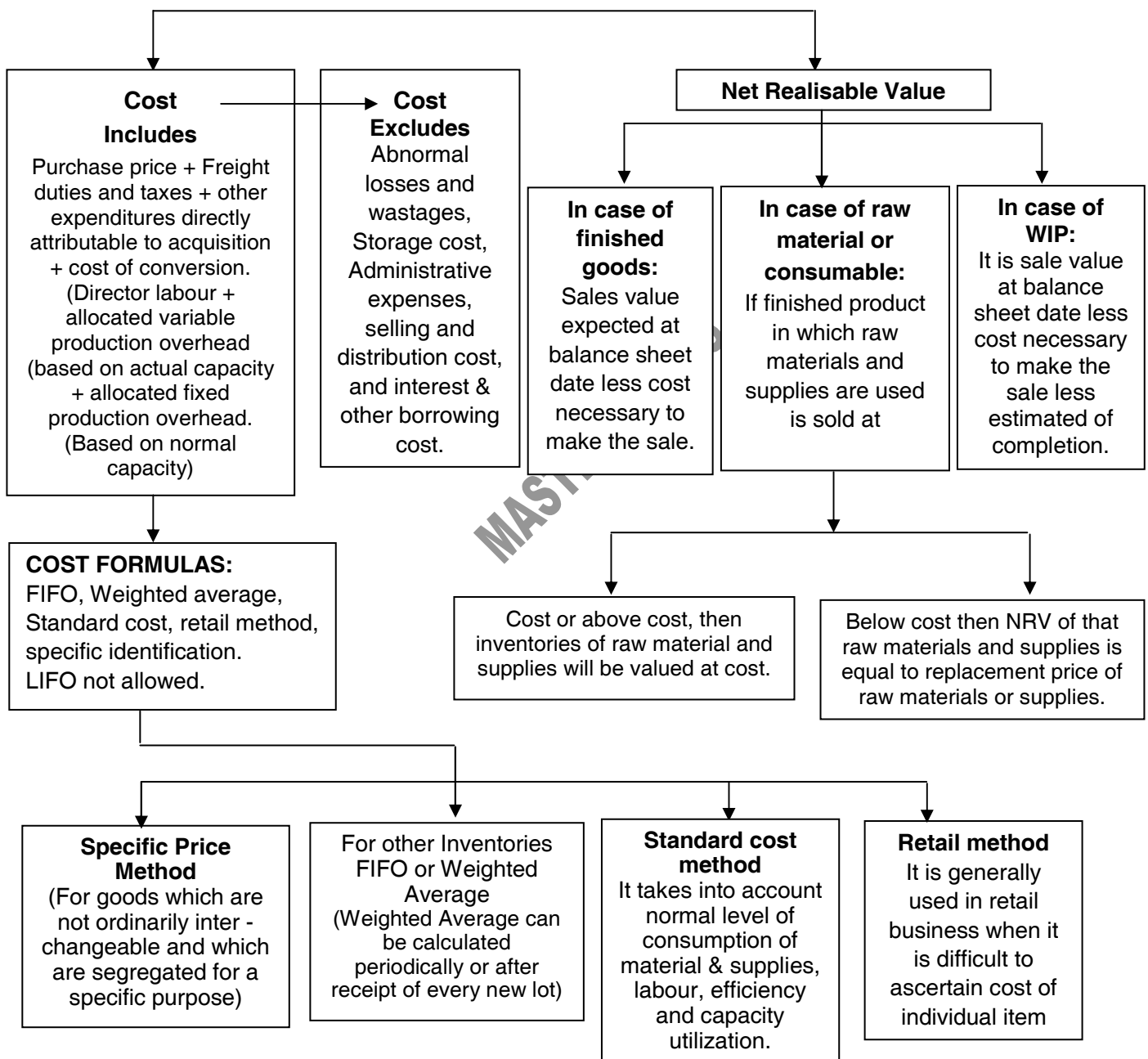


**AS – 2: VALUATION OF INVENTORIES:****INVENTORIES**

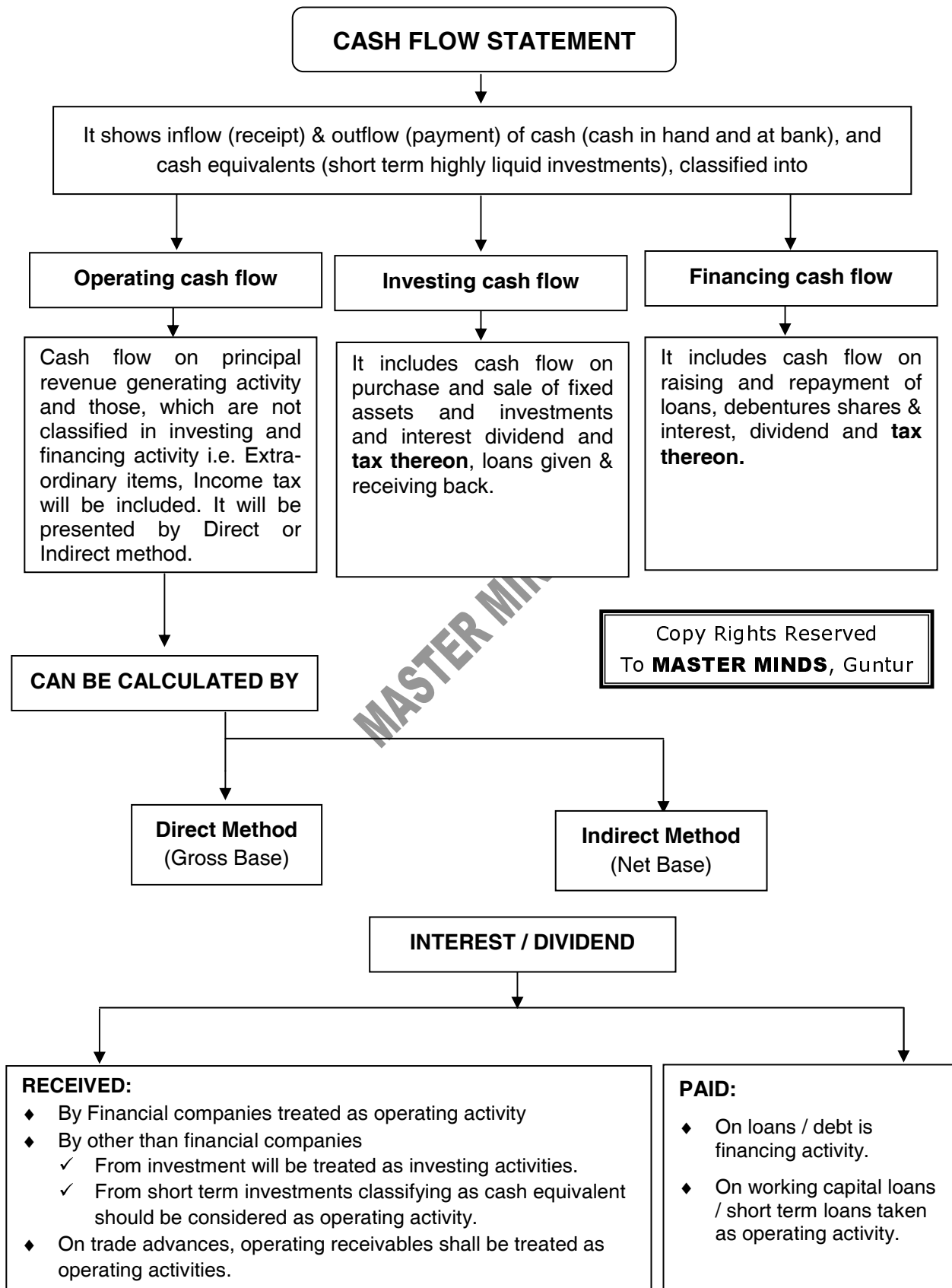
(Includes, finished goods, work in progress, raw material, consumable, loose tools etc.  
Which are held for resale or consumption?)

**VALUATION OF INVENTORIES:**

- ◆ This will be valued at the lower of cost and net realizable value
- ◆ on item by item basis but in some cases may be done on group basis

**SPECIAL POINTS:**

- ◆ Joint costs to be allocated on a rational and consistent basis, example relative sales value at split off point.
- ◆ In case of by products, deduct the NRV of by products from the cost of main products.

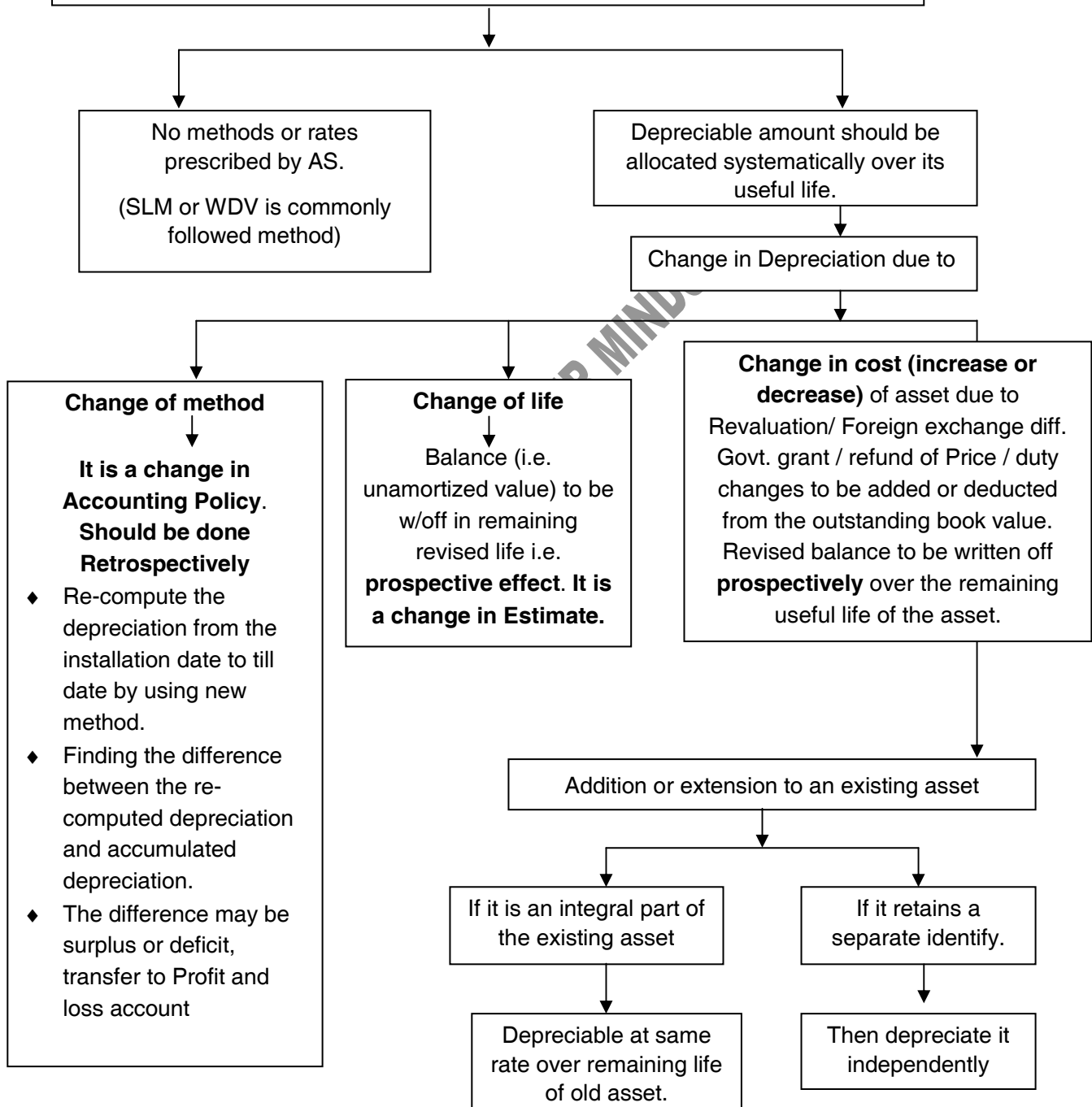
**AS – 3: CASH FLOW STATEMENT**

**AS – 6: DEPRECIATION ACCOUNTING**

**MEANING:** Depreciation is a measure of wearing out, consumption or loss in value of depreciable asset arising from usage or passage of time and nothing but allocation of cost of asset over useful life of asset.

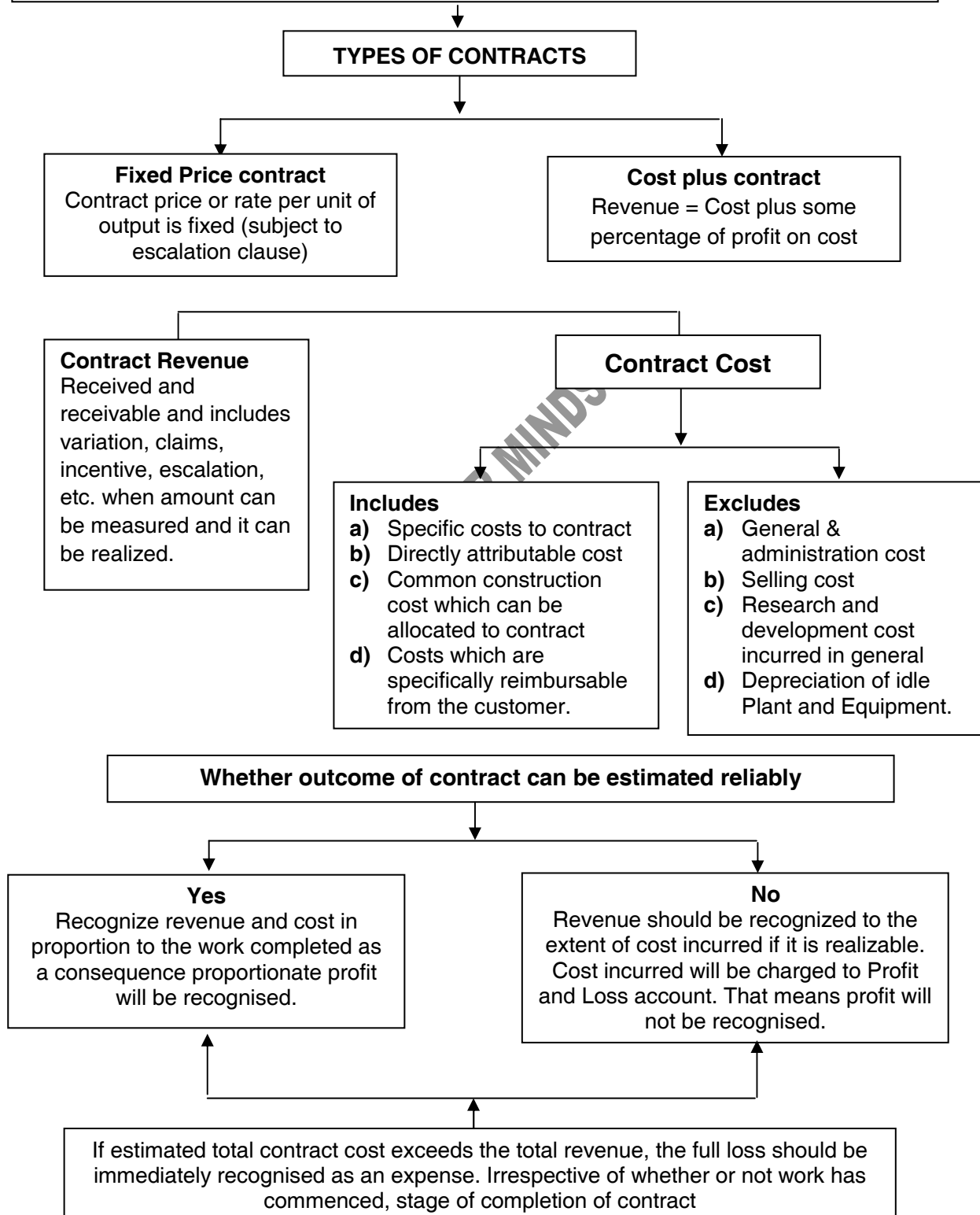
**Depreciable assets are those assets:**

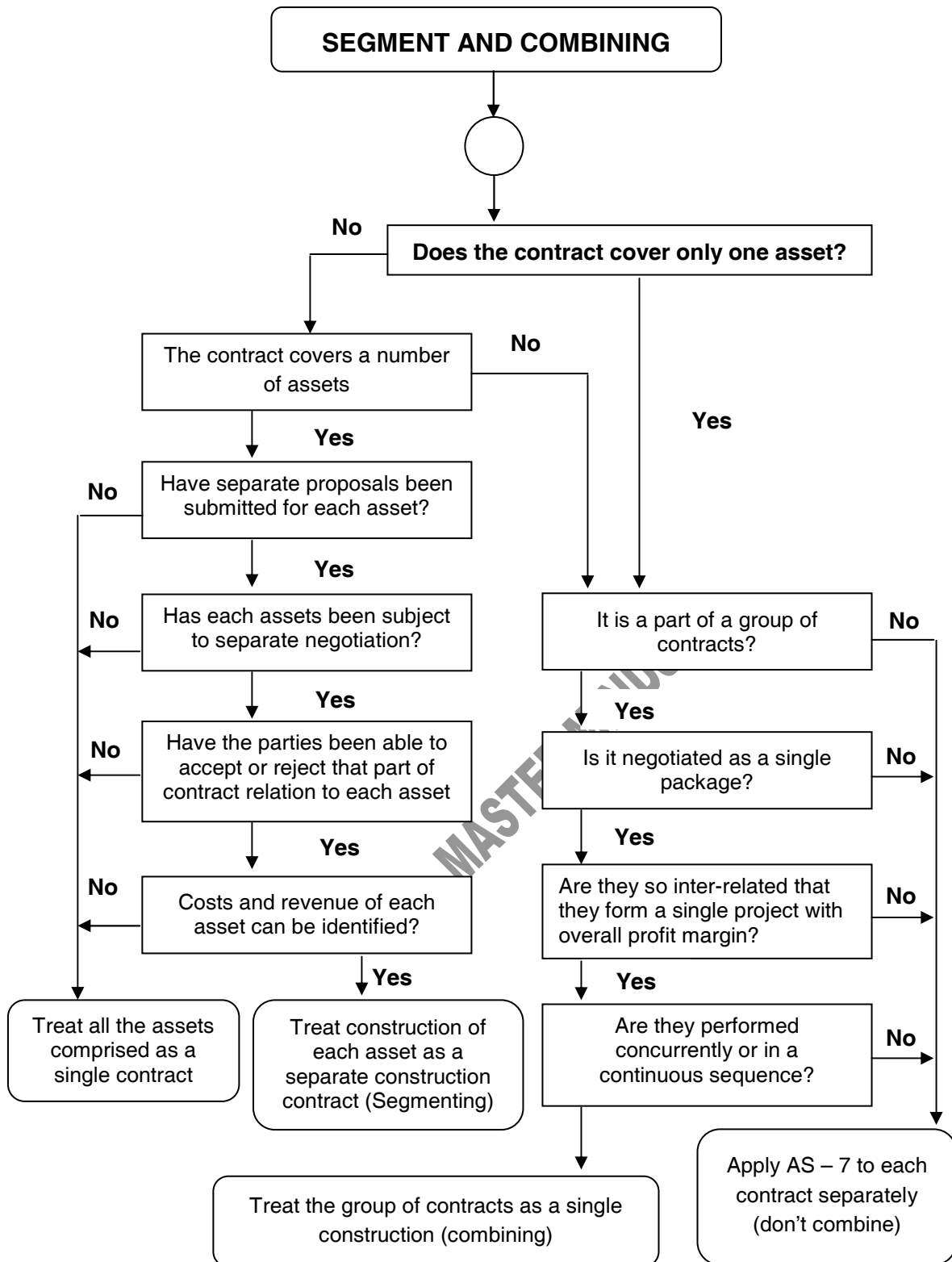
- ◆ Life of the asset should be more than one year.
- ◆ Having a limited useful life.
- ◆ Held by an enterprise and use in production or providing goods and services.
- ◆ Not held for sale in the ordinary course of business.



**A.S - 7: CONSTRUCTION CONTRACTS:**

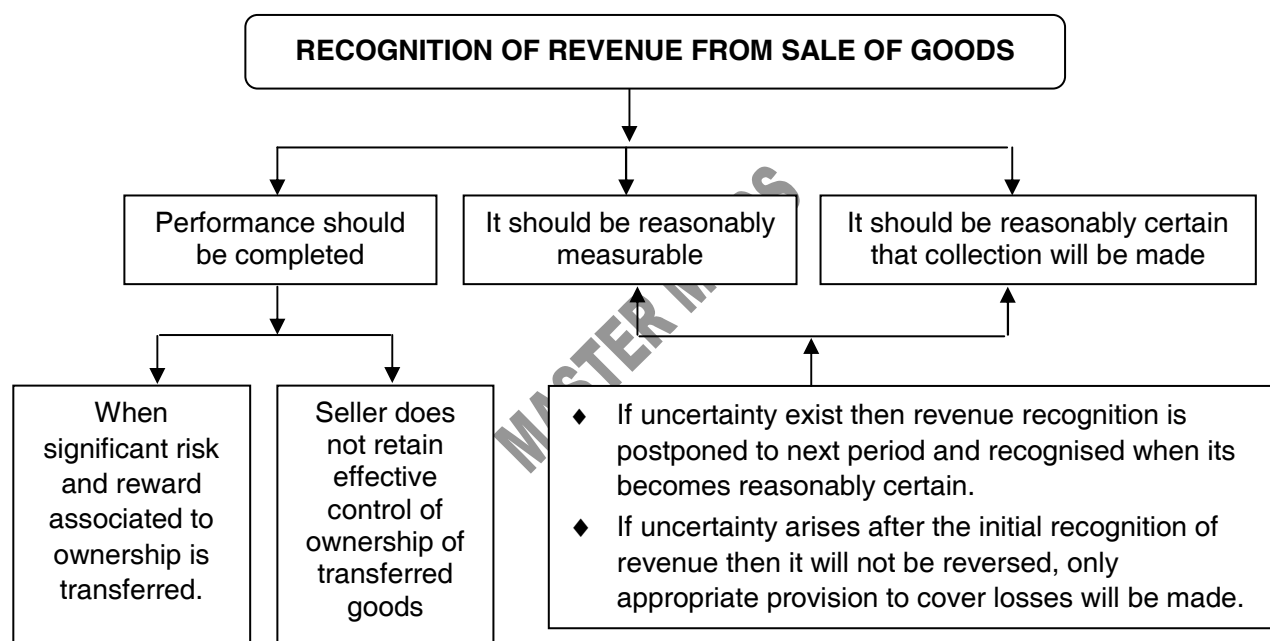
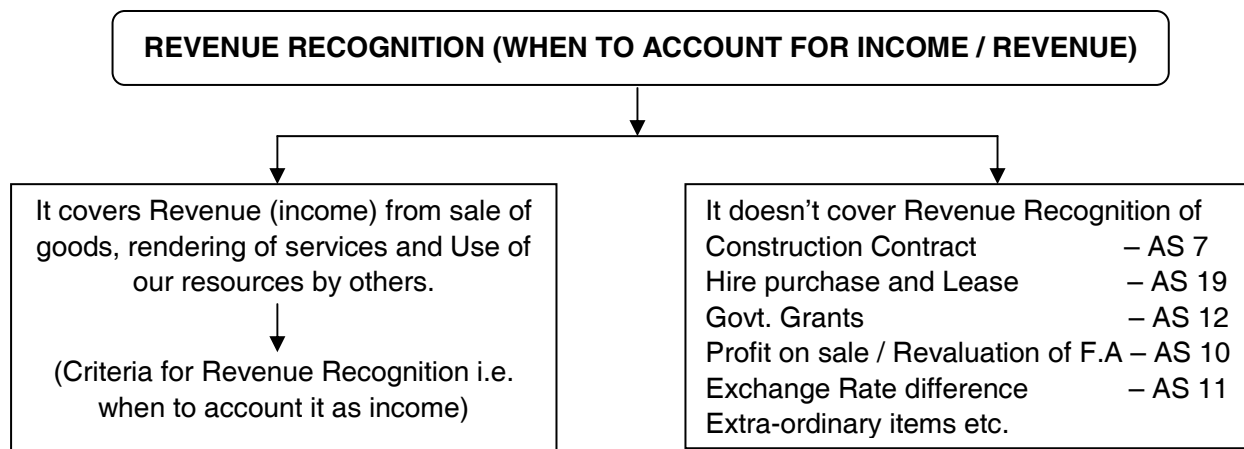
- ◆ AS – 7 is applicable for accounting of construction contract in the books of contractor. (not applicable for accounts of contractee)
- ◆ Apart from normal construction contract, also covers:
  - ✓ Contracts for rendering of services directly related to construction of the assets.
  - ✓ Contracts for destruction or restoration of assets.
  - ✓ Contracts for restoration of environment following demolition of assets.



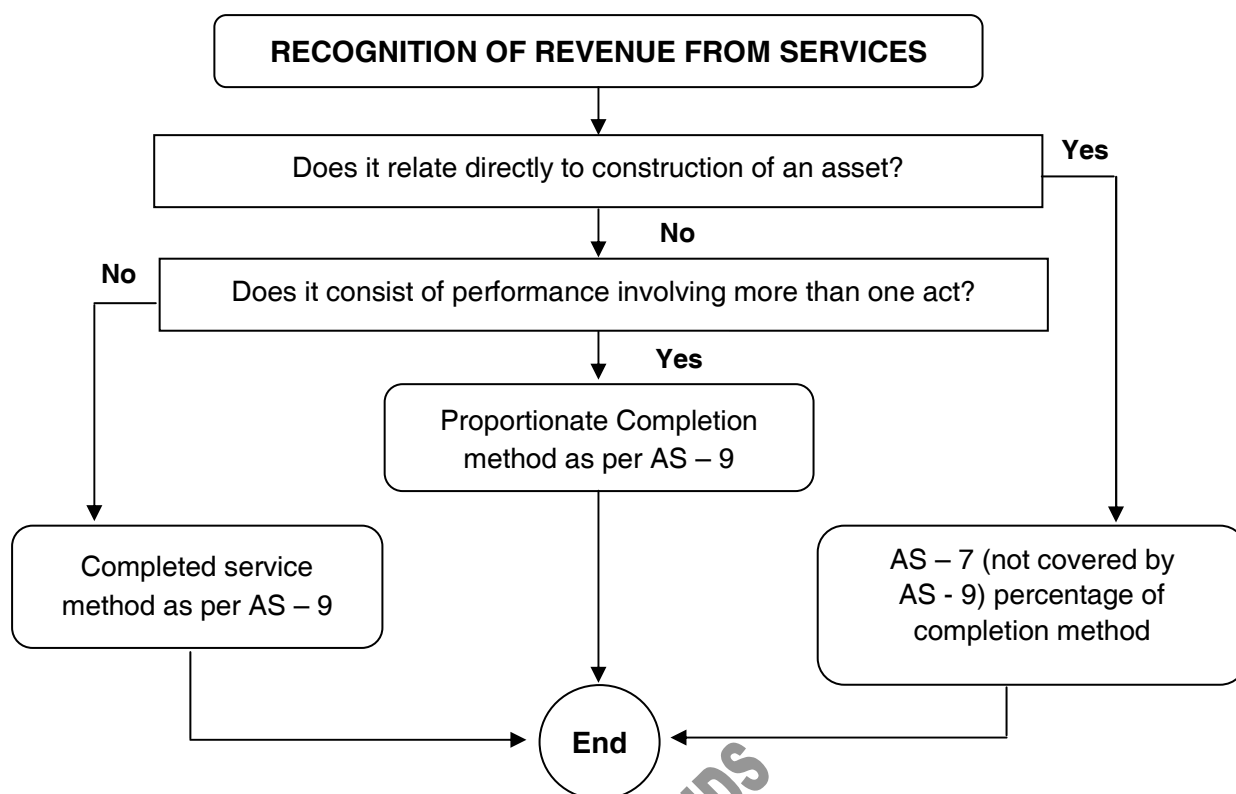


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**A.S – 9: REVENUE RECOGNITION (WHEN TO ACCOUNT FOR INCOME / REVENUE):****RECOGNITION OF REVENUE WHEN DELIVERY OF GOODS SOLD SUBJECT BELOW CONDITIONS**

Nature	When revenue is to be recognised
1. Sale on approval	1. When buyer confirms his desires to buy such goods by communication.
2. Guaranteed Sales	2. as per the agreement of the sale or after reasonable period has expired
3. Warrantee Sales	3. Immediately. But provision should be made to cover unexpired period of warranty.
4. Consignment Sales	4. When goods sold to third party
5. Special order and shipments	5. Goods are identified and ready for delivery

**RECOGNITION OF REVENUE FROM SERVICES:****EXAMPLES OF REVENUE RECOGNITION OF SERVICE**

S.NO	NATURE OF SERVICE INCOME	WHEN REVENUE IS TO BE RECOGNIZED	METHOD ADOPTED
1.	Installation fees other than incidental to the sale of a product	Only when the equipment is installed and accepted by the customer.	Completed Service Contract Method
2.	Insurance agency commissions	On the effective commencement of renewal dates of the related policies	- do -
3.	Media commission of advertising agencies	When the related advertisement or commercial appears before the public and the necessary intimation is received by the agency.	- do -
4.	Production commission	When the project is completed	- do -
5.	Revenue from artistic performances, banquets and other special events	When the event takes place. When a subscription to a number of events is sold, the fee should be allocated to each event on a systematic and rational basis.	- do -
6.	Tuition Fees	Over the period of instruction.	Proportionate completion method.

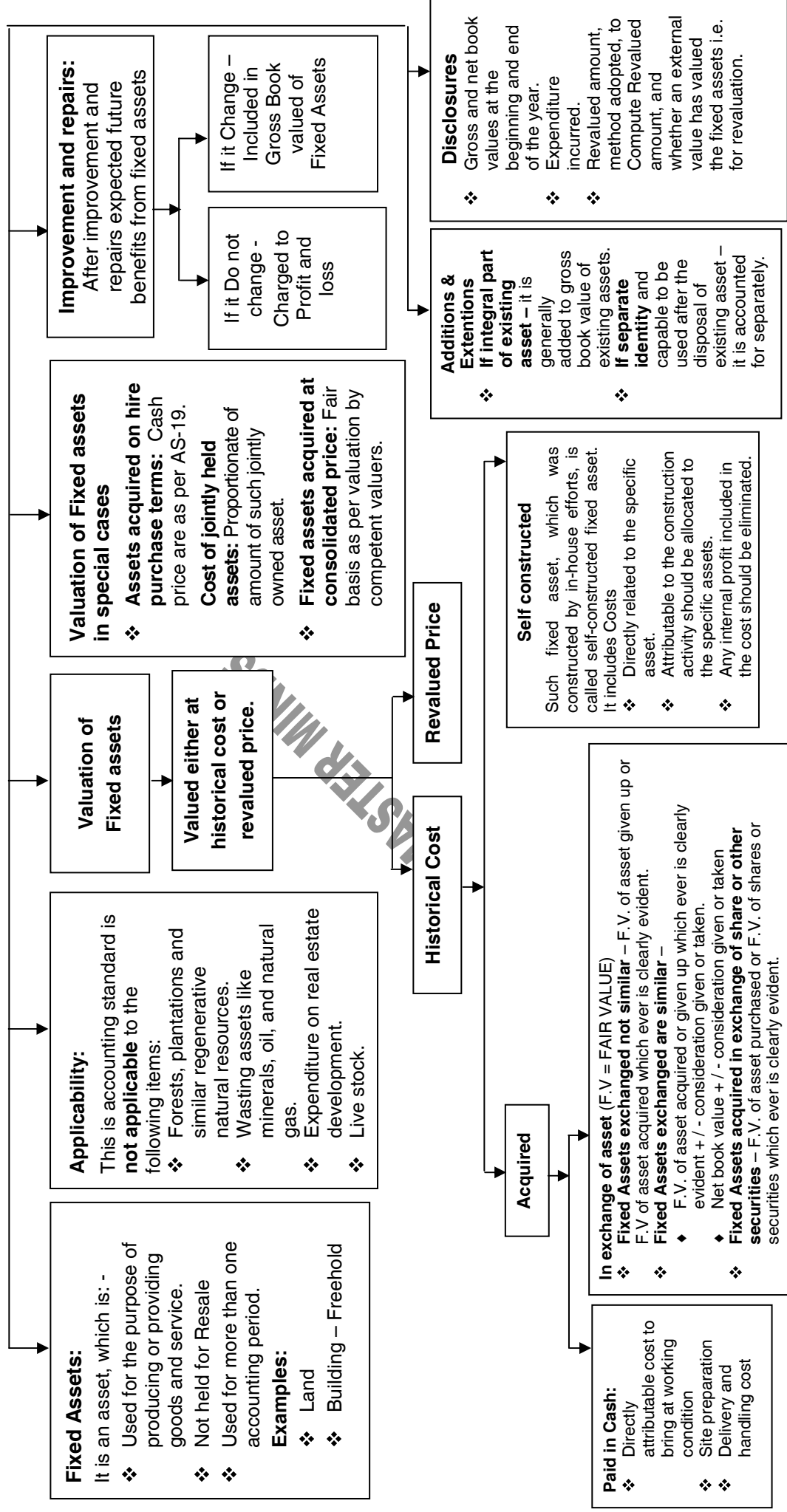
7.	Commitment facility or loan management fees which relate to continuing obligations or services	Recognized over the life of the loan or facility having regard to <ul style="list-style-type: none"> <li>to the amount of the obligation outstanding</li> <li>the nature of the services provided and</li> <li>the timing of the costs relating thereto.</li> </ul>	- do -
8	Commissions charged for arranging or granting loan or other facilities	When a binding obligation has been entered into.	- do -
9.	Membership fee which permits only membership and all other services or products are paid for separately, or if there is a separate, or if there is a separate annual subscription	When received	Completed Service Contract Method
10.	If the membership fee entitles the member to services or publications to be provided during the year	On a systematic and rational basis having regard to the timing and nature of all services provided.	Proportionate completion method.

**RECOGNITION OF REVENUE BY USE OF THE ENTERPRISE RESOURCES BY OTHERS**

ITEM OF REVENUE	BASIS OF RECOGNITION
1. Interest (charges for the use of cash resources or amounts due to the enterprise)	On a time proportion basis taking into account the amount outstanding and the rate applicable
2. Royalties (charges for the use of such assets as know-how, patents, trade marks and copyrights)	On an accrual basis in accordance with the terms of the relevant agreement.
3. Dividends from investments in shares (rewards from the holding of investments in shares)	When the owner's right to receive payment is established. <b>(i.e. when dividend declared)</b>
4. Discount or premium on debt securities	Over the period to maturity in proportion to balance outstanding (Straight line basis) over the maturity period.

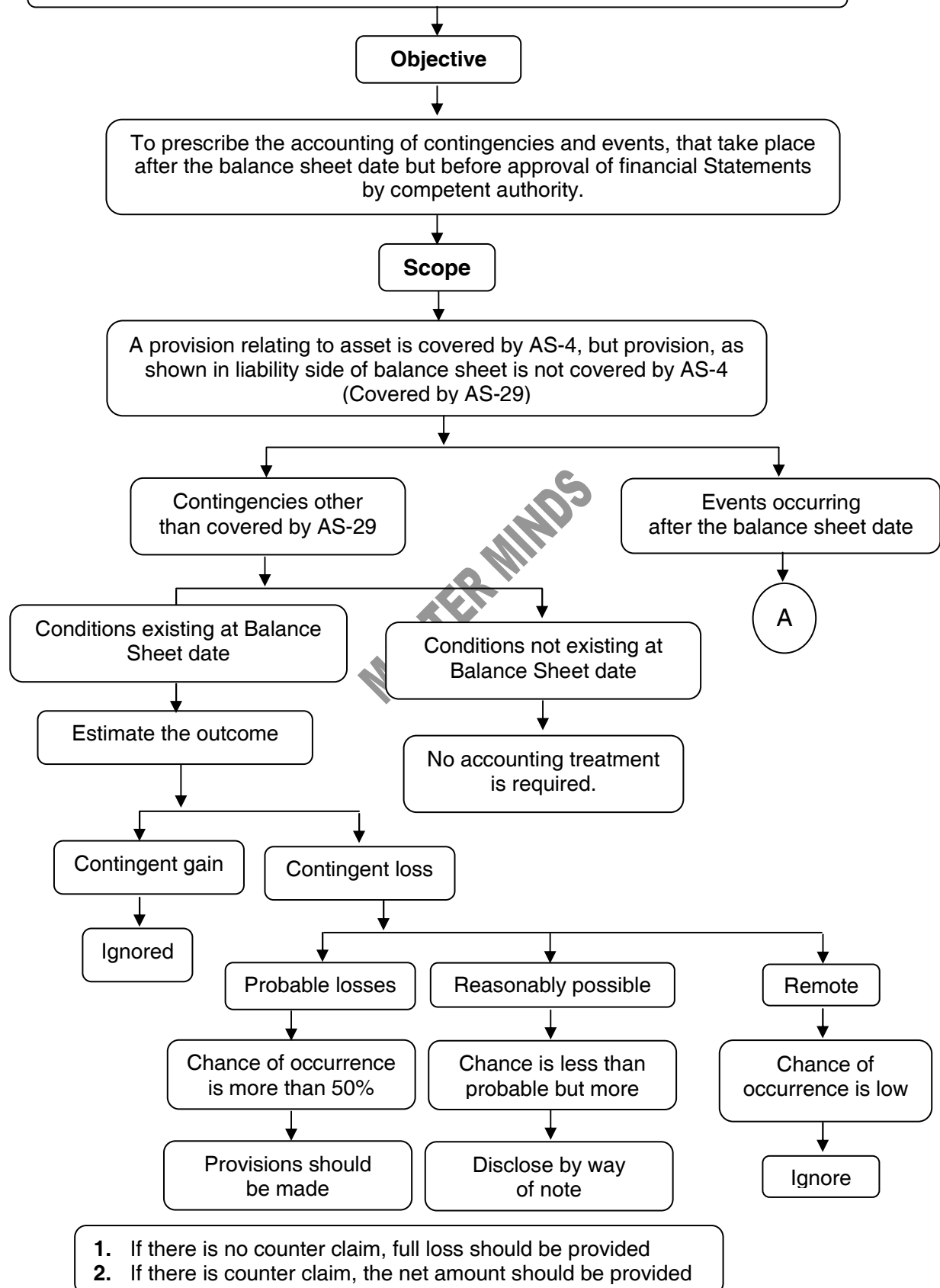
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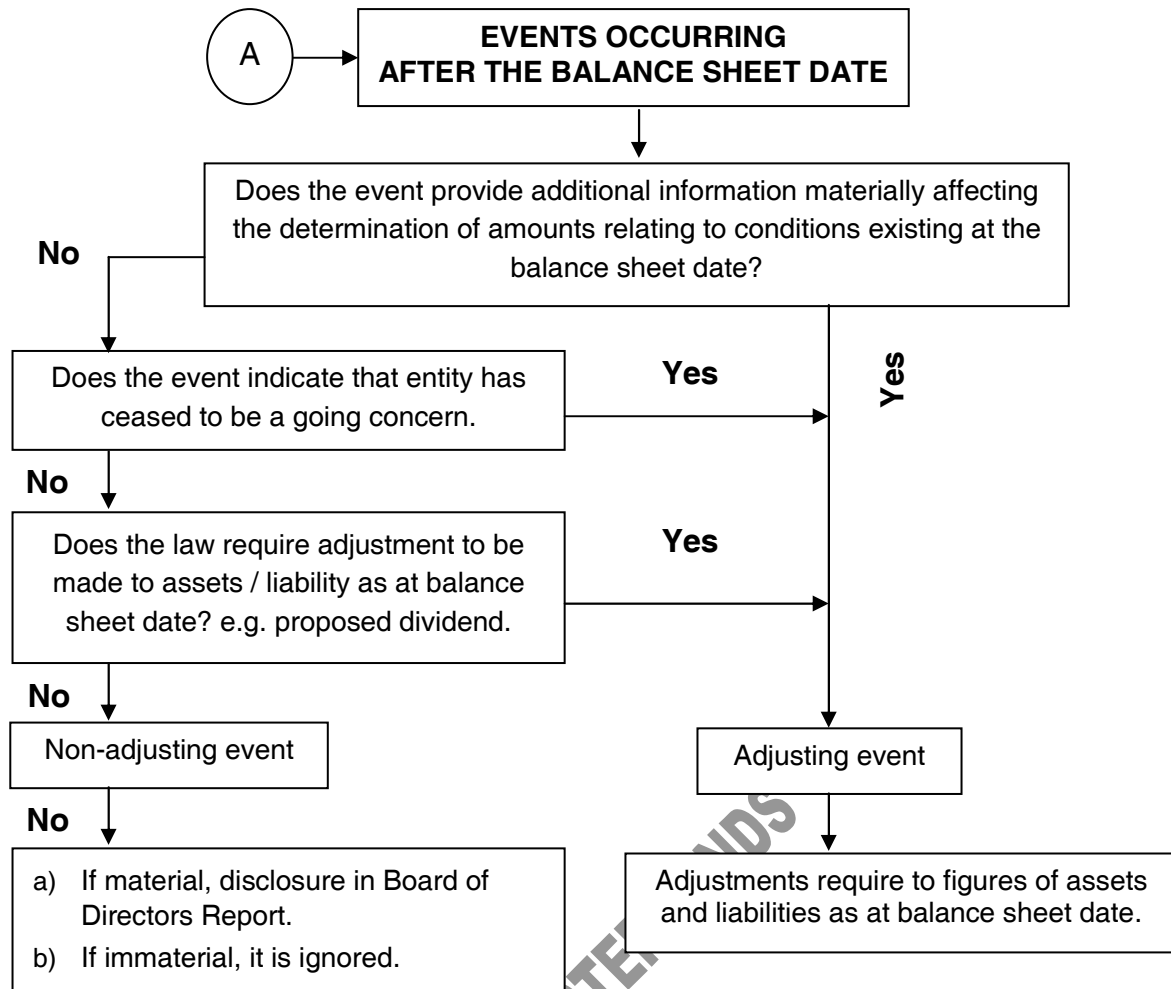
## AS – 10: ACCOUNTING FOR FIXED ASSETS



## **ACCOUNTING STANDARDS (GROUP-II)**

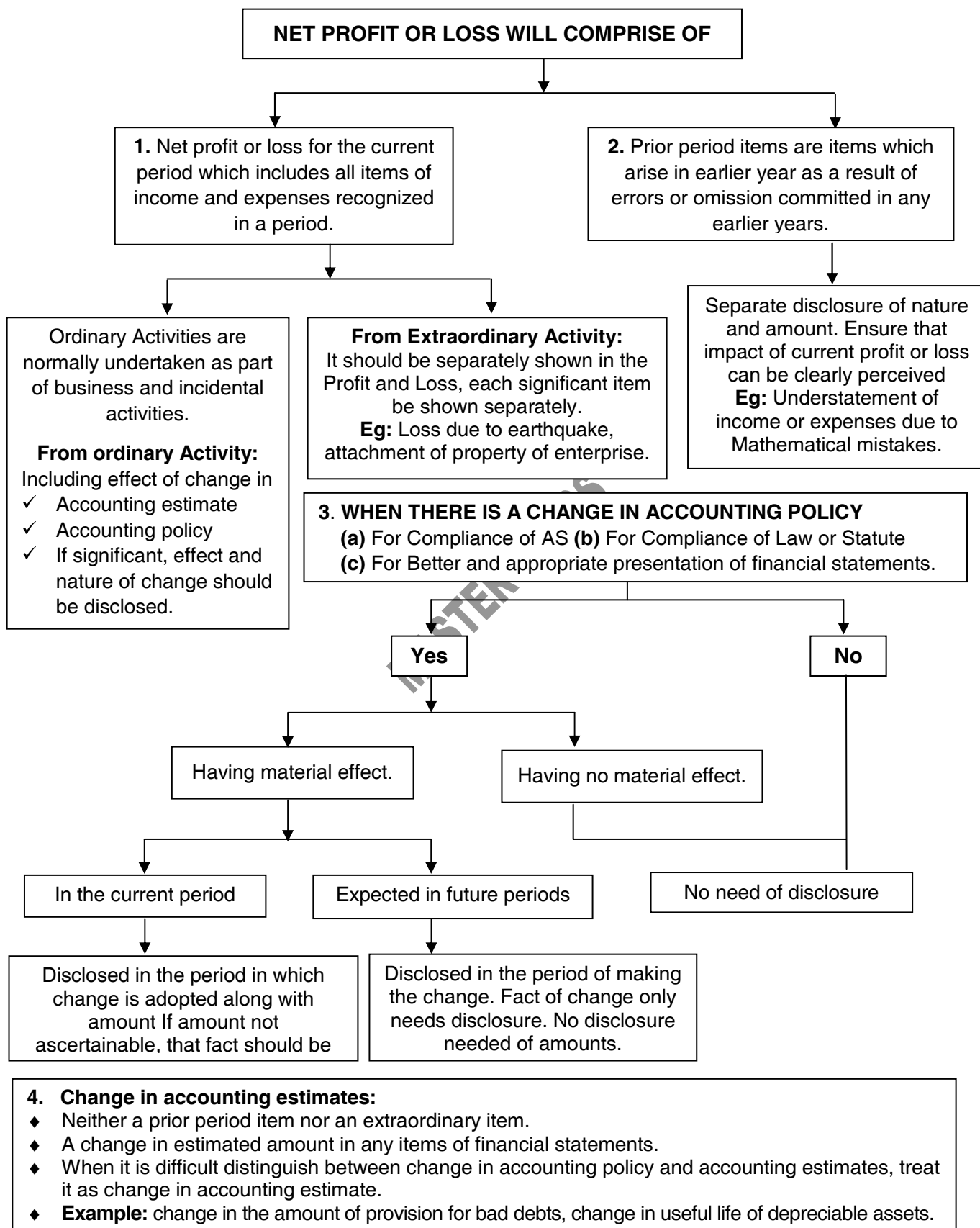
### **AS – 4: Contingencies and events occurring after the Balance Sheet Date**





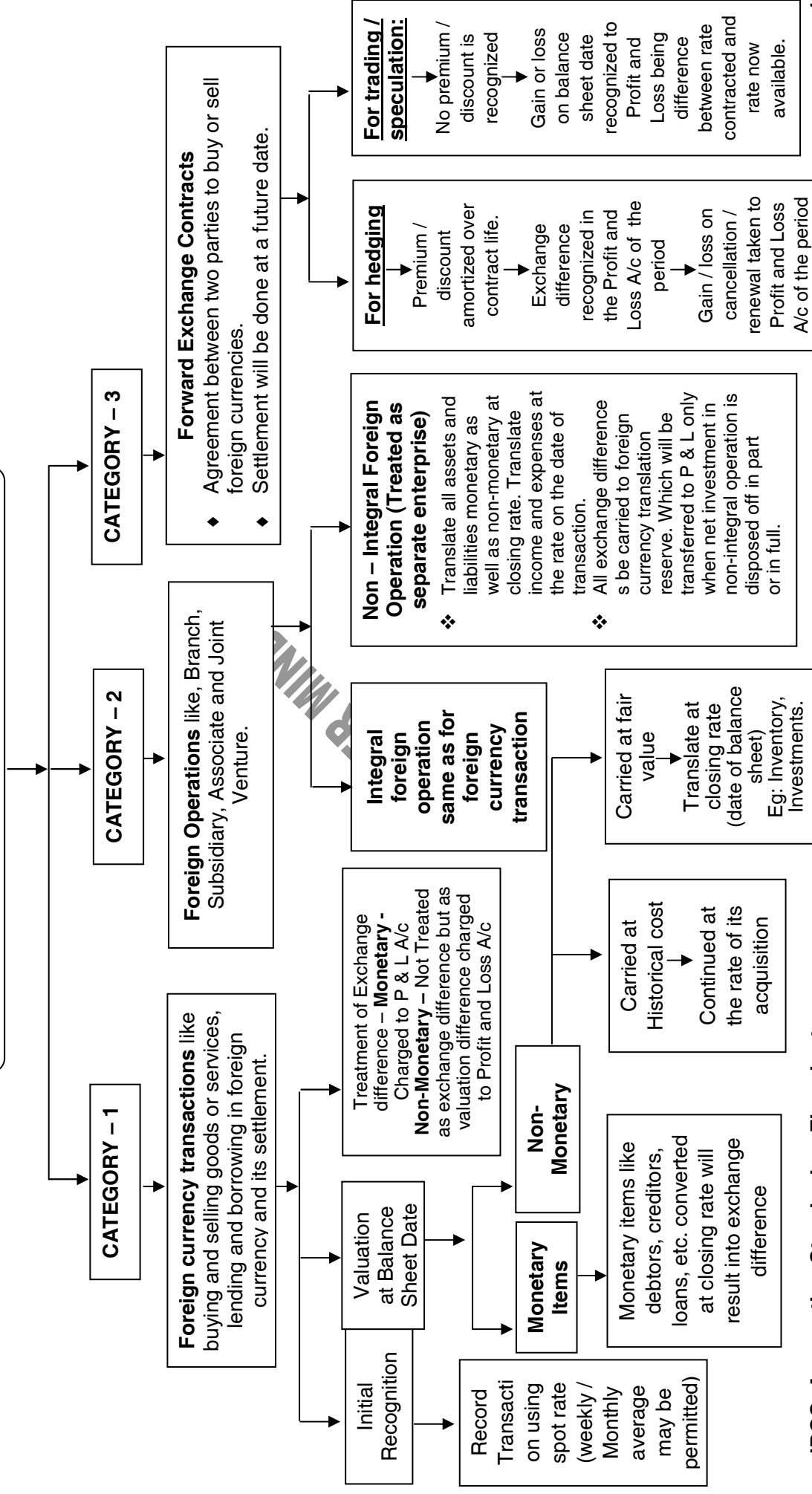
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## AS – 5: NET PROFIT / LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGE IN ACCOUNTING POLICIES:



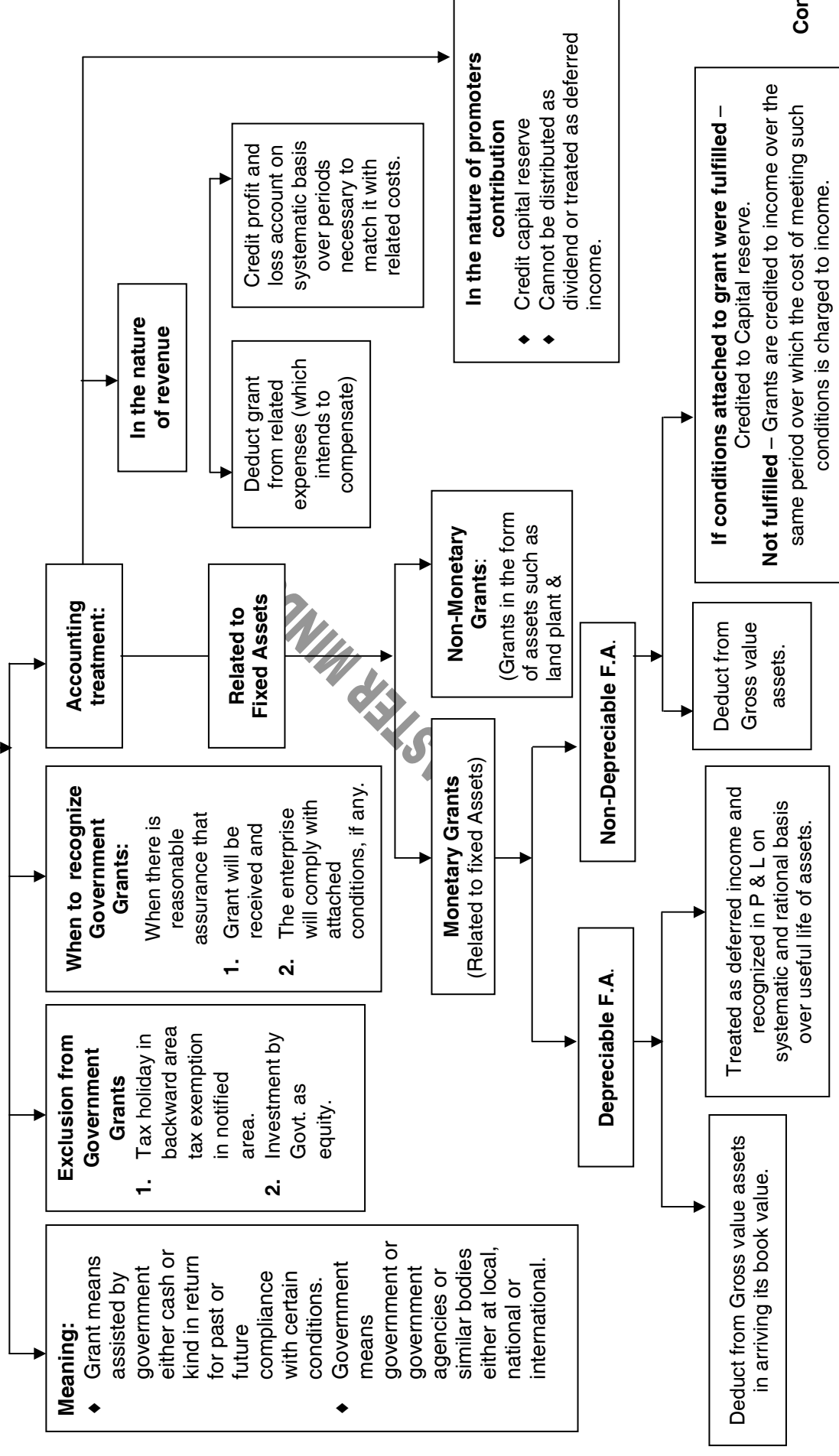
# AS-11 (REVISED 2003)

## The Effect of changes in Foreign Exchange Rates



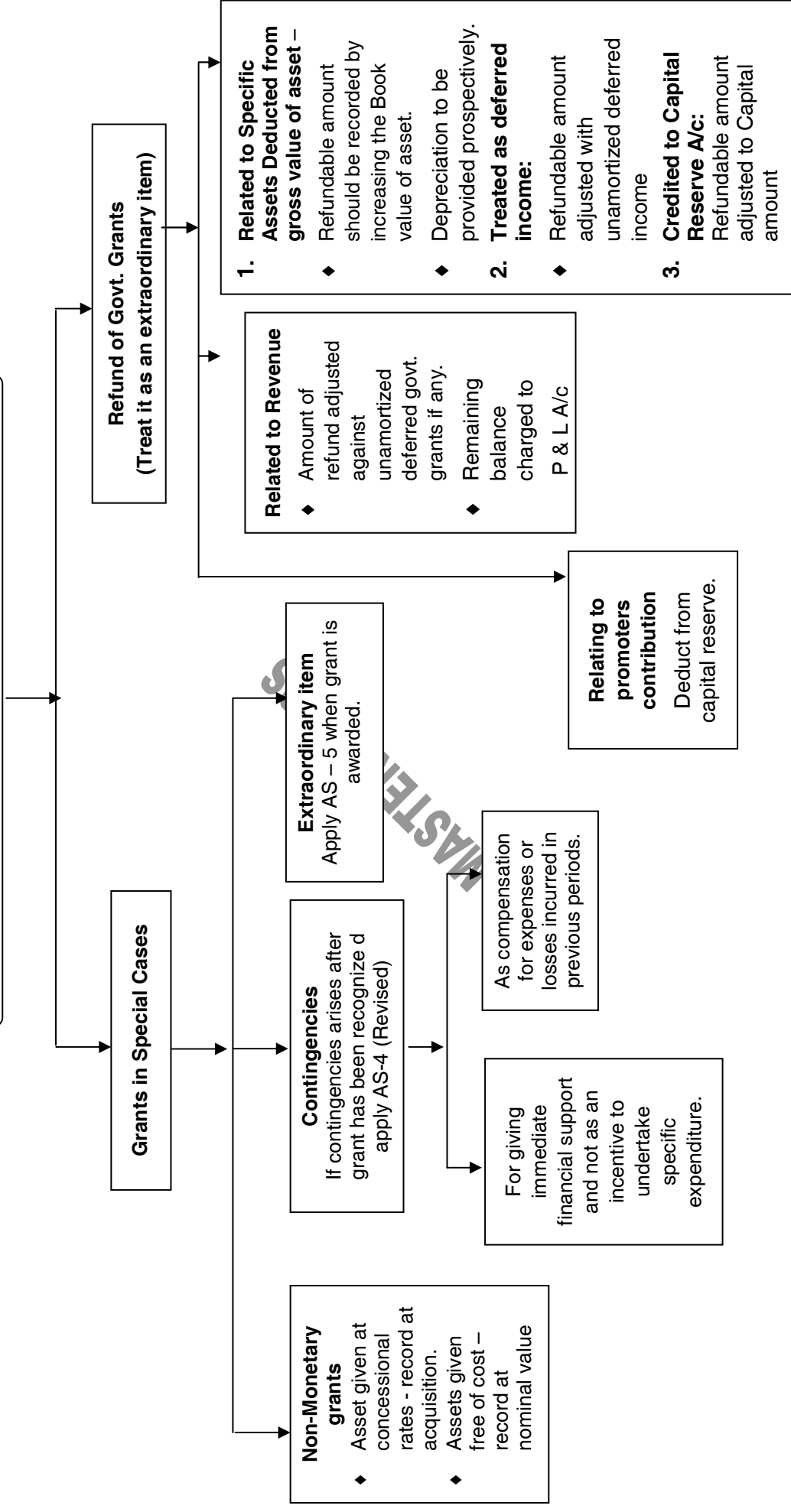


## ACCOUNTING FOR GOVERNMENT GRANTS – AS-12

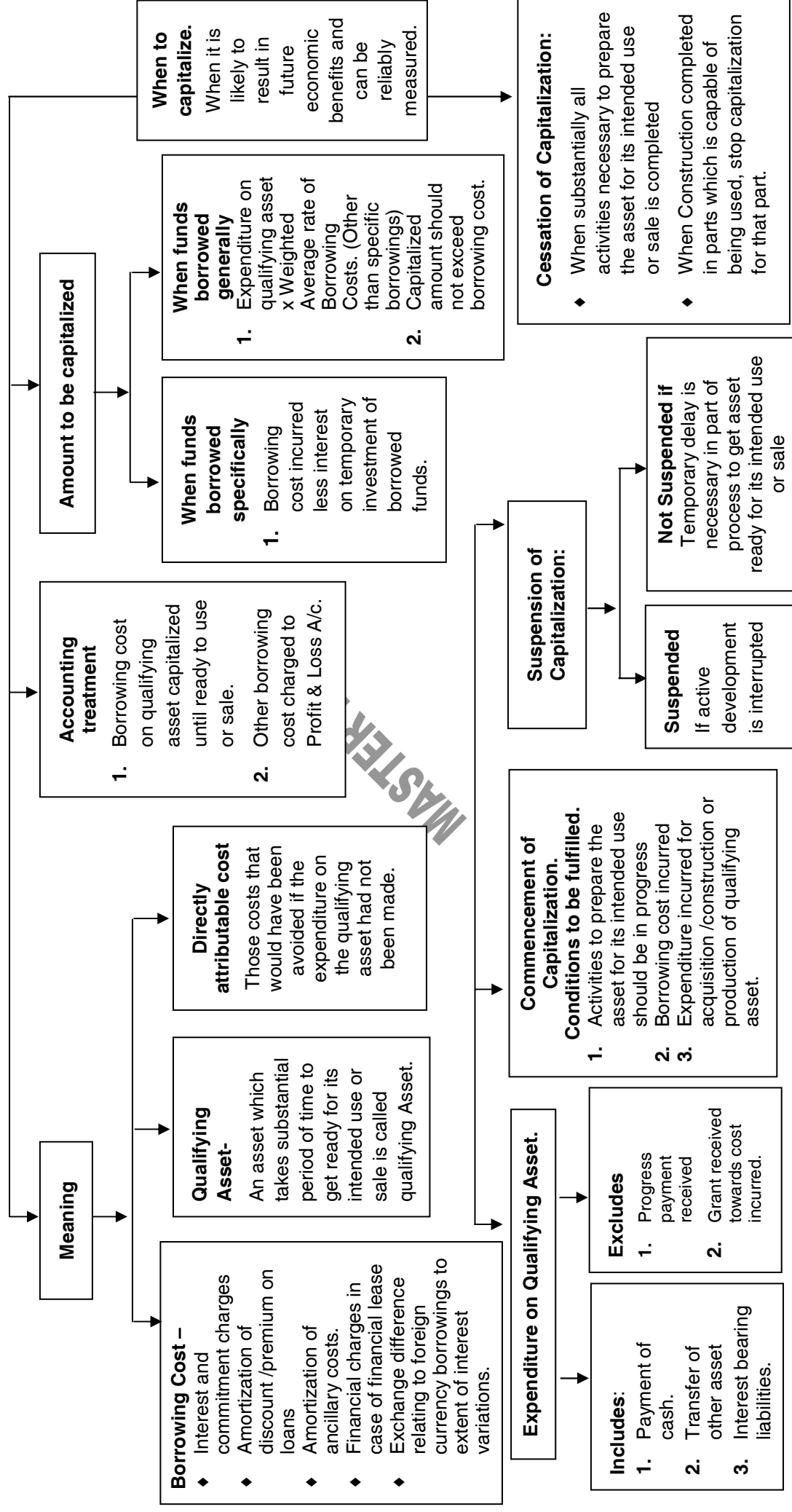


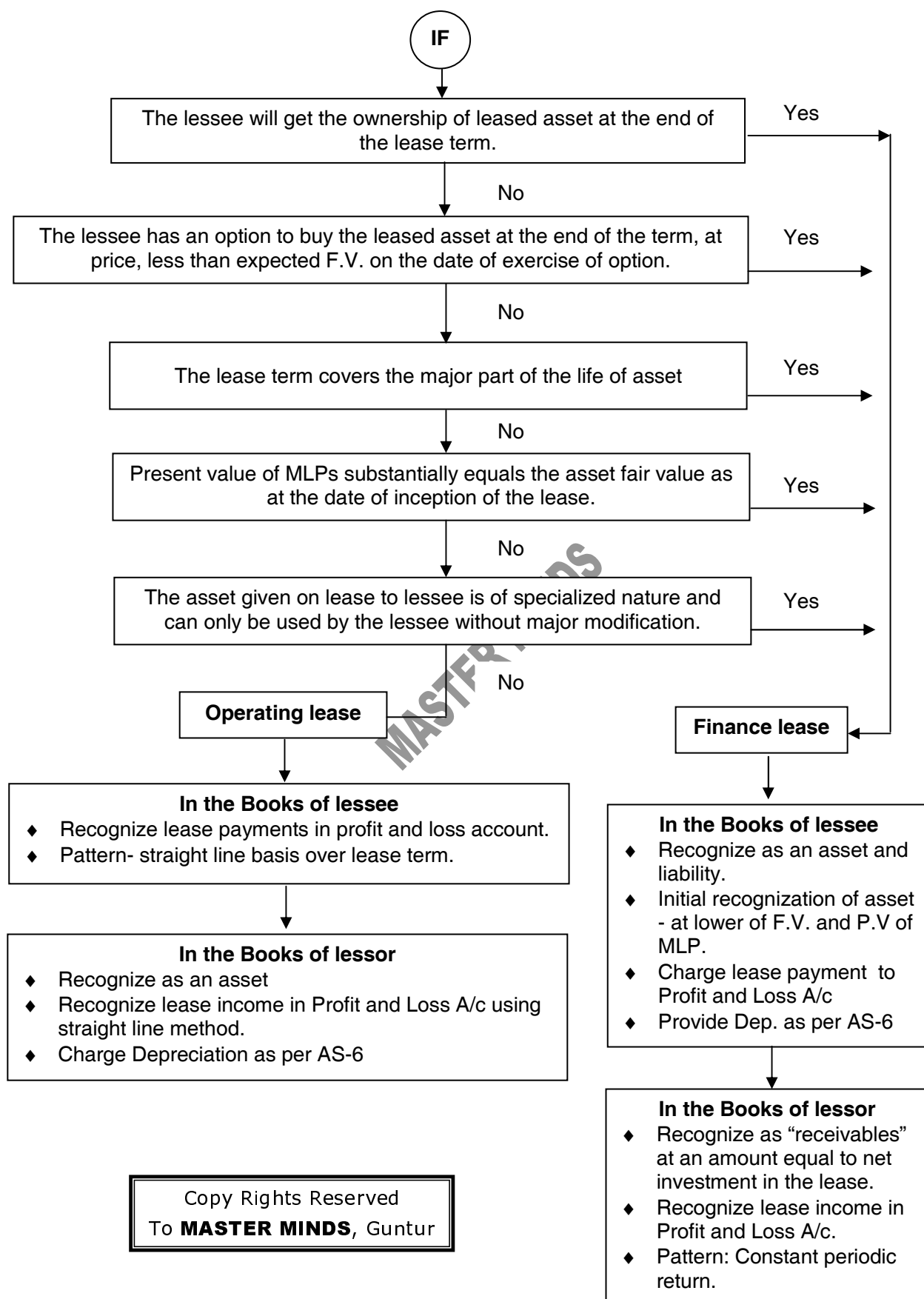
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## ACCOUNTING FOR GOVERNMENT GRANTS – AS-12



## BORROWING COST – AS - 16



**AS-19: ACCOUNTING FOR LEASES**

## KEY TERMS

- ◆ Gross investment = MLP (in view of lessor) + unguaranteed residual value.
- ◆ Net investment = Gross investment - unearned finance income
- ◆ Unguaranteed residual value = Gross investment – Present value of Gross investment
- ◆ MLP in view of lessor = lease rentals + any guaranteed R.V. (by or on behalf of lessee) + R.V. Guaranteed by third party.
- ◆ MLP in view of lessee = lease rentals + any guaranteed R.V. which is guaranteed by or on behalf of lessee.
- ◆ Implicit interest rate = discount rate that makes P.V of gross investment just equal to Fair Value of leased asset.
- ◆ Fair value of leased asset (at the inception of lease = present value of Minimum lease payments (in view of lessor) + any unguaranteed residual value according to the lessor.
- ◆ Guaranteed residual value (in respect of lessee): such part of the R.V., which is guaranteed by or on behalf of the lessee.
- ◆ Guaranteed residual value (in respect of lessor) such part of the R.V., which is guaranteed by or on behalf of the lessee or by an independent third party.

## SALE AND LEASE BACK TRANSACTIONS

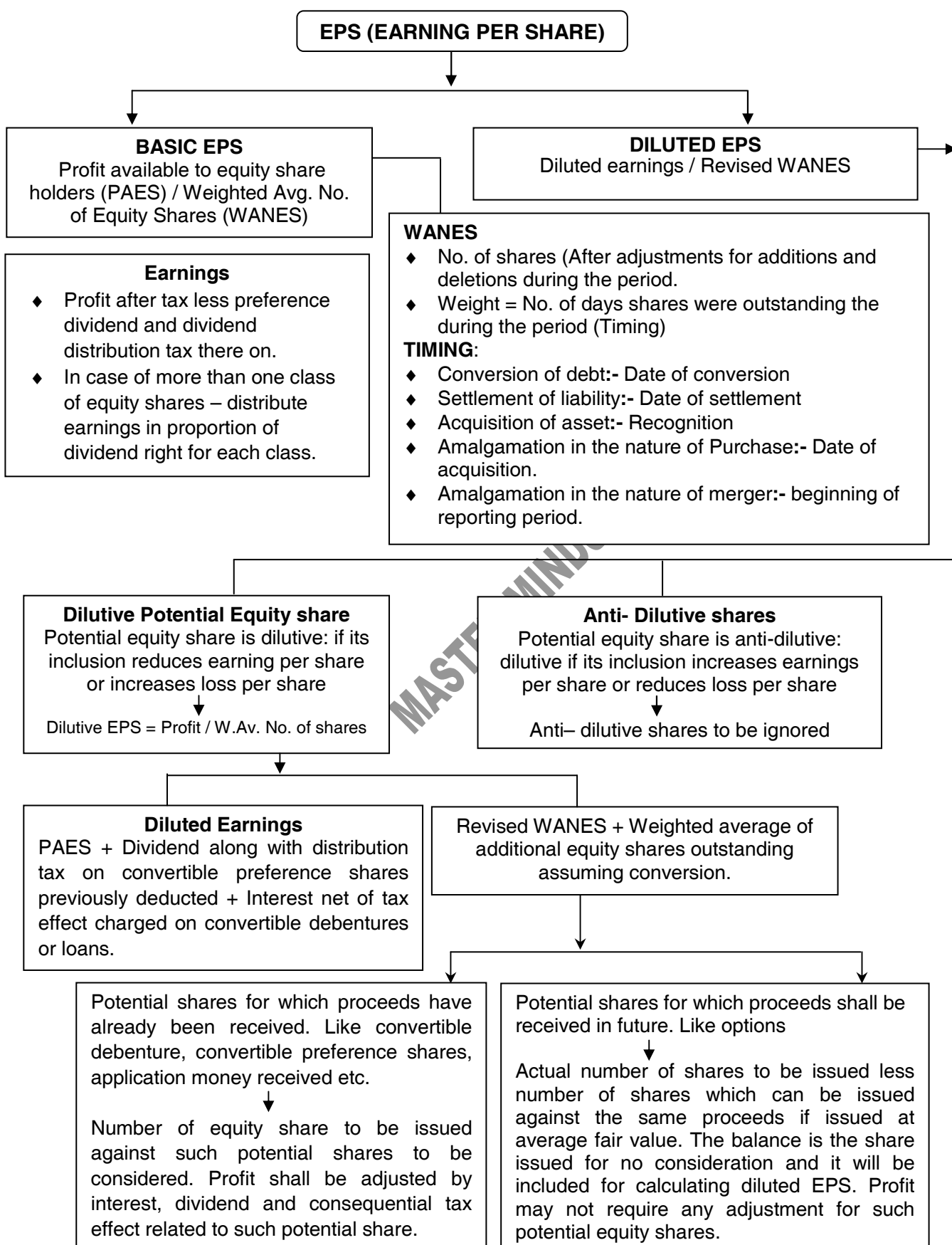
- ◆ **If lease back is finance lease.**  
Defer any excess or deficiency of sale proceeds over carrying amount and amortize it over lease term in proportion of dep. on leased asset.

**If lease back is operating lease**

(S.P = Selling Price, F.V = Fair Value, C.A = Carrying Amount)

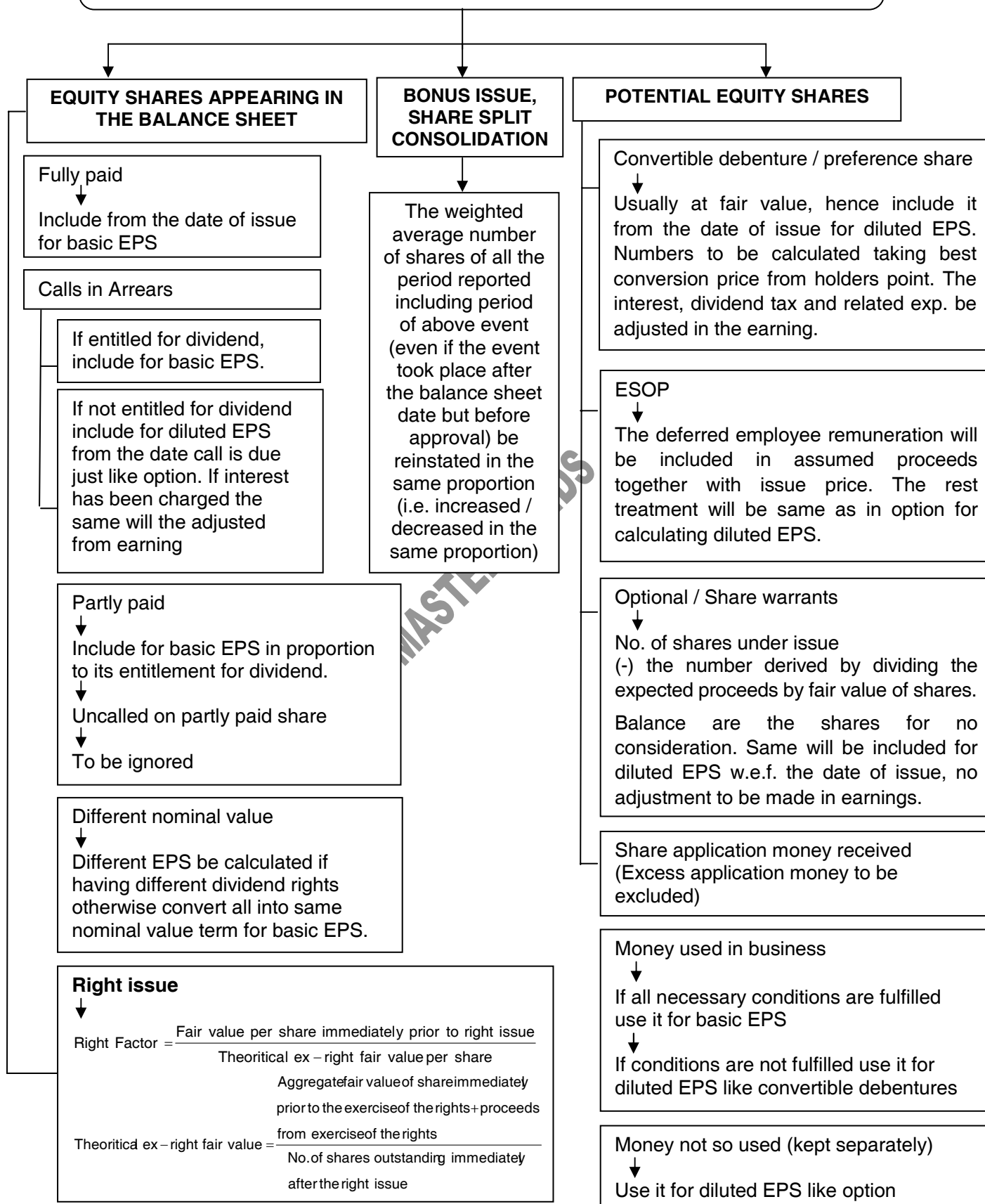
- ◆ **If S.P. = F.V :** any profit or loss recognize immediately.
- ◆ **If S.P. < F.V**
  - ✓ **C.A < S.P:**– Profit:– Recognize immediately
  - ✓ **C.A. > S.P:**– Loss:– Recognize immediately
- ◆ **If S.P. > F.V.**
  - ✓ **If C.A. = F.V:**– Profit:– amortize the profit over lease period.
  - ✓ **If C.A. < F.V:**– to the extent of (S.P. – F.V):– Profit:– Defer the profit.
  - ✓ **If C.A. > F.V.**  
To the extent of (C.A – F.V) :– Loss:– Recognize immediately  
To the extent of (S.P. – F.V.) :– profit:– should be amortized.

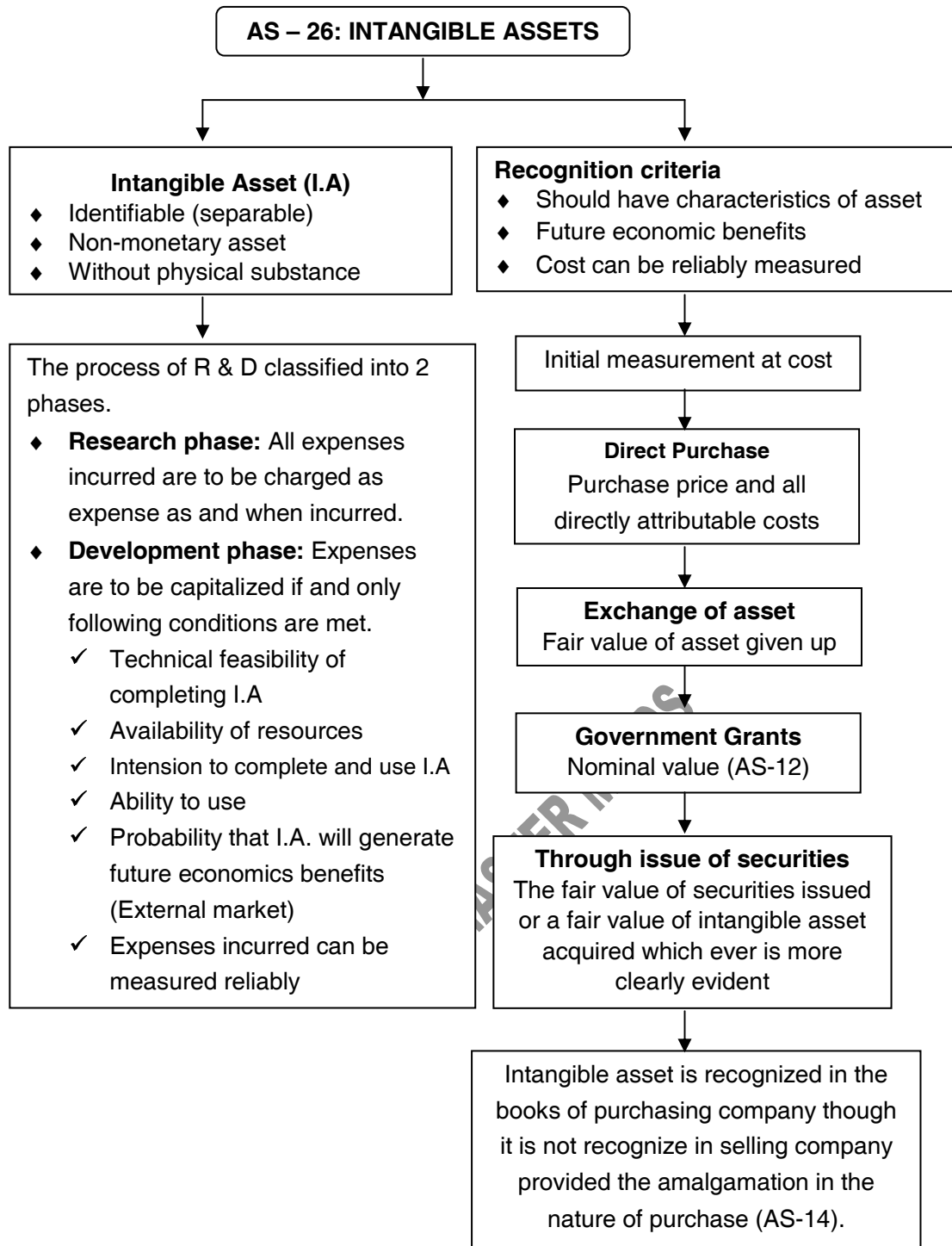
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**AS – 20 EPS (EARNING PER SHARE):**

### TREATMENT OF DIFFERENT TYPES OF SHARE / POTENTIAL SHARES FOR CALCULATION OF BASIC EPS/ DILUTED EPS

(Note whatever is included for basic EPS gets automatically included for diluted EPS)





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**SPECIAL POINTS**

**In some cases, the enterprise incurred expenditure but no intangible asset is recognized**  
**EXAMPLES**

- ◆ Employee training expenses
- ◆ Advertisement and promotional expenses
- ◆ Relocating expenses
- ◆ Restructuring costs

**Subsequent expenses on intangible asset capitalize if**

- ◆ Subsequent expenses increase the future economic benefits of intangibles
- ◆ Subsequent expenses can be attributed to cost and measured reliably.

**Impairment loss**

- ◆ Impairment test is must, if
  - ✓ Asset not available for use
  - ✓ Amortization period exceeds 10 years

**Gain or loss on retirement / disposal:**

Recognize in Profit and Loss Account

**De-Recognition of intangible asset**

- ◆ On disposal or
- ◆ When no future economic benefits expected.

**Amortization**

- ◆ Carry the asset at cost less accumulated amortization and accumulated impairment loss.
- ◆ Useful life – “10 years” unless there is clear evidence of longer life
- ◆ Residual value – “Zero” unless commitment by third party to by at the end of useful life
- ◆ Method of amortization
  - ✓ The benefit derived from the intangibles should be matched with the amortization expenses.
  - ✓ If pattern of benefit is available – amortize as per pattern
  - ✓ If no pattern is available – SLM should be followed.

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**AS-29: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**