TALDA LEARNING CENTRE

Address: Shop No. 70, 2nd Floor, Gulshan Towers, Jaistambh, Amravati.

Email: taldalearningcentre@gmail.com

Website: http://taldalearningcentre.webs.com/

Contact: 07212566909; 9730768982

THEORY NOTES

COMPANY ACCOUNTS & AUDITING

CS EXECUTIVE

GROUP 2

JUNE 2017

BY

CA. AMIT TALDA

1st attempt CA at the age of 21

48th All India Rank in CA inter

http://amittalada.webs.com/

THEORY NOTES OF ACCOUNTS

(COVERS QUESTION PAPERS FROM JUNE 2014 TO DECEMBER 2016)

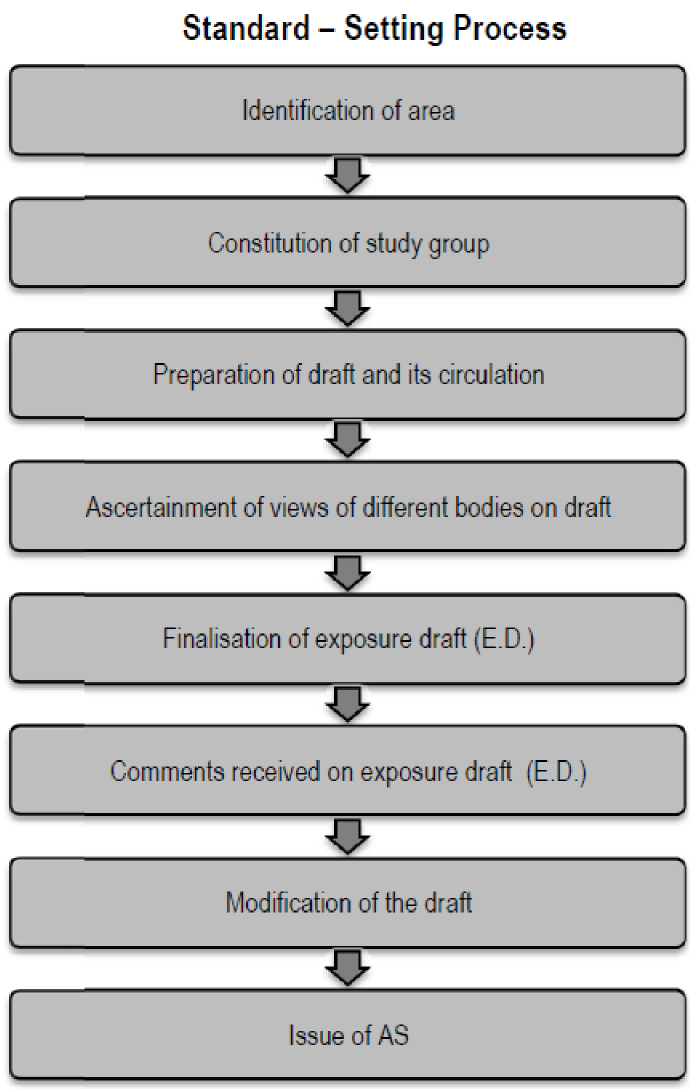
<table>
<tr><th colspan="2">ACCOUNTING STANDARDS</th></tr>
<tr><td>OBJECTIVES OF ACCOUNTING STANDARDS</td><td>

Accounting Standards <u>standardize diverse accounting</u> policies with a view to eliminate, to the maximum possible extent,
(i) the non-comparability of financial statements and thereby improving the reliability of financial statements, and
(ii) to provide a set of standard accounting policies, valuation norms and disclosure requirements.
Since it is <u>not possible to prescribe a single set of policies</u> in any area to be appropriate for all enterprises for all time, it is not enough to comply with the standards and state that they have been followed;
In addition to improving credibility of accounting data, standardization of accounting procedures <u>improves comparability of financial statements</u>, both intra-enterprise and inter-enterprise.
A third advantage of standardization is <u>reduction of scope for creative accounting</u>. The creative accounting refers to twisting of accounting policies to produce financial statements favorable to a particular interest group. For example, it is possible to overstate profits and assets by capitalising revenue expenditure or to understate them by writing off a capital expenditure against revenue of current accounting period.
In brief, the accounting standards aim at <u>improving the quality of financial reporting</u> by promoting comparability, consistency and transparency, in the interests of users of financial statements.
Good financial reporting not only promotes healthy financial markets, it also helps to reduce the cost of capital because investors can have faith in financial reports and consequently perceive lesser risks.
</td></tr>
<tr><td>BENEFITS OF ACCOUNTING STANDARDS</td><td>Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards the accountant has following benefits:
(i) <u>Standardization Of Alternative Accounting Treatments:</u> Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) <u>Requirement of Additional Disclosures:</u> There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) <u>Comparability of Financial Statements:</u> The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions,</td></tr>
</table>

	traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.
LIMITATION OF ACCOUNTING STANDARDS	However, there are some limitations of setting of accounting standards: (i) **<u>Difficulty in choosing Accounting policy:</u>** Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult. (ii) **<u>Lack of Flexibility:</u>** There may be a trend towards rigidity and away from flexibility in applying the accounting standards. (iii)**<u>Scope Restricted:</u>** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.
ACCOUNTING STANDARDS SETTING PROCESS	The standard-setting procedure of ASB can be briefly outlined as follows: ✓ Identification of broad areas by ASB for formulation of AS. ✓ Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed accounting standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the standard, recognition and measurement principles wherever applicable and presentation and disclosure requirements. ✓ Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations. ✓ Circulation of draft of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as Department of Company Affairs (DCA), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments. ✓ Meeting with the representatives of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard. ✓ Finalisation of the exposure draft of the proposed accounting standard and its issuance inviting public comments. ✓ Consideration of comments received on the exposure draft and finalisation of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance. ✓ Consideration of the final draft of the proposed standard and by the Council of the ICAI, and if found necessary, modification of the draft in consultation with the ASB is done. ✓ The accounting standard on the relevant subject is then issued by the ICAI.



ACCOUNTING STANDARDS BOARD

FORMATION OF THE ACCOUNTING STANDARDS BOARD

- ✓ The Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standards Board (ASB) on 21st April, 1977) to harmonise the diverse accounting policies and practices in use in India.
- ✓ ASB of the ICAI has been issuing accounting standards since then. It has issued 32 Accounting Standards and 29 Accounting Standards Interpretations so far.
- ✓ "AS 8- Accounting for Research and Development" has been withdrawn, therefore there are 31 Accounting Standards in effect currently.
- ✓ ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country.
- ✓ It also gives due consideration to International Accounting Standards (IASs) and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India.

COMPOSITION OF THE ACCOUNTING STANDARDS BOARD

The composition of the ASB is fairly broad-based and ensures participation of all interest-groups in the standard setting process. Apart from the elected members of the Council of the ICAI nominated on the ASB, the following are represented on the ASB:

(i) Nominee of the Central Government representing the Department of Company Affairs on the Council of the ICAI

(ii) Nominee of the Central Government representing the Office of the Comptroller and Auditor General of India on the Council of the ICAI

(iii) Nominee of the Central Government representing the Central Board of Direct Taxes on the Council of the ICAI

(iv) Representative of the Institute of Cost and Works Accountants of India

(v) Representative of the Institute of Company Secretaries of India

(vi) Representatives of Industry Associations (1 from Associated Preface to the Statements of Accounting Standards 3 Chambers of Commerce and Industry (ASSOCHAM), 1 from Confederation of Indian Industry (CII) and 1 from Federation of Indian Chambers of Commerce and Industry (FICCI)

(vii) Representative of Reserve Bank of India

(viii) Representative of Securities and Exchange Board of India

(ix) Representative of Controller General of Accounts

(x) Representative of Central Board of Excise and Customs

(xi) Representatives of Academic Institutions (1 from Universities and 1 from Indian Institutes of Management)

(xii) Representative of Financial Institutions

(xiii) Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)

(xiv) Chairman of the Research Committee and the Chairman of the Expert Advisory Committee of the ICAI, if they are not otherwise members of the Accounting Standards Board

(xv) Representative(s) of any other body, as considered appropriate by the ICAI

OBJECTIVES AND FUNCTIONS OF THE ACCOUNTING STANDARDS BOARD

The following are the objectives of the Accounting Standards Board:

(i) To conceive of and suggest areas in which Accounting Standards need to be developed.

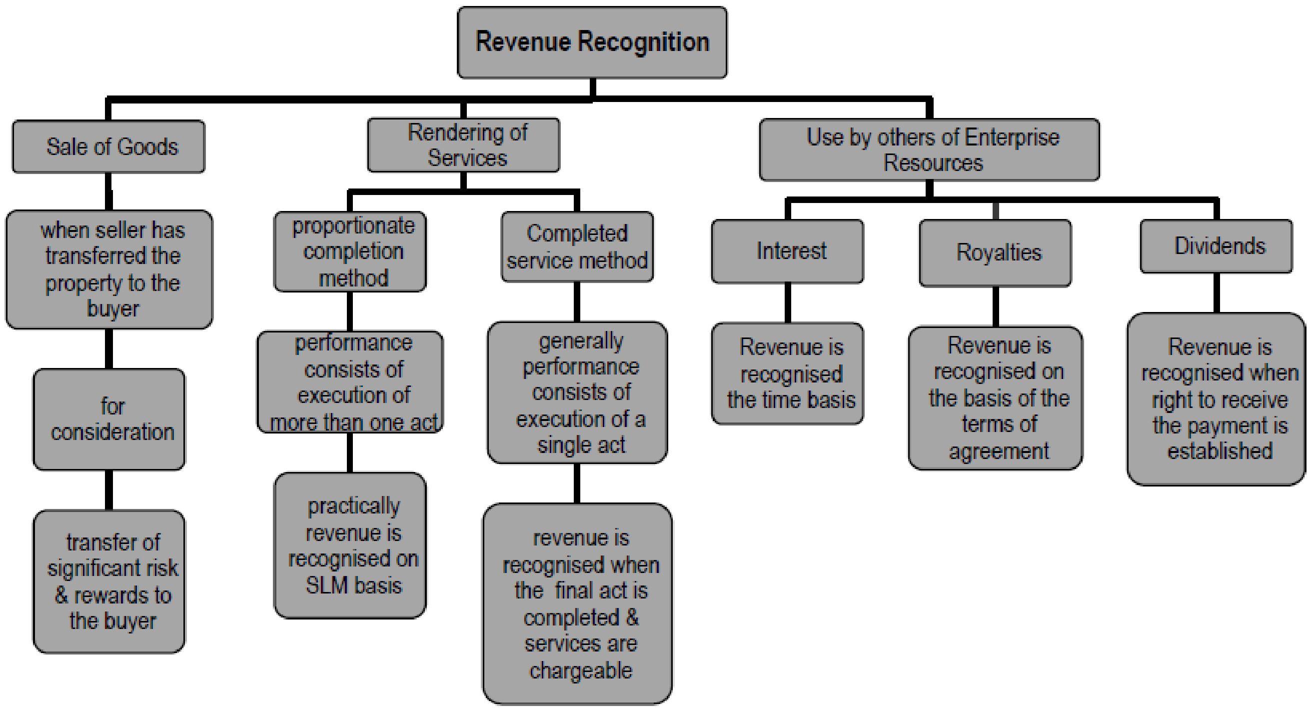
	(ii) To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India. (iii) To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adapted while formulating the Accounting Standard and to adapt the same. (iv) To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same. (v) To provide, from time to time, interpretations and guidance on Accounting Standards. (vi) To carry out such other functions relating to Accounting Standards. The main function of the ASB is to formulate Accounting Standards so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB will take into consideration the applicable laws, customs, usages and business environment prevailing in India. The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonization of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.
SCOPE OF ACCOUNTING STANDARDS	(i) The Accounting Standards which are issued are in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular Accounting Standard is found to be not in conformity with law, ***the provisions of the said law will prevail*** and the financial statements should be prepared in conformity with such law. (ii) The Accounting Standards by their very nature cannot and ***do not override the local regulations*** which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need not be treated as adverse comments on the related financial statements. (iii) The Accounting Standards are intended to ***apply only to items which are material***. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time. The date from which a particular Standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the ICAI. However, no standard will have retroactive application, unless otherwise stated.

	(iv) In formulation of Accounting Standards, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.
APPLICABILITY OF ACCOUNTING STANDARDS UNDER COMPANIES ACT, 2013	Section 129 (1) of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III: Provided that the items contained in such financial statements shall be in accordance with the accounting standards. **Section 129 (5)** of the Companies Act, 2013, without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, ⇨ The deviation from the accounting standards, ⇨ The reasons for such deviation and ⇨ The financial effects, if any, arising out of such deviation. According to section 132 (1), the Central Government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act. According to section 132 (2) Notwithstanding anything contained in any other law for the time being in force, the **NATIONAL FINANCIAL REPORTING AUTHORITY** shall— **(FUNCTIONS OF NFRA) (JUNE 2016)** (a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be; (b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed; (c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed; and **Section 133**-The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority. Section 134 (5) of the Companies Act, 2013, prescribes that the Directors' Responsibility Statement shall state that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures. **Section 143 (2)**: **Auditor's Duty**: The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statement which are

	required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made there under or under any order made under sub-section (11) and to the best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.
ACCOUNTING POLICY	**Accounting Policy** are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements. Some of the areas in which specific accounting principles can be followed are: • Depreciation and Amortisation (AS 6) • Valuation of Inventory (AS 2) • Valuation of Goodwill (AS 10) • Valuation of Fixed Asset and Investments (AS 10 & 13) • Translation of Foreign currency items (AS 11) • Treatment of expenditure during construction and recognition of profit on long term contracts (AS 7)
FUNDAMENTAL ACCOUNTING ASSUMPTIONS (AS 1)	**1. Going Concern**: The enterprise is normally viewed as a Going Concern, i.e continuing in operation for the foreseeable future. It is assumed that enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations. **2. Consistency:** The accounting policies are consistent from year to year. **3. Accrual:** Revenue and cost are accrued i.e recognized as they are earned or incurred and recorded in the financial statements of the periods to which they relate and not when money is received or paid.
DEFINE INVENTORIES? (AS 2)	Inventories are Assets: a. Held for sale in the ordinary course of business; b. In the process of production for such sale; c. In the form of material or supplies to be consumed in the production process or in rendering of services.
AS 2 DOES NOT APPLY TO WHICH TYPE OF INVENTORIES?	AS 2 should be applied in accounting for inventories other than: a. Work in progress arising under construction contracts, including directly related service contracts; b. Work in progress arising in ordinary course of business of service providers; c. Shares, debentures and other financial instruments held as stock in trade; d. Producer's inventory of livestock, agricultural and forest products, minerals oils, ores and gases to the extent they are measured at net realizable value in accordance with well established practices in those industries.

COST OF INVENTORY COMPRISES OF?? (AS 2)	The cost of inventories shall comprise of: a. All cost of purchase, b. Cost of conversion and c. Other cost incurred in bringing the inventories to their present location and condition. The cost of purchase consists of purchase price, duties and taxes (***other than those subsequently recoverable from taxing authority***) Freight inwards and other expenditure directly attributable to the acquisition. **Materials held for use in the production of inventories are not written down below cost if finished goods in which they will be incorporated are expected to be sold at or above cost.** **However, where there is a decline in the value of material and it is estimated that cost of finished goods will exceed the NRV of finished goods, the materials are written down to net realisable value i.e replacement cost of the material.** The cost of conversion of inventories includes cost directly related to units of production (Direct material, direct labour and direct expenses). They shall also include a systematic allocation of fixed and variable production overhead that are incurred in converting materials into finished goods. I) Variable production overhead vary with the volume of production and hence can be allocated. II) ***The fixed production overhead is to be allocated on the basis of normal capacity of the production facilities***. Normal capacity is the production expected to be achieved on an average over a number of years taking into account the loss due to planned maintenance. Unallocated overheads are treated as expense in the period in which they are incurred.
WHICH COSTS ARE TO BE EXCLUDED FROM THE COST OF INVENTORIES? (AS 2)	a. Abnormal cost of wasted material, labour or other production overheads; b. Storage costs of inventory; c. Administration overheads as they do not contribute to bring the inventories to their present location and condition; d. Selling and distribution overheads. e. Interest and borrowing cost relating to inventories.
MEASUREMENT OF CONTRACT REVENUE AND CONTRACT COSTS: (AS 7)	(1) **PERCENTAGE OF COMPLETION METHOD:** The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work competed. This method provides information on the extent of contract activity and performance during a period. However, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately. $\textbf{\% Completion} = \dfrac{\textbf{Actual cost to date}}{\textbf{Total estimated cost on the contract}}$

	(2) **STAGE OF COMPLETION METHOD:** The stage of completion may be determined in a variety of ways. The enterprise uses the method that measures reliably the work performed. Depending upon the nature of the contract, the methods may include: (i) The proportion that contract cost incurred for work performed upto the reporting date bear to the estimated total contract costs; (ii) Surveys of work performed; (iii) Completion of a physical proportion of the contract work. Progress payment and advances received from the customers may not necessarily reflect the work performed. When the outcome of a construction contract cannot be estimated reliably: (i) Revenue should be recognised only to the extent of contract costs incurred by which recovery is probable; and (ii) Contract cost should be recognised as an expense in the period in which they are incurred. An expected loss on the construction contract should be recognised as an expense immediately.
REVENUE RECOGNITION: SALE OF GOODS (December 2014) (AS 9)	Revenue is recognized when the following conditions are satisfied: a. The seller has transferred to the buyer the **property in goods** for a consideration. OR b. Significant **risk and rewards** of the ownership has been transferred to the buyer where the seller retains no effective control over the goods to a degree usually associated with the ownership; AND c. No significant uncertainty exists regarding the amount of consideration that will be delivered from the sale of goods.
REVENUE RECOGNITION: RENDERING OF SERVICES (December 2014) (AS 9)	Following conditions must be satisfied: a. The performance may consists of execution of one or more acts. It should be measured using either: i. Completed service contract method; ii. proportionate completion method; whichever relates the revenue to the work accomplished. b. There is no significant uncertainty regarding the amount of consideration that will be derived from rendering the service. c. it is reasonable to expect the ultimate collection at the time of performance. Otherwise, revenue recognition should be postponed.



INVESTMENT & TYPES OF INVESTMENTS (AS 13)	Investments are assets held by an enterprise for earning income by way of dividend, interest and rentals, and for capital appreciation, or for other benefits to the investing enterprise. Assets held as “stock in trade” are not investments. Investments are classified as long term and current investments. A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A long term investment is an investment other than current investment.
COST OF INVESTMENTS: (AS 13)	The cost of an investment includes acquisition charges like brokerage, fees and duties. If an investment is acquired or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued. The Fair value may not necessarily be equal to its nominal value or par value of securities issued. If an investment is acquired or partly acquired, by exchange for another asset, the acquisition cost of investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident. When right shares are subscribed for, the cost of right shares is added to the carrying value of the original holding. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to profit and loss account.
AMALGAMATION IN THE NATURE	Which satisfies all the following conditions.

OF MERGER (JUNE 2015) (AS 14)	(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company. (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation. (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares. iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company. v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.
ACCOUNTING FOR AMALGAMATION (AS 14)	How the accounting for purchased assets and liabilities shall be made in the books of Transferee Company is also prescribed by this standard. As per the standard, the accounting methods to be followed are as under: - In case of Merger: Pooling of Interest Method - In case of Purchase: Purchase Method It should be noted that AS 14 does not mention at all, how accounting is to be made in Transferor Company's Books, and therefore accounting as per common practice has to be done in the books of Transferor company irrespective of the type of amalgamation. **Pooling of Interest Method**: **(December 2015)** This method is used for accounting in case of merger in the books of transferee. - In preparing the financial statements of Transferee Company after amalgamation, Line by Line addition is done for respective assets and liabilities of the Transferor and Transferee Company except for Share Capital. - The difference between the purchase consideration paid by the transferee company to the transferor company and the amount of share capital (Equity + preference Capital) of the transferor company should be adjusted with reserves. - Reserves mean the portion of earnings, for example, Profit & Loss Account, General Reserves, Capital Reserves. - If purchase consideration is more than the share capital of the transferor company then the amount should be debited to reserves, if reverse is the case, the difference is credited to reserves. **Purchase Method:** - If any of the conditions of merger is not satisfied, then the amalgamation shall be classified as purchase, therefore, the purchase method of

	accounting shall be followed in the books of Transferee Company. - As per the purchase method in the books of Transferee Company, assets and liabilities shall be recorded at the value at which these assets and liabilities are taken over by the Transferee Company from the Transferor Company; Certainly assets do not include fictitious assets and liabilities do not include internal liabilities like Reserve and Surplus but includes liabilities outside the books of accounts i.e unrecorded Liabilities. - If the Purchase consideration exceeds the net assets taken over, the difference is debited to goodwill account. If the purchase consideration is less than the net assets taken over, the difference is credited to capital reserve. **Distinguish between**: Pooling of Interest Method & Purchase Method (December 2014)
NET ASSET METHOD VS. NET PAYMENT METHOD (AS 14) (JUNE 2015)	**NET ASSET METHOD:** The amount of consideration or the amount of net assets is ascertained under this method in the following manner: Assets taken over (at their revalued figures, if any, otherwise at their book figures). ***Less***: Liabilities taken over (at their agreed values, if any, otherwise at their book figures). While determining the amount of consideration under this method care should be taken of the following: 1. The term "Assets" will always include cash in hand and cash at bank, unless otherwise stated but shall not include any fictitious asset like preliminary expenses, underwriting commission, discount on issue of shares or debentures, profit and loss account (debit balance), etc. 2. If any particular asset is not taken over by the transferee company, the same should not be included while computing purchase consideration. 3. If there is any goodwill or pre-paid expenses, the same should be included in the assets taken over unless otherwise stated. 4. The term "Liabilities" will mean all liabilities to third parties (the company being the first party and shareholders being the second party). 5. The term "Trade Liabilities" will mean trade creditors and bills payable and shall not include other liabilities to third parties, such as, bank overdraft, debentures, outstanding expenses, taxation liability, etc. 6. The term "Liabilities" shall not include any past accumulated profits or reserves, such as general reserve, reserve fund, sinking fund, dividend equalisation fund, capital reserve, securities premium account, capital redemption reserve account, profit and loss account etc. These are payable to the shareholders and not to the third parties. 7. If any liability is not taken over by the transferee company, the same should not be included.

	NET PAYMENT METHOD: While determining the amount of consideration under this method, care should be taken of the following: 1. The value of assets and liabilities taken over by the transferee company are not to be considered in calculating the consideration. 2. The payments made by the transferee company for shareholders, whether in cash or in shares or in debentures must to be taken into account. 3. Where the liabilities are taken over by the transferee company and subsequently discharged such amount should not be added to consideration. 4. When liabilities are taken over by the transferee company they are neither deducted nor added to the amount arrived at as consideration. 5. Any payments made by the transferee company to some other party on behalf of the transferor company are to be ignored. 6. If the liquidation expenses of the transferor company are paid by the transferee company, the same should not be taken as a part of the consideration.
PRIOR PERIOD ITEMS (AS 5)	*Prior period items are income or expense which arise in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods.* **The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.** Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight. Examples of prior period items are: (i) Error in calculation in providing expenditure or income; (ii) Omission to account for income or expenditure; (iii) Applying incorrect rate of depreciation; (iv) Treating operating lease as finance lease.
CHANGE IN ACCOUNTING ESTIMATE (AS 5)	As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. **The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item.**

	Examples: (i) Estimation of provision of sundry debtors; (ii) Estimation of provision for any liabilities; (iii) Computing income tax provision; (iv) Estimating useful life of fixed asset; **The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.**
CHANGES IN ACCOUNTING POLICY (AS 1)	Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements. A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise. Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.
NON-INTEGRAL FOREIGN OPERATIONS (AS 11)	In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting enterprise should use the following procedures: (a) The assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate; (b) Income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and (c) All resulting exchange differences should be accumulated in a foreign currency translation reserve until the disposal of the net investment.
INDICATORS THAT A BRANCH IS AN NON-INTEGRAL FOREIGN OPERATION (AS 11)	(a) While the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprise; (b) Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities; (c) The activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise;

	(d) Costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency; (e) The foreign operation's sales are mainly in currencies other than the reporting currency; (f) Cash flows of the reporting enterprise are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation; (g) Sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation; and (h) There is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.
PRESENTATION OF GRANTS RELATING TO SPECIFIC FIXED ASSETS **(AS 12)**	**<u>Conditions:</u>** Grants relating to specific fixed assets are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire such asset. Other conditions may be attached restricting the type or location of such assets or period during which such asset should be acquired. **<u>Presentation:</u>** 1. The grant is shown as a deduction from the gross value of asset concerned in arriving at its book value. The grant is thus recognised in P & L Account over the useful life of a depreciable asset by way of reduced depreciation charge. When the grant equals the whole or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value. 2. Under the other method, grants related to depreciable assets are treated as *deferred income* which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. *Grants related to non-depreciable assets are credited to capital reserve under this method, as there is usually no charge to income in respect of such assets*. However, if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account. For example, in the case of a company, it is shown after 'Reserves and Surplus' but before 'Secured Loans' with a suitable description, e.g., 'Deferred government grants'.
PRESENTATION OF GRANTS RELATING TO REVENUE **(AS 12)**	Grants related to revenue are sometimes presented as a credit in the profit and loss account, either separately or under a general heading such as Other Income. Alternatively, they are deducted in reporting the related expense. Supporters of first method, claim that it is inappropriate to net income and

	expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by grant. For second method, it is argued that the expense might well not have been incurred by the enterprise if the grant had not been received and presentation of the expense without offsetting the grant may therefore be misleading.
REFUND OF GOVERNMENT GRANTS (AS 12)	Government grants sometimes become refundable if certain conditions are not fulfilled. A government grant that becomes refundable is ***treated as an extraordinary item as per AS 5***. The amount refundable in respect of a government grant *related to revenue* is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. The amount refundable in respect of a government grant *related to a specific fixed asset* is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.
WHAT CONSTITUTES BORROWING COSTS? (AS 16)	a. Interest and *Commitment charges* on bank borrowings and other short term and long term borrowings. b. Amortisation of discounts or premiums relating to borrowings. c. Amortisation of ancillary cost relating to arrangement of funds; d. Finance charges in respect of assets acquired under finance lease or under similar arrangements; e. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
COMMENCEMENT OF CAPITALIZATION OF BORROWING COST (AS 16)	The capitalization of borrowing costs as a part of cost of qualifying asset should commence when all of the following conditions are satisfied: a. Expenditure for the acquisition, construction or production of a qualifying asset is being incurred; b. Borrowing cost are being incurred; and c. Activities that are necessary to prepare the asset for its intended use or sale are in progress;
SUSPENSION OF CAPITALIZATION (AS 16)	Capitalization of borrowing cost should be suspended during extended periods in which active development is interrupted. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalization. However, capitalization of borrowing costs is not normally suspended during a

	period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during the extended period needed for inventories to mature or the extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.
CESSATION OF CAPITALIZATION (AS 16)	Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete. A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues for the other parts.
AS 17 – SEGMENT REPORTING	❖ The objective of this standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. ❖ The standard is applied in presenting general purpose financial statements. ❖ The dominant source and nature of risks and returns of an enterprise should govern whether its primary segment reporting format will be business segments or geographical segments. ❖ If the risks and returns of an enterprise are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically. ❖ Similarly, if the risks and returns of the enterprise are affected predominantly by the fact that it operates in different countries or other geographical areas; its primary format for reporting segment information should be geographical segments, with secondary information reported for groups or related products and services. ❖ **A business segment or geographical segment should be identified as a reportable segment if** **(a) its revenue from sales to external customers and from transactions with other segment is 10 per cent or more of the total revenue, external and internal of all segments; or** **(b) its segment result, whether profit or loss is 10 per cent or more of**

	(i) the combined result of all segments in profits or (ii) the combined results of all segments in loss which is greater in absolute amount; or **(c) its segment assets are 10 per cent or more of the total assets of all segments.**
AS 18 – RELATED PARTIES	❖ This standard is applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. ❖ Related partly disclosure requirements do not apply in circumstances where providing such disclosure would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator. ❖ If there have been transactions between related parties, during the existence of a related party relationship the reporting enterprise should disclose: (i) the name of the transacting related party; (ii) a description of the relationship between the parties; (iii) description of the nature of the transactions; (iv) volume of transactions either as an amount or as an appropriate proportion; (v) any other elements of the related party transactions necessary for an understanding of the financial statements; (vi) the amounts or appropriate propositions of outstanding items pertaining to related parties at the balance sheet date and provision for doubtful debts due from such parties at that date; and (vii) the amounts written off or written back in the period in respect of debts due from or to related parties. Items of a similar nature may be disclosed in aggregate by type of related party.
FINANCE LEASE IN THE BOOKS OF LESSEE (AS 19)	• At the inception of a finance lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the stand point of the lessee, the amount recorded as an asset and a liability should be the present value of minimum lease payments *from the stand point of the lessee*. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease, if this is practicable to determine, if not, the lessee's incremental borrowing rate should be used. • It is not appropriate to present the liability for a leased asset as a deduction from the leased asset in the financial statements. The liability for a leased asset should be presented in the balance sheet as a current liability or a long term liability as the case may be. • Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. • A finance lease give rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for the leased asset should be consistent with that for depreciable assets which

	are owned and the depreciation recognised should be calculated on the basis set out in AS 6.
FINANCE LEASE IN THE BOOKS OF LESSOR (AS 19)	• The lessor should recognise assets given under a finance lease in its balance sheet ***as a receivable*** at an amount ***equal to the net investment in the lease***. • The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the investment of the lessor outstanding in respect of the finance lease. • Initial direct cost such as commission and legal fees are often incurred by lessor in negotiating and arranging a lease. For finance leases, these initial direct cost are incurred to produce finance income and are either recognised immediately in the statement of profit and loss or allocated against the finance income over the lease term.
AS 20 – EARNING PER SHARE	❖ Earnings per share (EPS) is a financial ratio that gives the information regarding earnings available to each equity share. ❖ This accounting standard gives computational methodology for determination and presentation of earnings per share. ❖ An enterprise *should present basic and diluted earning per share* on the face of the statement of profit and loss account for each class of equity shares that has a different right to share in the net profit for the period. ❖ An enterprise should present basic and diluted earning per share with *equal prominence* for all periods presented. ❖ The standard also requires that an enterprise to present basic and diluted earnings per share *even if the amount disclosed are negative* i.e. a loss per share. ❖ Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. ❖ For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto. ❖ For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.
AS 25 – INTERIM FINANCIAL REPORTING	❖ An interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. ❖ An interim financial report should include, at a minimum, the following components: (i) Condensed balance sheet;

	(ii) Condensed statement of profit and loss; (iii) Condensed cash flow statement; and (iv) Selected explanatory notes. ❖ The following minimum disclosure of notes and explanatory statements should be made in the interim financial report. (i) A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change. (ii) Explanatory comments about the seasonality of interim operations. (iii) Unusual factors that affected assets, liabilities, equity, net income and cash flows. (iv) The effects of changes in estimates. (v) Change in debt and equity through issuance, buy-back and repayments. (vi) Details of dividend payment. (vii) Segment revenue, segment capital employed and segment result for business segments or geographical segments, whichever is the primary basis of segment reporting. (viii) The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations. (ix) Material changes in contingent liabilities since the last annual balance sheet date.
AS 26 – INTANGIBLE ASSETS	❖ An intangible asset should be recognised if, and only if: (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably ❖ Internally generated goodwill should *<u>not be recognized</u>* as an asset. Intangible asset arising from research (or from the research phase of an internal project) should not be recognized as an asset. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred. ❖ An intangible asset arising from **development** (or from the development phase of an internal project) should be **recognized** if, and only if, an enterprise can demonstrate all of the following: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (f) its ability to measure the expenditure attributable to the intangible asset during its development reliably.

	❖ After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and anaccumulated impairment losses. ❖ The Accounting Standard states that the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. *There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use*. Amortisation should commence when the asset is available for use.
AS 28 – IMPAIRMENT OF ASSETS	❖ The objective of this Standard is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. ❖ In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum the following indications: (a) **External sources of information**: (i) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; (ii) significant changes with an adverse effect on the enterprise have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which an asset is dedicated; (iii) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; (iv) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation; **(b) Internal sources of information:** (i) evidence is available of obsolescence or physical damage of an asset; (ii) significant changes with an adverse effect on the enterprise have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date; and (iii) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.
AS 29 – PROVISIONS, CONTINGENT ASSETS & CONTINGENT LIABILITIES	❖ A *provision* is a liability, which can be measured only by using a substantial degree of estimation. ❖ A contingent liability is: (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or

	more uncertain future events not wholly within the control of the enterprise; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) a reliable estimate of the amount of the obligation cannot be made. ❖ A *contingent asset* is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. ❖ This Standard specifies that a provision should be recognised when: (a) an enterprise has a present obligation as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised. ❖ An enterprise should not recognise a contingent liability or contingent asset. ❖ Provisions should not be recognised for future operating losses.

SCHDULE III DISCLOSURES	
SHARE CAPITAL	For each class of share capital (different classes of preference shares to be treated separately): (a) The number and amount of shares authorized; (b) The number of shares issued, subscribed and fully paid, and subscribed but not fully paid; (c) Par value per share; (d) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period; (e) The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital; (f) Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate; (g) Shares in the company held by each shareholder holding more than5 per cent. shares specifying the number of shares held; (h) Shares reserved for issue under options and contracts/commitmentsfor the sale of shares/disinvestment, including the terms and amounts; (i) For the period of five years immediately preceding the date as at which the Balance Sheet is prepared: (A) Aggregate number and class of shares allotted as fully paid-up pursuant to contract(s) without payment being received in cash. (B) Aggregate number and class of shares allotted as fully paid-up by way of bonus shares. (C) Aggregate number and class of shares bought back. (j) Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date; (k) Calls unpaid (showing aggregate value of calls unpaid by directors and officers); (l) Forfeited shares (amount originally paid-up).
RESERVES & SURPLUS	(i) Reserves and Surplus shall be classified as: (a) Capital Reserves; (b) Capital Redemption Reserve; (c) Securities Premium Reserve; (d) Debenture Redemption Reserve;

	(e) Revaluation Reserve; (f) Share Options Outstanding Account; (g) Other Reserves–(specify the nature and purpose of each reserve and the amount in respect thereof); (h) Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc.; (Additions and deductions since last balance sheet to be shown under each of the specified heads); (ii) A reserve specifically represented by earmarked investments shall be termed as a "fund". (iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.
LONG TERM BORROWINGS	(i) Long-term borrowings shall be classified as: (a) Bonds/debentures; (b) Term loans: (A) From banks. (B) From other parties. (c) Deferred payment liabilities; (d) Deposits; (e) Loans and advances from related parties; (f) Long term maturities of finance lease obligations; (g) Other loans and advances (specify nature). (ii) Borrowings shall further be sub-classified as secured and unsecured. Natureof security shall be specified separately in each case. (iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed. (iv) Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due. (v) Particulars of any redeemed bonds/debentures which the company has power to reissue shall be disclosed.

	(vi) Terms of repayment of term loans and other loans shall be stated. (vii) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest shall be specified separately in each case.
SHORT TERM BORROWINGS	(i) Short-term borrowings shall be classified as: (a) Loans repayable on demand; (A) from banks. (B) from other parties. (b) Loans and advances from related parties; (c) Deposits; (d) Other loans and advances (specify nature). (ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case. (iii) Where loans have been guaranteed by directors or others, the aggregate Amount of such loans under each head shall be disclosed. (iv) Period and amount of default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.
TANGIBLE ASSETS	(i) Classification shall be given as: (a) Land; (b) Buildings; (c) Plant and Equipment; (d) Furniture and Fixtures; (e) Vehicles; (f) Office equipment; (g) Others (specify nature). (ii) Assets under lease shall be separately specified under each class of asset. (iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related Depreciation and impairment losses/reversals shall be disclosed separately. (iv) Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.
INTANGIBLE ASSETS	(i) Classification shall be given as: (a) Goodwill; (b) Brands /trademarks; (c) Computer software; (d) Mastheads and publishing titles; (e) Mining rights;

	(f) Copyrights, and patents and other intellectual property rights, services and operating rights; (g) Recipes, formulae, models, designs and prototypes; (h) Licenses and franchise; (i) Others (specify nature). (ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reversals shall be disclosed separately. (iii) Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.
NON-CURRENT INVESTMENTS	(i) Non-current investments shall be classified as trade investments and other investments and further classified as: (a) Investment property; (b) Investments in Equity Instruments; (c) Investments in preference shares; (d) Investments in Government or trust securities; (e) Investments in debentures or bonds; (f) Investments in Mutual Funds; (g) Investments in partnership firms; (h) Other non-current investments (specify nature). Under each classification, details shall be given of names of the bodies corporateindicating separately whether such bodies are (i) subsidiaries, (ii) associates,(iii) joint ventures, or (iv) controlled special purpose entities in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given. (ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof; (iii) The following shall also be disclosed: (a) Aggregate amount of quoted investments and market value thereof; (b) Aggregate amount of unquoted investments; (c) Aggregate provision for diminution in value of investments.
LONG TERM LOANS & ADVANCES **(JUNE 2016)**	(i) Long-term loans and advances shall be classified as: (a) Capital Advances; (b) Security Deposits; (c) Loans and advances to related parties (giving details thereof); (d) Other loans and advances (specify nature).

	(ii) The above shall also be separately sub-classified as: (a) Secured, considered good; (b) Unsecured, considered good; (c) Doubtful. (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately. (iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
CURRENT INVESTMENTS	(i) Current investments shall be classified as: (a) Investments in Equity Instruments; (b) Investment in Preference Shares; (c) Investments in Government or trust securities; (d) Investments in debentures or bonds; (e) Investments in Mutual Funds; (f) Investments in partnership firms; (g) Other investments (specify nature). Under each classification, details shall be given of names of the bodies corporate[indicating separately whether such bodies are: (i) subsidiaries, (ii) associates,(iii) joint ventures, or (iv) controlled special purpose entities] in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given. (ii) The following shall also be disclosed: (a) The basis of valuation of individual investments; (b) Aggregate amount of quoted investments and market value thereof; (c) Aggregate amount of unquoted investments; (d) Aggregate provision made for diminution in value of investments.
INVENTORIES	(i) Inventories shall be classified as: (a) Raw materials; (b) Work-in-progress; (c) Finished goods; (d) Stock-in-trade (in respect of goods acquired for trading); (e) Stores and spares; (f) Loose tools; (g) Others (specify nature). (ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories. (iii) Mode of valuation shall be stated.
TRADE RECEIVABLES	(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately

	stated. (ii) Trade receivables shall be sub-classified as: (a) Secured, considered good; (b) Unsecured, considered good; (c) Doubtful. (iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately. (iv) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
CASH & CASH EQUIVALENTS **(JUNE 2016)**	(i) Cash and cash equivalents shall be classified as: (a) Balances with banks; (b) Cheques, drafts on hand; (c) Cash on hand; (d) Others (specify nature). (ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated. (iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately. (iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated. (v) Bank deposits with more than twelve months maturity shall be disclosed separately.
SHORT TERM LOANS & ADVANCES **(JUNE 2016)**	(i) Short-term loans and advances shall be classified as: (a) Loans and advances to related parties (giving details thereof); (b) Others (specify nature). (ii) The above shall also be sub-classified as: (a) Secured, considered good; (b) Unsecured, considered good; (c) Doubtful. (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately. (iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.
CONTINGENT LIABILITIES & COMMITMENTS	(i) Contingent liabilities shall be classified as: (a) Claims against the company not acknowledged as debt;

	(b) Guarantees; (c) Other money for which the company is contingently liable. (ii) Commitments shall be classified as: (a) Estimated amount of contracts remaining to be executed on capital account and not provided for; (b) Uncalled liability on shares and other investments partly paid; (c) Other commitments (specify nature).
REVENUE FROM OPERATIONS	(A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from— (a) Sale of products; (b) Sale of services; (c) Other operating revenues; Less: (d) Excise duty. (B) In respect of a finance company, revenue from operations shall include revenue from— (a) Interest; and (b) Other financial services. Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.
OTHER INCOME	Other income shall be classified as: (a) Interest Income (in case of a company other than a finance company); (b) Dividend Income; (c) Net gain/loss on sale of investments (d) Other non-operating income (net of expenses directly attributable to such income).
PAYMENT TO AUDITORS	Payments to the auditors as (a) audit, (b) for taxation matters, (c) for company matters, (d) for management services, (e) for other services, (f) for reimbursement of expense;
DETAILS OF ITEMS OF EXCEPTIONAL AND EXTRAORDINARY NATURE	(i) Prior Period Items; (ii) (a) In the case of manufacturing companies; (i) Raw materials under broad heads. (ii) Goods purchased under broad heads. (b) In the case of trading companies, purchases in respect of goods traded in by company under broad heads. (c) In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads. (d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance

	with the requirements herein if purchase, sales and consumption of raw material and the gross income from services rendered is shown under broad heads. (e) In the case of other companies gross income derived under broad heads. (iii) In the case of all concerns having work-in-progress, work-in-progress under broad heads. (iv) (a) The aggregate, if material, of any amounts set aside or propose to be set aside, to reserve , but not including provisions made to meet any specific liability, contingency or commitment known to exit at the date as to which the Balance Sheet is made up. (b) The aggregate, if material, of any amounts withdrawn from such reserves. (v) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitment. (b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required. (vi) Expenditure incurred on each of the following items, separately for each item : – (a) Consumption of stores and spare parts (b) Power & fuel (c) Rent (d) Repairs to building (e) Repairs to Machinery (f) Insurance (g) Rates and Taxes, excluding, taxes on income. (h) Miscellaneous expense, (vii) (a) Dividends from subsidiary companies (b) Provisions for losses of subsidiary companies (viii) The profit and loss account shall also contain by way of a note the following information, namely:- (a) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of – I. Raw materials; II. Components and spare parts; III. Capital goods; (b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters; (c) Total value if all imported raw materials, spare parts and the components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption; (d) The amount remitted during the year in foreign currencies on account of

	dividends with specific mention of the total number of nonresidents shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related; (e) Earnings in foreign exchange classified under the following heads, namely:- I. Exports of Goods calculated on F.O.B. basis; II. Royalty, know-how, professional and consultation fees; III. Interest and Dividends; IV. Other Income, indicating the nature thereof

COMPANY FINAL ACCOUNTS	
KEY FEATURES OF BALANCE SHEET SCHEDULE III	1) The Schedule III permits only Vertical form of presentation. 2) It uses "Equity and Liabilities" and "Assets" as headings. 3) All assets and liabilities classified into current and non-current and presented separately on the face of the Balance Sheet. 4) Number of shares held by each shareholder holding more than 5% shares now needs to be disclosed. 5) Details pertaining to aggregate number and class of shares allotted for consideration other than cash, bonus shares and shares bought back will need to be disclosed only for a period of five years immediately preceding the Balance Sheet date. 6) Any debit balance in the Statement of Profit and Loss will be disclosed under the head "Reserves and surplus." Earlier, any debit balance in Profit and Loss Account carried forward after deduction from uncommitted reserves was required to be shown as the last item on the asset side of the Balance Sheet. 7) Specific disclosures are prescribed for Share Application money. The application money not exceeding the capital offered for issuance and to the extent not refundable will be shown separately on the face of the Balance Sheet. The amount in excess of subscription or if the requirements of minimum subscription are not met will be shown under "Other current liabilities." 8) The term "sundry debtors" has been replaced with the term "trade receivables." 'Trade receivables' are defined as dues arising only from goods sold or services rendered in the normal course of business. Hence, amounts due on account of other contractual obligations can no longer be included in the trade receivables. 9) It requires separate disclosure of "trade receivables" outstanding for a period exceeding six months from the date the bill/invoice is due for payment." 10) "Capital advances" are specifically required to be presented separately under the head "Loans & advances" rather than including elsewhere. 11) Tangible assets under lease are required to be separately specified under each class of asset. In the absence of any further clarification, the term "under lease" should be taken to mean assets given on operating lease in the case of lessor and assets held under finance lease in the case of lessee. 12) Under the Schedule III, other commitments also need to be disclosed.
KEY FEATURES OF PROFIT & LOSS SCHEDULE III	1) The name of 'Profit and Loss Account' has been changed to "Statement of Profit and Loss". 2) This format of Statement of Profit and Loss does not mention any appropriation item on its face. Further, 'below the line' adjustments to be

<table>
<tr><td>(JUNE 2015)</td><td>presented under “Reserves and Surplus” in the Balance Sheet.

3) Any item of income or expense which exceeds one per cent of the revenue from operations or Rs. 100,000 (earlier 1 % of total revenue or Rs. 5,000), whichever is higher, needs to be disclosed separately.

4) In respect of companies other than finance companies, revenue from operations need to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues.

5) Net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as finance cost.

6) Break-up in terms of quantitative disclosures for significant items of Statement of Profit and Loss, such as raw material consumption, stocks, purchases and sales have been simplified and replaced with the disclosure of “broad heads” only. The broad heads need to be decided based on materiality and presentation of true and fair view of the financial statements.</td></tr>
<tr><td>SECURITIES PREMIUM (June 2015)</td><td>According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:
(a) In paying up un-issued securities of the company to be issued to members of the company as fully paid bonus securities.
(b) To write off preliminary expenses of the company.
(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
(d) To pay premium on the redemption of preference securities or debentures of the company.
(e) To write off the premium paid on buyback of equity shares.</td></tr>
<tr><td>SHARES VS. DEBENTURES</td><td>
<table>
<tr><th>DEBENTURE</th><th>SHARES</th></tr>
<tr><td>Debenture holders are the creditors of the company</td><td>Shareholders are the owners of the company</td></tr>
<tr><td>Debenture holders have no voting right</td><td>Shareholders have voting rights and hence control the total affairs of the company</td></tr>
<tr><td>Debenture interest is paid at a predetermined fixed rate. It is payable whether there is any profit or not.</td><td>Dividend on shares is payable at a variable rate which is mainly affected by the profitability of the company.</td></tr>
<tr><td>Interest on debentures is a charge on the profits of the company and hence deductible as an expense under income tax</td><td>Dividends is the appropriation of the profits of the company hence are not deductible as an expense under income tax</td></tr>
<tr><td>In balance sheet, debentures are shown under secured loans</td><td>In balance sheet, shares are shown under share capital</td></tr>
<tr><td>Debenture can be converted into shares as per the terms of issue.</td><td>Shares cannot be converted into debentures under any circumstances</td></tr>
</table>
</td></tr>
</table>

	Debentures cannot be forfeited for non payment of calls money	Shares can be forfeited for non payment of allotment and call money
	At the time of liquidation, debenture holders are paid off before the shareholders	At the time of liquidation, shareholders are paid at the last after debenture holders, creditors, etc
	Debenture can be issued at a discount, no such restriction in companies act, 2013	Shares cannot be issued at a discount as per companies act, 2013
	Maximum Underwriting commission on Debentures can be 2.5% of Issue price as per companies Act, 2013 or As authorized by Articles whichever is less.	Maximum Underwriting commission on Shares can be 5% of Issue price as per Companies Act, 2013 or As authorized by Articles whichever is less.

EQUITY VS. PREFERENCE (December 2016)

Basis	Equity Shares	Preference Shares
Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating. Depends upon distributable profits	Fixed Rate of dividend
Redemption	Equity Shares are always irredeemable. They are payable only at the time of liquidation	Preference shares are always redeemable. Maximum tenor cannot exceed 20 years.
Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights. However, in special circumstances, they get voting rights.
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.
Accumulation of dividend	Dividend cannot be accumulated in any case	Dividend gets accumulated if not paid.

TYPES OF DEBENTURES

1. <u>SECURITY</u>
   a. **Secured Debentures** : Secured by charge (Fixed or Floating) on some or all of the assets. Normally, Fixed Charge is created on Fixed Assets

	like Land & Building, Plant & Machinery, etc. Floating Charge is created on current assets like Stock & Debtors. b. **Unsecured debentures** : Not secured by any charge upon any assets 2. **CONVERTIBILITY** a. **Convertible debentures**: that can be converted into Equity Shares after a certain period of time at the option of the holder. It can be Fully Convertible or Partly Convertible. b. **Non – convertible debentures**: There is no option to the holder for conversion into Equity Shares. 3. **PERMANENCE:** a. **Redeemable debentures**: These types of debentures are redeemable after a specified period of time in lumpsum or in instalments during the lifetime of the company. b. **Irredeemable debentures (Perpetual debentures):** These types of debentures are not redeemable during the lifetime of company. These are redeemable at the time of liquidation of company. 4. **NEGOTIABILITY: (TRANSFERABILITY)** a. **Registered debentures**: these are those which are payable to the person whose name appears in the Register of Debenture Holders. They can be transferred only by executing a transfer deed. Interest is paid to the registered holders. b. **Non registered debentures (Bearer Debentures):** These are payable to the bearer thereof. These can be transferred by mere delivery. Interest is paid to the person who produces the interest coupon attached to such debentures. 5. **PRIORITY** a. **First mortgage**: These have the first claim on the assets charged. b. **Second mortgage**: These have the second claim on the assets charged.
ISSUE OF BONUS SHARES (December 2016)	Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. According to sub-section (1) of this section, a company may issue fully paid bonus shares to its members, in any manner whatsoever, out of: (i) Free Reserves (ii) Securities Premium Account or (iii) Capital Redemption Reserve Provided that no issue of bonus shares shall be made by capitalizing reserves created by revaluation of assets. **Conditions for Bonus Issue:** (i) It is authorized by its AOA. (ii) It has, on recommendation of board, has authorized in the general meeting of the company. (iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it; (iv) it has not defaulted in respect of payment of statutory dues of the employees, such as contribution to provident fund, gratuity and bonus;

	(v) the partly paid up shares, if any outstanding on the date of allotment, are made fully paid up; (vi) it shall not be issued in lieu of dividend. Two Ways to giving Bonus: (i) Issue of Fully paid bonus shares (ii) Converting partly paid up shares into fully paid up as bonus
MANAGERIAL REMUERATION U/S 197 OF COMPANIES ACT (December 2014)	The maximum ceiling for payment of managerial remuneration by a public company to its MD, WTD and which ***shall not exceed 11%*** of the net profit of the company in a particular financial year. This section only applies to public company or a private company which is a subsidiary of a public company. **Note:** The calculation of net profit for the purpose of Managerial Remuneration shall be made in accordance with section 198. **A company may pay more than 11% of the Net Profit with authority of shareholders.** **Individual limit of Managerial Remuneration to MD, WTD or Manager** The remuneration payable to any one MD or WTD or Manager shall not exceed 5% of the net profits and if there are more than one such directors and manager, remuneration shall not exceed 10% of the net profits. **Individual Limit to directors other than MD, WTD or Manager** The remuneration payable to Directors other than MD or WTD shall not exceed: (a) 1% of the net profits, if there is a MD, WTD or Manager; (b) 3% of the net profits in any other case. **Note:** The Company may increase the above limit of Managerial Remuneration subject to the approval of shareholders in general meeting by Special Resolution. *Provided also that, where any term loan of any bank or public financial institution is subsisting or the company has defaulted in payment of dues to non-convertible debenture holders or any other secured creditor, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.*
NET PROFIT FOR THE PURPOSE OF CALCULATION OF MANAGERIAL REMUNERATION (December 2014)	Section 198 spells out the method of net profits for the purpose of managerial remuneration, which is as follows:

INCOME	
To be credited u/s 198(2)	**Not to be credited u/s 198(3)**
Gross Profit in usual manner	Securities Premium
Other Income (rent, Dividend, Interest)	Profit on sale of forfeited shares
Subsidy from Government	Profit on sale of undertaking (Capital profits)
	Profit on sale of fixed assets

EXPENSES	
To be deducted u/s 198(4)	**To be deducted u/s 198(5)**
Usual Working Expenses	Income Tax & Super Tax other than taxes paid on excess or surplus profits
Actual Bad debts written off	Loss on sale of undertaking (Capital Losses)
Actual Repairs and Maintenance	Any Compensation or damages payable other than Legal Liability (Voluntary payments)
Depreciation u/s 123	
Loss on sale of assets	
Interest on Borrowings (Secured or Unsecured both)	
Insurance Premium	
Brought Forward Losses if any	
Any compensation or damages as Legal Liability including breach of Contract (Compulsory Payments)	
Tax paid on surplus or excess profits	
Outgoings including Contributions/Donations	

PROFIT OR LOSS PRIOR TO INCORPORATION (December 2014)

Generally, it happens with a newly formed company that an existing business is taken over as a going concern as at a date prior to the date of incorporation of the company. The profit or loss of the business, thus acquired, the period from the date of purchase till the date of incorporation* is called Profit or Loss Prior to Incorporation.

Unless the agreement with the vendors provides otherwise, such a profit or loss belongs to the company. But profit or loss prior to incorporation should not be regarded as trading profit or loss of the company since the company cannot earn profit or incur loss before it comes into existence. In fact, such profit or loss increases or decreases the net assets acquired by the company on its formation and comes to it not as revenue but as capital. Thus, profit or loss prior to incorporation is of capital nature and as such it is necessary to ascertain such profit or loss as accurately as possible.

The profit or loss prior to incorporation should be treated in the books of accounts in the following manner:
(i) ***Profit prior to incorporation***: Such a profit, being of capital nature, cannot be credited to the Profit and Loss Account and thus it cannot ordinarily be used for the purpose of payment of dividend. Hence, such a profit should be credited to Capital Reserve Account which can be utilised in writing off capital losses like preliminary expenses, discount on issue of shares or debentures or in writing down the value of fixed assets including goodwill. Until it is fully utilized, Capital Reserve Account has to be shown in the liabilities side of the Balance Sheet under the heading "Reserve and Surplus".

(ii) ***Loss prior to incorporation***: Such a loss, being of capital nature, should be debited to a separate account called "Loss Prior to Incorporation Account" which can be written off against other capital profits of the company. It can

	also be written off against the profit revenue profit of the company.
BUY BACK OF EQUITY SHARES (June 2014)	Buy Back of shares means purchase of its own shares by the company. In short, buy back is a process when a company makes an offer to buy back its own issued shares. Objectives of Buy Back: (a) To return the surplus cash to shareholders. (b) To increase the current Market price of the company. (c) To discourage unwelcome takeover bids of the company. (d) To increase promoter's Shareholding **Sections 67 & 68 of Companies Act & Rule 17 of Companies (Share Capital and Debentures) Rules, 2014:** A company limited by shares or guarantee having a share capital cannot buy its own shares and this restriction is applicable on all types of companies. However, Section 68 allows a company to purchase its own shares or securities subject to certain conditions: **<u>Methods for Buy Back:</u>** the buyback may be: (a) From the existing shareholders; ***(The offer should be opened for a period not less than 15 days and not more than 30 days from the date of dispatch of letter of offer to the security holders. Where all member of company agree, the offer for buy back may remain open for a period of less than 15 days.)*** (b) From the Open Market; (c) by purchasing the securities from employees which have been issued under ESOP or Sweat Equity. **<u>AUTHORISATION & APPROVALS:</u>** (a) ***Authorisation in AOA:*** Buy Back must be authorized by the articles of association of the company. In Case, there is no such provision, the company has to first alter the articles of association to authorize buy back. Buy Back can be made with the approval of Board of Directors or Shareholders by passing SR in GM, depending on the quantum of buy back. (b) ***Approval by Board of Directors:*** The Board of Directors can buy back upto 10% of total paid up Equity Share Capital and Free Reserves of the company by passing Board Resolution. (c) ***Approval of Shareholders:*** The shareholders can buy back upto 25% of the total paid up Equity Share Capital and Free Reserves of the company by passing SR in GM. **<u>SOURCES OF BUY BACK:</u>** A company may purchase its own shares or other specified securities out of: (a) its free reserves; or (b) the securities premium account; or (c) the proceeds of any shares of other specified securities **<u>CONDITIONS FOR BUY BACK:</u>** (a) **<u>Power in AOA</u>**: The buyback shall be **authorized by AOA**.

	(b) **Approved**: The buyback either **approved** by BOD or Shareholders. (c) **Debt Equity Ratio:** Debt Equity Ratio is **not more than twice** the capital and its free reserves after such buy back. ***Debt to Capital and Free reserves Ratio shall be 6:1 for Government Companies which carry on Non-Banking Finance Institutions and Housing Finance Activities.*** (d) No Shares or Securities can be bought back unless they are **fully paid up**. (e) **Explanatory Statement:** The Notice of General Meeting shall be annexed with the Explanatory Statement and shall have the following details: (i) A full and complete disclosure of all material facts; (ii) The class of security intended to be purchased under the buy back; (iii) The necessity of Buy Back (iv) The amount to be invested under the buy back; (v) The time limit for completion of buy back; (f) **Completion of Buy Back:** The buyback should be completed within 1 year of the date of passing Board Resolution or Special Resolution as the case may be; (g) **Declaration of Solvency**: When a company proposes to buy back its own securities, shall file with ROC and SEBI (if Listed) a declaration of Solvency signed by at least 2 directors, one of whom shall be MD, if any, in Form SH 9 before making buy back. (h) **Extinguishment of Securities**: After completion of buy back the securities must be extinguished and physically destroyed within 7 days of the last date of completion of buy back. (i) **No further Issue**: After the completion of buy back, the company shall not make a further issue of shares or other specified securities for a period of 6 months except by way of bonus shares or in discharge of subsisting obligations such as conversion of options, etc. (j) **Buy Back Return**: A company shall file a return of buy back in form SH 15 within 30 days from the date of completion of buy back. Such form must be signed by two directors, one of whom shall be MD, if any, certifying that the buy back of securities has been made in compliance with the provisions of companies act, 2013 and its rules. (k) **Register of Buy Back**: The company has to maintain a register of securities so bought, the consideration paid for the securities bought back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed. **PROHIBITION OF BUY BACK IN CERTAIN CASES:** A company cannot buy back shares or other specified securities, directly or indirectly; (a) through any subsidiary company including its own subsidiary; or (b) through investment or group of investment companies; or (c) when the company has defaulted in the repayment of deposit or interest thereon, redemption of debentures or preference shares or payment of

	dividend or repayment of any term loan or interest thereon to any financial institution or bank; (d) Company has defaulted in: (i) Filing of Annual Return; (ii) Declaration of Dividend; (iii) Punishment for failure to distribute dividend; (iv) Giving financial statement;
SWEAT EQUITY SAHRES (December 2015)	Sweat Equity Shares means such Equity Shares as are issued by a company to its Directors or Employees at a Discount or for consideration, other than cash, for providing their Know How or making available rights in the nature of intellectual property rights or value additions, by whatever name called. [Section 2(88)] **Who shall be eligible for Sweat Equity Shares?** Employee means: (a) **Permanent employees:** A permanent employee of the company who has been working in India or outside India, for at least the last 1 year; or (b) **Directors:** A director of the company whether a Whole time director or not; (c) **Employees of Holding or Subsidiary Companies:** An employee or a director of a subsidiary or holding company whether in India or outside India; **<u>CONDITIONS FOR ISSUING SWEAT EQUITY SHARES: (SECTION 54)</u>** (a) The issue of sweat equity shares must be authorized by a **Special resolution**. (b) The SR carries the **details** like number of shares, current market price, consideration, and the class of directors or employees to whom sweat equity shares are to be issued; (c) The Sweat Equity Shares must be issued **at least 1 year after** the date of commencement of the business. (d) In case of listed Company, the Sweat Equity shares are issued in accordance with the regulations made by **SEBI** and in case of unlisted company, the sweat equity shares are issued in accordance with **the companies act** and its rules. (e) The holders of such shares **shall rank PariPassu** with other equity shareholders. **<u>CONDITIONS AS PER RULE 8 OF COMPANIES (SHARE CAPITAL AND DEBENTURE) RULES, 2014:</u>** (a) **<u>Special Resolution:</u>** Issue of Sweat Equity shares to be authorized by Special Resolution at a General meeting. <u>Explanatory Statement to the Special resolution:</u> The Explanatory Statement to be annexed to the Notice of General meeting shall contain the following details: a) Date of Board Meeting wherein Sweat Equity Shares proposal was approved. b) Reasons/ Justification for the issue of Sweat Equity Shares.

	c) Total numbers of shares to be issued as sweat equity including the class of shares are intended to be issued. d) Class of directors or employees to whom such equity shares are to be issued. e) Principal Terms and Conditions on which sweat equity shares are to be issued. f) Time period of association of Directors or employees with the company; g) The price at which Sweat equity shares are proposed to be issued; h) The consideration including consideration other than cash. i) Ceiling on Managerial remuneration, if any. j) A statement to the effect that the company shall conform to the applicable Accounting Standards, and diluted EPS pursuant to the issue of sweat equity shares calculated in accordance with the applicable accounting standards. (b) ***Validity:*** The Special Resolution shall be valid only for 12 months for allotment of sweat equity shares. (c) ***Maximum Limit:*** A company cannot issue sweat equity shares not more than 15% of the existing paid up equity share capital in a year or shares of the issue value of 5 crores, whichever is higher and 25% of paid up share capital of the company at any time. (d) ***Valuation:*** The sweat equity shares to be issued shall be valued at a price determined by a registered valuer, if the shares to be issued for intellectual property rights. A copy of the valuation report obtained in both the above cases shall be sent to the shareholders along with the notice of the general meeting. (e) ***Register of Sweat Equity Shares:*** The company shall maintain a register of sweat equity shares in form SH 3. (f) ***Lock in Period:*** Sweat Equity Shares shall be non-transferable for 3 years from the date of allotment. **ADDITIONAL REQUIREMENTS FOR SWEAT EQUITY SHARES:** ***Part of Managerial Remuneration:*** The amount of Sweat Equity Shares issued shall be treated as part of managerial remuneration subject to the fulfillment of the following conditions: (a) The Sweat Equity Shares are issued to the Director or Manager; and (b) They are issued for consideration other than cash. ***Disclosure in Director's Report:*** The Board of Directors shall disclose the following details in Director's Report with regard to sweat equity shares: a) Class of director/ employee to whom Sweat Equity Shares were issued; b) Class of Shares issued as Sweat Equity Shares; c) The number of Sweat Equity Shares issued to directors, KMP or other employees showing separately the number of such shares issued to them, if any, for consideration other than cash and the individual names of allotees holding 1% or more of issued share capital; d) The reasons/Justification for the issue; e) Total number of shares arising as a result of issue of sweat equity shares; f) Percentage of sweat equity shares of total post issued and paid up share capital;

	g) Consideration including consideration other than cash received; h) Diluted Earnings per share pursuant to issuance of Sweat Equity Shares;
EMPLOYEE STOCK OPTIONS	ESOPs means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officer or employees, the benefit or right to purchase or to subscribe for, the shares of the company at a future date at a pre-determined rate. **Rule 12 of Companies (Share Capital and Debenture) Rules, 2014:** Every company other than listed company is required to comply with the following requirements: The issue of ESOPs has been **approved by the Shareholders** of the company by passing a **Special Resolution**. ***Who are eligible for an ESOP Scheme?*** (a) A permanent employee of the company who has been working in India or Outside India; or (b) A director of the company, whether a whole time director or not but excluding Independent Director; or (c) An Employee of Subsidiary, in India or Outside India, or a Holding Company of the company or of an Associate Company; ***Who are not eligible for an ESOP Scheme?*** (a) Promoter Cum Employee: An Employee who is a Promoter or a person belonging to the Promoter Group; (b) Director cum Employee: A director who either himself or through his relatives or through any body corporate, directly or indirectly, hold more than 10% of the outstanding equity shares of the company; ***Disclosures in Explanatory Statement of Notice for passing Special Resolution:*** (i) Total number of Stock options to be granted; (ii) Identification of classes of employees entitled to participate in ESOP; (iii) The Appraisal process for determining the eligibility of employees to ESOP; (iv) The requirements of vesting and period of vesting; (v) The maximum period within which the options shall be vested; (vi) The exercise price or formula used for arriving at the price; (vii) The exercise period and process of exercise; (viii) The Lock in period, if any; (ix) The maximum number of options to be granted per employee or in aggregate; (x) The conditions under which option vested in employees may lapse e.g. termination of employment for misconduct; ***Varying the Terms of ESOP requires Special Resolution:*** The company may by special resolution, vary the terms of ESOP not yet exercised by the employees provided such variation is not prejudicial to the interest of option holders. The notice of passing special resolution for variation of terms of ESOP shall disclose full of the variation, rationale therefore, and the details of the

	employees who are beneficiary of such variation; **<u>Minimum One year Vesting Period:</u>** There shall be a minimum period of 1 year gap between the grant of options and vesting of option. In a case where options are granted by a company under its ESOP scheme in lieu of options held by same period under ESOP in another company, which has merged or amalgamated with the first mentioned company, the period during which the options granted by merging or amalgamating company were held by him shall be adjusted against the minimum vesting period required. **<u>Company has freedom to specify the lock in period:</u>** The Company shall have the freedom to specify the lock in period for the shares issued pursuant to exercise of option. **<u>No Right of Dividend or Voting till exercise of option:</u>** The employees shall not have right to receive any dividend or to vote in any manner enjoy the benefits of a shareholder in respect of option granted to them, till shares are issued on exercise of option. **<u>Forfeiture/Refund:</u>** The amount, if any, payable by the employees, at the time of grant of option: (a) May be forfeited by the company if the option is not exercised by the employees within the exercise period; or (b) the amount may be refunded to the employees if option are not vested due to non-fulfillment of conditions relating to vesting of option as per the ESOP scheme. **<u>Status of ESOP in case of Death/Permanent Disablement/ Resignation of Employees:</u>** (a) in the event of death of employee while in employment, all the option granted to him till such date vest in the legal heirs or nominees of the deceased employee. (b) In case the employee suffers a permanent incapacity while in employment, all the options granted to him as on the date of permanent incapacitiation, shall vest in him on that day. (c) In the event of resignation or termination or employee, all options not vested in the employee as on that day shall expire. **<u>Disclosure in the Board's Report:</u>** The BOD shall disclose the details in the Director's report in a particular year of ESOP scheme i.e option granted, options vested, option exercised, the total number of shares arising as a result of exercise of option, options lapsed, exercise price, variation in terms of option, money realised by exercise of options, total number of options in force, employee wise details of options granted.
PRELIMINARY EXPENSES (INCLUDES & EXCLUDES)	Preliminary expenses refer to those expenses which are incurred in forming a joint stock company. These comprise the expenses incidental to the creation and floatation of a company and the following items are usually included therein:

(December 2014)	(i) Stamp duty and fees payable on registration of the company and stamp papers purchased for preliminary contracts of the company. (ii) The legal charges for preparing the Prospectus, Memorandum and Articles of Association and contracts and of the registration of the company. (iii) Accountants' and Valuers' fees for reports, certificates, etc. (iv) Cost of printing the Memorandum and Articles of Association, printing, advertising and issuing the prospectus. (v) Cost of preparing, printing and stamping letters of allotment and share certificates. (vi) Cost of preparing printing and stamping Debenture Trust Deed, if any. (vii) Cost of company's seal and books of account, statutory books and statistical books. But preliminary expenses should not include the following expenses which are incurred before commencement of business: (i) Cost of preparation of the feasibility report. (ii) Cost of preparation of the project report. (iii) Cost of conducting market survey or any other survey necessary for the business of the company. (iv) Consultancy fees payable for engineering services in connection with the business.
FIRM UNDERWRITING	It signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him that is to say, the underwriter is obliged to take up : (i) The number of shares he has applied for 'firm'; and (ii) The number of shares he is obliged to take up on the basis of the underwriting agreement.
ORDER OF PAYMENT TO CREDITORS (LIQUIDATION) (December 2014)	1) PAY OF LEGAL EXPENSES 2) LIQUIDATORS REMUNERATION 3) LIQUIDATION EXPENSES 4) CREDITORS SECURED BY FIXED CHARGE 5) PREFRENTIAL CREDITORS 6) CREDITORS SECURED BY FLOATING CHARGE 7) UNSECURED CREDITORS 8) PREFRENCE SHARE HOLDERS 9) EQUITY SHARE HOLDERS
B LIST CONTRIBUTORIES (DECEMBER 2016)	The shareholders who transferred **partly paid shares** (otherwise than by operation of law or by death) **within one year**, prior to the date of winding up may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to **pay off such creditors** as existed on the date of transfer of shares and cannot be paid out of the funds

otherwise available with the liquidator, provided also that the **existing shareholders have failed to pay the amount due on the shares**.

CORPORATE RESTRUCTURING (December 2014) (December 2016)

- **Meaning:** Corporate Restructuring is a comprehensive process, by which a company can consolidate its business operations and strengthen its position for achieving its short-term and long-term corporate objectives - synergetic, dynamic and continuing as a competitive and successful entity.
- **Objectives:**

– orderly redirection of the firm's activities;
– deploying surplus cash from one business to finance profitable growth in another;
– exploiting inter-dependence among present or prospective businesses within the corporate portfolio;
– risk reduction; and
– development of core competencies.

- **Need of Corporate Restructuring**:

The various needs for undertaking a Corporate Restructuring exercise are as follows:
(i) to focus on core strengths, operational synergy and efficient allocation of managerial capabilities and infrastructure.

(ii) consolidation and economies of scale by expansion and diversion to exploit extended domestic and global markets.

(iii) revival and rehabilitation of a sick unit by adjusting losses of the sick unit with profits of a healthy company.

(iv) acquiring constant supply of raw materials and access to scientific research and technological developments.

(v) capital restructuring by appropriate mix of loan and equity funds to reduce the cost of servicing and improve return on capital employed.

(vi) Improve corporate performance to bring it at par with competitors by adopting the radical changes brought out by information technology.

INTERIM VS FINAL DIVIDEND

Interim Dividend	Final Dividend
This dividend is paid before the finalisation of accounts of the year	This dividend is paid after the finalisation of account of the year
This dividend is declared by Board of Directors	This dividend is recommended by BOD but approved by Shareholders in General meeting
Can be revoked with the consent of all the shareholders	Cannot be revoked in any circumstances
Not defined under companies act	Defined under companies act
Rate of interim dividend is always less than the rate of final dividend	Rate of final dividend is always higher than interim dividend

DIVIDEND IN CASE OF ABSENCE OR INADEQUACY OF PROFITS

In case of inadequacy or absence of profits in any financial year, any company may declare the dividend out of the previous year's accumulated profits.

Rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014

(December 2015)	In the event of inadequacy or absence of profits in any year, a company may declare dividend out of previous year surplus subject to the fulfillment of the following conditions : (a) **Rate of dividend**: The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the 3 years immediately preceding that year. **Note:** This rule shall not apply to a company which has not declared any dividend in immediately preceding 3 financial years. (b) **<u>Total withdrawal from accumulated profits</u>**: The total amount to be drawn from such accumulated profits shall not exceed 1/10 of the sum of its paid – up share capital and free reserves as per the latest audited financial statement. (c) **<u>Setting off the losses</u>**: The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared. (d) **<u>To maintain reserve</u>** : The balance of reserves after withdrawal shall not fall below 15% of its paid – up share capital as per the latest audited financial statement. (e) **<u>Dividend to be declared only from free reserves</u>**: No dividend shall be declared or paid by a company from its reserves other than free reserves.
INVESTOR EDUCATION AND PROTECTION FUND (IEPF)	The Central Government has established an Investor Education and Protection Fund for the purpose to educate investors and to protect the interest of investors. The following amount is being credited to this fund : (a) Amounts in the unpaid dividend accounts of companies; (b) Unpaid or unclaimed application moneys received by companies for allotment of any securities and due for refund; (c) Unpaid or unclaimed amount of matured deposits with companies; (d) Unpaid or unclaimed amount of matured debentures with companies; (e) The interest accrued on the account referred to in clauses (a) to (d); (f) Grants and donations given to the Fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and (g) The interest or other income received out of the investments made from the Fund. **<u>UTILIZATION OF INVESTOR EDUCATION AND PROTECTION FUND</u>** The amount of IEPF shall be utilized for : (a) The refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon; (b) Promotion of investors' education, awareness and protection; (c) Distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture – holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which had ordered disgorgement;

	(d) Reimbursement of legal expenses incurred in pursuing class action suits by members, debenture – holders or depositors as sanctioned by the NCLT; and any other purpose. **Note:** The Statement of amounts to be credited to IEPF shall be filed Form DIV 5.
PROVISIONS RELATING TO DECLARATION OF DIVIDEND	**Payment of dividend to be authorized by the articles**: As per section 51 of the Companies Act, 2013, a company may, if so authorized by its articles, pay dividend in proportion to the amount payable on each share. If not, the Articles have to be amended accordingly. **Sources for payment of dividend (Section 123)** No dividend shall be declared or paid for any financial year except current and previous year profits or money provided by the Central Govt. or State Govt. (A) **Current & Previous Year Profits** : The dividend shall be payable (i) Out of the current year profits of the company as arrived after providing depreciation, or (ii) Out of the previous year profits of the company arrived at after providing for depreciation and remaining undistributed, or (iii) Out of both; or **The Company (Amendment) Act, 2015:**A Company shall not declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set – off against profits of Company for the current year. (B) **Money Provided by CG or SG**: The dividend shall also be payable out of the money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government. **Provisions for Depreciation (Section 123 of the Companies Act, 2013)** Depreciation must be provided before any dividend (including interim and final dividend) can be declared out of current and previous year profits of any financial year and the depreciation must be as per Schedule II of the Companies Act, 2013. **Transfer of profits to reserves** A company **may** transfer some specified of its profits percentage to the reserves of the company before the declaration of any dividend in any financial year.
DEBENTURES ISSUED AS COLLATERAL SECURITY (DECEMBER 2016)	• The term 'Collateral Security' implies additional security given for a loan. • Where a company obtains a loan from a bank or insurance company, it may issue its own debentures to the lender as collateral security against the loan in addition to any other security that may be offered. • In such a case, the lender has the absolute right over the debentures until and unless the loan is repaid. • On repayment of the loan, however, the lender is legally bound to release

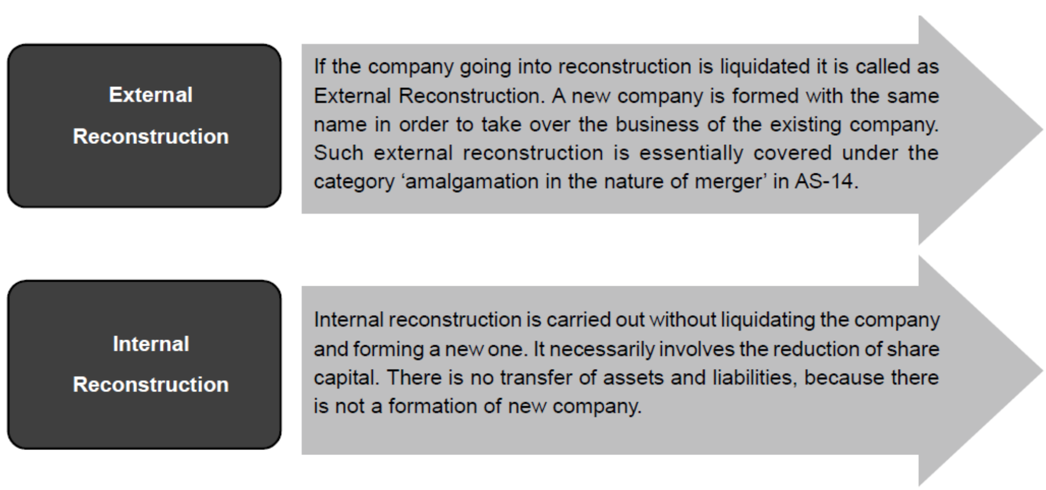
	the debentures forthwith. • But in case the loan is not repaid by the company on the due date or in the event of any other breach of agreement, the lender has the right to retain these debentures and to realise them. • The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures. • Such an issue of debentures is known as "Debentures issued as Collateral Security". ***Accounting Entries***: The following are the two alternative ways by which debentures issued as collateral security can be dealt with: (1) No accounting entry is required to be shown in the books of account at the time of issue of such debentures for the simple reason that the loan against which the debentures are issued as collateral security has already been credited, the debit being given to Bank. But the existence of such debentures issued as collateral security has to be mentioned by way of a note on the Balance Sheet under the specific loan account. (2) If it is desired that such an issue of debentures as collateral security is to be recorded in the books of account, the accounting entries will be as follows: *(i) On issue of debentures as collateral security* Debentures Suspense A/c Dr. To Debentures A/c In this case, Debentures Suspense Account will appear on the asset side of the balance sheet under the heading Miscellaneous Expenditure. Debentures Account will appear as a liability on the liabilities side of the Balance Sheet.
INTEREST ACCRUED BUT NOT DUE & INTEREST ACCRUED AND DUE (December 2015)	**Interest Accrued and Due (Outstanding):** Interest on debentures is usually paid every six months; interest really becomes due when the six months are over and not earlier; in other words no one can demand that the company pay interest before the due date. Suppose a company has issued 13.5% Debentures for ` 10,00,000 interest is payable on 30th September and 31st March. The company will pay ` 67,500 in every six months. Suppose, the company closes its books on 31st March, the interest due on that date may be unpaid. In that case, there will be a liability which will be recorded by the entry: Debenture Interest A/c Dr. 67,500 To Debenture Interest Outstanding 67,500 The liability will be shown in the Balance Sheet along with debentures. **Interest Accrued but not Due:** On the closing date interest for the full period must be brought into books but, it is possible, that due date for payment of interest has not yet come. Suppose, in the example given above, the company closes its books on 31st December. Interest upto 30th September must have been paid but that upto

	31st March is not yet due. For proper accounting, however, interest from 1st October to 31st December (3 months) must be taken into account. Interest for such a period is termed as 'Interest accrued but not due'. The entry for recording this interest is: Debenture Interest A/c Dr. 33,750 To Debenture Interest Accrued but not Due 33,750 Debenture Interest Accrued but not Due is shown in the balance sheet under Other Current Liabilities.
WRITING OFF OF DISCOUNT IN ISSUE OF DEBENTURES	• Discount on issue of debentures is a **capital loss** of the company and it is required to be shown on the **assets side** of the Balance Sheet under the heading Other Current or other Non Current Asset until written off. • Although, there is no legal obligation on the part of the company to write off such a loss, sound business policy demands that it should be written off as quickly as possible. Discount on issue of debentures can be treated in any of the following two ways: 1. Discount on issue of debentures being a capital loss, can be written off against capital profits. 2. Discount on issue of debentures can be treated as deferred revenue expenditure and written off against revenue over the period of life of the debentures. In case there is no capital profit and it is decided to treat discount on issue of debentures as deferred revenue expenditure, it is desirable to write it off against revenue over the period of life of the debentures on an equitable basis. The following are the two methods which are generally adopted for this purpose. **1. *Fixed Instalment Method*:** Under this method, the total amount of discount allowed on issue of debentures is spread over the life of the debentures equally and every year a fixed amount is written off against revenue. **2. *Fluctuating Instalment Method*:** Where debentures are redeemed by annual drawings, the first method is not suitable for the simple reason that the burden of discount is equally spread over the period of life of the debentures. Under this method, the amount of discount to be written off every year should bear a proportion to the debentures outstanding at the beginning of each year. Thus, the amount of discount to be written off every year under this method cannot be fixed and will go on diminishing every year, i.e., the burden of discount will be in proportion to the benefits derived out of the debentures.
LOSS ON ISSUE OF DEBENTURES	✓ If a company issues debentures at par or at a discount which are redeemable at a premium, the premium payable on redemption of the debentures should also be treated as capital loss and as such it should be dealt within the same manner as 'Discount on Issue of Debentures'.

	✓ Redemption of debentures at a premium is a known loss at the time of issue of debentures as the terms of issue generally contain such provisions for redemption. As such, it would be prudent on the part of the company to write off such loss during the life time of the debentures. ✓ The loss to be incurred by a company for a particular issue of debentures is ascertained in the following manner: (i) If the debentures are issued at par and redeemable at a premium, the loss will be equal to the amount of premium payable on redemption. (ii) if the debentures are issued at a discount and redeemable at a premium, the loss will be equal to the total of the amount of discount on issue and the amount of premium on redemption. Thus, total loss = Discount on issue of Debentures + Premium Payable on redemption of debentures. In such a case, there is no need to debit Discount on Issue of Debenture Account. Instead, “Loss on Issue of Debentures Account” should be debited with total loss. When debentures are redeemable at a premium the liability for premium payable on redemption is recorded in the books at the time of issue of the debentures although the actual liability will arise only at the time of redemption. The main advantage derived by the company is that the loss on issue of debentures is completely written off before the debentures are due for redemption.
CREATION OF DEBENTURE REDEMPTION (DRR) RESERVE FOR REDEMPTION OF DEBENTURES (JUNE 2016)	Section 71(*4*) states that when debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debentures. The company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below – (a) the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend; (b) the company shall create Debenture Redemption Reserve (DRR) in accordance with following conditions:- (i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures. (ii) For NBFCs registered with the RBI, ‘the adequacy’ of DRR will be 25% of the value of debentures issued through public issue and no DRR is required in the case of privately placed debentures. (iii) For other companies including manufacturing and infrastructure

	companies, the adequacy of DRR will be 25% of the value of debentures issued through public issue and also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of debentures. (c) Every company required to create Debenture Redemption Reserve shall on or before the 30th day of April in each year, invest or deposit, as the case may be, a sum which shall not be less than fifteen percent, of the amount of its debentures maturing during the year ending on the 31st day of March of the next year, in any one or more of the following methods, namely:- (i) in deposits with any scheduled bank, free from any charge or lien; (ii) in unencumbered securities of the Central Government or of any State Government; (iii) in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (iv) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882; (v) the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above: (d) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule. (e) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of redemption of debentures.
INSURANCE POLICY METHOD OF REDEMPTION OF DEBENTURES	✓ Under this method also, profits are set aside and credited to Debenture Redemption Fund Account in the same manner as it is done in case of Sinking Fund Method. ✓ But instead of investing the amount of profit set aside in readily convertible securities an Insurance Policy is taken out for the required sum and an amount equal to the profit set aside is paid as premium. ✓ Thus, at the maturity of the policy, the required cash would be available for carrying out redemption of debentures. This method differs from the Sinking Fund Method in respect of interest on investment. ✓ Unlike Sinking Fund Method, interest will not be received every year but will accrue at a fixed rate. The total amount of premium will always be less than the amount of policy. ✓ Thus, the difference between the policy amount and the total amount of premium paid on the policy is the total amount of interest that accrues on the premiums paid.

	✓ The main advantage of this method is that the policy is not subscribed to any fluctuation in prices unlike securities in the Sinking Fund Method and as such the exact sum insured will be available at maturity. ✓ However, the following disadvantages may be accounted for: (i) the annual rate of interest is lower than that obtainable from investments; and (ii) if the policy is cancelled on account of non-payment of premium, the surrender value will be very much less than the amount which has been paid by way of annual premiums.
ALTERATION OF SHARE CAPITAL	According to section 61 (1) of the Companies Act, 2013 a limited company having a share capital may, if so authorised by its articles, alter its memorandum in its general meeting to – (a) increase its authorised share capital by such amount as it thinks expedient; (b) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares: Provided that no consolidation and division which results in changes in the voting percentage of shareholders shall take effect unless it is approved by the Tribunal on an application made in the prescribed manner; (c) convert all or any of its fully paid-up shares into stock, and reconvert that stock into fully paid-up shares of any denomination; (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; (e) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.
REDUCTION OF SHARE CAPITAL (JUNE 2015)	Reduction of capital means reduction of issued, subscribed and paid-up capital of the company by way of reduction of the liability of its shares in respect of share capital not paid-up or cancellation of paid-up share capital which is lost, or payment of any paid-up share capital which is in excess of the wants of the Company. A Company may by passing a special resolution subject to the approval of tribunal (NCLT), can reduce the share capital in following ways : (a) Extinguish or reduce the liability with regard to any shares which is not fully paid-up; or (b) Either with or without extinguishing or reducing liability on any of its shares : (i) Cancel any paid-up share capital which is lost or is unrepresented by available assets; or

	(ii) Pay off any paid-up share capital which is in excess of the wants of the company alter its memorandum by reducing the amount of its share capital and of its shares accordingly : **Procedure for Reduction of Share Capital:** (a) Pass a special resolution. (b) Apply to the tribunal (NCLT). (c) The tribunal shall give notice to CG, ROC and SEBI in case of listed companies, and the creditors of the company. (d) NCLT shall take into consideration the representations, if any, made by the Government, ROC, the SEBI and the creditors within 3 months from the date of receipt of the notice. (e) The NCLT may, if it is satisfied that the debt or claim of every creditor of the company has been discharged or determined or has been secured or his consent is obtained, make an order confirming the reduction of share capital on such terms and conditions as it deems fit. (f) The order of NCLT regarding the reduction of share capital shall be published by the company. (g) The company shall deliver a certified copy of the order of the NCLT and of a minute approved by the NCLT showing : (a) The amount of share capital; (b) The number of shares into which it is to be divided; (c) The amount of each share; and Reduction of share capital; (d) The amount, if any, at the date of registration deemed to be paid-up on each share.
INTERNAL RECONSTRUCTION	When the company reconstructs its financial structure internally without undergoing liquidation, it is internal reconstruction. Under this scheme company continues its legal existence. A scheme of re-organisation is prepared in which all parties sacrifice. It also means the reduction of capital to cancel any paid up share capital which is lost or not represented by available assets. This is done to write off the losses of the company. **Significance of internal reconstruction** Internal reconstruction is done by the company when: – there is an overvaluation of assets and undervaluation of liabilities. – there is a difficulty to meet the financial crisis and there are continuous losses. 

VALUATION OF BUSINESS, GOODWILL & SHARES	
NEED FOR VALUATION OF SHARES (Dec 2011, June 2014, June 2015)	• Formulation of Schemes of Amalgamations, Absorption, Merger, Demerger, etc • Acquisition of dissenting shareholders under a scheme of reconstruction • Advancing a Loan against securities of a company • Assessments under Income Tax Act • Conversion of Shares/Debentures/Bonds • Compensating shareholders on the acquisition of their shares by the government under a scheme of rationalization. • Purchase of shares by employees (ESOPs) If the Shares are Listed, then the market price of the stock exchange is normally the acceptable value of the share. However, if the shares are unlisted, then valuation of share by a Valuer is necessary to settle the transactions: When Valuation is Necessary: ✓ When Shares are unlisted. ✓ Shares relate to Private Limited Company ✓ Court directs valuation by an Expert ✓ Applicable Law requires Valuation Like Income Tax Act
NEED FOR VALUATION OF GOODWILL	In the case of partnership, the necessity of valuing goodwill arises in connection with the following: 1. When there is a change in the profit-sharing ratio among the partners; 2. When a new partner is admitted; 3. When a partner retires or dies; and 4. When the firm sells its business to a company or is amalgamated with another firm.
FACTORS AFFECTING GOODWILL VALUATION	(a) Nature of the industry, its history and the risks to which it is subject; (b) Prospects of the industry in the future; (c) The company's history - its past performance and its record of past profits and dividends; (d) The basis of valuation of assets of the company and their value; (e) The ratio of liabilities to capital; (f) The nature of management and the chance for its continuation; (g) Capital structure or gearing; (h) Size, location and reputation of the company's products; (i) The incidence of taxation; (j) The number of shareholders; (k) Yield on shares of companies engaged in the same industry, which are listed in the stock-exchanges; (l) Composition of purchasers of the products of the company; and (m) Size of block of shares offered for sale since for large blocks very few buyers would be available and that has a depressing effect on the valuation. Question of control, however, may become important, when large blocks of shares are involved.
FAIR VALUE OF SHARES (Dec 2011)	The fair value of a share is the average of the value of shares obtained by the net assets method and the one obtained by yield method. Under net assets method, the value of an equity share is arrived at by valuing the assets of a company and deducting therefrom all the liabilities and claims of preference shareholders and dividing the resultant figure by the total number of equity

	shares with the same paid up value. Under yield method, the value of an equity share is arrived at by comparing the expected rate of return with the normal rate of return. If the expected rate of return is more than normal rate of return, the market value of the share is increased proportionately. The fair value of shares can be calculated by using the following formula: $$\text{Fair value of share} = \frac{\text{Value by net asset method} + \text{Value by yield method}}{2}$$ This method is also known as dual method of share valuation. This method attempts to minimise the demerits of both the methods. This is of course, no valuation but a compromised formula for bringing the parties to an agreement. However, it is recognised in Government circles for valuing shares of investment companies for wealth tax purposes.
SPECIAL FACTORS FOR VALUATION OF SHARES	***Importance of Size of Block of Shares***: Method of valuation depends on the size of block of shares involved in the transaction. ***Restricted Transferability:*** Shares of reputed companies normally enjoy the advantage of easy marketability which is of great significance to holder. At the time of need, they can easily convert the shares into cash. On the other hand, holders of unquoted shares, do not enjoy this advantage, hence, theses shares how so ever good, are valued less due to lack of liquidity. ***Dividends & Valuation:*** Generally companies paying dividends at steady rates enjoy greater popularity and the prices of their shares are high while shares of companies with unstable dividends do not enjoy confidence of the investing public as to the returns they expect to get and consequently they suffer in valuation. ***Bonus & Rights Issue:*** Share values have been noticed to go up when bonus or right issues are announced, since they indicate an immediate prospect of gain to the holder although, in the ultimate analysis, it is doubtful whether really these can alter the valuation. Bonus issues are made out of the accumulated reserves in the employment of the business, which in no way contribute to the increased earning capacity of the business and ultimately depress the dividend rate since the same quantum of profit would be distributed over a larger number of shares, which in turn also would depress the market value of the shares.
INTERNALLY GENERATED ASSETS (June 2010, Dec 2014)	***Goodwill:*** i) Internally generated goodwill should not be recognised as an asset. ii) In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

<table>
<tr><td></td><td>

<u>Research & Development Expenditure:</u>
<u>Research Phase:</u>
Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

No intangible asset arising from research or from the research phase should be recognized. Expenditure on research should be recognized as an expense when it is incurred.

Examples of Research activities:
a. Activities aimed at obtaining new knowledge.
b. The search for, evaluation and final selection of, applications of research finding or other knowledge.
c. The search of alternative for materials, devices, products, processes, systems, etc
d. The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, etc

<u>Development Phase:</u>
Development is the application of research finding or other knowledge to a plan for the production of new or substantially improved material, devices, products, etc prior to the commencement of commercial production or use.

An intangible asset arising from development should be recognized if, and only if, an enterprise can demonstrate all of the following:

a. The technical feasibility of completing the intangible asset so that it will be available for use or sale.

b. Its intention to complete the intangible asset and use or sell it.

c. Its ability to use or sell the intangible assets.

d. How the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of market for the output of the intangible asset or if it is to be used internally, the usefulness of the intangible asset.

e. The availability of adequate technical, financial or other resources to complete the development and to use or sell the intangible asset and

f. its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Examples of development activities are:
a. The design, construction and testing of pre-production or pre use models.
b. The design of tools, jigs, moulds and dies involving new technology.
</td></tr>
<tr><td>COST OF INTERNALLY GENERATED GOODWILL</td><td>❖ The cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria.</td></tr>
</table>

	❖ The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use. ❖ The cost includes, if applicable: (a) expenditure on materials and services used or consumed in generating the intangible asset; (b) the salaries, wages and other employment related costs of personnel directly engaged in generating the asset; (c) any expenditure that is directly attributable to generating the asset, such as fees to register a legal right and the amortisation of patents and licences that are used to generate the asset; and (d) Overheads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset (for example, an allocation of the depreciation of fixed assets, insurance premium and rent). ❖ Allocations of overheads are made on bases similar to those used in allocating overheads to inventories. AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the cost of a qualifying asset. These criteria are also applied for the recognition of interest as a component of the cost of an internally generated intangible asset. ❖ The following are not components of the cost of an internally generated intangible asset: (a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use; (b) clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance; and (c) Expenditure on training the staff to operate the asset.
AMORTISATION OF GOODWILL/ INTANGIBLE AS PER AS 26 (Dec 2009, June 2016)	**Amortisation period:** ❖ Depreciable Amount of an intangible assets should be allocated on a systematic basis over the best estimate of its useful life. ❖ Normally it is presumed that useful life will not exceed 10 years unless there is persuasive evidence that intangible asset has higher useful life. ❖ Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life will be short. ❖ Amortisation is recognised whether or not there has been an increase in, for example, the asset's fair value or recoverable amount. ❖ As the future economic benefits embodied in an intangible asset are

<table>
<tr><td></td><td>
consumed over time, the carrying amount of the asset is reduced to reflect that consumption. This is achieved by systematic allocation of the cost of the asset, less any residual value, as an expense over the asset's useful life.

<u>Review of Amortisation period & Amortisation Method:</u>
❖ The Amortisation period and Amortisation method should be reviewed at least at each end of financial year.

❖ If the expected useful life of asset is significantly different from previous estimate, the amortization period should be changed accordingly.

❖ If there has been significant change in the expected pattern of economic benefits from the assets, the Amortisation method should be changed to reflect the changed pattern.

<u>Retirement and Disposal:</u>
❖ An intangible asset should be derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

<u>Residual Value:</u>
The residual value of an intangible assets should be assumed to be Zero unless:
(i) There is a commitment by a third party to purchase the asset at the end of its useful life; or
(ii) There is an active market for the asset and
a. Residual value can be determined by reference to that market; and
b. It is probable that such a market will exist at the end of the asset's useful life.

<u>Review of Amortization period and Amortization Method:</u>
❖ The amortization period and the amortization method should be reviewed at least at each financial year end.

❖ If the expected useful life of the asset is significantly different from previous estimates, the amortization period should be changed accordingly.

❖ If there has been a significant change in expected pattern of economic benefits from the asset, the amortization method should be changed to reflect changed pattern.

❖ Such changes should be accounted for in accordance with AS 5, Net profit or Loss for the period, Prior Period items and changes in Accounting Policies.
</td></tr>
<tr><td>VALUATION OF BRANDS</td><td>
<u>Introduction:</u>
Assets held by an enterprise may be tangible or intangible. The value of an enterprise is determined by the value of both these type of assets. There are enterprises where the value of intangible assets is more than the value of tangible assets. In certain cases, the only major assets of an enterprise may be an intangible asset.

<u>What is brand?</u>
</td></tr>
</table>

<table>
<tr><td></td><td>Brand means a name, term, sign, symbol or design or a combination of these intended to identify the goods or service of one seller or group of sellers and to differentiate them from those of competitors. Eg. Intel Inside is a popular brand used by intel corporation for PCs containing Intel Chips. Other examples include Disney, pepsi, Microsoft, etc
Brands can be acquired from outside or can be developed internally within the enterprise.

<u>Branding and its objectives:</u>
Branding refers to the act of creating, developing and maintaining a brand. In the modern business world, branding has become very important due to heavy competition. The objectives of branding are as follows:
a. It helps in creating an identity for the enterprise and its product in the market and distinguishes them from rival enterprises and products in the market.
b. strong brands combine with quality products results in customer loyalty, giving an edge over competition, and the customer can enjoy a brand premium in its pricing decisions.
c. using a particular brand gives an advantage of status fulfillment to customers.
d. brands are important tools to enterprises to achieve market segmentation and employ different efforts in different segments.

<u>Brand Accounting and its objectives:</u>
Brand accounting refers to identification, valuation and reporting of brands of enterprise in its financial statements. The main objectives of brand accounting is to enable a correct assessment of the real value of an enterprise and its correct profitability by both the management and the outsiders through recognition of brand assets. Consequential objectives are:
a. recognition of brand assets increases share prices
b. this keeps off unfavourable takeovers
c. it enhances the enterprise borrowing ability
d. improves quality of accounting
e. facilitates correct managerial decision making.

<u>Difficulties in brand accounting:</u>
a. this is no standardized way of disclosure of brands.
b. measuring returns from brand is difficult because of futuristic and uncertain nature.
c. brands do not have an active market. So revaluation becomes difficult.
d. amortization of brands is difficult because their useful lives cannot be estimated in advance.
e. development of inhouse brands involve both specific cost and joint cost. These joint cost are general in nature and related to day to day operation of business. it is difficult to identify and apportion these joint costs to the brand assets.</td></tr>
<tr><td>VALUATION OF PREFERENCE SAHRES</td><td>❖ These are valued on yield basis in a going concern.

❖ Compared to equity shares, the rate of return in preference shares would be, generally, lower because of greater safety.

❖ With fluctuations in the normal rate of return in respect of preference shares, the value of preference share will fluctuate but in the opposite</td></tr>
</table>

	direction, i.e., if the normal rate of return increases, the value tends to diminish. ❖ For instance, 12% preference shares of ` 100 each would be valued at ` 85.72 when the expected rate of return is 14% (i.e., 12/14 x 100). The same share would be valued at ` 120 if the expected rate of return is 10% (i.e., 12/10 x 100). ❖ In case the dividend on cumulative preference shares is in arrears, the present value of such arrears of dividend (if there is a possibility of their payment) should be added to the value of preference share calculated. ❖ As stated earlier, a valuer must exercise his own judgement in valuing preference shares, because of the diminishing real value of the fixed preference dividend. This is considered to be a handicap for sellers in an inflationary economy. ❖ The yield based valuation of preference shares would hold good only if: (i) the dividend on the share has been paid regularly and it is reasonably expected that it would continue to be paid; and (ii) that investment is adjudged by the criteria that the total assets of the concern are equal to 4 or 5 times the preference capital. ❖ Preference shares may have certain additional rights, for example, the right to get an additional share of profits or the right to get the share converted into equity shares at a certain rate. The right to get an additional share of profit will probably increase the market value of the share depending upon the size of the total profit and the conditions under which the additional dividend will come to preference shareholders. ❖ Total yield per share will have to be worked out and on that basis the market value will be ascertained by the formula: $\frac{\text{Total yield per share}}{\text{Normal rate of yield}} \times 100$
NORMAL RATE OF RETURN	Normal rate of return is the rate of return that the investors in general expect on their investments in a particular industry. This rate differs from industry to industry. The normal rate of return is required to be adjusted in the light of certain circumstances, i.e. (i) Risk attached to the investment: If a business is having more risk the rate of return should also be more. Risk may be due to high borrowings or by the nature of business. (ii) Period of investment: The longer the period of investment, the higher is the rate of return. (iii) Higher bank rate: An increase in bank rate gives higher expectations to the investors. (iv) Boom period: When there is a boom in the industry, the investors have higher expectations and the normal rate of return is to be increased.

CAPITALIZATION FACTOR	The value of a share according to yield basis can also be ascertained by finding out the capitalisation factor or the multiplier. The capitalisation factor will be ascertained by dividing 100 by the normal rate of return. $$\text{Capitalisation factor} = \frac{100}{\text{Normal rate of return}}$$ The profit available is capitalised by multiplying it with the capitalisation factor. The value of equity share is obtained by dividing the capitalised value by the number of equity shares.
VALUATION BASED ON PRICE EARINING (PE) RATIO (December 2015)	This method is suitable for ascertaining the market value of shares which are quoted on a recognised stock exchange. According to this method, the shares are valued on the basis of earning per share multiplied by price earning ratio. $$\text{Market value of share} = \text{Price earning ratio} \times \text{Earning per share}$$ $$\text{Earning per share} = \frac{\text{Profit available for equity shareholders}}{\text{Number of equity shares}}$$ $$\text{Price earning ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

CONSOLIDATION OF ACCOUNTS	
TREATMENT OF DIFFERENTIAL i.e., COST OF CONTROL	• **GOODWILL**: Any excess of the cost to the parent of its subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognized as an asset in the considered financial statements. • **CAPITAL RESERVE**: When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements. • For the purpose of all these computations, where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.
MINORITY INTERESTS	• **MEANING**: Minority interest represents that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the holding (parent) company. In short, minority interest represents the claims of the outside shareholders of a subsidiary. • **TREATMENT:** Minority interests in the net income of consolidated subsidiaries for the reporting period are *identified and adjusted* against the income of the group in order to arrive at the net income attributable to the shareholders of the holding company. • **SEPARATELY PRESENTED**: Minority interest in the income of the group should be separately presented. • **LOSS MORE THAN MINORITY INTEREST**: The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, *are adjusted against the majority interest* except to the extent that the minority has a binding obligation to, and is able to make good the losses. If the subsidiary subsequently reports profit, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. • **HOW TO COMPUTE MINORITY INTEREST**: Minority interest in the net assets consist of : (i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and (ii) the minorities share of movements in equity since the date the parent-subsidiary relationship and into existence. (Pre-incorporation Profits, Post Incorporation Profits, Dividend Payable) (iii) if there are some preference shares of the subsidiary company held by outsiders, the minority interest in respect of the preference share will consist only of the face value of such shares and the dividend due on such shares if there are profits.

PROFIT OR LOSS OF SUBSIDIARY COMPANY **(December 2014)**	• **CLASSIFICATION INTO PRE & POST**: For the purpose of consolidated balance sheet preparation all reserves and profits (or losses) of subsidiary company should be classified into pre and post-acquisition reserves and profits (or losses). • **PRE- ACQUISITION**: Profits (or losses) earned (or incurred) by subsidiary company upto the date of acquisition of the shares by the holding company are pre acquisition or capital profits (or loss). Similarly, all reserves of subsidiary company upto the date of acquisition are capital reserves from the view point of holding company. • **IF SHARES ACQUIRED DURING THE YEAR**: If the holding interest in subsidiary is acquired during the middle or some other period of the current year, pre-acquisition profit should be calculated accordingly. • **TREATMENT OF REVALUATION**: In addition profit or loss on revaluation of fixed assets of subsidiary should also be treated as capital profit or loss. But if the fall in the value of the asset occurs after the date of acquisition, the loss should be treated as revenue loss. Adjustment for depreciation would be made in the profit and loss account of the subsidiary. • **SHARE OF MINORITY**: The minority interest in the reserves and profits (or losses) of subsidiary company should be transferred to minority interest account which will also include share capital of subsidiary company held by outsiders / minority shareholders. • **HOLDING SHARE:** The holding company's interest in the pre acquisition reserves and profits (or losses) should be adjusted against cost of control to find out goodwill or capital reserve on consolidation. The balance of reserves and profits (or loss) of subsidiary company, representing holding company's interest in post acquisition or revenue reserves and profits (or losses), should be added to the balances of reserves and profits (or losses) of holding company.
DIVIDEND RECEIVED FROM SUBSIDIARY COMPANIES (December 2015)	• **TREATMENT:** The holding company, when it receives a dividend from a subsidiary company, must distinguish between the part received out of capital profits and that out of revenue profits. The part received from capital profits is credited to Investment Account, it being a capital receipt, and the part received from revenue profits is adjusted as revenue income for being credited to the Profit & Loss Account. • **WHAT ARE CAPITAL PROFITS**: It must be understood that the term 'capital profit', in this context, apart from the generic meaning of the term, connotes profit earned by the subsidiary company till the date of acquisition. As a result, profits which may be of revenue nature for the subsidiary company, may be capital profits so far as the holding company is concerned. • **SHARES ACQUIRED DURING THE YEAR**: If the controlling interest was acquired during the course of a year, profit for that year must be apportioned into the pre-acquisition and post-acquisition portions, on the basis of time in the absence of information on the point.

ELIMINATION OF INTRA-GROUP BALANCES AND INTRA-GROUP TRANSACTIONS	• Intragroup balances should be eliminated from both sides of the consolidated Balance Sheet. • Similarly intragroup transactions (e.g. sales, expenses, dividends etc. are also to be eliminated in full in the consolidated profit and loss account. • Suppose A Ltd. is a holding company of B Ltd. Bills payable of B Ltd. include Rs. 4,000 issued to A Ltd. out of which A Ltd. had discounted Rs.1,000 and that debtors of A Ltd. include Rs.10,000 owings by B Ltd. • In this situation, Bills of Rs. 3,000 still held by A Ltd. would be eliminated both from Bills Receivable and Bills Payable in the consolidated balance sheet. • Also both sundry debtors and creditors would get reduced by Rs. 10,000. Consider another example if S Ltd. (a subsidiary of H Ltd.) has paid Rs. 12,000 as interest out of which Rs. 6,000 has been received by H Ltd., in the consolidated profit and loss account interest paid should be shown only at, Rs.6,000, intragroup interest being eliminated in full.
UNREALISED PROFIT ON INTER-COMPANY TRANSACTIONS:	• It is natural for a company to sell goods to its subsidiary or subsidiaries and vice versa, usually goods are sold at normal selling price. • For the purpose of consolidation of financial statements, profit on goods received from the other company of the same group but sold away before the balance sheet date raises no problem. • But in respect of such goods not yet sold, the unrealised profits are to be eliminated in full as per para 16 of AS 21. This may be *done by creating a reserve* in respect of total unrealised profit which has not yet been realised. • Suppose A Ltd. supplies goods of the invoice value of Rs. 20,000 to B Ltd. (a subsidiary of A Ltd.) of which goods valued at Rs. 8,000 were still in stock of B Ltd. and invoice value was cost plus 25%. The total unrealised profit in the unsold stock of Rs. 8,000 will be Rs. 1,600. Also, unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered. • Here, the point to be noted is that one has to see whether the intragroup transaction is "upstream" or "down stream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. • While in the downstream transaction holding company is the seller and subsidiary company is the buyer. • In the case of upstream transaction, goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. • In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from

	minority interest as well as from consolidated profit on the basis of their share holding besides deducting the same from unsold stock. • But in the case of downstream transaction the whole profit is earned by the holding company, therefore whole unrealized profit should be adjusted from unsold stock account and consolidated profit and loss account only.
BONUS SHARES	The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as the minority shareholders. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits. (a) **Issue of bonus shares out of capital profit (Pre-acquisition profits):** In this case there will be no effect on accounting treatment because while calculating the cost of control the share of the holding company in pre-acquisition profit is reduced because of capitalisation of profit and the paid-up value of shares held in subsidiary company is increased. Hence there is no effect on cost of control when bonus shares are issued from pre-acquisition profit. (b) **Issue of bonus shares out of post acquisition profit:** In this case, a part of the revenue profits will get capitalised resulting in decrease of cost of control or increase in capital reserve.
PROFIT ON REVALUATION OF ASSETS OF SUBSIDIARY COMPANY	❖ If there is any profit resulting from the revaluation of assets of the subsidiary company whether before or after the date of acquisition of shares by the holding company, the same must be *shared both by the holding company and the minority shareholders in proportion to their respective holdings*. ❖ The minority shareholders' share of such profit should be added to the Minority interest. ❖ But the holding company's share should be treated as capital profits and dealt with like pre-requisitions profit and reserve. ❖ Further, adjustment for depreciation on the increases or decreases in the value of assets would be made in the profit and loss account of the subsidiary. ❖ For appreciation in the value of assets, depreciation charge would be increased proportionately and the same would be deducted from the revenue profits of the subsidiary company. ❖ On the other hand, for revaluation loss due to decrease in the value of assets, excess depreciation provision should be written back.
LOSS ON REVLUATION OF ASSETS OF SUBSIDIARY COMPANY	❖ If there is any loss resulting from the revaluation of the assets of the subsidiary company as on the date of acquisition of shares by the holding company the *same must be shared both by the holding company and the minority shareholders in proportion to their respective holdings*.

	❖ The minority shareholders' share of such loss should be deducted from the amount of Minority interest. But, the holding company's share of such loss should be treated as capital loss and dealt with like pre-acquisition losses. But, if such loss occurs after the date of acquisition of shares by the holding company the same should be treated as ordinary loss.

CORPORATE FINANCIAL REPORTING	
CORPORATE FINANCIAL REPORTING	• **Background:** Accounting is a process to identify measure and communicate economic information to permit informed judgments and decisions by the user of the information. • **Function of Accounting:** Its function is to provide quantitative information, primarily financial in name, about economic entities, that is intended to be useful in making economic decisions and related choice among alternative course of action. • **Definition of Financial Reporting:** Financial reporting may be defined as communication of published financial statement and related information from a business enterprise to all users. • **Features of Financial Reporting:** It is the reporting of accounting information of an entity to a user or group of users. It contains booth qualitative and quantitative information. • **Types:** The Financial report made to the management is generally known as internal reporting, while financial reporting made to the shareholder investors/management is known as external reporting. • **Internal Reporting:** The internal reporting is a part of management information system and the uses MIS reporting for the purpose of analysis and as an aid indecision making process. The management of a corporate is ultimately responsible for the generation of accounting information. The accountability of a company has two distinct aspects – legal and social. • Under legal requirements a company has to supply certain information to the various users through annual reports and under the social obligation, a company has to provide additional information to various user groups
CHARACTERISTICS OF CORPORATE FINANCIAL REPORTING	***Relevance***: Information is relevant when it influences the economic decisions of users by helping them to evaluate past, present, and future events to confirm/correct their past evaluations. The relevance of information is affected by its nature and materiality (which is always the threshold for relevance). Information overload, on the other hand, can obfuscate information, making it hard to sift through the relevant nuggets and making interpretation difficult. ***Reliability***: Information should be free from material errors and bias. The key aspects of reliability are faithful representation, priority of substance over form, neutrality, prudence, and completeness. ***Comparability***: Information should be presented in a consistent manner over time and consistent between entities to enable users to make significant comparisons. ***Understandability***: Information should be readily understandable by users who are expected to have a reasonable knowledge of business, economies and accounting and a willingness to study the information with reasonable diligence.

OBJECTIVE OF CORPORATE FINANCIAL REPORTING (December 2015)	1. Financial reporting should provide information that is useful to investors and creditors and other users in making rational investment, credit and similar decisions. The information should be useful to both, the present and potential investors. 2. Financial reporting should provide information about the economic resources of an enterprise the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners equity) and the effects of transactions event, and circumstances that change resources and claims to those resources. 3. Financial reporting should provide information about the enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. 4. Financial reporting should provide information about how management of an enterprise obtains and spends cash, its borrowing and repayment of borrowing, capital transactions including cash dividends and other distributions of enterprise resources to owners, and other factors that may affect an enterprise's liquidity or solvency. 5. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibilities to owners (shareholders) for the use of enterprise resource entrusted to it. 6. Financial reporting should provide information that is useful to management and directors in making decisions in the interest of owners.
DIRECTOR'S REPORT (JUNE 2016)	The report of the Board of Directors must be attached to every balance sheet presented at the annual general meeting. The report must contain information regarding the following matters 1. The state of affairs of the company, Review of its operating information. 2. The amount, if any, which it proposes to carry to any reserves in such balance sheet 3. The amount of dividend recommended 4. Details of any material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report, conservation of energy, technology absorption, foreign exchange earnings and outgo. 5. Director's responsibility statement that directors confirms the adoption of applicable accounting standards, use of prudent accounting policies in preparation of financial statement, use of utmost care in preparing financial statement and safeguarding the assets of company and preparation of accounts on a going concern basis. 6. Management discussion and analysis report (discussed separately)

	7. Corporate governance report 8. Details necessary for a proper understanding of the state of the company's affairs and which are not, in the Board's opinion, harmful to the business of the company or of any of its subsidiaries, in respect of changes which have occurred during the financial year in the nature of company's business, in the company's subsidiaries or in the nature of the business carried on by them and generally in the classes of business in which the company has an interest.
DISCLOSURE OF ACCOUNTING POLICIES	In respect of reporting of accounting policies company need to follow following principles. 1. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. 2. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place. 3. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. 4. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
VALUE ADDED STATEMENT (VAS)	1. Value added can be defined as the value created by the activities of a firm and its employees, that is, sales less the cost of bought in goods and services. The value added statement (VAS) reports on the calculation of value added and its allocation among the stakeholders in the company. 2. The value added by a firm, i.e. the value created by the activities of the firm and its employees, can be measured by the difference between the market value of the goods that have been turned out by the firm and the cost of those goods and materials purchased from other producers. This measure will exclude the contribution made by other producers to the total value of the firm's production, so that it is essentially equal to the market value created by this firm. 3. As per the concept of Value added statement, gross value added is distribute to employees in form of salaries and wages, to government in form of taxes and duties, to financer in form of interest, to shareholders in form of dividend and balance remained in business in form of retained earning including depreciation. **Advantages of Value Added Statement – (December 2014)** 1. It is an alternative performance measure to profit and therefore helps in the comparison of the performance of the company. Value added is superior performance measure because it pays attention on inputs which are under the control of the management.

	2. By employing various productivity measures like value added per rupee of capital employed, value added per rupee sales, value added per employee etc., it helps in judging the productivity of the company. 3. Resource allocation decisions are normally based on the concept of maximizing profit but value added statement provides a better alternative by focusing on other factors rather than just profit. 4. It also helps in devising the incentives schemes for the employees of the company in a better way. 5. It reflects a broader view of the company's objectives and responsibilities rather than just focusing only on the small aspects about the company **<u>Limitation of Value added Statement</u>** 1. The treatment of depreciation resulting in gross and net value added; 2. The treatment of taxes like pay-as-you-earn, fringe benefits and other benefits in the employees' share of value added; 3. The timing of recognition of value added - production or sales; 4. The treatment of taxes such as VAT /GST and deferred tax; and 5. The treatment of non-operating items

FORMAT

A. Generation of Value Added:	
Sales/Turnover (including Excise duty and sales taxes excluding trade discounts)	XXX
+/- Stock of WIP & FG	XXX
Production Value	XXX
(+) Income from Services	XXX
(-) Bought in goods and services purchased from outsiders	XXX
Gross Value Added (GVA)	XXX
(-) Depreciation and deferred revenue expenses	XXX
Net Value Added (NVA)	XXX
B. Application of Value Added:	
Receipt by Employees	
Receipt by Providers of Loan	
Receipt by Government	
Receipt by Owners	
Net Value Added (NVA)	

ECONOMIC VALUE ADDED (EVA)	• Economic value added (EVA) is a financial measure of what economists sometimes refer to as economic profit or economic rent. The difference between economic profit and accounting profit is essentially the cost of equity capital – an accountant does not subtract a cost of equity capital in the computation of profit, so in fact an accountant's measure of income or profit is in essence the residual return to that equity capital since all other costs have been deducted from the revenue stream. • In contrast, an economist charges for all resources in his computation of profit – including an opportunity cost for the equity capital invested in the business – so an economist's definition and computation of the profit is net above the cost of all resources. • A positive EVA means the firm is generating a return to invested capital that exceeds the direct (i.e. interest) and opportunity cost of that invested capital; a negative EVA means that the firm did not generate a sufficient return to cover the cost of its debt and equity capital

	<u>How to Compute EVA:</u> Earnings Before Interest and Tax Less: Interest Earnings Before Tax Less: Taxation Profits after tax Add: Interest (Net of Taxes) Net Operating Operating Profits after taxes (NOPAT) Less: Cost of Equity Capital Economic Value Added **<u>Advantages of EVA Analysis</u>** 1. In various cases, company pay bonuses to the employees on the basis of EVA generated. Since a higher EVA implies higher bonuses to the employees, it promotes the employees for working hard for generating higher revenue. 2. Using EVA , company can evaluate the projects independently and hence decide on whether to execute the project or not 3. It helps the company in monitoring the problem areas and hence taking corrective action to resolve those problems. 4. Unlike accounting profit, such as EBIT, Net Income and EPS, EVA is based on the idea that a business must cover both the operating costs as well as the capital costs and hence it presents a better and true picture of the company to the owners, creditors, employees, shareholders and all other interested parties. 5. It also helps the owners of the company to identify the best person to run the company effectively and efficiently.
MARKET VALUE ADDED	Market value added is the difference between the Company's market and book value of shares. According to Stern Stewart, if the total market value of a company is more than the amount of capital invested in it, the company has managed to create shareholder value. If the market value is less than capital invested, the company has destroyed shareholder value. Market Value Added = Company's total Market Value – Capital Invested With the simplifying assumption that market and book value of debt are equal, this is the same as Market Value Added = Market Value of equity – Book value of equity Market value added (MVATM) is identical in meaning with the market–to–book ratio. The difference is only that MVA is an absolute measure and market–to–book ratio is a relative measure. If MVA is positive, that means that market–to– book ratio is less than one.
SHAREHOLDERS VALUE ADDED	Shareholder Value Added (SVA) represents the economic profits generated by a business above and beyond the minimum return required by all providers of capital. "Value" is added when the overall net economic cash flow of the business exceeds the economic cost of all the capital employed to produce the operating profit. Therefore, SVA integrates financial statements of the business (profit and loss, balance sheet and cash flow)into one meaningful

	measure. The benefits of moving towards SVA include: 1. Overall, value-based performance measures will result in greater accountability for the investment of new capital, as well as for the use of existing investments. 2. Organisation will have the opportunity to apply a meaningful private sector benchmark to evaluate performance. 3. Managers will be provided with an improved focus on maximizing shareholder value. **DRAWBACKS OF ADOPTING SVA: (JUNE 15)** 1. A limitation in the use of SVA as a performance measure is that, by nature, it is an aggregate measure. In order to analyse the underlying causes of any changes in calculated value between years, it is necessary to fully comprehend the value drivers and activities specific to a given firm. 2. There may be certain enterprises which are subject to any degree of price regulation then it may not be possible for management to adjust output prices to achieve a commercial return in response to upward movements in input prices. Such a situation may result in SVA being reduced even though there may have been no decrease in overall efficiency. 3. Similarly, a reduction in direct Government funding would result in a decrease in SVA. 4. Combined with the use of traditional accounting measures, a thorough knowledge of the value drivers of the business will assist in determining the underlying causes of fluctuations in the value added measure. 5. Again, the use of SVA is not a substitute for detailed analysis of business drivers, rather it is an additional measurement tool with an economic foundation