AS-1 Disclosure of Accounting policies

And AS-1

Disclosure of Accounting policies

principles & methods adopted in preparation & presentation of f.s

selection is the duty of management

consideration in selections

primary considerations

ncial statements — • f.s should give True & fair view after applying selected policies

secondary considerations

Prudence

Substance over form

Materiality.

→ fundamental Accounting Assumptions

Going concern

Consistency

Accrual

→ • Disclosure :-

• Disclose all significant accounting policies

• Disclose at on place instead of scattering

• Disclosure is not a remedy for wrong accounting.

→ Any company which manufactures a product and it is not meant for sale should not be included in fixed production overheads. Accounting policy is necessary to write off the cost of products.

→ Depreciation - As per Sch-II of companies Act 2013 — on straight line basis over a useful life of asset. But in case of.

• Kutcha road - 47.50 % , Enabling works - 20%.

AS - 2 Inventory valuation

IndAS - 2 Valuation of Inventory.

→ Inventory is an assest held for sale in the ordinary course of business which is used in the process of production or consumed in process of production or inrendering the service.

→ Inventory is valued at cost or NRV whicheverislower (customary).

→ Overhead's

variable OH's
- Absorb based on actual Capacity utilisation

fixed OH's

Actualproduction > Normalcapacity then Absorb basedonActualcapacity	Actualproduction < Normalcapacity Absorb based on Normalcapacity.

→ following cost should be excluded from the cost:-

a) Abnormal wastage of R.M, Labour or other Productioncost
b) storage cost
c) General admin OH's
d) selling & distribution cost
e) Interest & financial charges

→ In determing the cost of inventories, Normal lossisincluded
Abnormal loss — Not included.

→ Allocation of cost in special situations:-

Raw material
→ Product A
→ product B → Is value significant?
→ Joint product
→ By product

→ In case of Joint products:- Basis of allocation

a) on sale value of each product when product becomes seperately identifiable

b) on sale value after completion of production.

→ In case of By-products:-

- find out the joint costs of main product & by products
- compute NRV of by products at time of seperation
- cost of main product = Joint cost of main product & by product − NRV of by product

→ valuation principles:-

Raw materials	• work in progress	finished goods	Damaged goods
• Its valuation depends upon the valuation of finished goods. If FG valued at cost; RM also at cost. If FG valued at NRV; RM @ cost of replacement	valued at cost or NRV whichever is lower	Valued at cost or NRV	Valued at NRV.

→ valuation of inventories, material and other supplies held for use in the production of inventories are not written down below cost if the finished products in which there ~~has been~~ will be incorporated are expected to be sold at above cost.

• However when there has been decline in the price of materials and it is estimated that the cost of the finished products will exceed NRV, then materials are written down to NRV. (Replacement cost – best available measure)

→ It does not apply to ~~forest~~ products & service contract

AS-3 Cash flow statements

Ind AS-7.

→ A c.f.s is an additional information provided to the users of accounts in the form of an statement which reflects the various sources from where cash is generated (inflow) and how these inflows were utilised (outflow) during the relevant accounting year by entity.

→ presentation of cash flow statements

particulars	Amt ₹.
cashflow from operating activities	xxx
cash flow from investing activities	xxx
Cashflow from financing activities	xxx.
Net cash flows	xxx
+ opening cash & cash equivalents	xxx
closing cash & cash equivalents	xxx

A) → cash flow from operating activities

1) principal revenue producing activities &
2) Activities which cannot be classified as investing or fina

• operating activities presented in 2 ways

a) Direct method
b) Indirect method.

a) Direct method :-

Particulars	Amt ₹.
cash receipt from customers	xxx
cash paid to suppliers & employees	(xxx)
cash generated from operations	xxx
Income tax paid	(xxx)
cashflow before extraordinary items	xxx
proceeds from earthquake /diaster settlement	xxx
Net cash from operating activities	xxx

b) Indirect method :-

Particulars	Amount ₹.
Net profit before tax & extraordinary items	xxx
+/- Non cash & Non operating expenses	
Depreciation	xxx
Goodwill written off during the year	xxx
Interest Income	(xxx)
Dividend Income	(xxx)
Interest expense	xxx
operating profit before working capital changes	xxx
Changes in operating Asset & Liabilities	
Increase in sundry debtors / Decrease in sundry creditors	(xxx)
cash generated from operations	xxx
Income tax paid	xxx
Cashflow before extraordinary item	xxx
proceeds from earthquake & diaster settlement	xxx
Net cash flow from operating activities	xxx

→ Cash flow from investing activities:-
• purchase and sale of longterm assests and other investments
& income received from investments

→ Cash flow from financing activities:-
• The activities which change the size and composition of owner's capital
• Borrowings & repayment of borrowings.
• finance cost on equity prefrence and borrowings and any other kind of finance.

Note:- In case of indirect method
• Amortisation of preliminary expenses will come under operating activities (because non cash item)
• proceeds from sale of fixed assest + Gain/Loss on sale of fixed asset (assest are both different.
→ Gain/Loss on sale of assest - operating
→ proceeds on sale of assest - investing.

AS-4 Contingencies and events occuring after balance sheet date.

IndAS-10

→ preparation and presentation of financial statements is the responsibility of management of the entity. financial statements are approved by BOD.

→ events occuring after the balance sheet date:- These significant event, which occur between the balance sheet date and financial statements approval date. These significant events can be favourable or unfavourable to entity.

• significant events:- Material events, which can influence the economic decissions of users of financial statements.

Adjusting events	Non-adj events
a) conditions exist on Balancesheet date	a) No condition exists on B/s date
b) Events occuring after the balancesheet date provide additional information about the conditions existing on B/s date.	b) subsequent events don't affect the amt on B/s date. ⇩ If it is significant ⇒ Disclosure in the approving authority's report but not in f.s
c) The additional information materially affects the amount on Balancesheet date ⇩ Adjust the balances of Assets and liabilities as on B/s date.	⇩ Dont adjust the balances as on Balance sheet date.

→ Exceptions:- It means even though it is a non-adjusting event it should be adjusted on balancesheet date. There are 2 exceptions.

a) It is a statutory requirement or it is special nature
b) If events occuring after the B/s date affect the Going concern assumption of the entity.

→ If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statutory requirement otherwise such dividends should be disclosed in notes.

AS-5 Net profit or loss for the period, Prior period items and changes in Accounting policies.

and AS-8.

→ ordinary Activities :- Activities normally undertaken as part of business & incidental activities to business.

→ Activities of special size, nature or incidence to be disclosed seperately as exceptional items.
Eg :- written down of Inventories, Disposal of fixed assets, scrap sales. Seperate disclosure of nature and amount.

→ Extraordinary activities :- Activities other than ordinary which are not expected to occur.
Eg :- Loss due to earthquake, Attachment of property of the enterprise, refund of Govt grants etc.
• Seperate disclosure of Nature and amount

→ Prior period items :- Income or expenses arising in the current year as a result of errors or omission in presentation of f.s of prior periods.

→ Change in accounting policies :- A change in the specific accounting principles and the methods of applying these principles adopted by an enterprise in preparation of presentation of f.s

• Allowed only If :- a) required by statute
b) required by AS or
c) Leads to better presentation of fs

Eg :- SLM to WDV

→ Change in Accounting estimates :- A change in the estimated amount in any items of fs.

. when difficult to distinguish between change in accounting policy & accounting estimate, treat as change in accounting estimate.

Eg :- Amt of provision for doubtful debts, change in useful life of depreciable assets.

AS-7 construction contracts

And AS-11

→ Accounting for revenue from construction of one or more assests & other services directly related to construction, destruction & restoration services.

→ Types :- a) fixed price contracts :- contract price / rate per unit is fixed subject to escalation

b) cost plus contracts :- Revenue = cost + (% of cost / fixed fee)

→ As per AS-7 provides that when the outcome of a construction contract can be estimated realibly, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expense respectively with refrence to the stage of completion of the contract activity of reporting date.

→ If total costs > contract revenue

. Estimated loss can be recognised immediately irrespective of

i) % of completion

ii) started work or not

iii) whether or not income from other contracts.

→ $\% \text{ of completion} = \dfrac{\text{cost to date}}{\text{cumulative cost incurred} + \text{estimated cost to complete}} \times 100.$

→ Current revenue from contract = contract price X % of completion − Revenue previously recognised

Cost todate.

→ Expected loss = Work certified + Work uncertified + Estimated cost to complete project − Total value of contract.

→ Amount due from / to customers = contract costs + recognised profits − Recognised losses − progress billings

→ As per AS−7 disclosures

C	contract revenue	xxx
C	contract expense	xxx
R	Recognised profit/loss	xxx
C	contract cost incurred	xxx
C	contract cost relates to future	xxx
P	Progress billings	xxx
U	unbilled contract revenue	xxx
A	Advances	xxx
R	Retentions	xxx
A	Amt due to / from customers	xxx

As-9 Revenue recognition

and As-18.

Imp
** → Assess the ultimate collection with reasonable certainity.
→ sale of goods → seller transfered all rights to buyer.
→ service → completion of service
→ Interest → Time proportion basis
→ Royalty → As per terms of agreement
→ Advertising → when it appears before public
→ Dividend → when the right to receive established.

→ common point in exam ⇒ As per As-9 It is mainly concerned with the timing of recognition of revenue in statement of P&L of enterprise.

→ After sale of goods customer asked discount then revenue will be the gross inflow of cash receivables for discounts and for defective products - credit note to be raised.

→ If sale is done to customer and same product is purchased back from the customer then it is called as financing rather than sale and accounted as revenue

Journal entries

Bank a/c Dr
To Advance from customers a/c

Finance charges a/c Dr
To Advance from customers a/c

Profit & loss a/c Dr
To finance charges a/c.

→ Interest should be recognised in the year to which it pertains, not in the year in which it is received.

→ As-9 does not applicable to inter division sales.

→ self consumption included in sales not as per As-9.

AS-10 property plant and equipment

IndAS-16.

→ capitalisation of expenses :- 2 basic criteria
(i) which increases utility or
(ii) Increases useful life

→ only direct cost allowed to be capitalised (AOH, SOH etc. are not capitalised)

→ Relocation cost - specifically disallowed by IndAS16
→ cost of opening the factory - specifically disallowed by IndAS16

→ As per AS-10, the cost of PPE should comprise its purchase price and any attributable cost of bringing the assest to its working condition for its intended use.

cost includes:-

purchase price	freight	Handling Charges	Insurance cost on machine in transit	cost of special foundation	cost of assembly	Installation & testing.

→ As per AS-10, the cost of land should include all expenditure incurred for preparing it for its ultimate use, Includes purchase price, Legal fees & title insurance and the old building must be razed - cost of demolition less proceeds from sale of scrap.

→ As per AS-10 only expenditure that increases the future benefits from the existing assest beyond its previously assessed standard of performance is included in Gross book value.

→ As per AS-10 subsequent expenditure relating to an item of fixed assest should be added to its book value only if it increases the future benefits from existing assest beyond its previously assesed standard of performance. And size of the expenditure is not the criteria to decide whether subsquent exp should be capitalise.

→ setup costs, Rent, Removal costs, cost of salaries, utilities & storage of goods ⇒ Not to be capitalised.

→ operating cost incurred in the startup period — should not capitalize, should be recognised in statement of P&L

→ There will be no amount of resultant surplus/deficiency as the change in depreciation method which considered as a change in accounting estimate and therefore such change should be accounted prospectively.

→ As per AS-10 each part of an item of PPE that has a cost that is significant when compared to the total cost of the item should be depriciated seperately

→ AS-10 excludes biological assests.

AS-11 The effects of change in foreign exchange rate.

Read along with AS-16 and AS-21

Monetary
↓
Receivables
cash & bank balances
payables

Non-Monetary
↓
fixed Assests
etc.

→ Non monetary → fixed Assests → Historical rate / purchase date rate for recognising on year ending (31-mar)

→ Monetary → closing rate 31st march.
→ Expenses → Avg rate

→ Integral		Non-Integral
fixed Assests	- Historical rate / purchase date rate.	→ fixed Assets - closing rate
Debtors / creditors	- closing rate	→ DO same.
opening stock	- opening rate	
cash & bank bal	- closing rate	
purchase/sales	- Avg rate	
wages & salaries	- Avg rate	
Rent	- Avg rate.	
office exp	- Avg rate	

** → Exchange diff arising on restatement or repayment of liabilities incurred for the purpose of acquiring fixed assets should be adjusted in carrying amt of respective fixed asset.

AS-12 Government Grants

and AS-20.

→ It refers to any assistance from govt in cash or in kind.

Types of Grant :-

a) Monetary (Eg:- cash)

(i) In the nature of promoters contribution :- credited to capital reserve (not available for dividend)

(ii) for purchase of non depreciable f.A — Either credited to capital reserve or reduce from fixed assest.

(iii) Depreciable f.A →

1) credited to deffered govt grant and amortised to P&L in proportion to depreciation method

(OR)

2) credited to cost of f.A & balance of f.A is depreciated over the useful life of assest.

Eg:- cost of assest - 50L, Life - 5 years, Grant received → 20L.

Journal entries:-

(i)	f.A a/c Dr	50L	
	To Bank a/c		50L
(ii)	Bank a/c Dr	20L	
	To deffered govt grant.		20L
(iii)	Deffered govt grant a/c Dr	4L	
	To profit & loss a/c.		4L.

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→ free asset.

b) Non monetary.

→ If grant is of free of cost then assest recorded at nominal value.

→ Govt grant that becomes refundable should be treated as extra ordinary items

→ Grant

fixed Assest.

- Depreciable
  - Treated as deffered income should be recognised in P&L a/c on a systematic & rational basis over life of assest
- Non-Depreciable (specific fixed assest)
  - Grant should be shown as deduction from the gross value of assest.

→ Refund of grant.

- Credited to deffered income
  - ~~Balances~~ Amount of refund should be adjusted against any unamortised deffered Govt grant if any
- Deducted from cost of assest
  - Remaining balance Charge to P&L a/c

→ AS-12 permits recognition of grant only when there is reasonable assurance that

(i) enterprise will comply with the conditions attached to them

(ii) subsidy will be received.

AS-13 Accounting for Investments

→ Classified as :-

Current
↓
readily realizable and is intended to be held not more than one year from date of acquisition
↓
• Lower of cost / fair market value

→ Incase of inv in shares of subsidiary normally at cost.

Long term
↓
which is not current
↓
Carrying amt

↳ In both cases reduction in value will go to P&L a/c.

→ As per AS-13 where investments are reclassified from current to long term ⇒ Transfers are made at the lower of cost and fair value at the date of transfer.

→ If MV ↓ than the cost — Loss transfer to P&L (charge)

→ As per AS-13, where long-term investments are reclassified as current investments transfers are made at the lower of cost & carrying amt at the date of transfer.

→ Incase of shares — Lower of cost or M.V

→ In case of Mutual funds — NAV (If NAV then M.V)

→ Govt securities — at cost.

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→ Inter category adj cannot be done (like mf to share)
→ But share to share adj can be done

→ Long term investment should be carried at cost, unless there is permanent diminution in value of investment.

• The provision for diminution in value of investment should be created as a charge to P&L a/c.

• As per AS-13 diminution in value of investment can neither be accounted for as deferred revenue exp nor it can be written off in P&L a/c.

→ AS-13 is not applicable to bank, insurance company, Mutual funds.

AS-16 Borrowing cost.

And AS-23.

→ Borrowing cost that are directly attributable to the acquistion, construction, production of a qualifying assest shall be capitalised otherwise charge to p&l.

→ Qualifying assest :- It refers to an assest that taken substantial period of time for its intended use.

→ Borrowing cost provides that borrowing cost may include exchange differences arising from foreign currency borrowings to the extent that they are regarged as an adjustment to interest cost.

~~Ex-1). Sndyga Industries has taken a loan for 5 years term of US $ 100000 on 01-04-2013 for a specific project at an interest rate of 5% p.a payable annually in equal instalments on 01-04-2013 the exchange rate between the currencies was ₹45 per US$ the exchange rate as at 31-3-2014 is ₹48 per US$.~~

→ Adjustment to Interest cost :- It is the difference between the amount of interest in local currency and interest in foreign currency. Balance exchange diff will be accounted as per AS-11.

Ex:- Loan amt - 1-4-2013 ⇒ $ 100000

exchange rate 1$ = ₹50

Interest rate $ = 10%, ₹ = 12%, 31-3-2014 1$ E.R = 52₹

Sol:- 1/4/13 Loan recognised = 100000 X 50 = 5000000.
31/3/14 Exchange loss → 200000 (100000 X (52-50))

AS-16 (Adj to Int cost)

AS-11

Int in ₹ (50L X 12%) – 600000

120000 (2L-80K)

Int in $ (1L X 10% = 10K X 52) – 520000

80000

→ Total borrowing cost = 520000 + 80000 = 600000 – AS-16

→ Exchange loss = 200000 – 80000 = 120000 – AS-11.

Continuation:-

Ex:- If exchange rate is 50.6 on 31-3-2014

Exchange loss ⇒ 60000 (100000 X (50.6-50))

AS-16

Adj to interest

AS-11.

Nil

Int in ₹ – 600000

Int in $ (10000 X 50.6) 506000

94000

• But exchange loss is 60000 can be utilised.

As per AS-16 → 60000 Int & AS-11 Nil.

AS-17 Segment reporting.

and AS-108.

→ According to AS-17 "Segment reporting" issued by ICAI, a business segment or geographical segment should be identified as a reportable segment.

a) Revenue from sales to external customers and from transactions with other segment is 10% or more of total revenue of all segments

or

b) Its segment result, whether profit or loss is 10% or more of
(i) Combined result of all segment profit or] → which ever
(ii) Combined result of all segment loss] is higher

c) Its segment assests are 10% or more of total assests of all segments ~~other~~
(Segment assest does not include income tax assets

AS-20 Earnings per share
and AS-33

→ EPS is a financial ratio that gives the information regarding earnings available to each equity shares

→ This statement is applicable to the enterprise whose equity shares or potential equity shares are listed in stock exchange

→ Types of EPS:-

a) Basic EPS

$$= \frac{\text{Net profit or loss for period attributable to ESH}}{\text{Weighted avg no. of E.S outstanding during period}}$$

• Issues arising out of Numerator:-

- It is considered after considering tax expense (current + deffered) and the impact of AS-5 items i.e exceptional, extra ordinary, prior period items, change in a/cing policies & estimates, unless AS-5 requires otherwise.

→ preference dividend (including corporate dividend tax)

cumulative	Non cumulative
• To be deducted irrespective if it is declared or not	To be deducted only if it is declared (on not declared - Not deduct)

→ The profits are before considering any appropriations even if they are mandatorily attributable

→ Dividends paid during the current year in respect of previous periods is to be excluded.

→ Calculation of weighted avg no. of outstanding E.S for period

• Bonus Issue:- The date of bonus issue is irrelevant. It is assumed that bonus is made at the begining of the earliest period. 3 EPS will be disclosed (at the status)

a) EPS of current year

b) EPS of last year originally reported

c) EPS of last year restated i.e considering bonus made from begining of previous year.

→ Right issue:- Generally exercise price in a right issue is less than fair value. This implies a bonus element.

$$\text{Right factor} = \frac{\text{f.v per share immediately prior to right issue}}{\text{Theorotical ex right fair value per share.}}$$

→ Theorotical ex right fair value per share =

$$= \frac{\text{Aggregate of f.v of share immediately prior to the exercise of rights} + \text{proceeds from exercise of rights}}{\text{no. of shares outstanding immediately after the right issue.}}$$

→ Diluted Earning per share :- It is calculated when there are potential equity shares in capital structure

Ex:- convertible debt, convertible prefrence shares etc.

$$= \frac{\text{Net Profit attributable to ESH (after adj. diluted earnings)}}{\text{Avg. no of weighted equity shares outstanding during period (Assuming the conversion of diluted potential equity shares)}}$$

→ Diluted potential equity shares:- potential equity shares are diluted if their conversion into equity share reduces the earnings per share if their conversion does not decrease the eps rather it increases the eps then the potential equity shares are not dilute.

→ calculation of diluted earnings:-

- compute net profit or loss for the period attributable to existing equity share holder.
- Add back dividend along with distribution tax on convertible prefrence shares previously deducted.
- Add back interest net of tax effect charged on the convertible debenture or loans.

→ order in which potential equity shares to be considered

These should be ranked in order of dilutive effect it is determined dividing incremental net profit by incremental equity share at of conversion.

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AS-22 Accounting for Taxes on Income

Ind AS-12.

→ Accounting income refers to the net protit/loss as reported in the statement of P&L, before deducting taxes.

→ Taxable Income refers to the taxable income computed in accordance with the tax laws, based on which income tax payable is determined.

→ Timing diddeence - Those difference which originates in one period and capable of reversal in one or more subsequent periods.

→ permanent ditterence :- It cannot be reversed in one or more subsquent periods.

→ Identify the difference between Accounting & Taxable income.

- P.D.
- T.D
  - origination
    - TI > AI → DTA
    - TI < AI → DTL
  - Reversal
    - TI > AT → DTL(R)
    - TI < AT → DTA(R)

Q1) from following list of items classify the differences as P.D & T.D

a) provision for doubtful debts	T.D
b) provision for retirement benefits	T.D
c) Depreciation	T.D
d) Deferment of VRS expenses	T.D
e) Accumulated unabsorbed depreciation	T.D
f) provision for warranty repairs	T.D
g) sales tax paid after due date	T.D
h) Donation to private trust	P.D
i) Interest paid to f.I before due date	No diff
j) conversion of capital assets as S.I.T	T.D.

Q2) from the following T.D find out as whether they would result in DTA/DTL

Items	Accounting	Taxation	DTA/DTL
Dep	100000	125000	DTL
Income	240000	200000	DTL
Income	400000	500000	DTA
expense	25000	45000	DTL
Expense provision	100000.	75000.	DTA

A.I↑ T.I↓ ⇒ Tax paid less

→ Accounting entries

- current tax a/c Dr
  - To provision for tax a/c
- P&L a/c Dr
  - To current tax a/c

DTL :- P&L a/c Dr
To DTL a/c

DTA :- DTA a/c Dr
To P&L a/c

→ Statement of P&L

PBT	xxx
− Tax exp (current tax)	xxx
+ DTL	xx
− DTA	xx
− DTL(R)	xx
+ DTA(R)	xxx
	xxx

→ Measurement of current tax & deffered tax

C.T ⇒ to be measured at current tax rates

DT ⇒ to be measured at enacted or substanally enacted rates

→ Treatment of deffered tax during tax holiday periods :- [10A 10B, 80 IA & 80 IB]

- Timing diff that are originated during tax holiday period and capable of reversal during tax holiday period on which no deffered tax is recognised.

- Timing diff that are originated during tax holiday period and are capable of reversal after tax holiday period on which deffered tax will be recognised for which T.D originates.

→ DTA should be recognised and carried forward only to the extent that there is a virtual certanity that sufficient future taxable income will be available against which such DTA can be realised.

→ problems on MAT :-

Accounting profit – 5,00,000

Book profit as per MAT – 450000

profit as per Income tax act – 50,000

Tax rate – 30%.

MAT rate – 7.5 %.

Sol :- Tax as per accounting profit – 500000 × 30% = 150000

Tax as per income tax profit – 50,000 × 30% = 15000.

Tax as per MAT = 450000 × 7.5% = 33750.

$$\boxed{\text{Tax expense} = \text{current tax} + \text{Deffered tax}}$$

150000 = 15000 + DT

DT = 135000

Amount of tax to be debited in P&L a/c for year 31-3-2017

= current tax + DTL + excess of MAT over C.T

= 15000 + 135000 + 18750.

= 168750.

→ current tax assests & liabilities can be set off if the enterprise has a legally enforcable right to

- set off the recognised amounts and intends to settle them on net basis.

→ Deffered tax assests & liabilities can be set off if the items relate to taxes on income leived by the same governing tax laws

AS-24

Discontinuing operations

and AS-105

Kiran Jr.

→ Discontinuing operations:-

- Disposing of substantially in its entirety such as selling the component in a single transaction or by demerger or spinnoff of ownership of the component to enterprise share holders
- Disposing of piecemeal, such as by selling off the components assests & setting its liabilities individually or
- Terminating through abondonment.

→ It should be noted that any planned change in the product line may not be treated as discontinuing operation.

→ Examples which do not necessarily satisfy criteria of discontinuing operation.

- Gradual phasing out of product line or class of service
- Discontinuing even if abruptly, several products within an ongoing line of business.
- shifting of some production or marketing activities for particular line of business from one location to another.
- closing of facility to acheive productivity or costsaving
- selling a subsidyary whose activities are similar to those of the parent or other subsidiaries.

AS - 25

Interim financial reporting.

Ind AS - 34.

Kiran Jr.

→ If an enterprise prepare and present a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements

→ Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

→ As per AS-25, the income & expense should be recognised when they are earned & incurred respectively.

→ AS-25 suggests that provision in respect of defined benefit scheme like pension and gratuity for an interim period should be calculated based on the year-to-date basis by using the acturial determined rates at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments settlements or other significant one time events.

→ If there is any change in estimate (i.e wrong estimate made in 1st quarter) then it is to be accounted for the quarter in which it is known.

AS-26 Intangible Assests

And AS 38.

Kiran Sir.

→ Intangible Assests → Amortized over a period of 10 years maximum.

→ Goodwill :- cases

Amalgamation → 5 years

other case → 10 years

→ Research cost → ~~capitalize~~ expense - P&L a/c

→ Development cost → capitalize

→ Amortisation :- If cash flows are given

$$= \text{cost of Assest} \times \frac{\text{cash flow for the period}}{\text{Total cash flows}}$$

→ If the company spends any expenditure for publicity and research of a new product which was marketed but proved to be failure, It is clear that in future there will be no related further revenue / benefit because of failure. charge total amount as an expense in P&L a/c

* → According to AS-26 Intangible Assests- expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an Intangible assest.

→ Impairement loss to be considered

→ organisation / Prelimenary expenses (incurred in formation of co.) → recorded as exp when they incurred

• Y expensed → uncertainity exist concerning the future benefits of this costs.

Kiran Sir.

→ Goodwill :- If any subsequent exp incurred in case of intangible assest to maintain the assest at its originally assessed standard of performance - It is recognised as expense.

→ If there is sufficient evidence that benefit of goodwill is 20years instead of 10years take $\boxed{20years}$

→ Cost incurred in creating a computer software should be charged to R&D expenses when incurred until techonological feasibility / Assest recognition criteria has been established.

→ As per AS-26 expenditure on an intangible item that was initially recognised as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognised as part of the cost of intangible assest at a later date.

→ As per Ind AS 38 capitalization criteria

(i) They meet the criteria of identifiability (i-e they are seperable

(ii) It is probable that future economic benefits will flow to entity

(iii) These cost can be measured realibly.

AS-28 Impairement of Assests

and AS-36

Kiran Jr.

- objective :- The procedures that an enterprise applies to ensure that its assests are carried at not more than their recoverable amount.

→ Carrying amt is Less ~~greater~~ than or equal to (<=) Recoverable amt ↓ $\boxed{\text{a/c Impairment}}$	Carrying amount is greater than recoverable amt. ↓ $\boxed{\text{Assest is Impaired}}$ • Impairment loss = Carrying amt − Recov amt CA − RA

↳ Recoverable amount is higher of Net selling price & value in use (R.A = ↑ NSP or Value in use)

→ • Impairement gain is to be ignored.

→ $\boxed{\text{Journal entries}}$	In B/S	
(i) Impairement loss a/c Dr	Fixed Assest	
To Assest a/c	Assest − DeReciation	xxx
(ii) Profit & loss a/c Dr	− Impairement loss	xxx
To Impairement loss a/c		xxx

→ As per AS-28 "Impairement of Assests", Impairement loss is not be recognised for a given assest if it is cash generating unit:

CGU:- It refers to the smallest Identifiable group of assets that generates cashflows from continuing use of assets & are largely independent of CF's of other assets / CGU.

→ In case of impairement loss on a revalued assest first adjust impairement loss to the extent revaluation done (upward)

• Then remaining impairement loss change to p&L a/c.

→ Impairement loss in case of identifiable assests (intangible) intangible

• first to be adjusted with goodwill and then to assets

Journal entries:- Impairment loss a/c Dr | profit & loss a/c Dr
To Goodwill a/c | To impairement loss a/c
To Assest a/c

→ If recoverable amount of an individual assest cannot be determined, then this assest is grouped in related cash generating unit and then determine whether related cash generating unit is impaired or not, no impairement loss is recognised for individual assest if related cash generating unit is not impaired even if net selling price of an individual assest is less than carrying amt.

→ AS-28 states that when the amount estimated for an impairment loss is greater than its carrying amount, an enterprise should recognise a liability if and only if required by another accounting standard as per AS-29.

AS-29

Provisions Contingent liabilities and contingent Assets

Kiran Jr. — Ind AS-37

→ **provision** :- It is a $\boxed{\text{liability}}$ which can be measured only by using a substantial degree of estimation

• **Liability** :- It is $\boxed{\text{present obligation}}$ of the enterprise arising from past events and the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

• **present obligation** :- Based on evidence available, its existence on the balance sheet date is considered probable i.e more likely than not.

Disclosure in P&L

→ **Onerous contract** :- It is a contract in which the unavoidable cost of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

→ **Contingent liability** :-

• possible obligation as a result of past event

• Existence of which can be confirmed only by the occurence or non-occurence of future event

• future event not wholly within the control of enterprise

→ Existence of possible obligation

- Contingent Liability → Not probable
- Provision → Probable

Disclosed in financial statement

KiranJr.

→ Contingent Assest:- ↳ Not disclosed only disclosed in Board report
↳ If virtually certain to arise → recognised

- Possible Assest as a result of past events
- Existence of contingent assests is to be confirmed by occurence and non-occurence of one or more future events
- future events not wholly within the control of enterprise.

→ Contingent liability – further more detailed

- There should be present obligation arising out of past event but not recognised as provision.
- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- The possibility of an outflow of resources embodying economic benefits is not remote.
- The amount of obligation cannot be measured with the sufficient reliability to be recognised as provision.

⇒ Provision calculated using time value of money (in some cases)

Ex:- An entity has to pay decommissioning charges of ₹100 Lakhs after 10 years. Discount rate 8%. (Pass Journal entries)

01.01.2018	plant a/c Dr	4631935	
	To provision		4631935
31.12.2018	Interest (expense) a/c Dr	370555	
	To provision a/c		370555
31.12.2019	Interest exp a/c Dr	400199	
	To provision a/c		400199