SUMMARY OF ACCOUNTING STANDARDS
BY MD IMRAN
(CA FINAL,M.com, B.com(H))

The secret of success

First of all put all distracting thought out of mind, unite mind, heart, conscious and sub-conscious thinking, lets remain united and let's have a exclusive control over thought.

Really this world is nothing, it is merely a state of thought imagine the one that you want and create it. Nothing is impossible in this world but something is difficult, which i have never done before.

Actually in our mind there is hypothalamus, which release same related chemical in to our body as we thought, my body tends to do the same thing and mould up themselves in consonance with such released chemical.

What do i thought? Whatever we look, hear, conceive, plan, environment, friendship, family and determined our vision and mission.

Happiness is what, what do you think, what do you say and what do are in harmony. A person is said to be success full person when he achieved whatever he planned and determined. A person becomes great speaker when he speak same thing as he think and do. So think only that thing which you can do, which you can speak.

More of the person fails to get success, do you know why? Because to get success you must have single minded devotion and undivided concentration. When it is not possible to catch two balls simultaneously in the field, when it is not possible to have journey in two ships simultaneously on the sea, then how it may be possible to get success without single minded devotion, obviously impossible.

To get success you must have single minded devotion and undivided concentration. Whatever you planned, determined your vision and mission. One should look only that, one should hear only that, one should conceive only that, one should plan only that, one should have environment only that, one should have friendship only that. Then their mind going to release chemical related to your vision and mission and your life is going to mould up in consonance with such released chemical. Because you tends to do the same thing, you are going to think only about that, you are going to dream only about that, It will be in your conscious thinking, sub-conscious thinking, mind and in heart, you will speak only about that, you will live in only that, it will be in your blood stream, you will have every elements to get success like passion, patience, enthusiasm, punctuality, consistency and honesty.

So, to be successful you must have drawn up your vision mission, you should think only about that, you should look only that, you should live in only about that, you should dream only about only that, this should be in your blood stream, This should be in your conscious thinking, sub-conscious thinking, you should unite your mind and heart to achieve vision mission, you should talk only about that, you should have passion, patience, enthusiasm, punctuality, consistency and honesty in achieving your vision mission.

I am what whatever i have thought . whatever we thought even for a moment is building my life. Thought is every thing, it determine our life. So, concentrate very heavily what are you going think,

what are you going to look and consequent result of such thought. And be sure that such expected result going to be true.

So now you know the secret of success how the minds work, now you can achieve anything of the world whatever you determined to achieve.

Never do wrong thing be a righteous person. Never do wrong thing because ones do wrong thing for a moment, for a second or for a minutes but mind become disrupt and stay in tension for forever until declaration of result of fear or until fear comes to true.

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ACCOUNTING STANDARDS – 1

DISCLOSURE OF ACCOUNTING POLICIES

All **accounting policies** followed in preparation and presentation of financial statement should be separately disclosed at one place separately. Accounting policies means accounting principle and method of applying those principle adopted in the preparation and presentation of financial statement.

There are three **fundamental accounting assumption** going concern, consistency and accrual. There are presumption of adoption of fundamental accounting assumption in preparation and presentation of financial statement. Disclosure of non compliance with fundamental accounting assumption should be made.

Going concern: Enterprises is viewed as continuing in operation for foreseeable future period that is neither it has intention nor necessity to liquidate or curtail operation, that is why depreciation is provided, assets is capitalised, etc. If it is not expected to continue for foreseeable future depreciation and provision not provided, assets is disclosed at realisable value and liabilities at payable value.

Consistency: Accounting policies expected to follow consistently from one year to next year, if there is change in accounting policies then disclosure should be made.

Accrual: Income and expenses expected to record on accrual basis. If in enterprises follow other than accrual basis of accounting then disclosure should be made in the books of accounts

SELECTION OF ACCOUNTING POLICIES

Selection of accounting policies should be made in following order:

1. Select such accounting policies, so as to give true and fair view.
2. Consider prudence, substance over form and materiality.

CHANGE IN ACCOUNTING POLICIES

Effect of change in accounting policies should be provided retrospectively.

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ACCOUNTING STANDARDS -2

VALUATION OF INVENTORIES

Inventories: An asset held for sale in normal course of business. Assets means anything from which future economic benefit is expected and which can be measured using substantial degree of estimation. It constitutes finished goods, work in progress and raw materials.

Valuation: Finished goods and WIP should be valued at lower of cost or Net realisable value. Raw material should be valued at cost, however if finished goods in which such raw material is to be used , is expected to sold at lower of cost, then Raw material should valued at lower of replacement cost or net realisable value.

Scrap and By-product: Recognise by-product and Scrap and NRV (Net Realisable Value). Profit from sale of Scrape and by-product should be deducted from joint cost of main product, and such net joint cost would be the cost of main product.

NRV= Sale value – Expenses – Cost of completion

Determination of cost

Following method is used in determining of cost

1. Actual cost
   Cost of purchase including cost of conversion and other cost to bring the inventories in current location and position.
2. Standards cost
3. Retail selling price – Profit %

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ACCOUNTING STANDARDS 3

CASH FLOW STATEMENT

Cash flow statement consist of cash flow from operating activity, cash flow from investing activity and cash flow from financing activity.

Cash flow from operating activity means cash from principle revenue generating activity. **Cash flow from investing activity** means cash from sales of investment, property or assets. **Cash flow from financing activity** means cash from/to interest, dividend, and capital structure.

There are two methods to calculate cash flow from operating activity, direct and indirect method.

Direct method = cash sales + Receipt from debtor – cash purchase and payment to creditor

Indirect method = Net profit + Depreciation, other non- cash expenditure, outstanding expenses debited to p/l – Profit on sale of investment and assets + increase in current liabilities & decrease in assets – increase in assets & decrease in current liabilities.

CASH FLOW STATEMENT

1. Cash flow from operating activity	####
2. Cash flow from investing activity	####
3. Cash flow from financing activity	####
CASH FLOW FROM ALL ACTIVITY (1+2+3)	####
ADD: opening cash and cash equivalent	####
Closing cash and cash equivalent	####

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ACCOUNTING STANDARDS – 4

EVENT OCCURRING AFTER THE BALANCE SHEET DATE

Event occurring after the balance sheet date are of two types, first the condition of which exist on balance sheet date and other the condition of which doesn’t exist on the balance sheet date, for former adjustment is required in financial statement but for later no any adjustment is required in financial statement except when it result in violation of going concern assumption.

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ACCOUNTING STANDARDS – 5

NET PROFIT OR LOSS, PRIOR PERIOD ITEM AND CHANGE IN ACCOUNTING POLICIES

After announcement of Schedule III, Concept for Net profit or loss no more relevant.

Prior period item – income or expenses recognised in current year due to error or omission in earlier period, it should be provided prospectively. It should be disclosed separately.

Change in accounting policies – eg. Change in valuation of inventories, change in method of depreciation. Change in accounting policies should be provided should be retrospectively. It should be disclosed separately. Policy which is substantially different from existing accounting policy, not regarded as change in accounting policy.

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ACCOUNTING STANDARDS – 6

DEPRECIATION ACCOUNTING

Depreciation means wearing out of fixed assets or decrease in value of fixed assets due to effluxion of time, obsolescence through technology, due to use or due to any other reason over useful life of depreciable assets.

Depreciable assets

Assets expected to used more than one accounting period, but having a limited useful life and held by enterprises for production or supply of good or for rendering of services or rental to other.

Generally adopted method of depreciation

Straight line Method: Depreciation = $\frac{\text{Purchase price – Scrap Value}}{\text{No. of year}}$

Written down value method: Depreciation Rate : $1 - \sqrt[n]{\frac{Estibated\ Scrap\ Value}{original\ cost}}$

Change in method of depreciation

It is change in accounting policies. It should be provided retrospectively.

Change in Expected useful life

It is change in accounting estimate. It should be provided prospectively.

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ACCOUNTING STANDARDS- 7

CONSTRUCTION CONTRACT

Construction contract: contract to construct or destruct any assets of group of assets.

Method to recognise revenue

Step 1- Calculate degree of completion: $\frac{\boldsymbol{total\ expected\ cost}}{\boldsymbol{Actual\ Cost\ incurred}} * \mathbf{100}$

Lets assume degree of completion is X%

Step 2- Revenue to be recognised

Total revenue * X% ###

Less- Total Actual cost ###
Or total cost * X%____
Cumulative Profit ####
Less: Profit Recognised ####
Current year profit ####

Para 35: Recognise expected loss on contract entered irrespective of degree of completion, when contract cost expected to exceed contract revenue.

Actual cost	#####
Less: Revenue recognised	#####
Actual loss up to current year	#####

Provision for expected loss

Total expected loss $\frac{Current\ year\ loss}{Degree\ of\ copletion}$	#####
Less: loss recognised	#####
Provision to be made	#####

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ACCOUNTING STANDARDS -9

REVENUE RECOGNITION

This AS deals with Sale of goods, Rendering of services, interest, dividend and Royality.

Revenue Recognition

Sale of goods: Sale of goods should be recognised when Risk and reward incidental to ownership have been transferred.

Rendering of Services: There are two method to recognise revenue from rendering of serves- Proportionate completion method and Completed Services method.

Proportionate Completion Method: It is used when services provided in more than one act.

Completed Services Method: It is used when services provided in single act.

Interest: Income from interest should be recognised on accrual basis.

Dividend: Income from dividend should be recognised when right to receive dividend has been established. i.e when dividend is declared by companies.

Royalty: Income from royalty should be recognised as per agreement.

ACCOUNTING STANDARDS – 10

ACCOUNTING FOR FIXED ASSETS

Fixed assets: Assets held for production of goods, rendering of services, or for Administrative purpose.

Cost of fixed assets: Cost of purchase including all cost incurred to acquire fixed assets, cost incurred in bringing fixed assets at current location and position, installation cost, borrowing cost and **Reduced by met by any authority in the form of CENVAT CRDIT or Subsidy.**

Cost of fixed assets in case of exchange: Fair value of assets given or obtained whichever is more clearly evident.

Cost of Self constructed assets: Recognise to the extent of actual cost incurred.

Improvement: Recognise to the extent of cost incurred in improved performance beyond the standards performance.

Disposed off: Profit or loss on sale of fixed assets is recognised in Statement of Profit and loss.

Revaluation: It is optional. It should be on class of assets uniformly. Revaluation should be adjusted in cost or carrying amount, there should be no any adjustment in accumulated depreciation on account of depreciation.

Revaluation profit should be credited to Revaluation reserve. Revaluation loss to be adjusted with revaluation reserve to the extent of revaluation reserve beyond that should be debited to Statement of Profit and loss accounts.

On **Disposal** such revaluation reserve should be cancel and net loss should be transfer to profit and loss.

Revaluation Reserve cannot be distributed as **dividend**.

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ACCOUNTING STANDARDS-11

THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE

Foreign exchanges are dealt in two aspect foreign operation and foreign currency transaction.

FOREIGN CURRENCY TRANSACTION

Foreign currency transaction recognised using **reporting currencies**. Reporting currency means Spot rate, approximate rate or average rate of subjected currency.

Foreign currency monetary Item: Known amount of assets, liabilities, receivable or payable.

PARA 13: Foreign currency monetary item should be reported as closing rate on balance sheet date, the difference transfer to exchange difference and such exchange difference to Statement of Profit and Loss accounts.

LONG TERM FOREIGN CURRENCY MONTRORY ITEM (LTFCMI)

Foreign currency monetary item expected to settle in subsequent year or in more than one accounting period. LTFCMI has two optional treatment either PARA-13 or PARA-46.

PARA-46

Depreciable Assets: Exchange difference related to depreciable assets, Capitalised to assets and depreciate it over life of assets.

Non depreciable assets: Exchange difference shown as FOREIGN CURRENCY MONETARY ITEM (FCMIT) Difference account under head of RESEREVE AND SURPLUS if credit balance and under head of non-current assets if Debit balance. It is written of over life of LTFCMI.

LOAN/ BORROWING

Both difference, exchange difference due to reporting and due to settlement, should be consider.

FOREIGN OPERATION

On translation of financial statement of foreign operation convert all assets and liabilities at closing rate and all income and expenses at transaction date rate or average rate.

However in case of integral foreign operation convert fixed assets, investment, and Depreciable assets at transaction date rate.

Exchange difference resulting from translation of financial statement transfer to foreign currency translation reserve as capital profit in case of non-integral foreign operation.

However in case of integral foreign operation exchange difference transferred to statement of profit and loss.

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ACCOUNTING STANDARDS-12

GOVERNMENT GRANT

Recognition: Government grant should be recognised when subsidies received from government or certain to receive. Grant may be in many forms their types and recognition is given as follows.

Income grant, Expenses grant or bailout grant: Credited to statement of profit and loss.

Grant for promoter contribution or for situation in backward area: Credited to capital reserve.

Grant for non-depreciable assets: Credited to capital reserve.

Grant for Depreciable assets: It is having two optional treatments either net method or gross method.

Net method: initially grant is deducted from assets and assets net of grant is depreciated over life of assets.

Gross method: Grant is deferred over life of assets in the ratio of depreciation.

ACCOUNTING STANDARDS-13

ACCOUNTING FOR INVESTMENT

INVESTMENT: Investment means assets held for earning income or appreciation.

Cost of investment: Purchase cost including tax on purchase, Expenses to obtain title.

Cost of investment when issued own share to acquire investment: the value of investment or Fair value of securities issued.

Cost of investment in case of exchange: Fair value of assets given or obtain whichever is more clearly evident.

RIGHT SHARE: When share acquired cum-right, then proceeds from sale of right share deducted from cost of acquisition to the extent of difference between cum-right share price and ex-right share price and excess transfer to profit and loss accounts.

VALUATION: Current investment should be valued at lower of cost or FMV. Permanent investment should be valued at cost only, however permanent decline should be consider. On valuation reduction in the value of investment should be charged to statement of profit and loss.

RECLASSIFICATION: When current classified as Permanent Investment then value at lower of cost or FMV. When Permanent investment classified as Current investment then value at lower of cost or carrying amount.

ACCOUNTING STANDARDS-14

ACCOUNTING FOR AMALGAMATION

AMALGAMATION: Amalgamation means external reconstruction. When two or more company merge to form a new company, known as amalgamation.

NATURE: An amalgamation may be either in the nature of merger of nature of purchase. Accounting treatment in both the cases is as follows.

AMALGAMATION IN THE NATURE OF MERGER

All assets and liabilities including reserve of amalgamating company incorporated at book value. The difference between the purchase consideration and Share capital of Transferor Company should be adjusted in RESERVE.

AMALGAMATION IN THE NAUTRE OF PURCHASE

Only assets and liabilities of amalgamating company incorporated at taken over value. The difference between NET ASSETS TAKEN OVER and PURCHASE CONSIDERATION is result in either goodwill or capital reserve. Excess of net assets taken over, over purchase consideration is goodwill. Excess of purchase consideration over net assets taken over is capital reserve.

Statutory Reserve incorporated with corresponding amalgamation adjustment accounts.

PURCHASE CONSIDERATION: It is the amount payable by amalgamated company to shareholder of amalgamating company.

ACCOUNTING STANDARDS-15

EMPLOYEE BENEFITS

EMPLOYEE BENEFITS: Employee benefits means consideration paid by employer to employee for value of services performed by employee.

Types of employee benefit:

Short term employee benefit

Long term employee benefit

Termination benefit or voluntary retirement scheme

SHORT TERM EMPLOYEE BENEFIT

It is expected to paid with in 12 months from balance sheet date.

LEAVE

UNPAID: No any treatment

PAID: If vested in nature that is cash against leave or leave against leave then full amount should be recognised for all accumulated leave.

However if unvested in nature that in only leave against leave then proportionate amount recognised for leave expected to avail.

LONG TERM EMPLOYEE BENEFIT

It is expected to pay in more than one accounting period. There are two types of long term employee benefits DEFINED CONTRIBUTION PLAN and DEFINED BENEFIT OBLIGATION.

DEFINED CONTRIBUTION PLAN: It contain Employer and employee both contribution. Employee benefit is recognised as normal expenses and charged to profit and loss accounts.

DEFINED BENEFIT OBLIGATION: It contains only employer contribution. Here entity maintain Plan assets and defined benefit obligation. Projected unit credit method is used to recognise expenses.

Step of projected unit credit method is as follows:

Step 1 – Estimate total amount of employee benefit to be paid.

Step 2 – Allocate estimated employee benefit over the year.

Step 3 – Calculate current service cost (Present value of allocated estimated employee benefit using reverse discounting)

Step 4 – Prepare liabilities sheet year wise as follows:

Opening balance ####

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Add: Current Service cost	####
Add: Interest	####
Closing balance	####

Example: Lets assume Retirement benefit is 10% of last salary drawn, tenure of employee is 5 year and current salary is 10000, increment each year is 5%.

Step 1- Estimate total amount of employee benefit to be paid

10% of $10000*(1.05)^5$ *5year= 6380

Step 2 – Allocate estimated employee benefit over the year.

Year	
1	1276
2	1276
3	1276
4	1276
5	1276
	6380

Step 3 – Calculate current service cost (using Reverse discounting Assuming interest rate is 10%)

Year	Amount	Discounting Factor	Current Service cost
1	1276	.683	872
2	1276	.751	958
3	1276	.826	1054
4	1276	.909	1160
5	1276	1	1276
	6380		

Step 4 – Prepare liabilities sheet year wise as follows:

	1	2	3	4	5
Opening balance	0	876	1921.6	3167.6	4645
Add: Current Service cost	872	958	1054	1160	1276
Add: Interest	0	87.6	192	317	460
Closing balance	876	1921.6	3167.6	4645	6380

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ACCOUNTING STANDARDS-16

BORROWING COST

CAPITALISATION: Borrowing cost incurred on qualifying assets should be capitalised. Qualifying assets means, Assets which takes substantial period of time to get ready to use, that is exceeding 12 month. Borrowing cost can be capitalised to the extent of actual borrowing cost, if borrowing cost to be capitalised exceed actual borrowing cost then cancel it in the ratio of borrowing cost to be capitalised.

RATE: Rate would be effective interest rate. Calculate effective interest on special borrowing and on general borrowing separately. In case of special borrowing if any interest received on surplus then deduct it while calculating effective interest rate of special borrowing.

COMMENCEMENT OF CAPITALISATION:

Capitalisation of borrowing cost commence when all of the following condition satisfied:

1. Borrowing cost is being incurred.
2. Expenditure on qualifying assets is being incurred.
3. Active development is being taken place.

SUSPENTION OF CAPITALISAITON OF BORRWING COST

Capitalisation of borrowing cost is suspended when active development is not taking place in due to abnormal reason in extended period.

CESSATION OF CAPITALISATION OF BORROWING COST

No capitalisation of borrowing cost when it is ceases to incur or Assets is ready to use, whichever falls earlier.

FOREIGN EXCHANGE LOSS DUE TO BORROWING

Recognise exchange loss on foreign borrowing but to the extent of difference between estimated cost of local borrowing and Actual borrowing cost. This exchange loss in addition to borrowing cost.

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ACCOUNTING STANDARDS-17

SEGMENT REPORTING

SEGMENT: Different unit of an entity is known as segment. Segment is identified as business segment or geographical segment. Business segment identified on the basis of production of good or rendering of services. Geographical segment identified on the basis of situated in different geographical location.

INDENTIFICATION OF REPORTABLE SEGMENT

A segment of an entity would be considered as reportable segment if it's revenue, result or assets consist of 10% or more of total entity's sales.

Segment identified should consist of 75% of total entity's sales, if it falls below 75% then further selection to cover 75% of organisation sales.

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ACCOUNTING STANDARDS-18

RELATED PARTY TRANSACTION

RELATED PARTY AS PER PARA 3

3a. Enterprises who control, are controlled by or under common control of any entity.

3b. Associates or Joint venture

3c. Individual having power to control or power to exercise significant influence.

3d. Key Managerial Person or their relative.

3e. Enterprises under common control of person defined under section 3c and 3d.

DISCLOSURE REQUIREMENT

Following should be disclosed.

Mnemonics: N_3DTV

1. Name of Related party.
2. Nature of transaction.
3. Nature of relationship.
4. Discount or Bad debt.
5. Transaction at Arm'lenght or at normal price.
6. Volume of transaction.

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ACCOUNTING STANDARDS-19

LEASE

LEASE: An agreement, whereby lessor agree to transfer right to use an assets in return of payment or series of payment. There are two types of lease finance lease and operating lease.

FINANCE LEASE: When risk and reward incidental to ownership has been transferred. Satisfied any of the following condition:

1. Automatic transfer of ownership at end.
2. Purchase option at end of lease term at very reduced price.
3. Lease term is equal to economic life of assets.
4. Present value of lease rent is equal to fair value of assets.
5. Assets is of special nature that can be used in only special case, like ambulance.

JOURNAL ENTRIES

LESSEE	LESSOR
Assets on lease A/c Dr.*** To Lessor A/c (Being assets purchased on lease)	Lease receivable A/c Dr.** To Assets on lease (Being assets Transfered on lease)
Lessor A.c Dr. To Bank a/c (Being Down payment made.)	Bank a/c Dr. To Lease Receivable A/c (Being Down payment receipt.)
Lessor A/c Dr. Finance Charge A/c Dr. To Bank A/c (Being instalment paid)	Bank A/c Dr. To Finance charge A/c To Lease receivable A/c (Being instalment received)
Depreciation A/c Dr. To Assets A/c (Being depreciation charged on assets)	No depreciation Entry
Statement of Profit and loss a/c Dr. To Finance Charge To depreciation (Being finance charge and depreciation charged to Statement of profit and loss a/c)	Finance charges A/c Dr. To Statement of Profit and loss (Being Finance charge Transferred to Statement of Profit and loss a/c)
*** Assets or Liabilities will be recoreded at lower of Present value of minimum lease payment or Fiar value. Whenever Value is fair value the calculate IRR and then use such IRR to chalculate Finance charge.	** it will be recorded at present value of Gross investment or at net investment.

OPERATING LEASE

Lease other than operating lease is finance lease. Lease rental is considered as normal business income for lessor and normal business expenses for lessee.

LESSEE	LESSOR
Lease rent A/c Dr. To, Bank A/c (Being Lease rent paid)	Bank A/c Dr. To, Lease Rent A/c (Being lease rent received)

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Statement of Profit and loss a/c Dr. To, Lease rent A/c (Being lease rent Charged to Statement of Profit and Loss A/c.)	Lease Rent A/c Dr. To, Statement of Profit and Loss (Being Rental income Transferred to Statement of Profit and loss A/c.)
	Depreciation A/c Dr. To, Assets (Being Depreciation Charged on Assets)
	Statement of Profit and loss Dr. To, Depreciation A/c (Being Depreciation Charged to SPL)

SALE AND LEASE BACK TRANSACTION

FINANCE LEASE BACK	OPERATING AND LEASE BACK
Only deferred income or loss. Determine Profit of loss on Sale and amortise it in the ratio of depreciation. Difference between Sale value and book value is treated as Deferred income or loss as the case may be.	Deferred income or loss amortise to SPL in the ratio or lease rental over lease term. Difference between FAIR VALUE and SALES PRICE is treated as deferred income or loss.
	Difference between BOOK VALUE and FAIR VALUE is considered as impairment loss, direct transfer to SPL.

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ACCOUNTING STANDARDS-20

EARNING PER SHARE

BASIC EARNING PER SHARE: $\frac{EARNING\ AVAILABLE\ TO\ EQUITY\ SHARE\ HOLDER\ (EATESH)}{WEIGHTED\ AVERAGE\ NUMBER\ OF\ SHARE\ (WANOS)}$

WEIGHTED AVERAGE NUMBER OF SHARE

Average number of days for which share is actually held.

Do not weight for following AND **also always restate basic earning per share of earlier period for following**

1. Bonus share
2. Share received on merger
3. Bonus part of right share

Weight only for following

1. New issue of share
2. Buy back
3. Paid part of right share
4. Share received in amalgamation in the nature of purchase.

Calculation of bonus part and paid part in case of right issue

Step 1- Calculate Post right fair value

$$\frac{Number\ of\ share\ befor\ right\ X\ Price\ befor\ right)+Right\ share\ X\ Right\ Price}{Total\ number\ of\ share}$$

Step 2- Calculate paid part

$$Right\ share\ X\ \frac{Right\ Price}{Post\ Right\ Price}$$

Step 3- Calculate bonus art

Total number of right share – Paid part of right share

CALCULATION OF EARNING PER SHARE IN CASE OF DIFFERENTIAL DIVIDENT RIGHT AND PROPOTIONAL RIGHT

1. Differential dividend right
   i. Calculate EATESH
   ii. Deduct special earnings from EATESH
   iii. Balance earning used for regular earning per share.

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iv. Calculate special earning per share by dividing special earning from respective no. of share.
v. Basic earnings per share = Regular earning per share + Special earning per share

2. Proportional dividend right
   i. Calculate equivalent share of each class.
   ii. Allocate EATESH in above ratio.
   iii. Calculate BEPS= $\frac{Allocated\ EATESH}{Original\ no.of\ share\ of\ each\ class\ of\ share}$

DILUTED EARNING PER SHARE

Earnings per share for equity share holder as well as potential equity share.

Step 1- Identify potential equity share. That share warrant, convertible debenture, convertible preference share to be converted in to equity share. Number of equity share to be issued on conversion is known as potential equity share.

Step 2- Calculate incremental earnings per share

$$\text{Incremental earnings per share} = \frac{\begin{array}{c}Post\ tax\ increase\ in\ income\ in\ case\ of\ potential\ equity\ share\\ if\ potential\ equity\ share\ are\ converted\ in\ to\ equity\ share\end{array}}{Number\ of\ potential\ equity\ share}$$

if there are more than one potential equity share then rank incremental earning per share in ascending order.

Step 3- Test for dilution

Numerator	Denominator	Ratio
Profit	No. of share	Numerator / Denominator

Serially check all the potential equity share in above format, if ratio is reduced on potential equity share then it is known as diluted earnings per share.

$$\text{Diluted earnings per share} = \frac{EATESH\ after\ considering\ Saving\ resulting\ from\ potential\ equity\ share}{Weighted\ average\ number\ of\ equity\ share\ including\ potential\ equity\ share}$$

ACCOUNTING STANDARDS – 22

ACCOUNTING FOR TAXES ON INCOME

DIFFERED TAX: Actually in statement of profit and loss, accounting profit is disclosed whereas tax expenses is disclosed as per income tax profit (Total income), Generally accounting profit and Total taxable income differ due allowance and disallowance of different income and expenses under income tax. So, for proper calculation of profit and to provide appropriate amount of taxes, differed tax assets and differed tax liabilities is calculated and provided to mitigate the affect of temporary difference.

TEMPORARY DIFFERENCE AND PERMANENT DIFFERENCE

TEMPORARY DIFFERECNCE: When difference in accounting profit and taxable total income resulting from those income and expenses which are capable of reversal in future, known as temporary difference. For example-

Under section 43B of income tax act 1961, Bonus, Interest on loan, Taxes, Employer's contribution to provident fund and Leave encashment payable to employee are allowed as per only cash basis where as in books of accounts it is provided as per accrual basis. Suppose in current year such expenses is provided in accrual basis but all the above expenses will be disallowed as per income tax, however all the above expenses will be allowed in subsequent year when it is actually paid. This is called temporary difference because it is capable of reversal in subsequent year.

PERMANENT DIFFERENCE

When difference resulting from income or expenses which is never taxes under income tax or allowed under income tax respectively, then it is called permanent difference.

For example- **B**ribe paid to any authority for doing business, amount contributed to political party and debited to profit and loss accounts, which is never going to allow under income tax act in current year or subsequent year, it is known as permanent difference which is never going to reversal in future.

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The affect of timing difference provided in the books of accounts in the form of deferred tax assets and deferred tax liabilities.

DEFERRED TAX ASSETS

Tax on temporary difference will result in deferred tax assets if temporary difference is resulting from disallowed expenses which will be allowed later, simply speaking if in future you will save taxes then it is called deferred tax assets.

Para 15- Recognise deferred tax assets only when reasonable certainty that there will be sufficient future taxable income against which it can be realised.

DEFERRED TAX LIABILITIES

Excess expenses allowed in current year, which will tax in future year. Simply speaking if in future you will have to pay more tax for such temporary difference then it is called deferred tax liabilities.

UNABSORBED DEPRECIATION AND UNABSORBED LOSSES

Para – 17

Deferred tax will be created on unabsorbed depreciation only when there is virtual certainty supported by convincing evidence that there will be future income against which such deferred tax assets can be realised.

TAX HOLIDAY

Some time some entity is allowed exemption from tax for certain period, it is called tax holiday period.

In case of tax holiday, Recognise DTA/DTL only for the timing difference which is expected to reverse beyond tax holiday. Do not recognise DTA/DTL for the timing difference which is expected to reverse with in tax holiday.

Section 115JB of Income tax act 1961- MINIMUM ALTERNATIVE TAX

Minimum alternative tax is minimum amount of tax which must be paid irrespective of total taxable income and accounting profit. Minimum alternative tax is required to be paid whenever tax as per income tax falls below minimum alternative tax.

Regular income tax is higher of MINIMUM ALTERNATIVE TAX or INCOME TAX ON TOTAL TAXABLE INCOME.

MAT CREDIT

When minimum alternative tax is in excess of tax as per income tax act, then minimum alternative tax is required to be paid, however credit available for such excess, which will be allowed to set off with in 10 year. Credit is allowed in the year in which regular tax is more than minimum alternative tax to the extent of difference between income tax in total taxable income and minimum alternative tax.

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ACCOUNTING STANDRDS- 24

DISCONTINUING OPERATION

DISCONTINUING OPERATION: An operation is said to be discontinuing operation:

1. Which is being **disposed off*** pursuant to a single plan.
2. Which is reportable segment.
3. Which is financially and operationally separable.

*Where disposed off means

- Sale of substantial assets and liabilities in lump sum.
- Sale of substantial assets and liabilities in instalment.
- Termination of operation

REPORTING OF DISCONTINUING OPERATION

Reporting of discontinuing operation is required to be made when initial disclosure event takes place. Initial disclosure event said to be taken place in any of the following circumstances:

a. Entity has entered in to binding sale agreement to sale substantial assets or liabilities.
b. Entity has prepared a detailed plan to discontinue operation.

Following event is not regarded as discontinuing operation

1. Gradual decline in operation.
2. Shifting of location.
3. Outsourcing of process.
4. Sale of investment in subsidiary.
5. Improvement in machine.
6. Change in product mix.

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ACCOUTING STANDARDS – 25

INTERIM FINANCIAL REPORTING

INTERIM FINANCIAL REPORTING: Reporting of financial statement for interim period, That is for a period shorter than the financial year, is known as interim financial reporting.

In case of interim financial reporting, Statement of profit and loss, Balance sheet and Cash flow statement should be presented for following period.

Statement of profit and loss	1. For interim period. 2. For from beginning of financial year to the end of interim period. 3. For previous year- for comparable interim period and comparable SPL for from beginning of financial year to the end of the interim period.
Balance Sheet	1. As at end of current interim period. 2. As at end of immediate preceding financial year.
Cash flow statement	1. For from beginning of financial year to the end of interim period. 2. For previous year- comparable CFS for from beginning or financial year to the end of interim period.

INCOME, EXPENSES AND LOSSES RECOGNITION IN CASE OF INTERIM PERIOD

Periodic nature income and expenses	Accrual basis, that is as per period.
Change in accounting policy	Apportioned over interim period.
Other income and Expenses	Neither can be Allocated nor can be deferred.

GUIDANCE NOTES ON INTERIM FINANCIAL REPORTING FOR TAX TREATMENT

Following step should be following to recognised tax expenses:

Step 1. Calculate estimated annual income.

Step 2. Calculate income tax, Special tax and deferred tax.

Step 3. Allocate income tax and deferred tax over interim period in the ratio of normal income earned over interim period.

Step 4. Allocate Special tax in the ratio of Special income earned.

ACCOUNTING STANDARDS -26

INTANGIBLE ASSETS

INTANGIBLE ASSETS: Identifiable non-monetary assets without physical substance, used for production of goods, rendering of services or for administrative purpose.

ASSETS: Resource under control of an entity having future economic benefit.

RECOGNITION

Recognise only when future economic benefit ensured from the assets and cost can be measured using substantial degree of estimation or reliably. Recognise intangible assets to the extent of future economic benefit ensure from assets and amortise it in the ratio of future economic benefit ensured from assets over year, if ratio not available the in straight line method.

RESEARCH

Expenditure incurred during research phase or before it should not be capitalise, it should be recognised as expenses when it is incurred.

IMPROVEMENT

Improvement should be recognised to the extent of improved performance beyond standard performance.

DEVELOPMENT

Development of intangible assets would be recognised when it is satisfied all of the following condition:

Mnemonics: TIMR

1. Technical feasibility should exist.
2. Intention to develop should exist.
3. Marketability of assets should exist.
4. Resource to finance intangible should exist.

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ACCOUNTING STANDARDS – 28

IMPAIRMENT OF ASSETS

IMPAIRMENT OF ASSETS: Impairment of assets means reduction in the value of assets. An assets is said to be impaired when carrying amount of assets falls below recoverable value of assets.

Impairment loss is calculated for both CASH GENERATING UNIT and NON-CASH GENERATING UNIT. Following method to calculate impairment loss for cash generating unit and for non-cash generating unit laid down separately:

CASH GENERATING UNIT

Impairment loss = Carrying amount – Recoverable value

Carrying amount = Cost of assets – Accumulated depreciation

Recoverable value = higher of following

- Net Sales price (Budgeted selling price – Expenses on sale)
- Value in use (Present value of future expected cash flow.)

Value in use and net selling price should be calculated for each cash generating unit, however if unit is not able to generate cash it own, then smallest unit should be identified which is able to generate cash. Impairment of main assets should be recognised only when it Cash generating unit get impaired.

INDICATOR OF IMPAIRMENT LOSS

Impairment of asset should be done when any of the following circumstances takes place:

1. Decline in market value.
2. Adverse market condition.
3. Increased in rate of interest.
4. Obsolescence or physical damage of assets.
5. Restructuring of operation.
6. Worse economic condition.

NON-CASH GENERATING UNIT

Impairment loss for non-cash generating unit is calculated in two steps, first bottom up approach and second top down approach.

Step 1- Bottom up approach

Identify cash generating unit and allocate allocable goodwill and corporate assets over Cash generating unit, now calculate impairment loss for all cash generating unit and such impairment loss allocate first toward goodwill in full and then towards in other assets including corporate in assets in respective ratio.

Step – II

Top down approach

Calculate revise carrying amount of all assets by deducting impairment loss from carrying amount, now add goodwill and corporate assets which was not earlier allocated and calculate impairment loss as whole. And allocate impairment loss first towards goodwill and balance to corporate assets.

REVERSAL OF IMPAIRMENT LOSS

When indicator of reversal of impairment loss exist then reverse impairment loss to the extent of lower of following:

- Impairment loss already recognised.

Or

- Recoverable amount - carrying amount

Indicator of reversal of impairment loss: Simply if circumstance encountered opposite of indicator of impairment loss (opposite of above defined 6 point of indicator of impairment loss).

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ACCOUNTING STANDARDS – 29

PROVISION, CONTINGENT ASSETS AND CONINGENT LIABILITIES

PROVISION

Provision is present obligation arising during the past event settlement of which result in an outflow of resources embodying economic benefit and which can be measured using substantial degree of estimation. Provision should be made in books of accounts for such.

CONTINGENT LIABILITIES

Only disclosure is required to be made in the report of approving authority. No any provision is required to be made.

CONTINGENT ASSETS

Neither any disclosure nor any provision is require to be made.

Accounting standards 21,23,27 covered in holding summary.

DISCLOURE REQUIREMENT OF ALL ACCOUNTING STANDARDS AT A ONE PLACE

ACCOUNTING STANDARDS – 1

DISCLOSURE OF ACCOUNTING POLICIES

All significant accounting policy should be disclosed at one place. If change in accounting policies then fact should be disclosed.

ACCOUNTING STANDARDS -2

VALUATION OF INVENTORIES

1. Stock valuation policies.
2. Cost formula followed.

ACCOUNTING STANDARDS 3

CASH FLOW STATEMENT

1. Detail of cash and cash equivalent.
2. Significant non- cash transaction.
3. Undrown borrowing facilities.
4. Cash and cash equivalent not available for use.

ACCOUNTING STANDARDS – 4

EVENT OCCURRING AFTER THE BALANCE SHEET DATE

1. Adjusting event
2. Non adjusting event if it affect going concern assumption.

ACCOUNTING STANDARDS – 5

NET PROFIT OR LOSS, PRIOR PERIOD ITEM AND CHANGE IN ACCOUNTING POLICIES

1. Prior period item should be Separately disclosed.
2. If there is change in accounting policies, then following disclosure is required to be made:
   i. Old policy
   ii. New policy
   iii. Reason for change in policy
   iv. Affect resulting from change in policies.

ACCOUNTING STANDARDS – 6

DEPRECIATION ACCOUNTING

1. Amount of depreciation
2. Depreciation policies
3. Life of assets and rate of depreciation.

ACCOUNTING STANDARDS- 7

CONSTRUCTION CONTRACT

1. Method of calculating contract revenue.
2. Method of calculation of degree of completion.
3. Contract revenue recognised for each contract.
4. Contract cost recognised for each contract.
5. Contract profit or loss for each period
6. Advance receipt in respect of contract.

ACCOUNTING STANDARDS -9

REVENUE RECOGNITION

1. Revenue recognition policies.
2. If significant revenue has not been recognised due to uncertainty in revenue collection the fact should be disclosed.

ACCOUNTING STANDARDS – 10

ACCOUNTING FOR FIXED ASSETS

1. Gross Block of each assets with addition of assets acquired during period and deletion of assets sold or disposed during period, in statement form.
2. Net block of each assets after depreciation.

ACCOUNTING STANDARDS-11

THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE

1. Exchange difference transferred to Statement of profit and loss.
2. Exchange difference capitalised in fixed assets or in FCMIT difference account.
3. Closing Exchange rate.

ACCOUNTING STANDARDS-12

GOVERNMENT GRANT

1. Government grant recognition policies.
2. Reason for refund of government grant.

ACCOUNTING STANDARDS-13

ACCOUNTING FOR INVESTMENT

1. Investment recognition policies.
2. Profit or loss on sale of investment.
3. Interest, dividend and rent earned on investment.
4. Salient future of investment, for example- ROI, Date of maturity, type of investment.

ACCOUNTING STANDARDS-15

EMPLOYEE BENEFITS

RECONCILIATION STATEMENT

Particular	PVDBO (PERSENT VALUE OF DEFINED BENEFIT OBLICATION)	PLAN ASSETS
Opening balance	####	####
Current Service cost	####	-------------
Past Service cost	####	-------------
Unrecognised Past Service cost	####	-------------
Interest Cost	####	-------------
Benefit Paid	(####)	(####)
Contribution	-------------	####
Expected return	-------------	####
Actuarial gain or loss	####	####
Closing balance	####	####

DETAIL OF EXPENSES

Current Service cost	#####
Past Service cost	#####
Unrecognised Past Service cost	#####
Interest Cost	#####
Expected return	(#####)
Actuarial loss	#####
Actuarial gain	(#####)
Curtailment	(#####)
Total expenses	#####

DETAIL OF INVESTMENT

Provide detail of portfolio of investment made in plan assets.

ACTUARIAL ASSUMPTION

Regarding following

1. Discount rate
2. Death rate
3. Salary escalation rate., etc

ACCOUNTING STANDARDS-16

BORROWING COST

1. Borrowing cost capitalised during the period.
2. Borrowing cost policy of entity.

ACCOUNTING STANDARDS-17

SEGMENT REPORTING

Primary segment disclosure

1. Segment revenue
2. Segment profit
3. Segment assets
4. Segment liabilities
5. Segment capital expenditure
6. Segment depreciation
7. Segment other non-cash expenditure.

Secondary segment disclosure

1. Segment revenue
2. Segment assets
3. Segment Capital expenditure during the year.

ACCOUNTING STANDARDS-18

RELATED PARTY TRANSACTION

Following should be disclosed.

Mnemonics: N_3DTV

1. Name of Related party.

2. Nature of transaction.
3. Nature of relationship.
4. Discount or Bad debt.
5. Transaction at Arm'lenght or at normal price.
6. Volume of transaction.

ACCOUNTING STANDARDS-19

LEASE

Disclosure requirement for lessor and lessee have been shown separately as follows:

Lessee	Lessor
1. General leasing policy. 2. Sub lease rent received. 3. Contingent rent paid. 4. Assets on lease. 5. Reconciliation statement	1. General leasing policy 2. Provision for doubtful debt. 3. Contingent rent received. 4. Unguaranteed residual value. 5. Unearned finance income. 6. Reconciliation statement.

Reconciliation Statement

It is statement disclosing the lease rental and their present value period wise.

Period	Amount	Present value
0-12 month	####	####
12- 60 month	####	####
➢ 60 month	####	####

ACCOUNTING STANDARDS-20

EARNING PER SHARE

1. Nominal value of share along with earning per share.
2. Basic earnings per share.
3. Diluted earnings per share.
4. Weighted average number of share.

ACCOUNTING STANDARDS – 22

ACCOUNTING FOR TAXES ON INCOME

1. Breakup of timing difference should be given.
2. Application of AS has to be specified.
3. Deferred tax assets and deferred tax liabilities should be offset, to disclose in balance sheet.

ACCOUNTING STANDRDS- 24

DISCONTINUING OPERATION

1. Detail of Discontinuing operation.
2. Segment of Discontinuing operation.
3. Detail of initial disclosure event.
4. Location affected.
5. Assets and liabilities of discontinuing operation to be disposed.
6. Method of disposal.
7. Expected sale Proceeds, Actual sale proceeds.
8. Expected and actual gain or loss on disposal.
9. Cash flow from discontinuing operation.
10. Period with in which operation is expected to disposed off.
11. If it is resolved that not be disposed then reason should be shown for change in decision.

ACCOUNTING STANDARDS -26

INTANGIBLE ASSETS

1. Separately disclosed in financial statement.
2. Addition, deletion, amortisation and impairment should be disclosed.
3. Amortisation method and period of amortisation should be disclosed.

ACCOUNTING STANDARDS – 28

IMPAIRMENT OF ASSETS

1. Amount of impairment loss recognised.
2. Amount of reversal of impairment loss.
3. Impairment loss and reversal of impairment loss which directly affect revaluation surplus

ACCOUNTING STANDARDS – 29

PROVISION, CONTINGENT ASSETS AND CONINGENT LIABILITIES

Provision should be disclosed as follows:

Name of provision	Opening balance	Addition	Deletion	Closing balance
###	###	###	###	###
###	###	###	###	###

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