

CA FINAL NOTES BY MD IMRAN

ACCOUNTING STANDARDS 2- 31

LAW 32-40

AUDIT 41- 43

Dedicated to Dedicated person.

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.

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~~ Actual Cost.

Scrap and By-product: Recognise by-product and Scrap ~~and~~ at 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 %

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 and non- cash income + 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	<u>####</u>
CASH FLOW FROM ALL ACTIVITY (1+2+3)	####
ADD: opening cash and cash equivalent	####
Closing cash and cash equivalent	####

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.

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 retrospectively. It should be disclosed separately. Policy which is substantially different from existing accounting policy, not regarded as change in accounting policy.

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 be used more than one accounting period, but having a limited useful life and held by enterprises for production or supply of goods or for rendering of services or rental to others.

Generally adopted method of depreciation

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

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

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.

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:- $\frac{\text{Actual cost incurred}}{\text{Total expected cost}} * 100$

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 $\frac{\text{Current year loss}}{\text{Degree of completion}}$ #####

Less: loss recognised #####

Provision to be made #####

Para 14: Incentive payment for early completion to be recognised only when :

1. The contract is sufficiently advanced that is probable that the specified performance will be met or exceeded.
2. Amount of incentive can be measured reliably.

ACCOUNTING STANDARDS -9

REVENUE RECOGNITION

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

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**.

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.

PARA 38 & 39 of AS 11: When Forward contract entered for speculation purpose then Premium (difference between exchange rate and forward) should not be considered. Only on sale the difference between contract rate and sale rate will be recognised in the profit and loss account.

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 RESERVE AND SURPLUS if credit balance and under head of non-current assets if Debit balance. It is written off 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.

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 or 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 NATURE 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 #####

Add: Current Service cost	####
Add: Interest	<u>####</u>
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

$$10\% \text{ of } 10000 * (1.05)^5 * 5 \text{ year} = 6380$$

Step 2 – Allocate estimated employee benefit over the year.

Year

1	1276
2	1276
3	1276
4	1276
5	<u>1276</u>
	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	<u>1276</u>	<u>1</u>	<u>1276</u>
	6380		

Step 4 – Prepare liabilities sheet year wise as follows: 1

– 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	

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. Incidental and ancillary cost incurred in acquisition or arrangement of borrowing is also considered as borrowing cost, consider it while calculating general borrowing rate.

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.

SUSPENSION OF CAPITALISATION OF BORROWING 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 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.

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.

IDENTIFICATION 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, result or assets respectively.

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

Segment assets do not include income tax assets (example- Deferred tax assets, refund receivable etc)

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.

, * Significant influence can be exercised if holds 20% or more directly or indirectly.

DISCLOSURE REQUIREMENT

Following should be disclosed.

Mnemonics: N₃DTV

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

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 Transferred 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 finance lease is Operating 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)

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 of 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.

ACCOUNTING STANDARDS-20**EARNING PER SHARE**

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

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

$$\frac{\text{Number of share befor right} \times \text{Price befor right} + \text{Right share} \times \text{Right Price}}{\text{Total number of share}}$$

Step 2- Calculate paid part

$$\text{Right share} \times \frac{\text{Right Price}}{\text{Post Right Price}}$$

Step 3- Calculate bonus art

$$\text{Total number of right share} - \text{Paid part of right share}$$

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.

- 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 =
$$\frac{\text{Allocated EATESH}}{\text{Original no. of share of each class of share}}$$

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

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

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.

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

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- Bribe 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 within 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 within 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.

ACCOUNTING STANDARDS- 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.

ACCOUNTING 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 of 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.

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 charged to profit and loss account. If there is impairment loss on already revalued assets then impairment loss to the extent of revaluation surplus recognised against such revaluation surplus and beyond that charge to statement of profit and loss.

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).

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.

COMPANY LAW AND ALLIED LAW MOST IMPORTANT SECTION AND SOME SHORT QUICK NOTES, REFERENCE AND NEMONICS

Section	Particular	
123	Condition for declaration and payment of dividend	
205A to 205C	Unpaid dividend and investor education protection fund.	<i>Transfer to :DADU GII</i> (Deposits, Application money, Debenture, Unpaid, Grant, Interest of DADU, Interest or other income)
126	Dividend, etc to be held in abeyance	
127	Failure to distribute dividend with in 30 days.	Exception- NODAD (Non- Payment without co. Default, Operation of any Law, Disputed, Adjusted against any due, Direction give to the companies but same has not been complied)
128	Location, manner, period of maintenance and inspection of books of accounts	
129	Financial Statement	
134 (3)	<u>Content of Boards report</u> END FDN ELRS in RDMC & REC (Extract of annual return, Number of board meeting, Director Responsibilities Statement, Fraud Reported by auditor, Declaration given by independent auditor, Nomination remuneration committee, Explanation on every qualification reservation or adverse remarks makes by auditor or CS, Loan, Related parties, State of companies affairs, Reserve created, Dividend recommended, Material change and commitment, Conservation of energy, Risk management policy, Evaluation by board it own performance, Corporate Social Responsibilities.)	
134(5)	<u>Director Responsibilities Statements</u> AAJ PG <i>kal</i> ID (Accounting Standards, Accounting policies, Judgments and estimates, Proper and Sufficient care, Going concern basis, Internal financial control, Devised proper systems to ensure compliance)	
135	Corporate Social Responsibilities.	Duties- FRMI, No CSR- NPO ₂
136	Circulation of financial statement.	21/14 Days

137	Filling of financial statement and other with the registrar.	30/180 Days
138	Internal audit.	25/50/100/200-----100/200 for pvt
139	Appointment, Reappointment and rotation of auditor.	
140	Removal, resignation of auditor and giving of Special notice.	
141	Eligibility, qualification and disqualification of auditor. BOD and SIG ne mil kar BRFC kardia 144 laga kar	
142	Remuneration of auditor	
143 (1)	Duties to make inquiry	LTILPC
143(3)	Duties to make report	I B ₂ A ₃ D MIS
144	Auditor not to render certain cervices	
145	Auditor to sign audit report.	
146	Auditor to attend general meeting.	
147	Punishment for contravention	
148	Power of central government to order maintenance of cost records and conduct of cost audit	
149	Independent director/ women director	
150	Manner of selection of independent director and maintenance of databank of independent director.	
151	Appointment of director by small shareholders.	
152	First director, general provision relating to director, rotational and non-rotational director, retirement of director and DIN	
160	Appointment of a person other than retiring director.	
161(1)	Appointment of Additional director.	
161(2)	Appointment of Alternate director.	
161(3)	Nominee director.	
161(4)	Filling of casual vacancies by board	
162	Appointment of director to be voted individually	
163	Appointment of director by proportional representation	

164(1)	Qualification and disqualification of director	UUACOLON
164(2)	Disqualification for default made by company	1. F.st , annual return for 3 year 2. D/D/D 1 year
165	Number of directorship.	20/10
166	Duties of director.	
167(1)	Vacation of office by director.	DACF DCRA
168	Resignation of director.	DIR 11, DIR 12
169	Removal of director	
170	Register of director and KMP.	
171	Member right to inspect the register of directors and KMP and their shareholding.	
173	<u>Number of board meeting and notice of board meeting.</u> 1 ST BM with in 30 days of COI. Normally 4BM in a year gap between two BM not exceeding 120 days For NPO 1 in each half calendar year For OPC,DC,SC 1 in each half calendar year but gap not exceeding 90 days.	
174	Quorum for a Board meeting	1/3 rd or 2 w.i.h, For co u/s 8 lower of 8 or 25% of total strength.
175	Passing of resolution by circulation	If 1/3 rd decides at BM no, then NOPRBC
176	Validity of act of director	
177	Audit committee	10/50/100, >3 director majority independent
177	Vigil mechanism for director and employee.	For listed co, Co. Accepting deposit, Borrowed ≥50 crores
178	NRC/SRC	10/50/100, > 3 director majority should be independent SRC- If no. of SDDO > 1000
179	Power of board	
180	Restriction on power of board.	RBI Sale
181	Company to contribute to bonafide and charatible fund.	5%
182	Prohibition and restriction	Maximum 7.5%

	regarding political contribution.	Prohibited for govt. Co and Company in existence for less than 3 year
183	Contribution to national defence fund	
184	Disclosure of interest by director	
185	Loan to director	
186	Loan and investment by companies.	
187	Investment of companies to be held in its own name	
188	Related party transaction	
189	Register of contracts in which director are interested.	
190	Contract of employment with MD/WTD	
191	Payment to director for loss of office.	
196	Appointment of MD, WTD or Manager	Disqualification – AUSC Age 21-70, Undischarged insolvent, Suspended Payment to creditor, Convicted for > 6 mth.
197	Managerial remuneration	Capital base ≤5 Crores- 30 lacs, 5-100 Crores- 42 lacs, 100-250 Crores- 60 lacs, >250Crores- 60lacs + .01% of Effective Capital Profit base 11%/5%/10%/1%/3%
199	Recovery of remuneration in certain cases.	
202	Compensation for loss of office of MD, WTD and Manager.	For lower of 3 year or unexpired period @ Average Salary of 3year or expired period
203	Appointment of KMP	For listed Co, Public Co. PUSC≥10 Crores
204	Secretarial audit for bigger companies.	
206	Power to call for information, inspect books and conduct surveys	

207	Conduct of inspection and inquiry.	
209	Search and seizure.	
210	Investigation in to affair of company.	
212	Investigation in to affair of company by serious fraud investigation officer.	
216	Investigation of ownership of company	
217	Procedure, power, etc of inspector	
219	Power of inspector to conduct investigation into affair of related companies.	
220	Seizure of document by inspector	
224	Action to be taken in pursuance of inspector report.	
229	Penalty of furnishing false statement mutilation, destruction of documents.	
Companies Act, 1956		
391/393	Procedure for compromise and arrangement	
394	Reconstruction, Demerger or amalgamation by sale of undertaking.	
395	Reconstruction by sale of share or takeover of companies.	
396	Amalgamation of companies in public interest.	
397	Claiming relief from oppression	
398	Claiming relief from mismanagement.	
399	Right to apply u/s 397//398	
433	Ground for compulsory winding up	
462	Consequent of no document filled by liquidator.	
488	Member's voluntary winding up	
428 & 467	Contributory liabilities to contribute	

529A & 530	Order of Payment of Liabilities
531	Fraudulent preference to be invalid
531A	Voluntary transfer to be invalid
534	Floating charge to be invalid in certain cases

Allied Law	
The prevention of money laundering Act, 2002	
2	Definition – money laundering
4	Punishment for money laundering
12	Banking Companies financial institution to Maintain, furnish and verify records.
26	Appeal to Appellate tribunal
45	Certain offence to be cognizable and non-bail able.
The banking regulation Act, 1949	
7	The word Bank, Banker, banking can only be used by banking companies.
9	Disposal of non- banking Assets with in 7 year and maximum 5 year extension can be by RBI.
17	Transfer of Profit to Reserve fund
30	Audit
31	Publish and submission of return.
The insurance Act, 1938	
3	Registration of insurer
3A	Renewal of Registration.
6	Requirement of Capital
34	Control over management.
39	Nomination of policy holder.
64VA	Sufficiency of assets.
The Securitisation and reconstruction of financial assets and enforcement of securities interest Act, 2002	
2	Definition- Obligor, originator, Financial Assets, Assets Reconstruction, Securities receipt.
3	Registration – prerequisites and condition.

4	Cancellation of certification of registration.
6	Notice to obligor and discharge of obligation of such obligor.
15	Manner and affect of takeover of management.
The foreign exchange management Act,1999	
2(u)	Person
2(v)	Person Resident in India.
2(w)	Person resident outside India.
5	Current account transaction
6	Capital account transaction.
The Competition Act, 2002	
2	Definition- Acquisition, agreement, cartel, consumer, goods, Services, person, enterprises
8,9,10	Composition of Chairmen.
15	Validity of Act
11	Removal by CG
12	Restriction of employment
3	Anti competitive agreement

AUDIT STANDARDS WORDS TO SCORE WELL **IN AUDIT EXAM**

NOW A DAYS INSTITUTE REQUIRE STANDARDS WORDS VIEWING THE COMPLEXITY OF EXAM I HAVE SELECTED MOSTLY USED WORD FROM MODULE AFTER GOING THROUGH MORE THAN 20 TIMES. USE YOUR CONCEPT BUT WITH THIS IMPORTANT WORD YOUR ANSWER WILL LOOK LIKE PRINTED MODULE. THIS VALUABLE NOTES WILL SAVE YOUR 50% TIME IN STUDY AUDIT SUBJECT. PLEASE REMEMBER THIS WORDS.

SAAE (Sufficient appropriate audit evidence),
ROMM(Risk of Material Misstatement), NTE (Nature
timing extent) of audit, NCOB (Normal course of
business), FFR(Fraudulent financial reporting),
MOA(Miss appropriation of Assets), RPRT (Related
Party Relationship transaction),AFRF(Applicable
financial reporting framework), FRF(Fraud risk factor),
NSO(Nature Scope Objective of audit), ALRR(Aplicable
Legal regulatory requirement), LER(Legal ethical
requirement),RLR(Regulatory Legal requirement) ,
PS(Professional scepticism), MPAE(More persuasive
audit evidence) (,ABCD(Account Balance classes of
transaction and disclosure),AASTAA(Authorise
approve significant transaction and
arrangement),Management & TCWG, Relevance,
Reliability, Reliable audit evidence, Review and
appraisal, Planning and performing audit, Nature
Scope Objective of Audit, Regulatory legal
requirement, Deficient, Future viability, Alert, Other
audit procedure, Oversight of management and
TCWG, Unusual, Due diligence, Design and
implementation, Design implementation and
operation, Relevant to financial reporting, Significant,
Justifiable, Pervasive to financial Statement, Test of

Control- Substantive Procedure, Compliance Procedure, Potential consequence, Existence and condition of inventory, Event and condition, More persuasive audit evidence, Class of transaction/ account balance & disclosure, Effectiveness of control, Integrity, Suceptibile, Contradict, corroborative, Releive, On use of type-1 or type-2 report reference to SO in report doesn't diminish the user's auditor responsibilities for that opinion, Consider reliability of Written Representation, Compliance with applicable legal and regulatory requirement, Assess evaluate , Adequate, Reasonable assurance, Extend audit procedure, Relevant Ethical requirement, Individual or in aggregate, Complete set of financial statement, Single financial statement, Unless required by law and regulation , Reasonable justification, Standard on review engagement, Standards of assurance engagement, Standards of related services, At assertion level, At financial Statement Level.