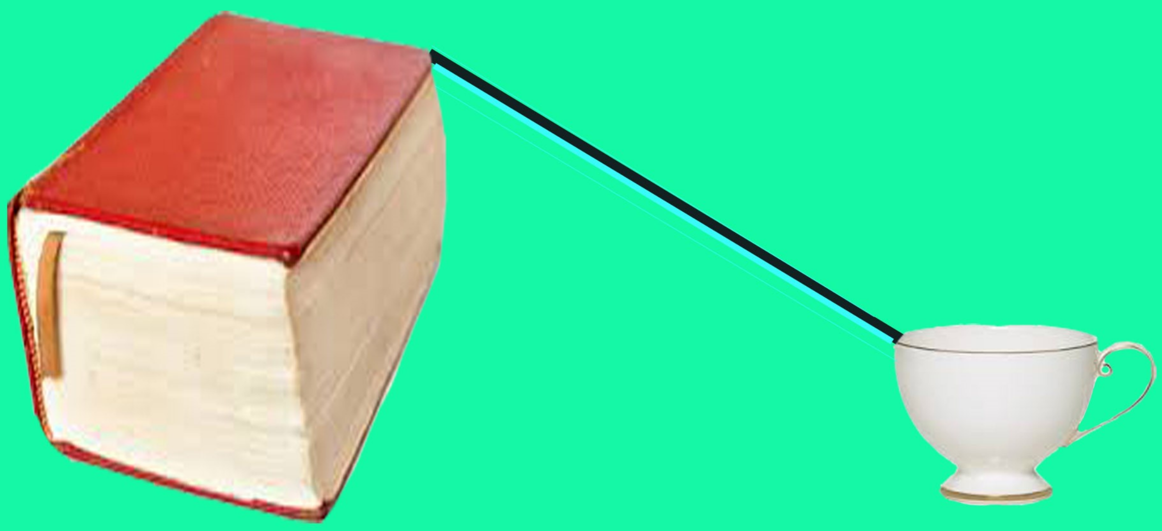
The concept compiler

A book my CA MD IMRAN.

An author, translated the Sea in to just a cup of Tea.



FINANCIAL REPORTING

CA FINAL MAY – 18

Enjoy your study

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105	5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations
106	6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
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2	2	Inventories	AS 2	Valuation of Inventories
7	7	Statement of Cash Flows	AS 3	Cash Flow Statements
8	8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	10	Events after the Reporting Period	AS 4	Contingencies and Events Occurring After the Balance Sheet
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12	12	Income Taxes	AS 22	Accounting for Taxes on Income
16	16	Property, Plant and Equipment	AS 10	Property, Plant and Equipment
17	17	Leases	AS 19	Leases
18	18	Revenue	AS 9	Revenue Recognition
19	19	Employee Benefits	AS 15	Employee Benefits
20	20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants
21	21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates
23	23	Borrowing Costs	AS 16	Borrowing Costs
24	24	Related Party Disclosures	AS 18	Related Party Disclosures
27	27	Separate Financial Statements	-	-
28	28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements
29	29	Financial Reporting in Hyperinflationary Economies	-	-
32	32	Financial Instruments: Presentation	AS 31	Financial Instruments: Presentation
33	33	Earnings per Share	AS 20	Earnings per Share
34	34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	36	Impairment of Assets	AS 28	Impairment of Assets
37	37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets
38	38	Intangible Assets	AS 26	Intangible Assets
40	40	Investment Property	AS 13	Accounting for Investments
41	41	Agriculture	-	-

Difference between IAS and IndAS		
IndAS	IAS	IndAS
1	In case of loan liabilities which is classified as non-current, if condition is breached on the balance sheet date such should be classified as current liabilities.	If there is breach of provision with respect to long term loan arrangement & lender agreed to waive and not to recall or demand payment before the approval of financial statement, then such will continue to classify as non-current liabilities.
17	In case of operating lease all lease rental should be charged to SPL on the straight line method.	In case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined.
101	On first time adoption of IAS recognise PPE by retrospective application of IAS-16 or the same should be recorded at fair value.	Provides addition option to use carrying amount.
28	For applying equity method in the preparation of investor financial statement uniform accounting policies should be used.	It added the word unless impracticable to do so in the paragraph 35.
28	In case of associate excess of net assets over cost of investment recognised in SPL.	Ind AS 103- in capital reserve
32	Equity conversion option in case of convertible bond considered as derivative liabilities. Gain or loss recognise in SPL	Equity conversion option in case of convertible bond considered as equity instruments.
103	Bargain purchase gain arising on business combination to be recognised in SPL.	In equity as capital reserve.

Difference between IndAS & AS.	
INDIAN ACCOUNTING STANDARDS	ACCOUNTING STANDARDS
Ind AS 1 and AS 1 : DISCLOSURE OF ACCOUNTING POLICIES	
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Current and Non-current Classification:	
Disclosure of Judgments and Assumptions made:	
Classification of Expenses:	
Presentation of Balance Sheet:	
Disclosure of Reclassified of Items:	
Statement of Other Comprehensive Income:	
Classification of Long-term Loan Arrangement:	

Ind AS 8 and AS 5: PRIOR PERIOD ITEM AND CHANGE IN ACCOUNTING POLICIE
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Accounting Treatment and Disclosure in case of Inappropriateness of Fundamental Accounting Assumption of Going Concern:
In case of breach of a material provision of a long-term loan arrangement:
Ind AS 34 and AS 25
Contents of Interim Report:
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Payment Deferred beyond Normal Credit Terms:
Intangible Assets Acquired in Exchange:
Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant:
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Ind AS 36 and AS 28: IMPAIRMENT OF ASSETS
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Biological Assets:
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Reversal of Goodwill:
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Current/Non-current Classification of Lease Liabilities:
Sale and Leaseback Transaction:
Recognition of Lease Payments:
Ind AS 105 and AS 24: DISCONTINUING OPERATION
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Measurement:
Ind AS 24 and AS 18: RELATED PARTY TRANSACTION
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Key Management Personnel:
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Ind AS 7, AS 3 :CASH FLOW STATEMENT
Bank Overdraft Repayable on Demand:
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Cash Flows associated with Extraordinary Activities:
Ind AS 20, AS 12 :GOVERNMENT GRANT
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Government Grants in the Nature of Promoters Contribution:
Valuation of Non-monetary Grants given Free or at a Concessional Rate:
Accounting for Grant Related to Assets including Non-monetary Grant:
Ind AS 21, AS 11 :THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE
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Exchange Differences arising on Translation of Certain Long-term Monetary Items From Foreign Currency to Functional Currency:
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Equity method:
Add Difference between AS 9 and IndAS 18

Chapter No. 0

INTRODUCTION AND SCHEDULE III

Financial accounting- An introduction

Financial accounting means accounting of financial transaction. Accounting is an art of recording, classifying, summarising, analysing and interpreting the transaction.A **transaction** is a financial event that takes places in the course or furtherance of business and effects the financial position of the company. In business every moment numerous number of transaction get executed, it is necessary to record all the transaction for determination of result of business & to have a record of sale, purchase, receivable, payable, etc.

Recording of transaction.

For uniformity of accounting record and financial statement, we follow generally used accounting principles. Double entry accounting system is generally accepted accounting procedure.

In double entry accounting system every transaction has two aspect first debits and other credit. Following rule of debit and credit is followed while recording journal entries:

Golden Rules of journal entry:-

	Debit (Dr.)	**Credit (Cr.)**
Personal Accounts	*Debit the receiver.*	*Credit the giver*
Real Accounts	*Debit what comes in.*	*Credit what goes out.*
Nominal Accounts	*Debit all expenses & Losses.*	*Credit all Incomes & Gains.*

XYZ PRIVATE LIMITED
BALANCE SHEET AS AT 31st March, 2017

PARTICULARS		Note. No.	FIGURES AS AT 31.03.2017 (Rs.)	FIGURES AS AT 31.03.2016 (Rs.)
I. EQUITY AND LIABILITIES				
(1)	**Shareholders' Funds**			
(a)	Share Capital		-	-
(b)	Reserves & Surplus			
(c)	Money received against share allotment		-	-
			-	-
(2)	**Non-Current Liabilities**			
(a)	Long-term borrowings			
(b)	Deferred tax liabilities (Net)			
(c)	Other Long Term Liabilities		-	-
(d)	Long Term Provisions		-	-
(3)	**Current Liabilities**			
(a)	Short-term borrowings			
(b)	Trade Payables		-	-
(c)	Other Current Liabilities		-	-
(d)	Short Term Provisions		-	-
	TOTAL (1 TO 3)		-	-
II. ASSETS				
(1)	**Non Current Assets**			
(a)	**Fixed Assets**			
	(i) Tangible assets		-	-
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under developmet			
(b)	Non Current Investments - Long Term		-	-
(c)	Deferred Tax Asset		-	
(d)	Long Term Loans and Advances		-	-
(e)	Other Non Current Assets		-	-
(2)	**Current Assets**			
(a)	Current Investments		-	-
(b)	Inventories		-	-
(c)	Trade receivable			
(d)	Cash and Cash Equivalents			
(e)	Short Term Loans and Advances			
(f)	Other Current Assets		-	-
			-	-
	TOTAL (1 TO 2)		-	-

COMPANY NAME

STATEMENT OF PROFIT AND LOSS FOR THE PERIOD ENDED 31.03.2017

Particulars	Note No	As at 31 March, 2017	As at 31 March, 2016
		Rs.	Rs.
(A) REVENUE			
I. Revenue from operations			
II. Other Income			
Total Revenue		**0**	**0**
(B) Expenses:			
Cost of materials consumed			
Purchase of Stock-in-Trade			
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
Employee benefit expense			
Financial costs			
Depreciation and amortization expense			
Other expenses			
Total Expenses		**0**	**0**
(C) Profit before exceptional and extraordinary items and tax		0	0
(D) Exceptional Items			-
(E) Profit before extraordinary items and tax		0	0
(F) Extraordinary Items			-
(G) Profit before tax		**0**	**0**
(F) Tax expense:			
(I) Current tax			
(II) Deferred tax			
(H) PROFIT AFTER TAX			
(I) Earning per equity share:			
(I) Basic			
(II) Diluted			

Per our annexed report of even date

For	**For and on behalf of Board of Directo**	
CHARTERED ACCOUNTANTS		
NAME	MANAGING DIRECTOR	DIRECTOR
PROPRITER	DIN:	DIN:

As Per IndAS

PART I –BALANCE SHEET			
Name of the Company........................			
Balance Sheet as at			
			(Rupees in............)
Particulars	**Note No.**	**Figures as at the end of current reporting period**	**Figures as at the end of the previous reporting period**
1	**2**	**3**	**4**
(1) ASSETS			
Non-current assets			
(a) Property, Plant and Equipment			
(b) Capital work-in-progress			
(c) Investment Property			
(d) Goodwill			
(e) Other Intangible assets			
(f) Intangible assets under evelopment			
(g) Biological Assets other than bearer plants			
(h) Financial Assets			
(i) Investments			
(ii) Trade receivables			
(iii) Loans			
(iv) Others (to be specified)			
(i) Deferred tax assets (net)			
(j) Other non-current assets			
(2) Current assets			
(a) Inventories			
(b) Financial Assets			
(i) Investments			
(ii) Trade receivables			
(iii) Cash and cash equivalents			
(iv) Bank balances other than (iii) above			
(v) Loans			
(vi) Others (to be specified)			
(c) Current Tax Assets (Net)			
(d) Other current assets			
Total Assets			
EQUITY AND LIABILITIES			
Equity			
(a) Equity Share capital			
(b) Other Equity			
LIABILITIES			
Non-current liabilities			
(a) Financial Liabilities			
(i) Borrowings			
(ii) Trade payables			
(iii) Other financial liabilities (other than those specified in item (b), to be specified)			
(b) Provisions			
(c) Deferred tax liabilities (Net)			
(d) Other non-current liabilities			
Current liabilities			
(a) Financial Liabilities			
(i) Borrowings			
(ii) Trade payables			
(iii) Other financial liabilities (other than those			
(b) Other current liabilities			
(c) Provisions			
(d) Current Tax Liabilities (Net)			
Total Equity and Liabilities			

PART II – STATEMENT OF PROFIT AND LOSS				
Name of the Company…………………….				
Statement of Profit and Loss for the period ended ………………………				
				(Rupees in…………)
	Particulars	**Note No.**	**Figures for the current reporting period**	**Figures for the previous reporting period**
I	Revenue From Operations			
II	Other Income			
III	Total Income (I+II)			
IV	**EXPENSES** Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in -Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I- IV)			
VI	Exceptional Items			
VII	Profit/(loss) before tax (V-VI)			
VIII	Tax expense: (1) Current tax (2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII-VIII)			
X	Profit/(loss) from discontinued operations			
XI	Tax expense of discontinued operations			
XII	Profit/(loss) from Discontinued operations (after tax) (X-XI)			
XIII	Profit/(loss) for the period (IX+XII)			
XIV	Other Comprehensive Income A (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV)(Comprising Profit (Loss) and Other Comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted			
XVIII	Earnings per equity share(for discontinued & continuing operations) (1) Basic (2) Diluted			

STATEMENT OF CHANGES IN EQUITY

Name of the Company……………………

Statement of Changes in Equity for the period ended ……………………

(Rupees in……………

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application money pending allotment	Equity component of compound financial instruments	Reserves and Surplus				Debt instruments through Other Comprehensive Income	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements	Other items of Other Comprehensive Income (specify nature)	Money received against share warrants	Tota
			Capital Reserve	Securities Premium Reserve	Other Reserves (specify nature)	Retained Earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total Comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

CH-1 VALUATION

Following topic is covered in this Chapter.
- ✓ Valuation of goodwill
- ✓ Valuation of Shares
- ✓ Leverage effect of goodwill
- ✓ Valuation of Business
- ✓ Brand valuation

✓ Valuation of goodwill

Meaning
Goodwill means sum of future maintainable operating profit up to defined period arising due to past effort.
Following are the method of valuation of goodwill.

1. **Average Profit Method**.

   Future Maintainable Profit x No. of Year of Purchase.

2. **Super Profit Method**

   (Future Maintainable Profit – Normal Profit) x No. of year of purchase

   Normal Profit = Average Capital Employed x Normal Rate of Return

3. **Capitalisation Method**

$$\frac{Future\ Maintainable\ Profit}{Normal\ Rate\ of\ Return} - Closing\ Capital\ Employed$$

4. **Capitalisation of Super Profit Method**

$$\frac{Future\ Maintainable\ Profit}{Normal\ Rate\ of\ Return} - Average\ Capital\ employed$$

5. **Annuity Method**

   Super Profit x Annuity Factor.

   Annuity factor means sum of discounting factor.

For calculation of goodwill following steps is followed:

a. Future Maintainable Profit.
b. Closing Capital Employed / Average capital employed.

c. Value of Goodwill is calculated using any of the above method.

A. **Future Maintainable Profit**

Future maintainable profit is calculated using **Projected Profit Method** or **Past Profit Method**.

i. Projected Profit Method.

Under Projected Profit Method profit are not projected rather, income or expenses are estimated, Projected profit would be as follows:

Projected Sale	XXXX
Less : Projected Expenses	XXXX
Projected Profit	**XXXX**

ii. **Past Profit Method**: Here we find out regular business profit from business operation by deducting income not related to business and adding expenses not related to business operation.

Particular	**Year**		
	1st	2nd	3rd
Profit after tax	xxx	xxx	xxx
Add: Tax Expenses @ Old I.Tax Rate	xxx	xxx	xxx
Profit Before Tax	**xxx**	**xxx**	**xxx**
Add: Goodwill Amortisation	xxx	xxx	xxx
Less: Non-Operating Income	xxx	xxx	xxx
Add/Less: Rectification of Error	xxx	xxx	xxx
Add/Less: Abnormal Item	xxx	xxx	xxx
Add/Less: Effect of Change in Policy	xxx	xxx	xxx
Add/Less: Effect of change or Revaluation of Current Assets / Current Liabilities	xxx	xxx	xxx
Less: Profit on Sale of Fixed Assets & Investment	xxx	xxx	xxx
Add: Loss on Sale of Fixed Assets & Investment	xxx	Xxx	xxx
Adjusted Profit	**xxx**	**Xxx**	**xxx**

Average Adjusted Profit	**xxxx**
Add/Less: Future Income and Expenses	**xxxx**
Future Maintainable Profit Before Tax	**Xxxx**
Less: Tax Expected @ New I.Tax Rate	**Xxxx**
Future Maintainable Profit	**xxxx**

1. Profit resulting from revaluation of fixed assets and investment will be ignored in FMP.

2. Effect of Change in current assets and current liabilities should be considered in FMP.
3. Abnormal item should be adjusted to make profit uniform, if in any year abnormal item data of which is missing, ignored such year in calculation.
4. Whenever there is change or revaluation of stock, change in value of closing stock correspondingly affect the value of opening stock of next year, so whatever effect has been give in current year as result of change of closing stock corresponding reverse effect in next year profit.
5. However when both information balance sheet and profit information given of more than 2 year then Average super profit is calculated, by deducting normal profit of every year from future maintainable profit of respective year, and then goodwill is derived by multiplying average super profit from number of year of purchase. Means in such a case Average Adjusted Profit and average capital employed is not calculated rather Average super profit is calculated. But average capital employed is derived for every year by averaging last year capital employed and current year capital, for every year.
6. If question direct that future maintainable profit expected be 10% higher, then final future maintainable profit arrived (Before tax) increased with 10%. If question direct to make provision 10% on profit after tax (PAT) then deduct such provision from final future maintainable profit (before tax) arrived. Then on tax levied with new rate on total net future maintainable profit.

B. Capital Employed.

Here Capital employed means shareholder funds otherwise capital employed means long term fund.

Sundries Assets	**xxxx**
Less: Sundries Liabilities	**xxxx**
Closing Capital employed	**Xxxx**

Average Capital employed = (Opening capital + Closing capital) /2

Or

Average Capital employed= Closing capital employed – (1/2x Rectified Pat)

Note:

1. Sundries Assets doesn't include Deferred revenue expenditure, Goodwill(other than purchased goodwill), and Non-Operating investment.
2. Sundries Liabilities doesn't include Proposed dividend, Preference Share capital & Liabilities in respect of non- trade investment. It includes provision for taxation.

3. However if NRR is given to calculate goodwill is not of company rather it is only of equity shareholder then Net assets should be calculated for equity shareholder that is after deducting preference share and preference dividend from net assets and future maintainable profit respectively.
4. Goodwill cannot be negative, if answer is in negative then value of goodwill is NIL.
5. In weighted average more weighted should be given to Latest period.
6. Trade investment means investment constituting principle revenue generating investment, that is required in operation of business. Non- trade investment means other than trade investment, interest on non-trade investment is not from business operation, so its affect is eliminated at arriving at FMP. If question is silence assume it is non-operating investment.
7. While deriving profit from balance sheet, it is sum of change in SPL and reserve and surplus and also total dividend declared and shown in balance sheet as provision.
8. In case exchange difference for borrowing consider both difference due to reporting and due to settlement, effect of exchange difference on balance in balance sheet and on interest payment in future maintainable profit.

9. Average or Closing Capital Employed?

Average capital employed is calculated only in case of **super profit method** &**Capitalisation of Super** Profit Method, Only if Average Maintainable Profit have been calculated using **Average Profit method.**In all other case use Closing Capital employed.

✓ Valuation of Shares

3. Income Basis / yield basis
   c. ECM (Earning Capitalisation Method):
   $$\frac{Earning\ Rate}{Normal\ Rate\ of\ Return} \times Paid\ up\ Value\ Per\ Share$$
   d. DCM (Dividend Capitalisation Method):
   $$\frac{Dividend\ Rate}{Normal\ Rate} \times Paid\ up\ value\ Per\ Share$$

Note:

i. $Earning\ Rate = \frac{Earning\ Available\ to\ equity\ shareholde}{Equity\ Share\ Capital}$

ii. $Dividend\ Rate = \frac{Dividend\ Per\ Sha}{Paid\ up\ Value\ Per\ Share}$

iii. Normal rate would be given in question or average dividend rate.

If in question rate of return on equity share for this type of industry is 15%, risk premium for dividends is generally assumed at 2% then NRR = 17%

4. Net assets method
   Intrinsic value Per share

Net Assets for equity Share holder / No. of share

Net Assets for equity Share holder

Sundries Assets (*)	**xxxx**
Less: Sundries Liabilities(Including Proposed dividend & PSC)	**xxxx**
Net Assets for equity Shareholder.	**Xxxx**
Add: Notional Call if share are partly paid up Calls in arrear and uncalled capital	**Xxxx**
Total Net assets for equity shareholder (A)	**Xxxx**
No. of share (B)	**Xxxx**
Intrinsic value of share ex dividend (A)/(B)	**Xxxx**
Add: dividend per share	**Xxxx**
Less: Called up amount	**Xxxx**
Intrinsic value cum dividend	**xxxxx**

(*) Including Goodwill & Non-trade Investment It will be considered after revaluation, rectification and effect of changes.

Sundries assets include prepaid expenses, but doesn't include fictitious assets.

Unrealised profit eliminated while calculatingintrinsic value.

✓ Leverage effect of goodwill

Calculated Goodwill considering Debt as Debt	**xxxx**
Less: Calculated Goodwill considering Debt as equity	**xxxx**
Leverage effect of goodwill.	**Xxxx**

✓ Valuation of Business

<u>Maximum amount that Acquiring can pay to target company.</u>

Present value of synergy as resulting from merger (PV of Value $_{AB}$-PV of Value $_{A}$) Add: Any additional resulting synergy as a result of merger	**A**	**<u>xxxx</u>**
<u>Add:</u> Net Realisation from sale of fixed assets other than of regular use Scrap value of unused assets Realisable value of inventories <u>Less:</u> Liabilities to be paid	**(B)**	**XXX** **XXX** **XXX** **xxx** **<u>XXX</u>** **XXX**
Value of business	**(A+B)**	**Xxxx**

<u>Difference in valuation had been there no merger:</u>

Maximum amount that Acquiring can pay to target company	**XXX**
Less : Stand alone value of target company	**XXX**
Difference in valuation had been there no merger	**XXXX**

To derive capitalisation rate ICAI uses 1/PE ratio.

✓ Brand valuation

Super Profit Method

Value of Brand = (Total Profit with brand) – (Total Profit without brand) x Annuity Factor

Potential Earning Method

Value of Brand = Profit earned due to brand / Capitalisation Rate

Actual Pat Earned	
Less: Expected Profit Without Brand	
Profit earned due to Brand	

Chapter-2 CORPORATE RESTRUCTURING

Following topic is covered

1. **Amalgamation**
2. **Reconstruction**
3. **Buy back of Share**
4. **Sale of division**

- AMALGAMATION

ACCOUNTING STANDARDS-14

ACCOUNTING FOR AMALGAMATION

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

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

PURCHASE CONSIDERATION

It is the amount payable by amalgamated company to equity and preference shareholder of amalgamating company in any form equity share, preference share, cash, debenture, etc. to external shareholder of the transferor company.

Calculation of purchase consideration

Net Assets Method:

Sundries Assets	**xxxx**
Less: Sundries Liabilities*	**xxxx**
Net Assets	**Xxxx**

*, including debenture of transferor company owned by acquiring company

Net payment Method: Payment to equity & Preference share in the form of equity, preference, cash, debenture, etc, to external shareholder of the transferor company.

Intrinsic value method: Intrinsic value of both the company is used as swap ratio. Intrinsic value of both the company is calculated based on current value of given assets& liabilities and value of goodwill given.

Sundries Assets	**xxxx**
Less: Sundries Liabilities	**xxxx**
Closing Capital employed	**Xxxx**

Other point-

- PC to be valued at agreed value, market value or face value.

AMALGAMATION IN THE NATURE OF MERGER

All assets and liabilities including reserve of amalgamating company incorporated at book value. The difference between the purchase consideration (including additional consideration in the form of cash or other assets) and the amount of Share capital of Transferor Company should be adjusted in RESERVE.

Revised value of assets & liabilities, value of goodwill considered only for calculation of intrinsic value/ purchase consideration. Revised value of assets and liabilities not incorporated in balance sheet unless specifically direct to incorporate.

AMALGAMATION IN THE NAUTRE OF PURCHASE

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

Value of goodwill determinedfor taken over of amalgamating company considered for intrinsic value purpose will not be included in **net assets taken over**.

Statutory Reserve incorporated with corresponding amalgamation adjustment accounts.

UPDATION OF FINANCIAL STATEMENT

There may be a circumstance where given financial statement of different date from date of amalgamation in such case financial statement updated up to date of amalgamation. If business is carried on during such period then it mainly effects to SPL & CASH.

CASH		Statement of profit and loss	
Opening figure Add: Cash profit (profit + depreciation) Increase in liabilities Decrease in assets Less: Increase in assets Decrease in liabilities Dividend including DDT		Opening figure Add: Net profit Less: Dividend including DDT	
Closing cash balance		Closing SPL	

Note – Fixed assets will be reduced by the amount of depreciation, if there is any other changes such also should be considered.

INTER COMPANY HOLDING

TWO GOLDEN RULL

1. New company will never take over investment hold by old company in his share because it is prohibited to have investment in own share. Exclude it while calculating purchase consideration as well as dischargeable purchase consideration.

   PC=[(Swap ratio * Total number of share of transferor company)- share of transferee com. held by transferor com]* issue price

2. If new company has held investment in transferor company then New Company will never pays PC to itself. Exclude it only while calculating dischargeable purchase consideration.

   PC= [(Swap ratio*{Total number of share of transferor company- number of share owned by transferee company})- share of transferee com. held by transferor com]* issue price.

3. Calculation of goodwill or capital reserve when existing co. Take over a old co.

Dischargeable purchase consideration Add: Book value of investment lost	Xxxxxxx Xxxxxxx
This balance is to be considered for calculating goodwill or capital reserve. Compare this balance with net assets taken over in case amalgamation in the nature of purchase & with share capital of	Xxxxxxx

amalgamating company if amalgamation in the nature of merger.	

4. On absorption cancel intercompany holding by contra and difference transfer to capital reserve. Intercompany holding may be in equity share, Debenture, preference share.
5. While calculating intrinsic value in case of intercompany holding equation is used. If share are partly paid then add notional call in net assets taken over to derive intrinsic value. And after intrinsic value derived deduct such notional call from intrinsic value arrived, to get actual intrinsic value.

Other notes

1. If there is any revaluation of amalgamated co. Assets then same should be done with corresponding revaluation reserve.
2. Whether question asked is of amalgamation in the nature of merger or purchase.

In the nature of merger	In the nature of purchase
Draft the balance sheet of A Ltd. After absorption of B Ltd.	

3. When question direct discharge of 10% of debenture by issued such number of its 15% debenture so as to maintain same amount of interest.
   Calculate debenture to be issued by dividing current interest (old rate)by newinterest rate.
   If question direct increase their income by 20% then, original interest increased by 20% and divide total by new rate.
4. If in question, number of shares to be issued to equity shareholders of amalgamating company will be based on the 80% of market price, then, for calculation of number of share to be issued and at a price to be issued market price of amalgamated company will be 80%.
5. Pre-incorporation expenses deducted from SPL in the year in which it is incurred as per AS and corresponding deduction from cash balance.
6. If subscriber to memorandum subscribe share and paid in cash then increase in share capital with corresponding increase in cash balance.

INTERNAL RECONSTRUCTION

Journal entries

For Reduction in Liabilities **Liabilities A/c Dr.** **To, Capital Reconstruction A/c**	**For Increase in Liabilities** **Capital reconstruction A/c Dr.** **To, Liabilities A/c**
For Reduction in Assets **Capital Reconstruction A/c Dr.** **To, Assets**	**For, Increase in Assets** **Assets A/c Dr.**

	To, Capital Reconstruction
For Unrecorded Liabilities being settled **Capital reconstruction A/c Dr.** **To, Bank**	**For Unrecorded Assets being realised Bank A/c Dr.** **To, Capital Reconstruction**
Reduction in Face value & paid up value of share **Share Capital Account Dr.** **To, Capital Reconstruction** **To, Share Capital (New Value)**	**Reduction in Paid up Value only** **Share Capital Account Dr.** **To, Capital Reconstruction**
On Subdivision or Consolidation of Share **Equity Share capital A/c Dr.** **To, Equity Share Capital A/c**	**On Payment of Reconstruction Expenses** **Capital Reconstruction A/c Dr.** **Bank A/c**
Now, ultimately utilise Balance of reconstruction to write off following item **Capital Reconstruction A/c Dr.** **To, Preliminary Expenses** **To, Debit balance of Profit & Loss.** **To, Goodwill.** **To, Underwriting Commission** **To, Discount on Issue of Share** **To, etc.** **Balance to Capital reconstruction a/c transferred to Capital reserve A/c** **Existing capital reserve, Security Premium, General reserve, etc can be utilise to Write of losses in case of deficiency in balance.**	
General instruction **1. Any profit/ resulting from sale of investment, issue of debenture, etc on reconstruction will form part of reconstruction account.**	

- **Buy Back of Share**

Buy back can be made to the extent of lower of following

1. 25% of Number of share.
2. 25% of (Shareholder fund/ Buy Back Price).
3. Post buy back debt equity ratio should not exceed 2:1

$$\frac{Debt}{ESF\ befor\ Buy\ Back - (x \times Buy\ Back\ Price\ ) - (x\ \times Face\ Value\ for\ CRR)} = \frac{2}{1}$$

X is maximum number of share that can be buy back.

Journal entries

Equity Share Capital A/c Dr. Loss on Buy Back of share. Dr. To, Equity shareholder (Being Share Capital payable to Equity shareholder)
Equity Share holder A/c Dr. To, Bank A/c (Being amount paid to equity shareholder)
Free reserve A/c Dr. To, Capital Redemption Reserve (CRR created for face value of share)
Capital Reserve A/c Dr, Free Reserve A/c Dr, To, Loss on Buy Back of share (Being amount written off)

- **Demerger**

<u>Demerged company</u>	**<u>Resulting company</u>**
Accumulated Depreciation A/c Dr. Liabilities Account Dr. Profit / loss on Demerger (b.f) To, Assets A/c (Being Assets liabilities of division transferred)	Assets A/c Dr. Goodwill/ Capital Reserve (b.f) To, Liabilities A/c To, Member of demerged company. (Being Assets/ liabilities is being taken)
	Member of demerged company a/c Dr. To, equity share capital A/c To, Security premium reserve a/c (Being PC settled.)
Profit on Demerger A/C To, SPL / Reserve & Surplus Or SPL / Reserve & Surplus To, Loss on Demerger	For resulting Co. There will never any profit or loss any balance of goodwill or capital reserve will be disclosed in balance sheet.

(being profit or loss on demerger transferred to SPL account)	

Calculation of effect of demerger on wealth of shareholder

1. Calculate Net Assets Value / Intrinsic value of wealth per equity share just before demerger.
2. Calculate Net Assets Value / Intrinsic value of wealth per equity share after demerger. (Demerged + Resulting Co.)
3. Difference in wealth is called effect of demerger on wealth of shareholder.

NET ASSETS VALUE- $\frac{Sundries\ Assets - Sundries\ liabilities - Preference\ share\ capital}{No.of\ equity\ share}$

- **Sale of division**

Seller	**Buyer**
Accumulated Depreciation A/c Dr. Liabilities Account Dr. Buyer A/c Dr. Loss or Profit on Sale (b.f) To, Assets A/c (Being division sold)	Assets A/c Dr. Goodwill/ Capital Reserve (b.f) To, Liabilities A/c To Seller A/c (Being division Purchased)
Bank A/c Dr. To, Buyer A/c (Being Amount received)	Seller A/c Dr. To, Bank (Being amount paid)
Profit on sale A/C To, SPL Or SPL To, Loss on sale (being profit or loss on sale transferred to SPL account)	On purchase there will never any profit or loss any balance of goodwill or capital reserve will be disclosed in balance sheet.

- **Acquisition of share**

It means purchase of share to be kept as investment. This investment can be purchased for cash or settlement in own share or debenture. Whenever such share are purchased entry would be:

Investment A/c Dr.

To, cash

To, E share capital

To, Security premium reserve

(Being investment purchased.)

CHAPTER-3: VALUE ADDED STATEMENT

I- GROSS VALUE ADDED/NET VALUE ADDED

The VA statement is a financial statement which shows how much value (wealth) has been created by an enterprise through utilization of its capacity, capital, manpower and other resources and allocated to the following stakeholders:
Employee – for wages, salaries and related expenses;
Director- Director Remuneration.
Provider of long term finance – for interest on loans
Shareholder - for dividends on share capital.
Government – for corporation tax.
Entity – for retained profits.

Gross Value Added Statement	
Revenue from operation	XXXXX
Other Income – Direct	XXXXX
(A) Total revenue	***XXXXX***
Cost of Bought in material and services	
Raw material consumed & Cost of production EXCEPT Labour cost.	XXXXX
Administration Expenses EXCEPT employee and director remuneration	XXXXX
Finance cost EXCEPT interest on long term finance	XXXXX
Selling and distribution cost EXCEPT salary cost	XXXXX
Government tax related to sales only which is collected in sale (Excise duty, Sales tax, Vat, etc assumed to be collected on sale) Except - other local tax, other tax directly paid to government Which is not collected in sale.	XXXXX
Depreciation only if NVA is to be calculated	XXXXX
(B) Cost of bought in material and services	***XXXXX***
Gross value added by manufacturing and trading activity (A) –(B)	**XXXXX**
Add: Dividend and interest Other miscellaneous income	 XXXXX XXXXX
Total value added	**XXXXX**

Distribution sheet

Particular	**Amount**	**Percentage(%)**
Employee	XXXXX	
Director	XXXXX	
Provider of long term finance	XXXXX	
Shareholder	XXXXX	

Government	XXXXX	
Employee	XXXXX	
Total	**XXXXX**	

Reconciliation Statement

Simply speaking, Whatever item before PBT not deducted now Deduct from GVA to arrive at PBT.

GVA	**XXXXX**
Less: Employee- wages, salaries and related expenses	XXXXX
Less: Director- Director Remuneration	XXXXX
Less: Provider of Long term finance- interest on loans	XXXXX
Less: Depreciation	XXXXX
PBT	**XXXXX**

There is one other index model to calculate in such case take benchmark to least as target index percentage.

II- ECONOMIC VALUE ADDED

a. ICAI Method

NOPAT (Post tax EBIT)	**XXXXX**
Less: Cost of operating capital employed (Operating capital x Weighted average cost of capital)	**XXXXX**
EVA	**XXXXX**

b. Other alternative

EVA= (ROOC-WACOC) x OC

ROOC (Return on operating Capital)

= NOPAT/Operating Capital

NOPAT (Net Operating Profit After Tax) : it is post tax EBIT (Earning Before Interest & Tax)

Operating Capital

Equity Share Capital	XXXX
Preference Share Capital	XXXX
Reserve and Surplus	XXXX
Debt	XXXX
Total Capital	**XXXX**
Less: Non Operating Investment	XXXX
Operating Capital	**XXXX**

WACOC (Weighted Average Cost of Capital)

It is sum weighted average of rate of Post tax cost of Debt, Cost of Preference Share & Cost of equity.

III- Market value added – it is sum of the value of share & debenture beyond its book value.

Chapter -4 Share Based Payment.

I. EMPLOYEE STOCK OPTION PLAN

Journal entries

Employee Compensation A/c Dr. **To, Employee Stock Option O/S A/c** **(Being expenses option recognised)**	This entry should be made at end of financial year or on the date of vesting whichever is earlier.
Statement of Profit and Loss A/c Dr. **To, Employee Compensation A/c** **(Being Employee Compensation transferred to SPL)**	This entry should be made only at the end of financial year.
Bank A/c Dr. **Employee Stock Option O/S A/c Dr.** **To, Equity Share Capital A/c.** **To, Security Premium A/c**	Entry for share allotted under employee stock option plan. Utilise proportionate balance of Employee Stock OptionO/S A/c for number of share allotted under employee stock option plan.
Employee Stock Option O/S A/c Dr. **To, General reserve or SPL** **(Being ESOP cancelled Proportionately for expired number of share.**	Employee Stock OptionO/S A/c. which is not availed and lapsed on exercise date is to be cancelled.
Bank A/c Dr. **Employee compensation A/c Dr.** **To, Equity Share Capital A/c.** **To, Security Premium A/c**	If share is grated to employee on ESOP immediately after announcement, there is not vesting period in such expenses for actual number of option exercise should be recognised immediately. No any provision.

Calculation of Expenses

$$\frac{\boldsymbol{No. of\ option\ \times IV\ or\ FV\ \times Expired\ Period}}{\boldsymbol{Vesting\ Period}} - \boldsymbol{Expenses\ recognised\ in\ earlier\ year}$$

While calculating option expenses consider number of employee expected to be left, Expectation of year end should be consider. Some time both is given Actual number of employee left and expected to be left in % Percentage form for every year, in such case consider expectation for every year and all actual number of employee left for Last year.

Some time both is given Actual number of employee left and expected to be left in % form, in such case consider actual number of employee left for current year and expectation for next year & onwards.

To recognise expenses first priorities is Fair Value, if it is not given then take Intrinsic value (Difference between MP& EP).

II. STOCK APPRECIATION RIGHT (SAR)

Stock Appreciation Rights (SAR) entitle the employees to claim cash payment to the extent of excess of market price of underlying shares on exercise date over the exercise price. It is same as ESOP except we prepare PROVISION FOR STOCK OPTION instead of Employee Stock Option O/S A/c and ultimately cash payment is made for excess of market price of underlying shares on exercise date over the exercise price.The difference between cash settled and balance in provision for stock option account is provided from profit and loss a/c. It is not exercised if market price is less than the exercise price.

III. **ESOP with the cash Alternative**

Under this Employee has give option to take cash alternative instead of share at vesting date. In such ESOP will be assumed Excess of obligation over cash liabilities. Initially Option expenses recognised as follows:

Share Obligation	Total Number of share x Fair Value	
Less: Cash Obligation	Cash Obligation Number of share x MP	**Revalue each year**
ESOP	Balance is ESOP(Equity Component)	**Recognise in SLM over year**

CH- 6

MUTUAL FUNDS

Introduction

It is financial institution as trust that pool the money of number of investor to invest in portfolio of securities such as share, debenture or other securities, & to generate higher return from this investment and income earned through this investment and capital appreciation realised is passed back to unit holder.

Accounting

1. It shall **mark to market** all its investment made.
2. Unrealised gain arising out of appreciation on investment cannot be distributed.
3. Income should be recognised on **accrual basis**, So if Purchase investment cum-interest then interest portion cannot be treated as cost of purchase rather must be debited to interest recoverable account. If sale of investment cum interest then interest portion must not be treated as sale value rather it must be credited to interest recoverable account. On sale of investment, cost of acquisition should be derived by multiplying average cost of investment purchased (exclusive of such interest) with number of unit sold.
4. In question if say Distribution certain percentage of **realised earning** then Realised earning means sum of capital gain and dividend actually receipt, dividend accrued should not be consider.
5. If question direct **management expenses** cannot exceed certain % of average fund invested during the year then it cannot exceed. Excess payment will not be allowed.
6. **Dividend equalisation reserve**

   Logically new unit holder not entitle to any share in income of MF Scheme earned by the investment made by unit holder exist before new unit holder bought the unit, but mutual fund while distribution allocate the same amount to all unit holder, So to compensate for such an equalisation payment is recovered on sale of new unit and paid on repurchase of its unit. It is calculated as follows:

   Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

7. Calculation of Net Assets Value

Market value of portfolio	XXXX
Cash balance at year end	XXXX
Other Receivable / Assets	XXXX
Less: Other Payable / Liabilities	XXXX
NET ASSETS VALUE	XXXX
Number of unit	XXXX
Net Assets Value per unit (NAV/Number of unit)	XXXX

Journal entry

Journal entry	Narration
Bank A/c Dr. To, unit capital	Being amount received on sale of unit.
Investment A/c Dr. To, Bank	Being investment purchased.
Bank A/c Dr. To, interest on investment	Being income received on investment made.
Revenue A/c Dr. To, investment account	Being investment revalue at year end, this entry is made for reduction in the value of investment
Investment A/c Dr. To, Unrealised Appreciation Reserve	Being investment revalue at year end, this entry is made for increase in the value of investment
Unrealised Appreciation Reserve Dr. To, Investment A/c	Unrealised Appreciation Reserve would be cancelled at the beginning of next year.
Bank A/c Dr. Revenue A/c (b.f) To, investment A/c	For sale of investment
Bank A/c Dr. To, Unit Capital To, Dividend equalisation reserve To, Unit premium	Being unit sold

PRACTICAL QUESTION

1. Income should be recognised on **accrual basis**, So if Purchase investment cum-interest then interest portion cannot be treated as cost of purchase rather must be debited to interest recoverable account. If sale of investment cum interest then interest portion must not be treated as sale value rather it must be credited to interest recoverable account.On sale of investment, cost of acquisition should be derived by multiplying average cost of investment purchased (exclusive of such interest) with number of unit sold.

Question 1

A fund purchased 10,000 debentures of a company on June 1, 2012 for ₹ 10.7 lakh and further5,000 debentures on November 1, 2012 for ₹ 5.45 lakh. The debentures carry fixed annualcoupon of 12%, payable on every 31 March and 30 September. On February 28, 2013 thefund sold 6,000 of these debentures for ₹ 6.78 lakh. Nominal value per debenture is ₹ 100.Show Investment in Debentures A/c in books of the fund.

Solution

Investment in debenture A/c

Date	Particular	Unit	Total	Intere	Amoun	Date	Particular	Unit	Total	Intere	Amoun
			Rs.in lakh								
01.06.2012	To Bank	10000	10.7	0.2	10.5	30.09.2012	By interest			0.6	
						28.02.2013	By bank	6000	6.78	0.3	6.48
01.11.2012	To bank	5000	5.45	0.05	5.4						
						31.03.2013	BY interest			0.54	
28.02.2013	To Profit						on 9000 unit				
	on disposal				0.12	31.03.2013	By Balance c/	9000			9.54
	6.48-6.36										
,=10.5+5.4/.15x.06=6.36											
31.03.2013	To Revenue										
	interest										
	recoverable (b.f)			1.19							
		15000	16.2	1.44	16.02			15000	6.78	1.44	16.02

2. **Dividend equalisation reserve**

   Logically new unit holder not entitle to any share in income of MF Scheme earned by the investment made by unit holder exist before new unit holder bought the unit, but mutual fund while distribution allocate the same amount to all unit holder, So to compensate for such an equalisation payment is recovered on sale of new unit. It is calculated as follows:

Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

Question 2

On 1.4.2011, a mutual fund scheme had 18 lakh units of face value of₹ 10 each was outstanding. The scheme earned₹ 162 lakhs in 2011-12, out of which ₹ 90 lakhs was earnedin the first half of the year. On 30.9.2011, 2 lakh unit were sold at a "NAV" of ₹70.Pass Journal entries for sale of units and distribution of dividend at the end of 2011-12.

Answer

Allocation of earning to new and old unit holder	
Old unit holder- 18 Lakh	Old and New unit holder-20 lakh
90 lakh	162-90= 72 lakh

Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

$$= \frac{90\ lakh\ Rupees}{18\ lakh} x2$$

= 10 Lakh

Journal entry

Date	**Particular**	**Dr.**	**Cr.**
30.9.2011	Bank A/c Dr. To Unit Capital To Reserve To Dividend Equalization (Being the amount received on sale of 2lakhs unit at a NAV of ₹70 per unit)	150	 20 120 10
30.9.2012	Dividend Equalization Dr. Revenue A/c Dr. To Bank (Being the amount distributed among 20lakhs unit holders @ ₹8.60 per unit)	10 162	 172

3. Calculation of Net Assets Value

Market value of portfolio	XXXX
Cash balance at year end	XXXX
Other Receivable / Assets	XXXX
Less: Other Payable / Liabilities	XXXX
NET ASSETS VALUE	XXXX
Number of unit	XXXX
Net Assets Value per unit (NAV/Number of unit)	XXXX

Question 3

A Mutual Fund raised ₹ 100 lakh on April 1, 2012 by issue of 10 lakh units of ₹ 10 per unit. Thefund invested in several capital market instruments to build a portfolio of ₹90 lakhs. The initial expenses amounted to ₹ 7 lakh. During April, 2012, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.25 lakh was in arrears. The dividend earned was ₹ 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2012 was ₹ 101.90 lakh.

Determine NAV per unit.

Solution

calculation of NAV

Market value of Portfolio		101.9
Add: Cash balance (WN-1)		9.35
Less: Liabilities for expenses		-0.25
Total	A	111
No. of unit	B	10
NAV	A/B	11.1

Working Note-1

Cash Balance

Opening balance	Nil	
Initial issue of unit		100
Initial expenses		-7
Puchase of portfolio		-90
Sales of securities		40
Puchase of other securities		-28.2
Fund Management expenses 4.5-0.25		-4.25
Dividend		1.2
Distribution 75% of realised earning (40-38=2,) (2+1.2)x.75		-2.4
		9.35

Human resources accounting

For human resources accounting discounted wages & salary model given by lev & Schwartz model.

Value = present value of expected salary to employee.

Journal entry.

HR Assets A/C Dr.
To, social equity

NBFC (Non-Banking Financing Company)

1. ***Income recognition***- *Income on performing assets on accrual basis. Income on non-performing assets on cash basis.*

Minimum Net Owned Fund

On registration of NBFC with RBI, all NBFCs have to comply with certain requirements like maintenance of the minimum Net Owned Fund (NOF), creation of reserve fund, compulsory transfer of certain percentage of net profit etc.

NOF requirement for new companies applying for grant of CoR to commence business of an NBFC is stipulated at ₹ 200 lakh.

In terms of Section 45-IC of the RBI Act, NBFCs are required to create a reserve fund and transfer therein a sum not less than twenty per cent of its net profit every year.

2. *Classification of advance& Provision*

Classification	***Period***		***Rate of provision***	
	31.03.2017	31.03.2018	31.03.2017	31.03.2018
Standard	Normal assets		.35%*	.40%
Sub standard	As NPA for 14 month	As NPA for 12 month	10%	
Doubtful	As sub standards for 14 month	As sub standards for 12 month	unsecure 100%, secure for 1year 20%, for 1-3 year 30%, >3year 50%	
Loss	Classified as loss assets.		100%	

*it is for systematically important non-deposit taking company and deposit taking company.

For Non-systematically important non-deposit taking company and deposit taking company, it is .25%.

3. **VALUATION: Quoted** Current investment should be valued at lower of cost or FMV categories wise. Permanent investment should be valued at cost only, however permanent decline should be consider. On valuation reduction in the value of investment should be charged to statement of profit and loss.
4. **Hire purchase & leasing company- Notes**

How to Calculate Provision for Lease Assets
Overdue Instalment xxx

Instalment Not yet Due	xxx
(-)Finance Charges not matured and not credited to P & L (xxx)	
(-) Depreciated Value (Cash Price-Dep at 20% rate SLM)	(xxx)
Provision to be Created xxx	

Additional Provision on Net Book Value

Amount Overdue for the Period	% of Prov	Type of Assets
0-12 Month Nil Standard Assets		
More than 12 Months but up to 24 Months	10%	Sub Standard Assets
More than 24 months but up to 36 Months	40%	Doubtful Assets
More than 36 months but up to 48 Months	70%	Doubtful Assets
More than 48 Months 100% Loss Assets		

5. **Capital Adequacy Ratio-** All NBFC should have CAR (Capital Adequacy Ratio) of 15%

Meaning: Measurement of adequacy of capital resources of bank in relation to risks associatedwith its operation.
Computation:
Capital Adequacy Ratio = Capital Funds / Risk Adjusted Assets & Off Balance Sheet Items

Components of Capital Funds

As per the definition:

Owned Fund = Aggregate of the paid-up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, after deducting therefrom accumulated balance of loss, deferred revenue expenditure and other intangible assets.

Net Owned Fund = Owned Fund – Investments in shares of subsidiaries/ companies in same group/Other NBFC – Book value of debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group (to the extent such sum exceeds 10% of owned fund)

- Capital Funds are classified in two categories:

Tier I and tier II.

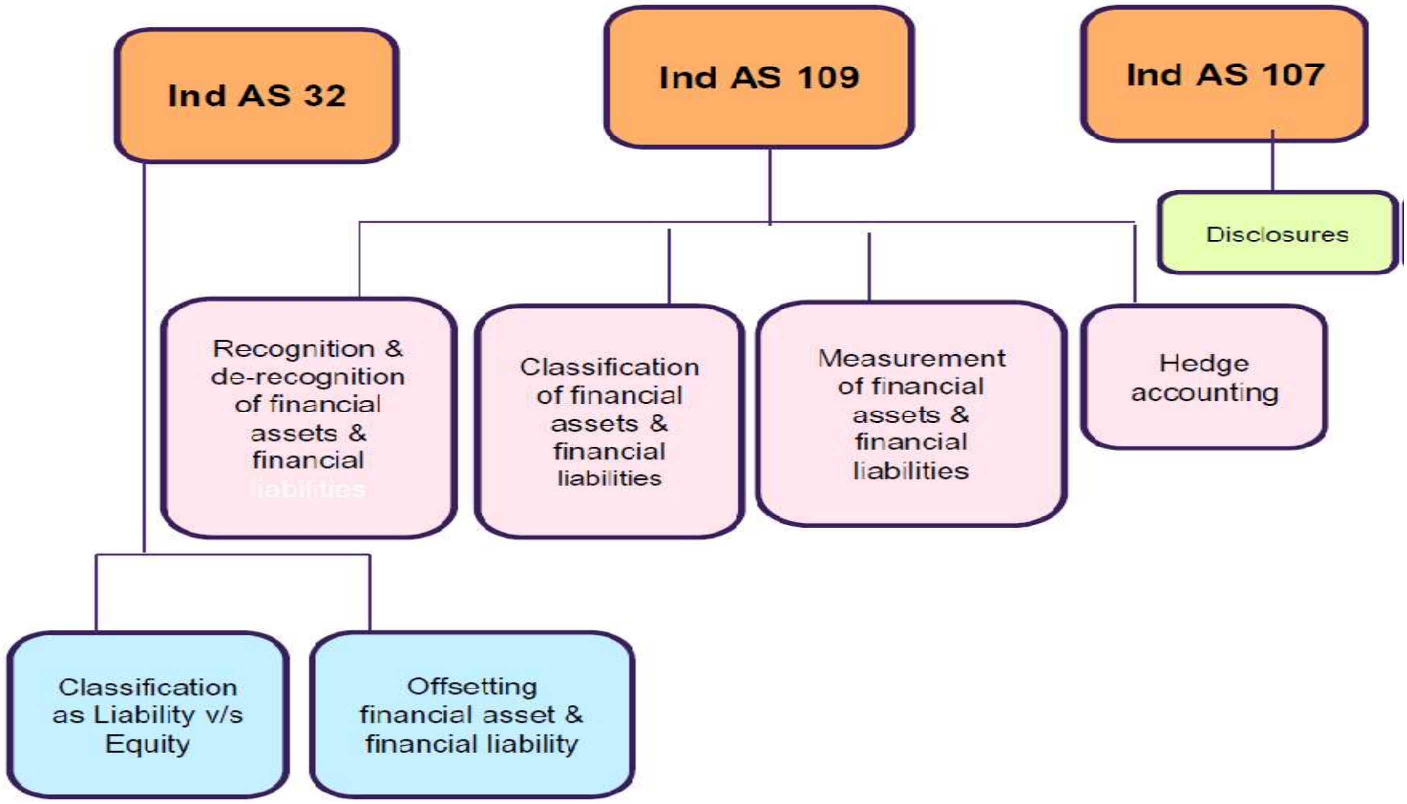
- Tier I Fund includes Paid Up capital, Statutory Reserves, Free Reserves as reduced by Preliminary expenses, losses, deferred revenue expenses, total referred as total fund.

These total fund reduced by investment in other group of NBFC company In excess of 10% of total fund.

Equity share capital	
Add: Paid Up capital, Statutory Reserves, Free Reserves	
Less: Preliminary expenses, losses, deferred revenue expenses	
Total Fund	
Less : Investment in group companies over 10% of total funds	
Tier I capital or **Net Owned Fund**	

- Tier II Fund includes undisclosed reserves, general provision and loss reserves, hybrid debt capital instruments and subordinated assets.
- Tier II Capital cannot exceed 100% of Tier I Capital.

FINANCIAL INSTRUMENTS



A **financial instrument** is any **contract** that gives rise to a **financial asset** of one entity and a **financial liability** or **equity instrument** of another entity.

- Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps).

1.3 WHAT IS A FINANCIAL ASSET?

A **'financial asset'** is any asset that is:

(a) **Cash**;

(b) An equity instrument of another entity;

(c) A **contractual right**:

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or

(d) a contract that will or may be settled in **entity's own equity instruments** and is:

(i) a non-derivative for which the entity is or may be obliged to receive a variable number of entity's own equity instruments; or

(ii) a derivative that will or may be settled other than by exchange of fixed amount of cash or another financial asset for a fixed number of entity's own equity instruments. For this purpose, entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro-rata share of net assets of the entity on liquidation and are classified as equity instruments, or instruments that are themselves contracts for future receipt or delivery of entity's own equity instruments.

1.4 WHAT IS A FINANCIAL LIABILITY?

- A **financial liability** is any liability that is:

(a) A **contractual obligation**:

(i) To deliver cash or other financial asset to another entity; or

(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

or

(b) A contract that will or may be settled in entity's **own equity instruments** and is:

(i) A **non-derivative** for which the entity is or may be obliged to deliver a **variable** number of entity's own equity instruments; or

(ii) a **derivative** that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

1.5 WHAT IS AN EQUITY INSTRUMENT?

- Per Ind AS 32.11 – An **equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- Per Ind AS 32.16 – An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met:

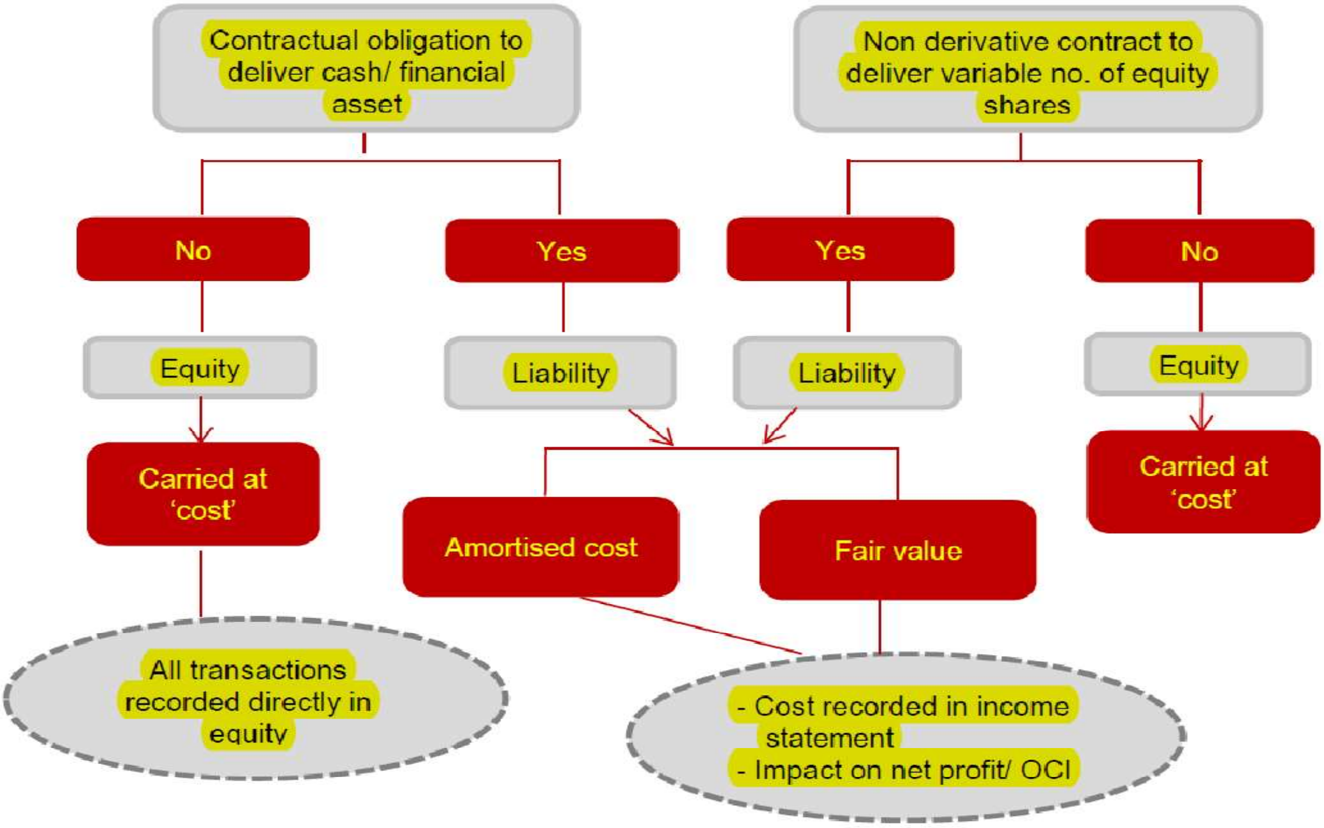
(a) The instrument includes **no contractual obligation**:

(i) to deliver cash or another financial asset to another entity; or

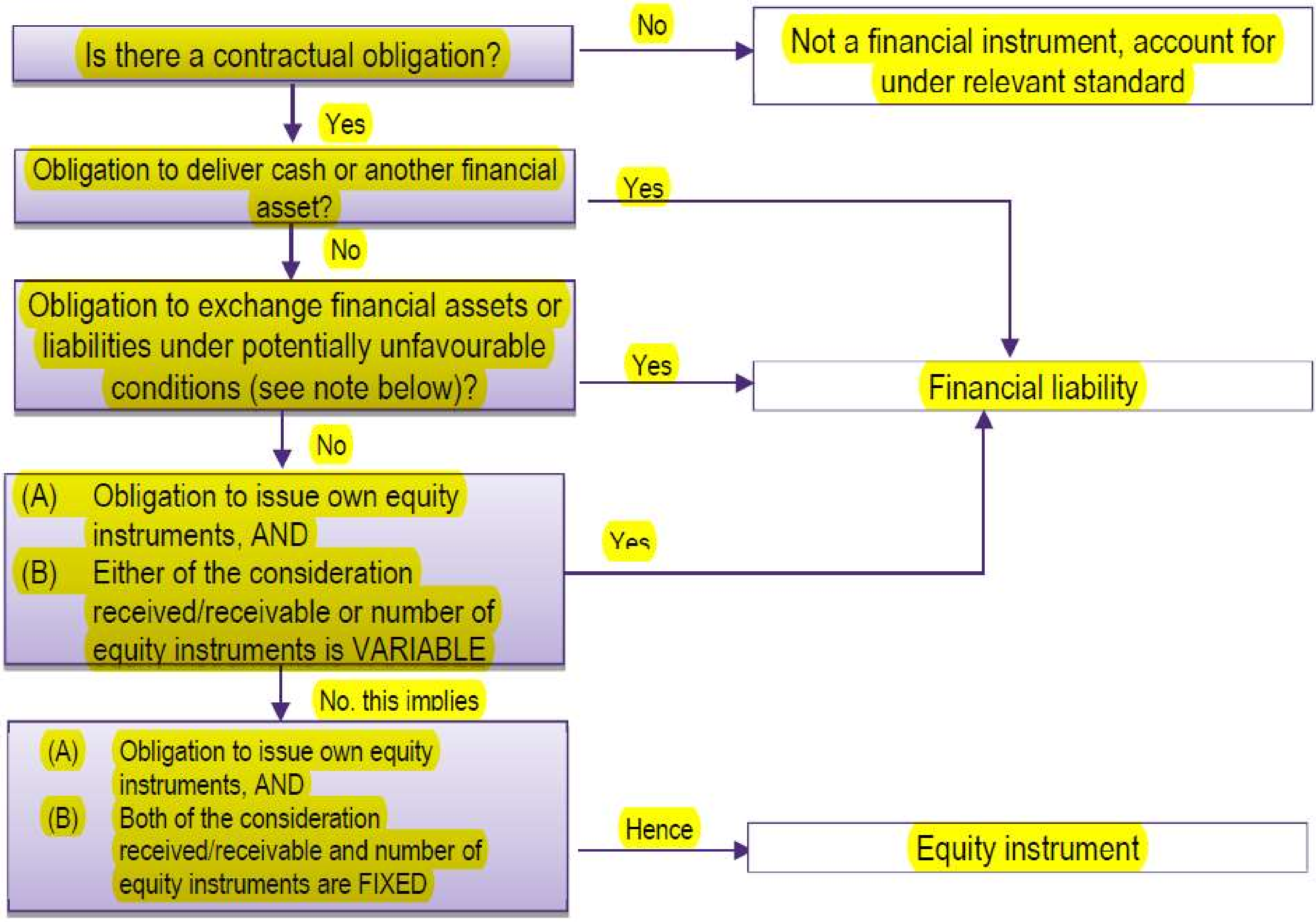
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the **issuer's own equity instruments**, it is:

(i) a **non-derivative** that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or



The flowchart below summarises the distinction between the definitions of a financial liability and equity:



QUICK RECAP

- Classification as a financial liability or as equity depends on the substance of a financial instrument rather than its legal form. The substance depends on the instrument's contractual rights and obligations.
- Liability classification - a financial instrument which contains a contractual obligation whereby the issuing entity is or may be required to deliver cash or another financial asset to the instrument holder
- There are certain rule-based exceptions to the basic principle for classification of an instrument as financial liability – puttable instruments and obligations arising only on liquidation

Financial Assets measured at

Amortised cost

If below conditions are met:

(a) FA is held with BM whose objective is to hold financial assets in order to collect contractual cash flows

(b) Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through Other Comprehensive Income

- FA shall be measured at FVOCI if below conditions are met:
  - (a) FA is held with BM whose objective is achieved both by collecting contractual cash flows and selling FA
  - (b) Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- Any equity instruments for which the entity makes an irrevocable election to carry at fair value through OCI

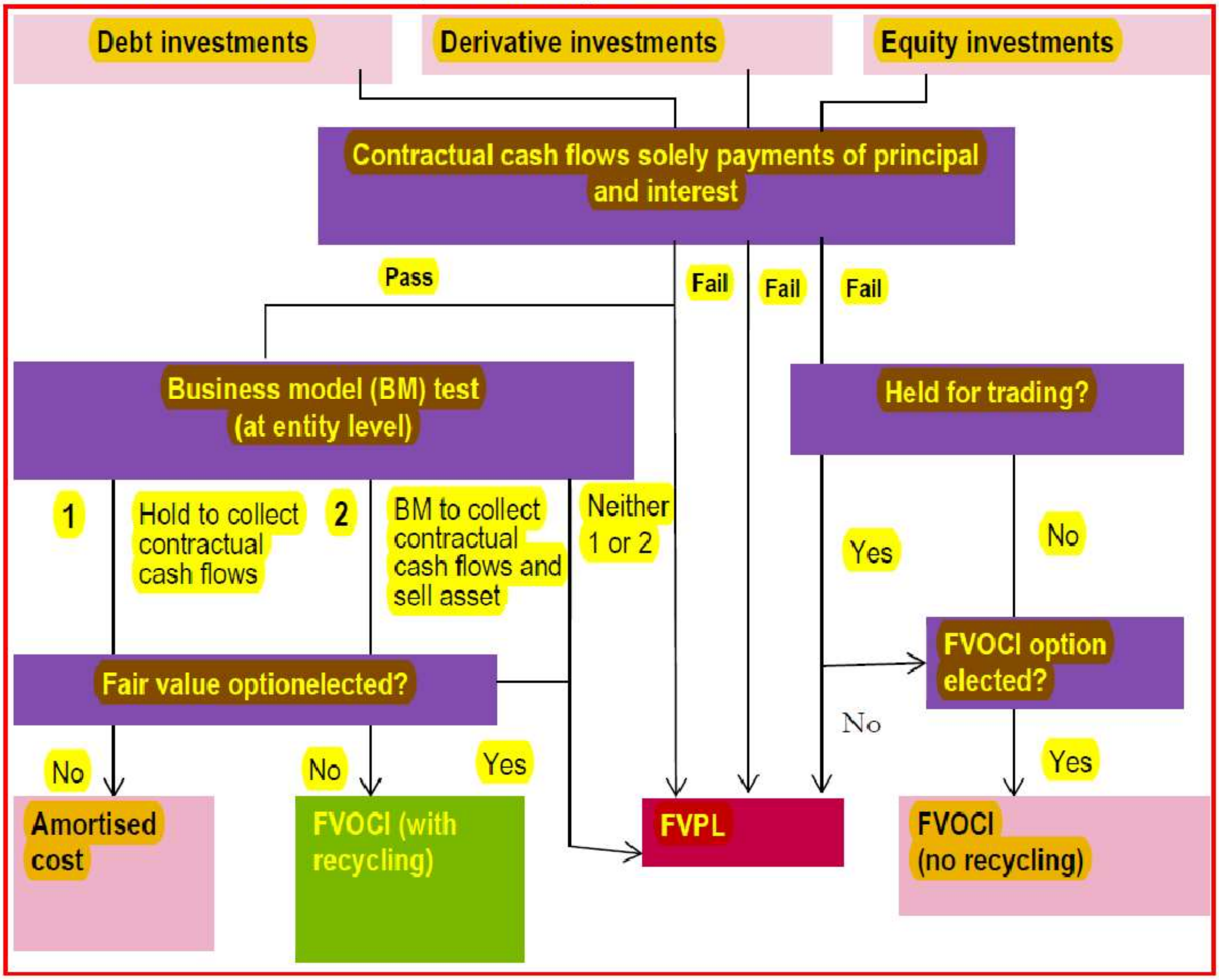
Fair value through profit or loss

FA are accounted at FVTPL if:

(a) Any asset which is not measured at amortised cost and not measured at FVOCI; or

(b) If on initial recognition, any asset may irrevocably be designated as FVTPL if specific criteria met.

- Based on above guidance, the decision tree for classification of financial assets can be understood with the help of following flow chart:



Key essential elements that determine classification of financial assets are:

(A) Business model (BM) test:

- An entity's business model refers to how an entity manages its financial assets in order to generate cash flows.

.

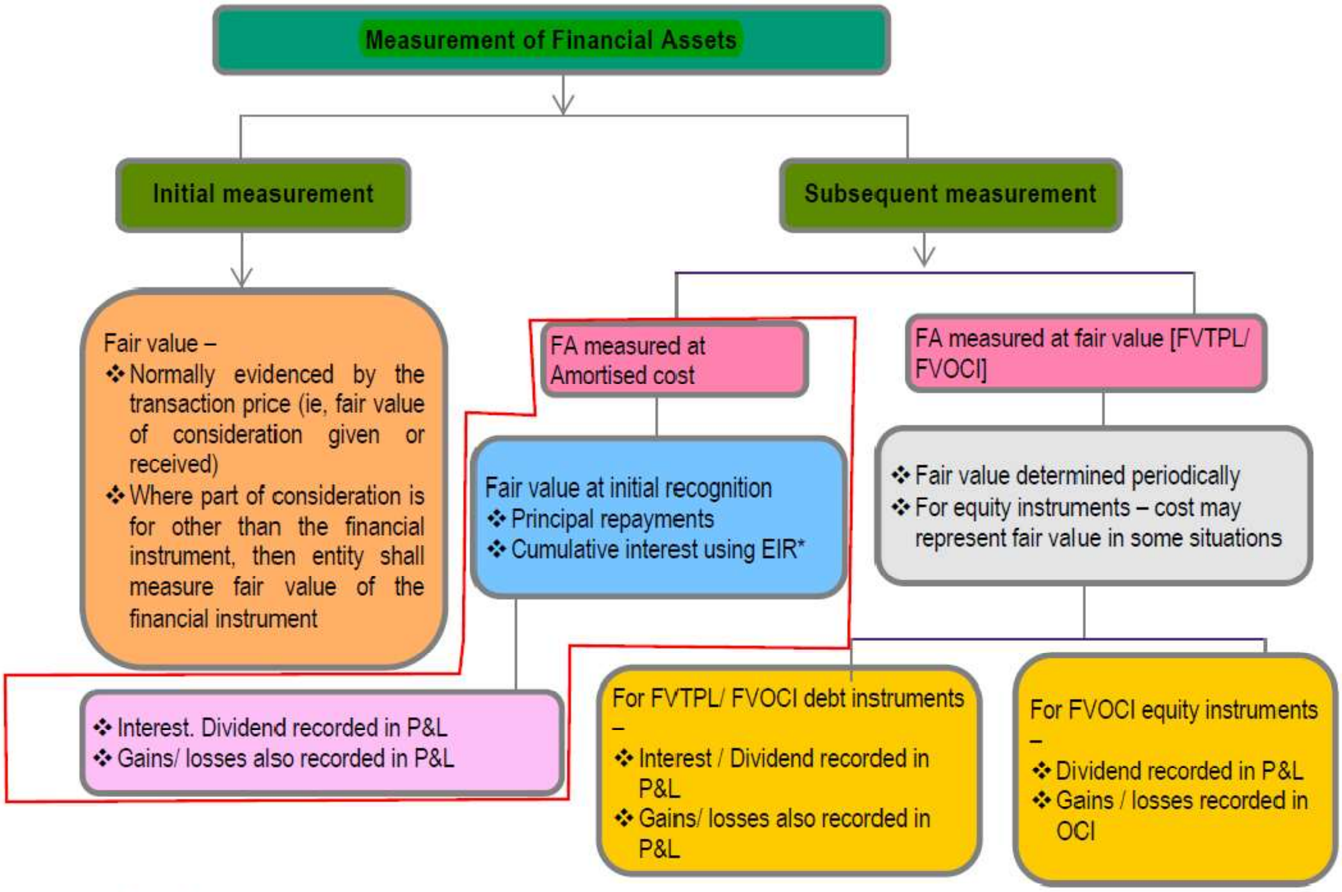
(B) Contractual cash flows characteristics test:

Ind AS 109.4.1.1(b) requires an entity to classify a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held –

i. within a business model whose objective is to hold assets to collect contractual cash flows; or

ii. within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

To do so, an entity is required to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

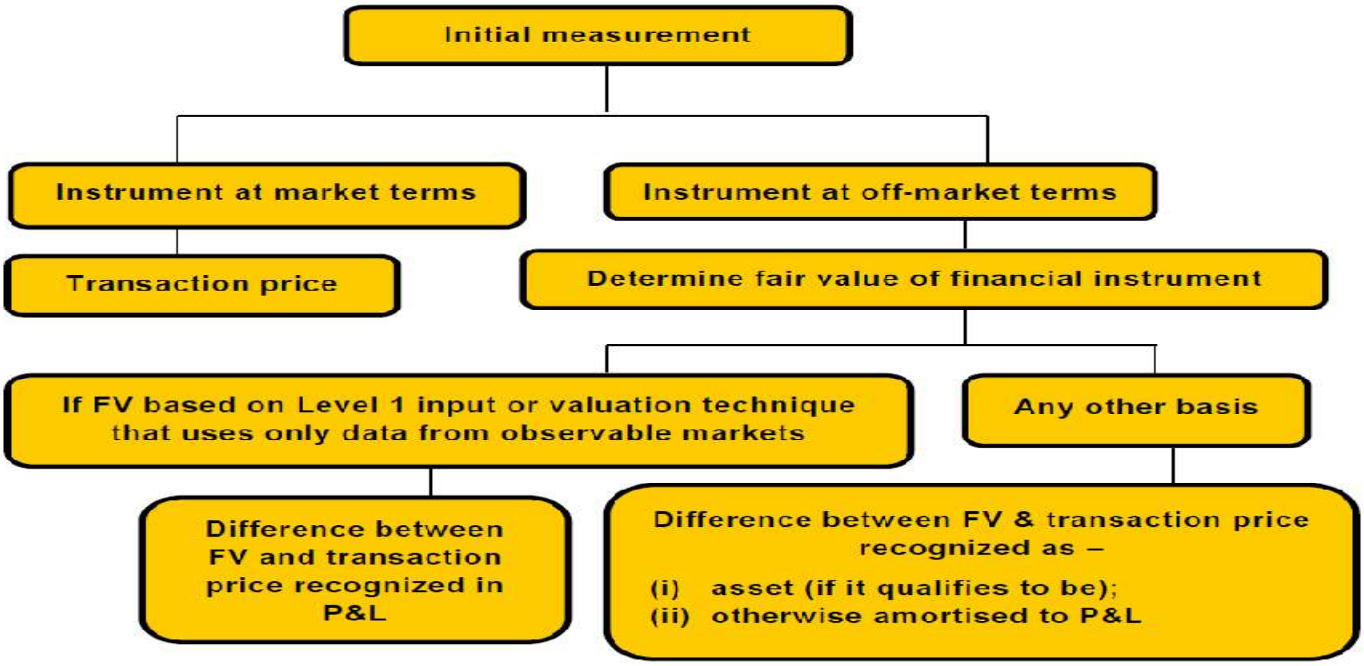


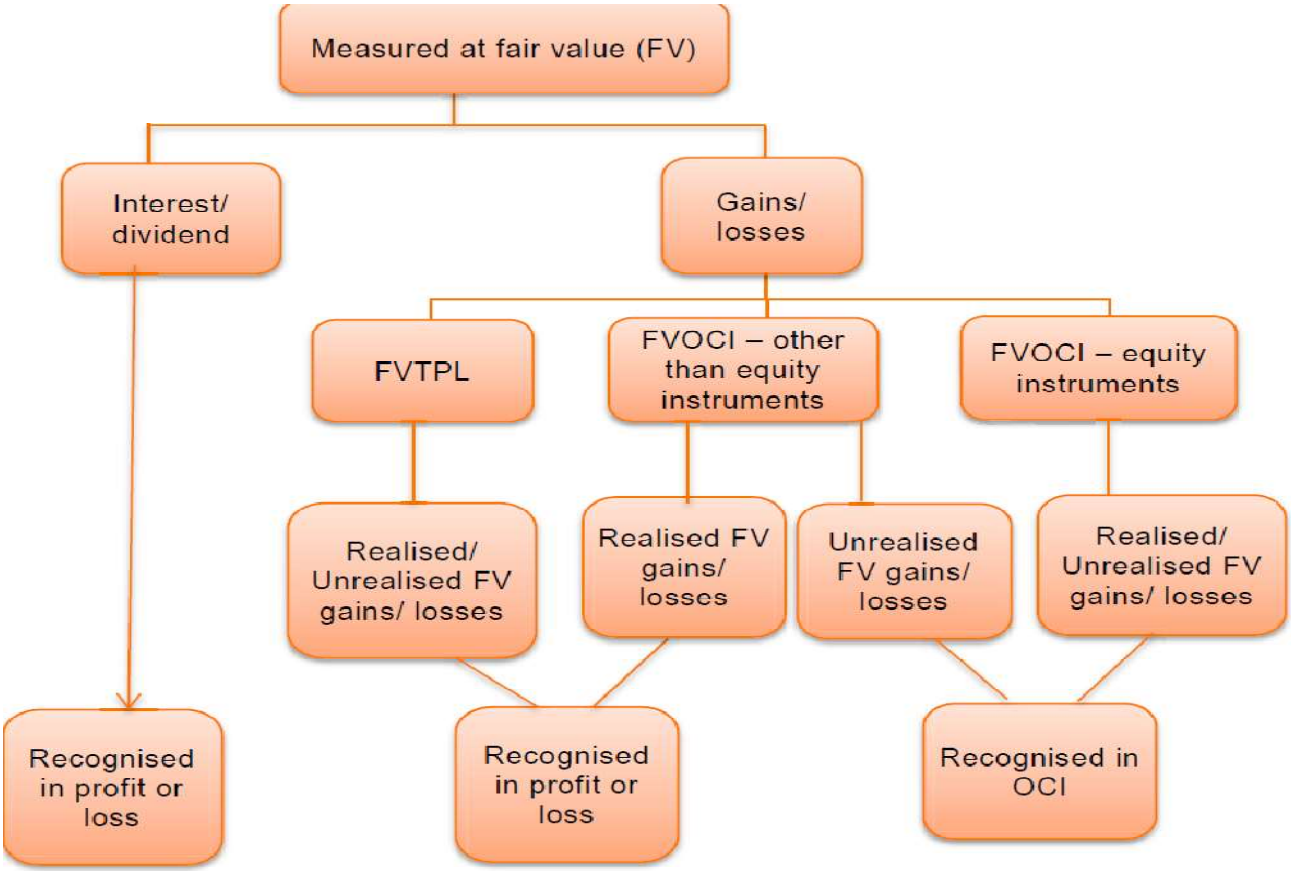
*EIR – Effective interest rate method

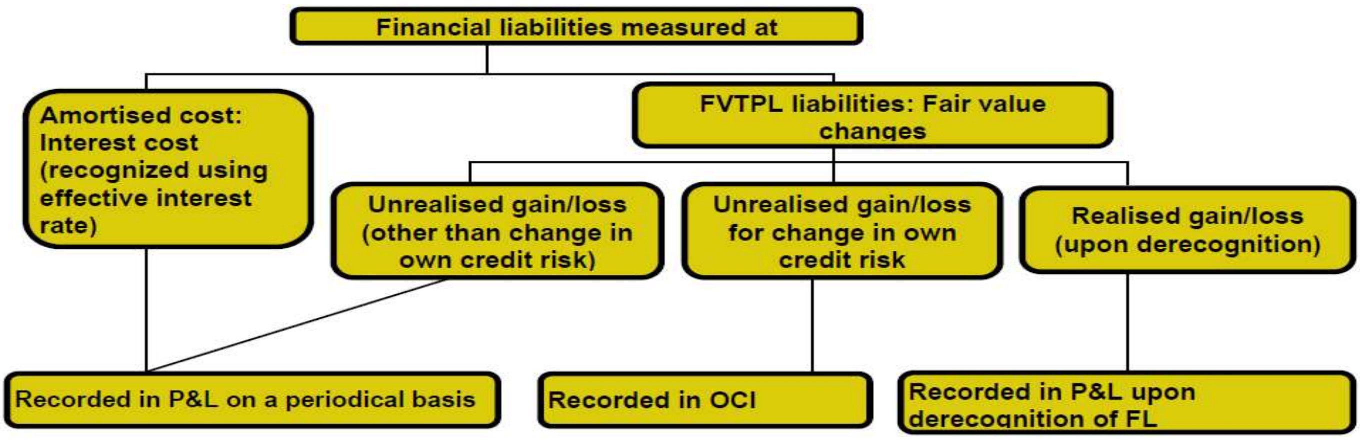
- **Amortised cost**
    - **Amortised cost** is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the **effective interest method** of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

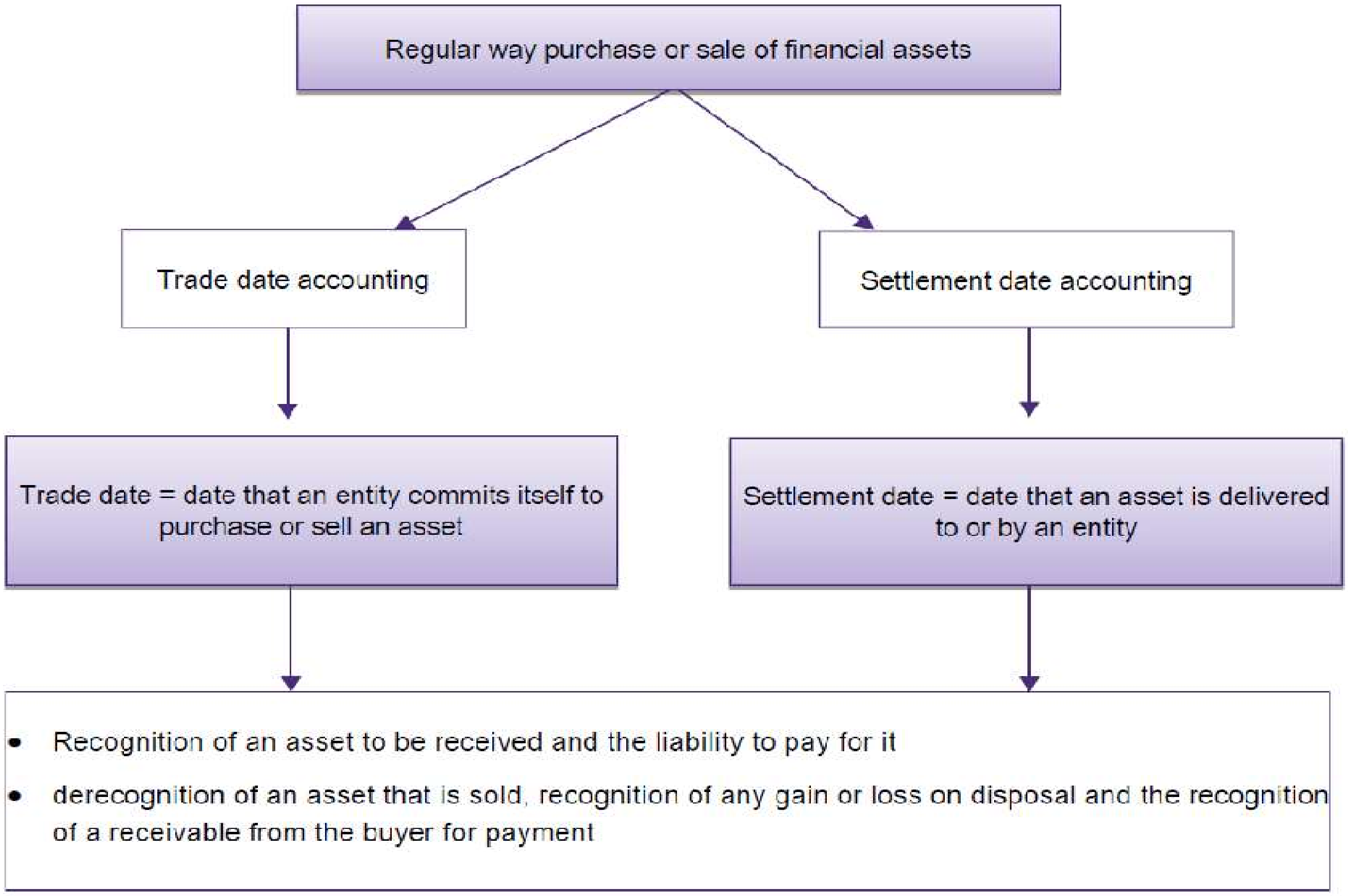
- **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



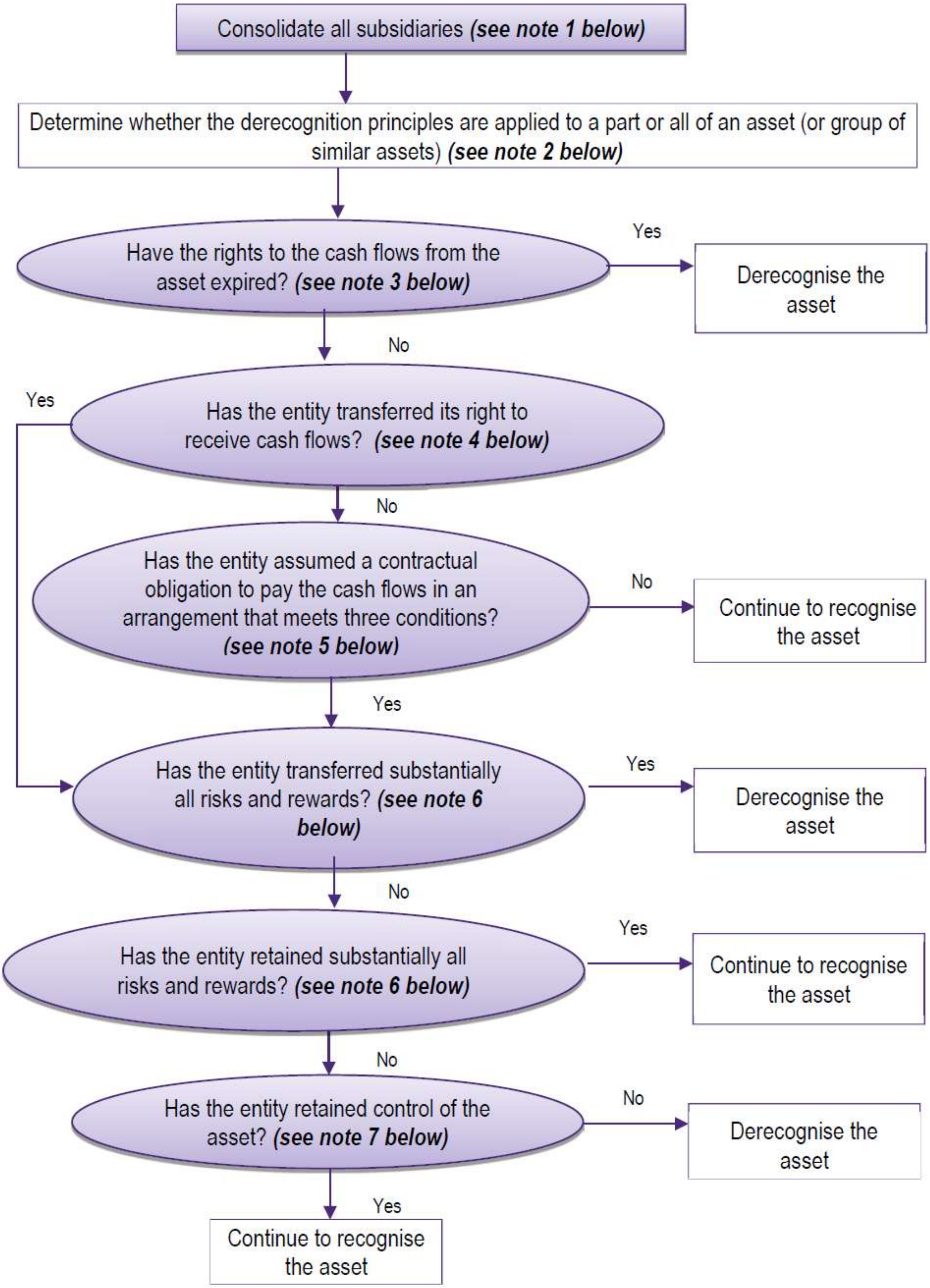

Measured at fair value (FV)
Interest/ dividend
Gains/ losses
FVTPL
FVOCI – other than equity instruments
FVOCI – equity instruments
Realised/ Unrealised FV gains/ losses
Realised FV gains/ losses
Unrealised FV gains/ losses
Realised/ Unrealised FV gains/ losses
Recognised in profit or loss
Recognised in profit or loss
Recognised in OCI


Financial liabilities measured at
Amortised cost: Interest cost (recognized using effective interest rate)
FVTPL liabilities: Fair value changes
Unrealised gain/loss (other than change in own credit risk)
Unrealised gain/loss for change in own credit risk
Realised gain/loss (upon derecognition)
Recorded in P&L on a periodical basis
Recorded in OCI
Recorded in P&L upon derecognition of FL



For instance, on the Bombay Stock Exchange in India, all transactions in all groups of securities in the Equity segment, Fixed Income securities and Government securities are settled on "T+2" basis. In this case, "T" is the trade date and "T+2" is the settlement date i.e. exchange of monies and securities between the buyers and sellers respectively takes place on second business day (excluding Saturdays, Sundays, bank and Exchange trading holidays) after the trade date.

It follows that if a contract is entered into with a broker for purchase or sale of securities which is normally traded on the Bombay Stock Exchange, with a settlement period that differs from the norms mentioned above, it would not be regarded as a regular way purchase or sale.



Consolidate all subsidiaries (see note 1 below)
Determine whether the derecognition principles are applied to a part or all of an asset (or group of similar assets) (see note 2 below)
Have the rights to the cash flows from the asset expired? (see note 3 below)
Yes
Derecognise the asset
No
Yes
Has the entity transferred its right to receive cash flows? (see note 4 below)
No
Has the entity assumed a contractual obligation to pay the cash flows in an arrangement that meets three conditions? (see note 5 below)
No
Continue to recognise the asset
Yes
Has the entity transferred substantially all risks and rewards? (see note 6 below)
Yes
Derecognise the asset
No
Has the entity retained substantially all risks and rewards? (see note 6 below)
Yes
Continue to recognise the asset
No
Has the entity retained control of the asset? (see note 7 below)
No
Derecognise the asset
Yes
Continue to recognise the asset

HEDGE ACCOUNTING

7.1 INTRODUCTION

Step 1	Identify the hedged item [ie, exposed to one or more risks]
Step 2	Identify the hedging instrument [ie, a derivative or non-derivative to off-set risks in cash flow/ fair value of hedged item]
Step 3	Evaluate if hedging relationship meets the requisite criteria for hedge accounting
Step 4	If hedge is effective, establish type of hedge – (A) Fair value hedge (B) Cash flow hedge (C) Hedge of net investment in foreign operation
Step 6	Account for the hedging relationship basis guidance in Ind AS 109

7.3 QUALIFYING INSTRUMENTS FOR HEDGE ACCOUNTING AND DESIGNATION OF HEDGING INSTRUMENTS

Hedging instrument

- **Derivative measured at fair value through profit or loss (except for written options)**
- **Non-Derivative financial asset or financial liability measured at fair value through profit or loss**

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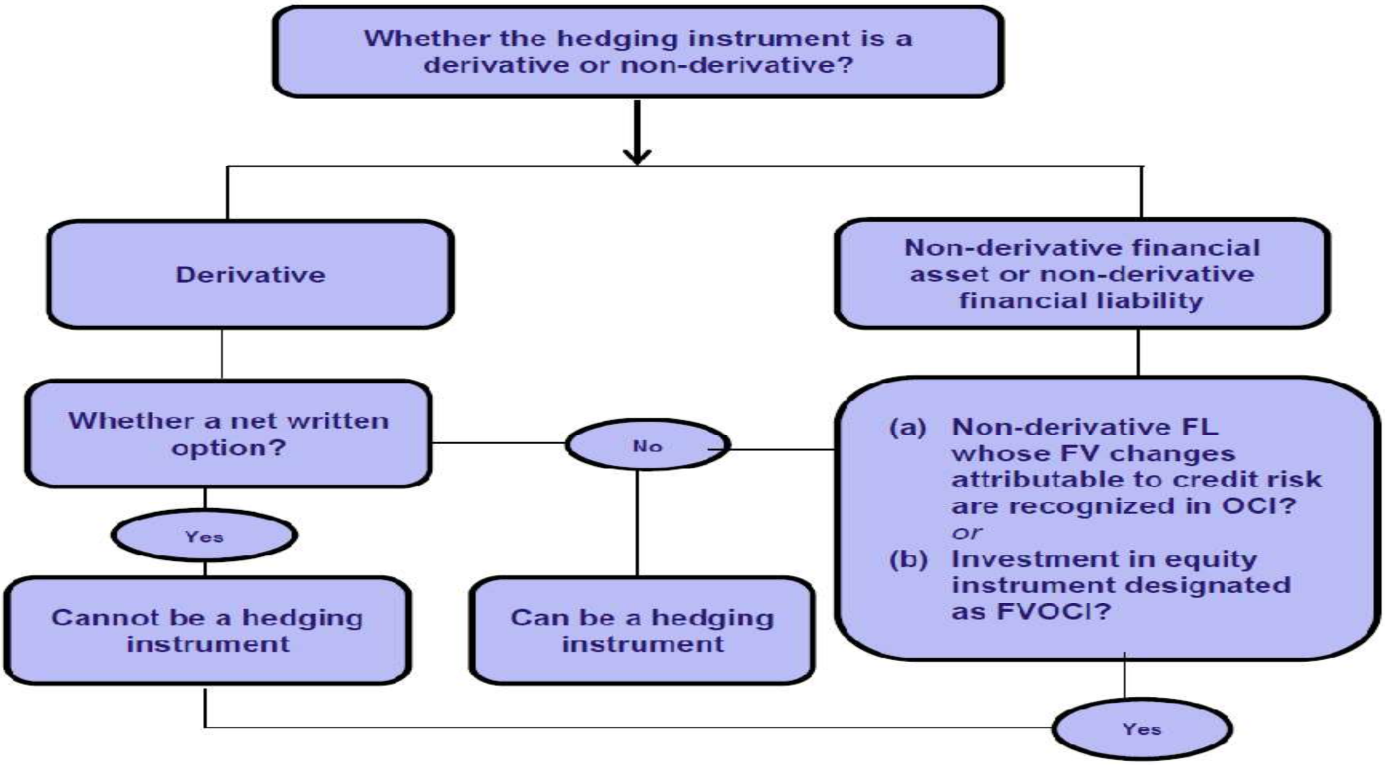
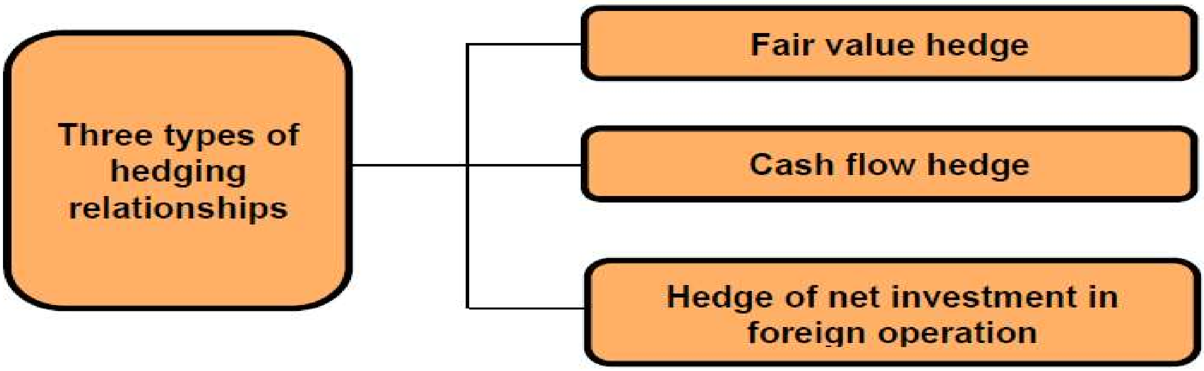
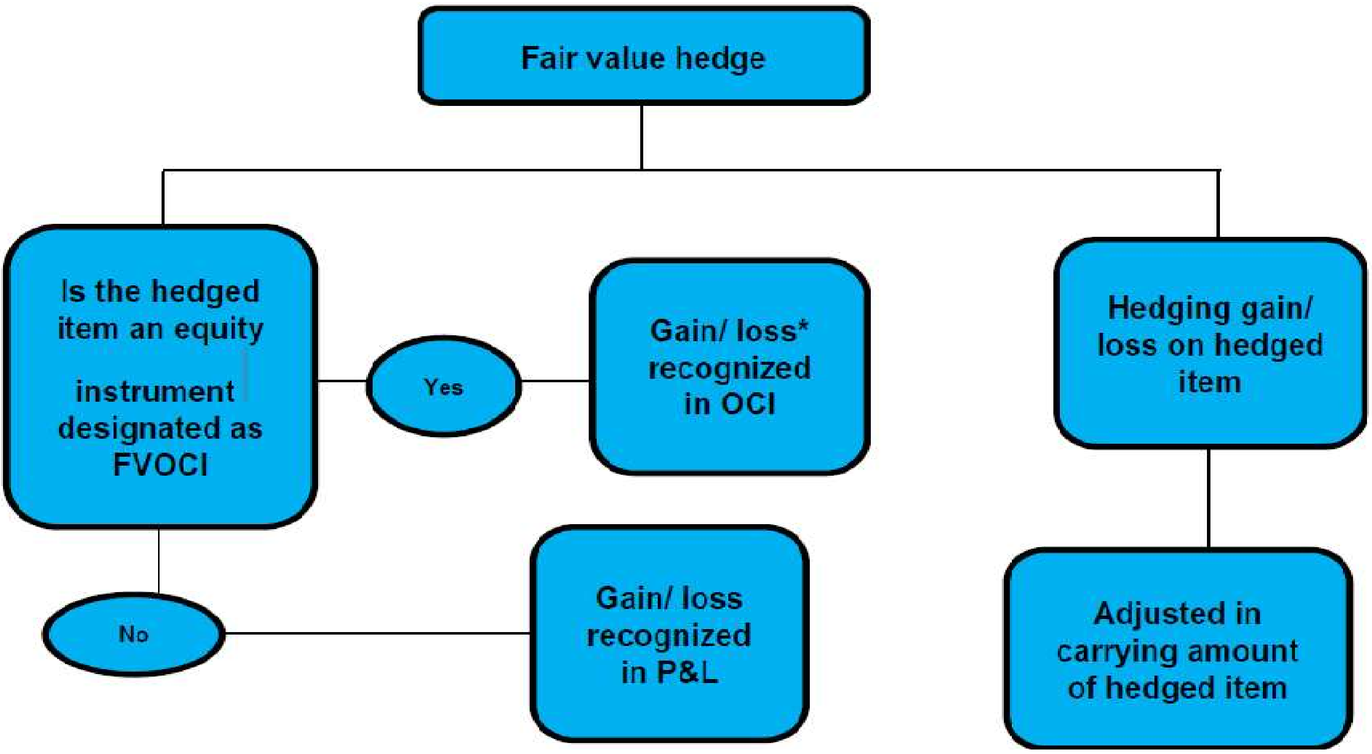
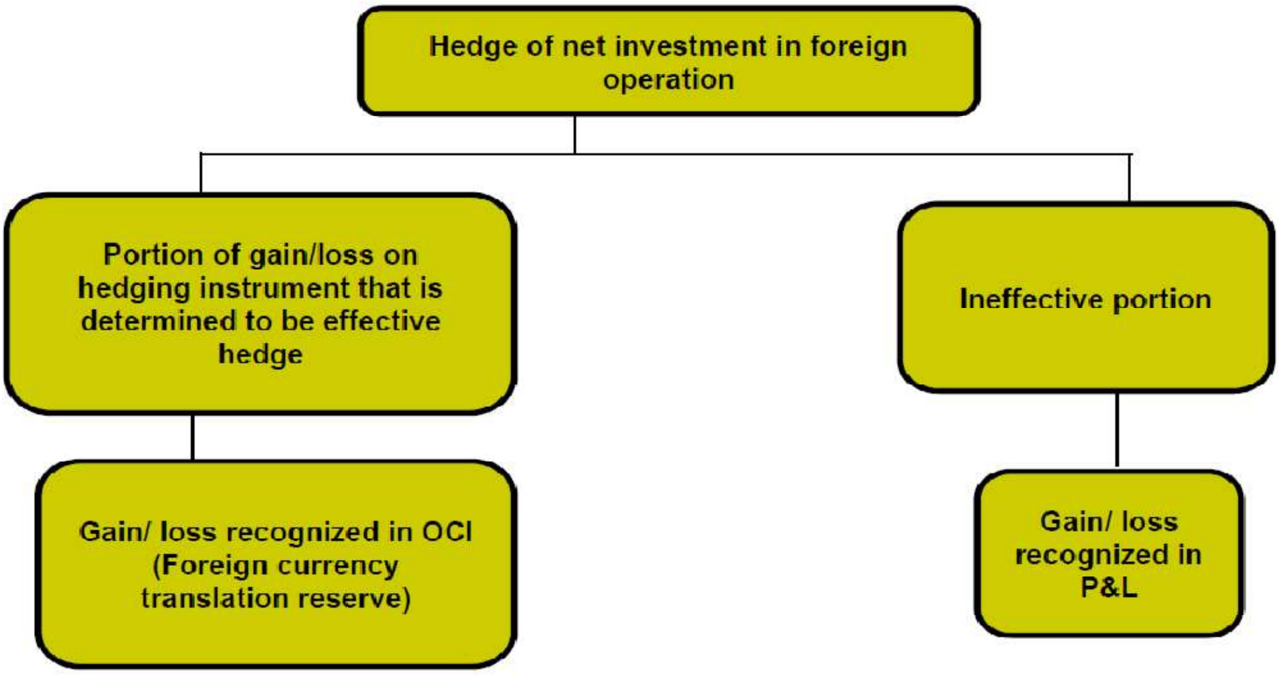


- **Types of hedging relationships:**




Fair value hedge
Is the hedged item an equity instrument designated as FVOCI
Yes
Gain/ loss* recognized in OCI
No
Gain/ loss recognized in P&L
Hedging gain/ loss on hedged item
Adjusted in carrying amount of hedged item


Hedge of net investment in foreign operation
Portion of gain/loss on hedging instrument that is determined to be effective hedge
Gain/ loss recognized in OCI (Foreign currency translation reserve)
Ineffective portion
Gain/ loss recognized in P&L

CONSOLIDATED FINANCIAL STATEMENT

General notes

It is last of question of ca final exam financial reporting paper, irrespective of exam question easiest because generally examiner comment about paper after result, student has wasted time in attempting this question and finally didn't succeed in providing correct answer. Follow below step:

a. First of read question carefully and make a quick summary in rough, what have i to do in entirely.
b. Then for solution, first of all prepare consolidated balance sheet then add all the item line by line and write on consolidated balance sheet, **except** reserve & surplus, minority and goodwill, Let it blank, After carrying out detailed procedure fill in the blank such result. However standalone financial statement of all companies should of same date, if not then update it.
c. Then Generally following steps is followed to complete the consolidated balance sheet.
    - Bonus share calculation
    - Holding pattern and % of holding.
    - Revaluation of assets if any
    - Unrealised profit on stock.
    - Analysis of profit.
    - Cost of control.
    - Minority interest.
    - Consolidated general reserve.
    - Consolidated profit and loss.

Detailed procedure (Also refer AS 21,23,27)

1. **Preparation of balance sheet**

   If the holding subsidiaries relationship exists then consolidate assets and liabilities line by line. If joint venture relationship exists then consolidate assets and liabilities proportionately to the extent of share in joint venture. If it is associates then do not consolidate assets and liabilities only investment revaluation using post acquisition profit and such post acquisition profit will also included in consolidated profit and loss. Never incorporate in CBS equity / preference share of subsidiary, associate, joint venture and minority holding in parent& Never incorporate corresponding investment in subsidiaries and joint venture in consolidated balance sheet. If 100%

subsidiaries then everything will be line by line consolidation except share capital of subsidiaries and investment in subsidiaries no question of minority interest, do not do anything only line by line consolidation.

2. Revaluation

M.V on date of acquisition xxxxx
Less: B.V on date of acquisition xxxxx
Revaluation profit or loss xxxxxx

It is always pre acquisition profit or loss,

Now calculate additional depreciation or saving on depreciation

If revaluation profit then additional depreciation. If revaluation loss then saving in depreciation. To calculate it simply apply depreciation rate on revaluation profit or loss for remaining period.

Other method not logical
Depreciation on revised value of assets for remaining period - xxxxx
Less: depreciation already charged xxxxx
Additional / saving in depreciation. Xxxxx

It is always post acquisition profit or loss

3. Analysis of profit

Particular	Pre acquisition profit	Post acquisition profit	
General reserve	XXXXX	XXXXX	
Profit or loss	XXXXX	XXXXX	
All reserve (including statutory reserve) and losses	XXXXX	XXXXX	
Total	**XXXXX**	**XXXXX**	
Add:			This adjustment is made to arrive at regular business profit for Timing adjustment.
Dividend paid (from where it has been deducted)		XXXXX	
Dividend proposed and shown in balance sheet		XXXXX	
Bonus declared and entered by subsidiaries		XXXXX	
Add/Less:			
Abnormal Loss or gain		XXXXX	
Rectification of error		XXXXX	
Less:			
Rectification of dividend receipt by subsidiary from sub-subsidiary in AOP (Before timing adjustment) to the extent of share hold by subsidiary in sub-subsidiary. **(ONLY IN CASE OF CHAIN HOLDING)**			
	XXXXX	**XXXXX**	
***Timing adjustment* -**Period relevant for timing adjustment is the earliest date before date of acquisition whose profit available up to the closing of current financial year. *Pre acquisition period-* earliest date before date of acquisition whose profit available till date of acquisition. *Post acquisition period-* from date of acquisition till the	XXXXX	XXXXX	

closing of current financial year.		
Less: Dividend paid (from where it should have been deducted) Abnormal loss Bonus declared whether entered by subsidiaries or not Unrealised profit Revaluation loss Additional depreciation Preference dividend (Para 27) (proposed for preference dividend irrespective of question say or not) **Add:** Abnormal gain Revaluation profit Saving in depreciation Unrealised loss **Add/Less:** Post acquisition profit of subsidiary in sub-subsidiary AOP transfer to its parent AOP only after timing adjustment.(Only in case of chain holding)	 XXXXX XXXXX XXXXX XXXXX XXXXX XXXXX	 XXXXX XXXXX XXXXX XXXXX XXXXX XXXXX XXXXX XXXXX
	XXXXXX	**XXXXXX**
Parent share	XXXXXX (COC)	XXXXXX (CPL)
Minority share	XXXXXX (MI)	XXXXXX (MI)

4. Cost of control

Investment in all subsidiary	XXXXX
Less:	
Paid up value of equity share capital of subsidiary for holding share	XXXXX
Paid up value of Preference share capital of subsidiary for holding share	XXXXX
Bonus issue of share capital of subsidiary for holding share	XXXXX
Pre acquisition profit of holding share in AOP	XXXXX
Rectification of dividend (Pre acquisition dividend credited to P/L)	XXXXX
Goodwill / (Capital reserve)	XXXXXX
Excess of investment over parent's portion of equity is goodwill and excess of parent portion of equity over parent's investment is capital reserve, if there are more than 1 subsidiaries, then goodwill and capital reserve arising on different subsidiary can be netted off. ***Equity*** *means share holder funds- equity share capital, preference share capital & reserve and surplus.*	

5. Minority interest

Equity Share capital of subsidiary for minority share	XXXXX
Preference Share capital of subsidiary for minority share	XXXXX
Pre acquisition profit of subsidiaries share in AOP	XXXXX
Post acquisition profit of subsidiaries share in AOP	XXXXX
Bonus issue of share capital of subsidiary for minority share	XXXXX

Total	XXXXXX

Minority interest shall be presented in consolidated balance sheet within the equity and shall be presented separately from the equity of the parent.

6. **Consolidated profit and loss**

Balance of holding as per separate balance sheet	**XXXX**
Less: Rectification of dividend (Pre acquisition dividend credited to P/L)	**XXXX**
Less: Unrealised profit (Earned by holding on sale to subsidiaries)	**XXXX**
Less: Proposed dividend declared but not adjusted(to be shown in CBS)	**XXXX**
Add: Unrealised loss(Incurred by holding on sale to subsidiaries)	**XXXX**
Add: Post acquisition profit of holding share in AOP	**XXXX**
Total	XXXXXX

7. **Consolidated General reserve (if any)**

Balance of holding as per separate balance sheet	**XXXX**
Add: Post acquisition General reserve of holding share in AOP	**XXXX**
Total	XXXXXX

8. **Contra item**

   Any payable or receivable within the group would be cancelled. If bill issued still held reduction in contra. If bill issued but not held, reduction in contingent liabilities.

   Investment in debenture of subsidiary

   It would be contra and excess or deficiency should be transferred to consolidated profit and loss.

9. **Rectification of error**

   Before proceeding for holding company adjustment on timing difference rectify first if any error or omission specified in question.

10. **Dividend**

PARENT COMPANY

If dividend paid then no treatment, if dividend ~~proposed~~ declared and shown in balance sheet then no treatment, if dividend ~~proposed~~declared but not adjusted then reduce it from CPL and show in CBS as short term provision.

Dividend proposed- AS-4 No any treatment except disclosure in NOTES to accounts, Because it cannot be shown as a liabilities.

SUBSIDIARY COMPANY

Dividend paid – first add in AOP in pre or post from where it has been deducted. Now deduct in AOP after timing adjustment from where it should have been deducted as per source of dividend.

However, if pre dividend declared by subsidiaries, is credited in SPL by holding then rectification entries to be made that is, parent share should deduct from CPL and add as deduction from investment in COC.

Concept-**Dividend** is just a **distribution of profit**. When subsidiary company declare dividend out of profit then correspondingly profit get reduced. Earlier before declaration of dividend treatment of profit was, from AOP to pre acquisition profit- reduced from carrying value of investment in COC & Post acquisition profit Added to CPL, Now the matter of dividend declared out of profit, to the extent of share of holding, already included in CPL, and minority share paid to minority share holder. The holding share in AOP after dividend declaration would have been in CPL of holding. So, ultimate profit to the extent of minority share got reduced.

Dividend ~~proposed~~declared

If already adjusted in balance sheet then add in AOP and deduct only preference dividend

If not adjusted in balance sheet then do not do anything in AOP or CPL, only short cut for equity it is **only proposed for minority** *as deduction from minority* and shown as short term provision in CBS. Because for holding it will be receivable and corresponding payable so net affect NIL.

Dividend proposed- AS-4 No any treatment except disclosure in NOTES to accounts, Because it cannot be shown as a liabilities.

Preference dividend (Para 27) - Proposed for preference dividend irrespective of question require or not. Share of minority in such preference dividend add with minority interest and parents share Add in consolidated profit and loss. Do not do anything in minority interest calculation.

Relevance of dividend

For AOP – dividend is relevant from the beginning of AOP (to the extent of received by holding company) till the date of consolidation.

For Rectification- All the dividend declared before date of acquisition and paidafter the date of acquisition of shareis relevant.

11. **Unrealised profit**

Subsidiary sold to parent- Unrealised profit deduct from inventory in CBS and from AOP.

Subsidiary sold to parent- Unrealised profit deduct from inventory in CBS and from profit to the extent of minority share in AOP and HOLDING SHARE- deduct profit in CPL

Example: A subsidiary sells goods to the holding company goods worth Rs 30,000 on which the subsidiary company made 20% profit on selling price (holding company share holds 3000 out of 4000 shares)

Unrealized profit = 20% of 30,000 = 6,000

Holding company's share = ¾ *6,000 = 4,500.

Holding sold to subsidiaries - Unrealised profit deducted from inventory in CBS and deducts profit in CPL.

If there is unrealised loss then treatment would then instead of deduct, Add.

12. **Bonus Shares**

When a company issues bonus shares out of its accumulated profits it is necessary to distinguish between pre & post acquisition profits utilized for this purpose. In case bonus shares are issued out of pre – acquisition profits no adjustments are necessary for preparing the consolidated balance sheet because in such a case the holding company's share of such profits gets reduced & the paid up value of the shares held by it will increase. As such the amount of goodwill remains the same. So ultimate effect would be nothing on either treatment is made or not.

Bonus shares issued out of post acquisition profits will reduce the holding company's share in revenue profits & increase the paid up value of the shares held. Consequently, the amount of goodwill gets reduced.

Special consideration for calculation holding share in minority in case of bonus issue.

When subsidiaries co. Issue bonus share then share capital increase with corresponding decrease in reserve and surplus, that is number of share increase by issue of bonus number of share.

Now, the problem is that holding accounted such bonus or not, if holding company accounts then number of share hold by holding increase with holding share in bonus issue, if holding company not account number of share representing ex bonus.

Confirm whether holding made entry or not & subsidiary made entry or not. To calculateshareholding % in subsidiaries share hold by parent and of subsidiaries should be bring it at equilibrium, that if share of subsidiaries is ex bonus then consider ex bonus number of share of holding company, if subsidiaries company number share is cum bonus then consider cum bonus number of share of holding company to determine shareholding %.

Special consideration for calculation ofpre-acquisition dividend in case of bonus issue.

Dividend declared by subsidiaries before bonus issue should be calculated on ex – bonus number of share of subsidiaries company.

13.UPDATION OF FINANCIAL STATEMENT

There may be a circumstance where given financial statement of different date from date of consolidation in such case financial statement updated up to date of consolidation. If business is carried on during such period then it mainly effects to SPL & CASH.

CASH		Statement of profit and loss	
Opening figure Add: Cash profit (profit + depreciation) Increase in liabilities Decrease in assets Less: Increase in assets Decrease in liabilities Dividend including DDT		Opening figure Add: Net profit Less: Dividend including DDT	
Closing cash balance		Closing SPL	

Note – Fixed assets will be reduced by the amount of depreciation, if there is any other changes such also should be considered.

DIFFERENT SITUATION

1. MULTIPLE ACQUISITION

Prepare one minority for number of share held by minority as on consolidated balance sheet, one cost of control, multiple AOP for in each date of acquisition calculating share of holding in each AOP for only incremental share acquired by holding at each date and share of minority in ultimate AOP. Then carry out all procedure as normally.

2. **MULTIPLE SUBSIDIARIES (chain holding)**

Here all assets and liabilities combined line by line. Prepare one COC as whole, one minority as whole disclosing different subsidiaries and multiple AOP for each subsidiary who is having investment.

For chain holding- First begin with subsidiaries who is not having investment in other and thereafter ultimately prepare for holding company following must be kept in mind:

- Pre-acquisition profit of all subsidiaries other than minorities transfer to cost of control
- Post-acquisition profit of holding in ALL AOP transfer to CPL.
- Post-acquisition profit of subsidiary transfer to its parent AOP only after timing adjustment
- Rectification of dividend receipt by holding in COC & CPL. whereas received by subsidiary in COC & AOP (**Deduct** Before timing adjustment) for respective holding of share.

Treatment of capital profit of sub-subsidiary

- **Direct method**

  Capital profit apportioned between the minority interest and group interest.

  The group interest should be taken directly for calculation of goodwill / capital reserve.

- **Indirect method**

  Capital profit / loss apportioned among minorities of the sub- subsidiaries and to the respective group companies.

  From the shares of respective group companies, their minority interests are deducted and the parent company gets its indirect shares.

3. **Joint venture**

Recognise all assets and liabilities of joint venture proportionately for share hold by holding. In joint venture minority interest will not arise. Proposed dividend by joint venture is not relevant. **All other method is same as in COC, AOP, CPL & CGR.**

4. **Associate**

Only investment revaluation using post acquisition profit. Such post acquisition profit will also be included in CPL. Calculate post acquisition profit by preparing AOP of associate.

5. **Intercompany holding**

- Subsidiary share in parent included in COC & MI.
- Use equation method

6. **Disposal of share**.

Sale value

Less: book value of investment proportionately

Profit or loss on sale

7. **Hire purchase.**

Contra for mutual indebtedness		Cancellation of unrealised profit	
- Creditor	-debtor (for instalment due) -Stock (for instalment no yet due)	-CPL	- H.P. Assets

ACCOUNTING STANDARDS – 1

DISCLOSURE OF ACCOUNTING POLICIES

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

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

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

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

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

SELECTION OF ACCOUNTING POLICIES

Selection of accounting policies should be made in following order:

1. Select such accounting policies, so as to give true and fair view.
2. Consider
   Prudence- Profit are not anticipated but recognised only when it is realised. Provision is made for all known loss & liabilities.
   Substance over form- Consider substance of transaction not merely legal form.
   Materiality- The knowledge of which effect decision of user of Financial Statement.

CHANGE IN ACCOUNTING POLICIES

Change in accounting policies permitted only if it is require by statute, for compliance with accounting standards or it is considered change would result in more appropriate presentation of the financial statements of the enterprises.

Any change in accounting policies which has a material affect should be disclosed. Disclosure should be made in the year in which such change is made. Effect of change in accounting policies should be provided retrospectively.

ACCOUNTING STANDARDS -2

VALUATION OF INVENTORIES

Inventories: An asset **held** for sale in normal course of business, use in the process of production for such sale or in the form of material. It does not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment. Such accounted as per AS 10.

Assets means anything from which future economic benefit is expected and which can be measured using substantial degree of estimation. Inventoryincludes finished goods, work in progress, raw materials, Stock in trade, stores and spares for regular use in general machine and other. Inventory do not include spare parts, servicing equipment and stand by equipment which meet the definition of Property plant equipment as per AS 10.

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

However to calculate cost of finished goods, use actual cost of raw material.

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

NRV= Sale value – Expenses – Cost of completion

Determination of cost

Following method is used in determining of cost

1. Actual cost

Cost of purchase including cost of conversion and other cost to bring the inventories in current location and position.

2. Standards cost
3. Retail selling price – Profit %

Following item should be excluded while calculating cost:

1. Abnormal loss.
2. Storage cost.
3. Administration overhead incurred after bringing the inventory at current location and position.
4. Selling and distribution expenses.
5. Interest cost should not form part of cost of inventory unless inventory is qualifying assets.

Guidance note on treatment of excise duty:

1. Excise duty is manufacturing expenses it should be included in cost of production.
2. When the liabilities for excise duty has been incurred but its collection is deferred, provision for unpaid liabilities should be made.

ACCOUNTING STANDARDS 3

CASH FLOW STATEMENT

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

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

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

Direct method =

cash sales	XXX
Add: Receipt from debtor	XXX
Trade commission	XXX
Other operating income	XXX

Less: cash purchase	XXX
Payment to creditor	XXX
Office and selling expenses	XXX
Other operating expenses	Xxx
Cash flow before taxation	**XXX**
Less: tax paid	XXX
Cash flow from operating activity	**XXX**

Indirect method =

Net profit	XXX
Add: Provision for taxation	XXX
Add: Depreciation. Non cash expenditure, outstanding expenses debited to SPL.	XXX
Less: Profit on sale of investment and assets. Non- cash income, accrued income credited to SPL.	XXX
Cash flow from operating activity before change in working capital	XXX
Add: increase in current liabilities & decrease in current assets	XXX
Less: increase in current assets & decrease in current liabilities.	XXX
Cash flow from operating activity	**XXX**

CASH FLOW STATEMENT

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

ACCOUNTING STANDARDS – 4

EVENT OCCURRING AFTER THE BALANCE SHEET DATE

Here, Events are those significant gain or loss which arises after the balance sheet date but before approval of financial statement.

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

No any provision should be made for proposed dividend, only disclosure in notes to accounts is required. It is a part of equity.

ACCOUNTING STANDARDS – 5

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

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

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

Prior period item doesn't includes other adjustment necessitated by circumstances. For example- expected increase in bad debt, Increase in salary retrospectively, etc

Change in accounting estimate – accounting estimate by their nature are approximations that may need revision as additional information become known.

When it is difficult to distinguish whether change is change in accounting policies or change in accounting estimate, change is treated as change in accounting estimate.

Change in accounting policies – Accounting principle are specific accounting principles and the methods of applying those principles adopted by an enterprises in the preparation and presentation of financial statement.Change in accounting policies allowed only when it result in more appropriate presentation or it is required by law or to comply with an accounting standards.

eg. Change in valuation of inventories, change in method of depreciation. Effect of Change in accounting policies should be provided retrospectively when it is material for either current year or future year. It should be disclosed separately. Policy which is substantially different from existing accounting policy, not regarded as change in accounting policy.

ACCOUNTING STANDARDS- 7

CONSTRUCTION CONTRACT

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

Contract costs should comprise:

(a) Costs that relate directly to the specific contract;

1. Site labour costs, including site supervision;
2. Costs of materials used in construction;
3. Depreciation of plant and equipment used on the contract;
4. Costs of moving plant, equipment and materials to and from the contract site;
5. Costs of hiring plant and equipment;
6. Costs of design and technical assistance that aredirectly related to the contract;
7. The estimated costs of rectification and guarantee work, including expected warranty costs; and
8. Claims from third parties.

(b) Costs that are attributable to contract activity in general and can be allocated to the contract; and

1. Insurance;
2. Costs of design and technical assistance that are not directly related to a specific contract; and
3. Construction overheads.
4. Borrowing costs capitalized under AS 16 "Borrowing Cost"

(c) Such other costs as are specifically chargeable to the customer under the terms of the contract.

Contract cost doesn't include:

Costs that cannot be attributed to contract activity or cannot be allocated to a contract are **excluded** from the costs of a construction contract. Such costs include:

(a) General administration costs for which reimbursement is not specified in the contract;

(b) Selling costs;

(c) Research and development costs for which reimbursement is not specified in the contract; and

(d) Depreciation of idle plant and equipment that is not used on a particular contract.

Method to recognise revenue – Revenue is recognised in accordance with stage of completion of the contract activity at reporting date, this method of revenue recognition is referred as percentage of completion method.

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

Lets assume degree of completion is X%

Step 2- Revenue to be recognised

Total revenue * X%	XXXX
Less- Total Actual cost Or total cost * X%	XXXX
Cumulative Profit	**XXXX**
Less: Profit Recognised till last year	XXXX
Current year profit	**XXXX**

Para 35: Recognise expected loss on contract entered irrespective of degree of completion, when contract cost expected to exceed contract revenue. Provision for expected loss to be cancelled in next year.

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

Provision for expected loss

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

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

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

ACCOUNTING STANDARDS -9

REVENUE RECOGNITION

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

Revenue Recognition

Revenue **is gross inflow of cash**, receivables or other consideration arising in the course of the ordinary activity of enterprises from the sale of goods, from the rendering of services, interest, royalties and dividendand from the use enterprises resources. It should be recognise when it is measureable and there is no uncertainty in revenue collection.

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

Sale of goods	
Situation	Revenue recognition
1. Delivery is delayed at buyer's request and buyer takes title and accepts billing	Revenue should be recognised notwithstanding that physical delivery has not been completed
2. Delivered subject to conditions - (a) installation and inspection i.e. goods are sold subject to installation, inspection etc.	Revenue should normally not be recognised until the customer accepts delivery and installation and inspection are complete.
- (b) on approval	Revenue should not be recognised until the goods have been formally accepted by the buyer
- (c) guaranteed sales i.e. delivery is made giving the buyer an unlimited right of return	recognise the sale but to make a suitable provision for returns based on previous experience.
- (d) consignment sales i.e. a delivery is made whereby the recipient undertakes to sell the goods on behalf of the consignor.	Revenue should not be recognised until the goods are sold to a third party.
- (e) cash on delivery sales	Revenue should not be recognised until cash is received by the seller or his agent.
3. Sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received	Revenue from such sales should not be recognised until goods are delivered.
4. Special order and shipments	Revenue from such sales should not be recognised until goods are manufactured, identified and ready for delivery to the buyer by the third party.
5. Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date	For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognised as revenue. The difference is finance expenses.
6. Sales to intermediate parties i.e. where goods are sold to distributors, dealers or others for resale	Revenue from such sales can generally be recognised if significant risks of ownership have passed
7. Subscriptions for publications	Revenue received or billed should be deferred and recognised either on a straight line basis over time
8. Instalment sales	When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognised at the date of sale. The interest element should be recognised as revenue, proportionately to the unpaid balance due to the seller.
9. Trade discounts and volume rebates	Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

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

Proportionate Completion Method: It is used when services provided in more than one act. Revenue is recognised proportionately by reference to the performance of each contract. For practical purpose SLM is followed unless other method gives better and fair presentation.

Completed Services Method: It is used when services provided in single act. Here revenue is recognised when sole or final act takes place.

Rendering of Services	
Situation	Revenue recognition
1. Installation Fees	When the equipment is installed and accepted by the customer.
2. Advertising and insurance agency commissions	Revenue should be recognised when the service is completed.
3. Financial service commissions	A financial service may be rendered as a single act or may be provided over a period of time. Revenue should be recognised accordingly.
4. Admission fees	Revenue from artistic performances, banquets and other special events should be recognised when the event takes place. When a subscription to a number of events is sold, the fee should be allocated to each event on a systematic and rational basis.
5. Tuition fees	Revenue should be recognised over the period of instruction.
6. Entrance and membership fees	Revenue recognition from these sources will depend on the nature of the services being provided. Entrance fee received is generally capitalised.

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

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

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

Sale and Purchase back transaction- Substance of transaction should be considered, When Goods sold to purchase back then the difference between the sale price and re-purchase price should be consider as finance expenses.

ACCOUNTING STANDARDS – 10

PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment (PPE):

Tangible item held for use in production or supply of goods or services, Rental to other or for Administrative purpose **AND** expected to be used during more than a period of 12 month.

Cost of an item on PPE should be **Recognise**as assets when (a) It is probable that **future economic benefits** associated with the item will flow to the entity, And (b) The cost of the item can be **measured reliably**.

Spare parts, stand-by equipment and servicing equipment are recognised in accordance with this AS-10 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory

Cost of major inspection to be capitalised.

Cost of replacement capitalise if meets the definition of PPE.

Measurement at Recognition

Cost of Property, Plant & Equipment: Purchase price including Any directly attributable cost (all cost incurred to acquire fixed assets, cost incurred in bringing fixed assets at current location and position, installation cost, borrowing cost on QA, non- refundable purchase tax) and also includes decommissioning, restoration and similar liabilities. **Reduced by Trade discount, rebate or Subsidy.**Abnormal cost should not be included because it is not directly attributable to fixed assets, Abnormal loss means- Loss other than normal (unavoidable),that is avoidable for eg. detention charges paid to custom authority, etc.

Internal profits are eliminated.

Cost of Dismantling and Removal of the Item of PPE and Restoring the Site**Included in the cost** of the respective item of property plant and equipment.

Cost of Property, Plant & Equipmentin case of exchange:

Fair value of assets given or obtained whichever is more clearly evident. It will be measured at **carrying amount** of assets given up if either the exchange transaction lack commercial transaction or fair value is not measurable.

Difference between book value and fair value of assets given, charged to P/L. Obviously fair value of assets given is deducted from payment to be made for acquisition of assets in case of exchange

Discounting in Case Payment is deferred Beyond Normal Credit Terms:

If it is acquired in deferred credit term then the difference between the purchase price in case of normal credit term and the amount paid, is recognised as interest expenses. AS-16 capitalise if it is on QA.

Cost of Self constructed assets: Recognise to the extent of direct cost incurred and general construction cost which can be allocated to specific fixed assets.

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

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

Measurement after Recognition

Allow to choose either cost model or the revaluation model.

Cost model:

Cost – Any accumulated depreciation – Any accumulated impairment loss.

Revaluation model:

It is optional. It should be on all classes of assets uniformly.Revaluation should be adjusted in Gross carrying amount.

First time revaluation

Increase credited to revaluation surplus and decrease debited to Profit and loss.

Subsequent revaluation

Increase credited to P&L to the extent earlier debited to SPL and excess transfer revaluation surplus.Decrease to be adjusted with revaluation reserve to the extent of revaluation surplus beyond that should be debited to Statement of Profit and loss accounts.

Accumulated depreciation at the date of revaluation is adjusted to equate the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment loss.

On **derecognition of an item of PPE,**revaluation surplus included in owner's equity should be transferred to revaluation reserve.

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

DEPRECIATION ACCOUNTING

Depreciation means wearing out of fixed assets or decrease in value of fixed assets due to effluxion of time, obsolescence through technology, due to use or due to any other reason over useful life of depreciable assets. Depreciation on assets ceases when it is classified as held for sale or derecognised.

Depreciable assets

PPE

Depreciable amount: Cost/Carrying amount – Residual value.

Generally adopted method of depreciation

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

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

Units of production method- Result in a charge based on the expected use or output

Depreciation = Carrying amount* Actual production/expected production

Change in method of depreciation

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

Change in Expected useful life

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

ACCOUNTING STANDARDS-11

THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE

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

FOREIGN CURRENCY TRANSACTION

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

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

When forward contract entered for **hedging purpose** then Premium or discount should amortise expenses or income over the life of the contract. Also, exchange difference on such forward contract should be recognised in SPL in the reporting period in which such exchange rate changes. Any profit and loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expenses for the period.

Foreign currency monetary Item: Money held (Cash & Bank) And Known amount of assets, liabilities, receivable, payable or determinable amount of money in foreign currency whose realisation or payment fixed under contract.

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

LONG TERM FOREIGN CURRENCY MONTRORY ITEM (LTFCMI)

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

PARA-46

Depreciable Assets: Exchange difference related to depreciable assets, Capitalised to assets and depreciate it over life of assets. Both exchange difference due to reporting and due to settlement should be capitalised however interest payment should be dealt in accordance with AS-16.

Non depreciable assets: Exchange difference shown as FOREIGN CURRENCY MONETARY ITEM (FCMIT) Difference account under head of RESEREVE AND SURPLUS if credit balance and under head of non-current assets if Debit balance. It is written off over life of LTFCMI but not beyond 31st March 2020.

LOAN/ BORROWING

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

FOREIGN OPERATION

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

However in case of integral foreign operation convert fixed assets,Depreciable assetsandinvestment**(FDI)** at transaction date rate.

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

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

ACCOUNTING STANDARDS-12

GOVERNMENT GRANT

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions.Accounting for government grants like subsidies, cash incentives, duty drawbacks, etc as follows:

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

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

Grant for promoter contribution or for situation in backward area: Credited to capital reserve, Which can be neither distributed as dividend nor considered as deferred income.

Grant for non-depreciable assets: Credited to capital reserve or shown as deduction from the gross value of assets.

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

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

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

Refund of government grant- it is an extraordinary item as per AS-5, it is applied first against unamortised deferred credit balance and excess charge to SPL.

However in case of depreciable assets wherein net method is followed, it is added to fixed assets and subsequent depreciation on revised value of assets, and separate disclose required for increase in depreciation consequent to return of government grant.

ACCOUNTING STANDARDS-13

ACCOUNTING FOR INVESTMENT

INVESTMENT: Investment means assets held for earning income (by way of interest, dividend or rental), appreciation or other benefit to the investing enterprise. It is classified as current investment or permanent investment. An investment readily realisable and intended to hold not more than 1 year is known as current investment, investment other than current investment is permanent investment. Investment property in the nature of Land or building which is intended to use by or in the operation of the investing properties deals in accordance of AS-10 that is now recognised as per cost model.

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

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

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

RIGHT SHARE: When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement. However, When share acquired cum-right, then proceeds from sale of right share deducted from cost of acquisition to the extent of difference between cum-right share price and ex-right share price and excess transfer to profit and loss accounts.

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

Valuation of government securities at cost.

RECLASSIFICATION: When current classified as Permanent Investment then value at lower of cost or FMV. When Permanent investment classified as Current investment then value at lower of cost or carrying amount. Follow rule of whatever investment was before classification.

Disposal of investment: Profit or loss on sale of investment should be recognised in SPL.

ACCOUNTING STANDARDS-14

ACCOUNTING FOR AMALGAMATION

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

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

AMALGAMATION IN THE NATURE OF MERGER

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

AMALGAMATION IN THE NAUTRE OF PURCHASE

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

Statutory Reserve incorporated with corresponding amalgamation adjustment ~~accounts~~ Reserve.

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

ACCOUNTING STANDARDS-15

EMPLOYEE BENEFITS

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

Types of employee benefit:

Short term employee benefit- expected to paid within 12 month.

Long term employee benefit

Termination benefit or voluntary retirement scheme

SHORT TERM EMPLOYEE BENEFIT

It is expected to be paid within 12 months from balance sheet date.

LEAVE

UNPAID: No any treatment

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

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

LONG TERM EMPLOYEE BENEFIT

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

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

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

Step of projected unit credit method is as follows:

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

Eg. 1% of final salary for each year of services current salary is 12000.

1% of (12000*1.1*1.1*1.1*1.1)= 176

Step 2 – Allocate estimated employee benefit over the year.

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

Estimation (a)	176	176	176	176	176
DF (b)	.683	.751	.826	.909	.1
CSC (a*b)	120	132	145	160	176

Step 4 – Prepare liabilities sheet year wise as follows:

Year	1	2	3	4	5
Opening balance	0	120	264	435	639
Add: CSC	120	132	145	160	176
Add: Interest cost	0	12	26	44	64
Closing balance	120	264	435	639	879

PLAN ASSETS

Plan assets account			
To, Opening balance b/f			
To, Contribution paid in plan assets		By benefit Paid out of plan assets	
To, Expected return		By Actuarial loss	
To, Actuarial gain (b.f)		By Closing Balance B/f	

Calculate half yearly interest rate = $\sqrt{1 + Rate}$ - 1

Expected return is the sum of

1. return on opening &
2. return on (opening + contribution +**return on opening calculated on point 1** – benefit paid)

Actuarial gain or loss is difference between the expected return & actual return.Actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense in the year in which it is incurred.

Termination benefits

Termination benefits are recognized by an enterprise as a liability and an expense only when the enterprise has

(i) A detailed formal plan for the termination which is duly approved, and

(ii) A reliable estimate can be made of the amount of the obligation.

Where the termination benefits fall due within twelve months after the balance sheet date, an *undiscounted* amount of such benefits should be recognized as liability in the balance sheet with a corresponding charge to Profit & Loss Account. However, when the termination benefits fall due more than twelve months after the balance sheet date, such benefits should be discounted using an appropriate discount rate.

Accounting Treatment

In the Balance Sheet of the enterprise, 'the amount recognized as a defined benefit liability should be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the balance sheet date;

(b) *minus* any past service cost not yet recognized;

(c) *minus* the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.'

ACCOUNTING STANDARDS-16

BORROWING COST

CAPITALISATION: Borrowing cost incurred on qualifying assets before the assets ready to use is eligible for capitalisation, and borrowing cost incurred thereafter is treated as a revenue expenditure. Qualifying assets means, Assets which takes substantial period of time to get ready to use or sale,**ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case**. Borrowing cost can be capitalised to the extent of actual borrowing cost, if borrowing cost to be capitalised exceed actual borrowing cost then cancel it in the ratio of borrowing cost to be capitalised. Incidental and ancillary cost incurred in acquisition or arrangement of borrowing is also considered as borrowing cost, consider it while calculating general borrowing rate.

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

CALCULATION OF AMOUNT TO BE CAPITAISED

Expenses on QA*ROI*Period of capitalisation

COMMENCEMENT OF CAPITALISATION:

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

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

SUSPENTION OF CAPITALISAITON OF BORRWING COST

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

However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation 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.

CESSATION OF CAPITALISATION OF BORROWING COST

No capitalisation of borrowing cost when borrowing cost ceases to incur or Assets is ready to use- means substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are complete, whichever falls earlier.

FOREIGN EXCHANGE LOSS DUE TO BORROWING

This exchange loss in addition to borrowing cost.Recognise exchange loss on foreign borrowing but to the extent of lower of following

- Exchange loss on borrowing, or
- Difference between estimated cost of local borrowing and Actual borrowing cost.

If any remaining balance of exchange difference, It will be accounted as per AS -11.

ACCOUNTING STANDARDS-17

SEGMENT REPORTING

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

INDENTIFICATION OF REPORTABLE SEGMENT

A segment of an entity would be considered as reportable segment if it's revenue, result or assets consist of 10% or more of total entity's sales, result or assets respectively. Segment revenue doesn'tinclude interest, dividend, profit on sale of investment or extinguishment of debt.

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

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

Segment revenue is the aggregate of
(i) The portion of enterprise revenue that is **directly attributable** to a segment,
(ii) The relevant portion of enterprise revenue that can be **allocated** on a reasonable basis to a segment, and
(iii) Revenue from **transactions with other segments** of the enterprise.

Segment revenue **does not** include:
a. Extraordinary items as defined in AS 5.
b. Interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and
c. Gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature.

Segment expense is the aggregate of
(i) The expense resulting from the operating activities of a segment that is **directly attributable** to the segment, and
(ii) The relevant portion of enterprise expense that can be **allocated** on a reasonable basis to the segment,

(iii) Including expense relating to transactions **with other segments** of the enterprise.

Segment expense **does not include**:
a. Extraordinary items as defined in AS 5.
b. Interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.
c. Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature.
d. **Income tax expense;** and
e. General administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If the segment result of a segment includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other interest or dividend generating assets.
Segment assets **do not include:**
- **income tax assets**;
- assets used for general enterprise or head-office purposes.

Segment assets are determined after deducting related allowances/provisions that are reported as direct offsets in the balance sheet of the enterprise.

ACCOUNTING STANDARDS-18

Introduction

All the transaction takes place with the related parties during the year should be disclose irrespective of that it is made at arm length price or normal price, Also disclosure of related parties relationship should be made irrespective of transaction takes place or not with related parties during the year. Related parties transaction means transfer of resources or obligation between related parties, regardless whether or not price is charged.

RELATED PARTY TRANSACTION

RELATED PARTY AS PER PARA 3

3a. Enterprises that directly or indirectly through one or more intermediaries, control or are controlled by or under common control with the reporting enterprises. (holding, subsidiary and other subsidiaries of holding company known as fellow subsidiaries.)

3b. Associates and Joint venture of the reporting enterprises and the investing parties or venturer in respect of which the reporting enterprises is an Associates ora Joint venture.

3c. Individual owning interest in voting power that gives them power to control or power to exercise significant influence* over the enterprises, and relative of such individual.

3d. Key Managerial Person and relative of such personnel.

3e. Enterprises over which any person described in (c) or (d) able to exercise significant influence.

> * Significant influence can be exercised if holds 20% or more directly or indirectly.
> Control means holding 51% or more, power to compose BOD or substantial interest (20%VP)&power to direct.

DISCLOSURE REQUIREMENT

Following should be disclosed.

Mnemonics: N_3DTV

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

ACCOUNTING STANDARDS-19

LEASE

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

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

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

JOURNAL ENTRIES

LESSEE	LESSOR
Assets on lease A/c Dr.*** To Lessor A/c (Being assets purchased on lease)	Lease receivable A/c Dr.** To Assets on lease (Being assets Transfered on lease)
Lessor A.c Dr. To Bank a/c (Being Down payment made.)	Bank a/c Dr. To Lease Receivable A/c (Being Down payment receipt.)
Lessor A/c Dr. Finance Charge A/c Dr. To Bank A/c (Being instalment paid)	Bank A/c Dr. To Finance charge A/c To Lease receivable A/c (Being instalment received)
Depreciation A/c Dr. To Assets A/c (Being depreciation charged on assets)	No depreciation Entry
Statement of Profit and loss a/c Dr. To Finance Charge To depreciation (Being finance charge and depreciation charged to Statement of profit and loss a/c)	Finance charges A/c Dr. To Statement of Profit and loss (Being Finance charge Transferred to Statement of Profit and loss a/c)

*** Assets or Liabilities will be recorded at lower of Present value of minimum lease payment or Fair value. Whenever Value is fair value the calculate IRR and then use such IRR to calculate Finance charge. To calculate IRR choose any two rate to discount Lease rent & GRV so that fair value falls in between above two PV. As shown in following formula.	** It will be recorded at present value of Gross investment or at net investment. **UEFI(unearned finance income)** = gross investment – net investment Gross investment sum of lease rent, guaranteed residual value & unguaranteed residual value. Net investment means present value of gross investment. In simple term UEFI means finance charges.

$$\text{IRR} = \text{Lower rate} + \frac{PV\ at\ lower\ rate - FMV}{NPV\ at\ lower\ rate - NPV at\ higher\ rate} X\ Diff\ in\ rate$$

OPERATING LEASE

Lease other than finance lease is Operating lease. Lease rental is considered as normal business income for lessor and normal business expenses for lessee. Rentals payable under an operating lease should be charged as an expense in the statement of profit and loss on a straight-line basis over the lease term, even if the payments are not made on that basis, unless another systematic basis is more representative of the time pattern of the user's benefit.

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

SALE AND LEASE BACK TRANSACTION

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor.

FINANCE LEASE BACK	OPERATING LEASE BACK
All treatment is same as finance lease except the treatment of profit resulting from sales, which is, discussed as follows.	All treatment is same as operating lease except the treatment of profit resulting from sales, which is, discussed as follows.
Difference between Sale value and book value is treated as Deferred income or loss as the case may be. Amortise it in the ratio of depreciation.	Deferred income or loss amortise to SPL in the ratio or lease rental over lease term. Difference between FAIR VALUE and SALES PRICE is treated as deferred income or loss.
	Difference between BOOK VALUE and FAIR VALUE is considered as impairment loss, should be recognised immediately to SPL.

TAX TREATMENT

	ACCOUNTS	**INCOME TAX**
LESSOR	Lease rent received treated as Instalment receipt of lease receivable.	Lease rent is taxable as business income.
	Depreciation is not charged	Depreciation is allowed under income tax
Lessee	Depreciation is charged	Depreciation is not allowed
	Finance charged debited to SPL.	Finance charges is not allowed
	Lease rent payment is treated as instalment repayment of lease payable.	Lease rent allowed as expenses.

So ultimately lessee claim depreciation and finance charge but income tax allowed only lease rent. For LESSOR- lease rent is taxed and depreciation is allowed.

ACCOUNTING STANDARDS-20

EARNING PER SHARE

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

WEIGHTED AVERAGE NUMBER OF SHARE

Average number of share weighted in accordance with number of days for which share is actually held.

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

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

Weight only for following

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

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

Step 1- Calculate Post right fair value

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

Step 2- Calculate paid part

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

Step 3- Calculate bonus part

Total number of right share – Paid part of right share

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

1. Differential dividend right
   i. Calculate EATESH
   ii. Deduct special earnings from EATESH
   iii. Balance earning used for regular earning per share.
   iv. Calculate special earning per share by dividing special earning from respective no. of share.
   v. Basic earnings per share = Regular earning per share + Special earning per share
2. Proportional dividend right
   i. Calculate equivalent share of each class.
   ii. Allocate EATESH in above ratio.
   iii. Calculate BEPS=$\frac{Allocated\ EATESH}{Original\ no.of\ share\ of\ each\ class\ of\ share}$

DILUTED EARNING PER SHARE

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

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

Step 2- Calculate incremental earnings per share

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

if there are more than one potential equity share then rank incremental earning per share in descending order that is lower the higher rank.

Step 3- Test for dilution

Numerator	Denominator	Ratio
Profit	No. of share	Numerator / Denominator

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

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

Note – Also do weight for potential equity share and resultant increment in earning if it is requires.

As per SEBI regulation bonus issue will be reserve for convertible debenture.

AS 21: CONSOLIDATED FINANCIAL STATEMENTS

AS 21 should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.
Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Consolidated Financial Statement will be prepared by the parent company for all the companies that are controlled by the parent company either directly or indirectly, situated in India or abroad except in the following cases:

a. Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future (within 12 month)

b. Or subsidiary company operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the parent.

Therefore, in both the above cases, investment of parent company in the share of its subsidiary company is treated as investment according to AS 13.

- **Loss of Control**

When a parent loses control, the investee no longer meets the definition of subsidiary, and so it is no longer consolidated.
Where a parent loses control over a subsidiary, the investment will be accounted for under AS 13 Accounting for Investments from the date of loss of control, provided that the investor does not retain significant influence (in which case the investment will be accounted for under AS 23).

- **Existence of Control**

Control Exists when Parent Company has either:

a. The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise.

b. Or control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from subsidiary company’s activities.

- **Consolidation Procedures**

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses and then certain adjustments are made.

The consolidation adjustments required will vary depending on the circumstances. The adjustments include (but are not restricted to);

• The elimination of the cost of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;

• Recognition of goodwill or capital reserve, depending on whether the cost of the parent's investment in each subsidiary is greater than or less than the parent's portion of equity of each subsidiary at the date on which investment in the subsidiary is made;

• The identification of the minority interest in the profit or loss of consolidated subsidiaries for the reporting period;

• The identification of the minority interest in the net assets of consolidated subsidiaries for the reporting period;

• The elimination of all intra-group balances and intra-group transactions, and the resulting unrealised profits and losses;

• Adjustment of the consolidated results for dividends related to outstanding cumulative preference shares of a subsidiary that are held by minority interests regardless of whether the dividends have been declared.

♦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.

♦ Goodwill and capital reserve of different subsidiaries can be adjusted to a net figure by the parent in consolidated financial statement.

♦ Goodwill of consolidated financial statement need not be written off to consolidated profit and loss account but test of impairment (Refer to AS 28) is made each time a consolidated financial statement is prepared.

♦ When share application money and allotment money is paid separately on different dates, then as per AS 21, date on which investment led to acquisition to control of subsidiary should be taken as date of investment, i.e., date of allotment.

♦ On the basis of above discussion, if control is gained in the subsidiary by a series of investments, then the date of the investment which led to holding-subsidiary relationship is taken into consideration and step by step calculations are made for each following investments.

- **Disposal of Holding**

The results of operations of a subsidiary are included in the consolidated financial statement as from the date on which parent-subsidiary relationship comes into existence and are included in the consolidated statement of profit and loss until the date of cessation of the relationship.

On disposal of the investment, consolidated profit and loss account will include the transactions till the date the parent-subsidiary relationship ceases to exist.

The difference between the proceeds from the disposal of investment and the parent's share in the net asset of the subsidiary on the basis of the carrying amount, on the date of disposal is recorded in the consolidated profit and loss account. While calculating the share of parent in the net asset of the subsidiary on the date of disposal, adjustment is made for the minority interest calculated as above.

ACCOUNTING STANDARDS – 22

ACCOUNTING FOR TAXES ON INCOME

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

TIMING DIFFERENCE AND PERMANENT DIFFERENCE

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

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

PERMANENT DIFFERENCE

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

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

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

DEFERRED TAX ASSETS

Tax on timing difference will result in deferred tax assets if timing difference is resulting from disallowed expenses which will be allowed later, simply speaking if in future you will RECOVER taxes for what excess charged in current year, then it is called deferred tax assets*that is total taxable income exceed accounting income*. Deferred tax assets reduced current tax in SPL.

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

DEFERRED TAX LIABILITIES

An excess expense allowed in current year, which will tax in future year that is taxable income is less than the accounting income. Simply speaking if in future you will have to pay more tax for such timing difference then it is called deferred tax liabilities. Deferred tax liabilities increase tax expenses in SPL.

UNABSORBED DEPRECIATION AND UNABSORBED LOSSES

Para – 17

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

TAX HOLIDAY

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

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

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

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

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

MAT CREDIT

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

AS 23: ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

As a general rule, significant influence is presumed to exist when an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee.

Associates Accounted for using the Equity method

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.
From the definition, following broad conclusions can be drawn:

a. In CFS, investment is to be recorded at cost.

b. Any surplus or deficit in cost and net asset on the date of acquisition to be recorded as goodwill or capital reserve & such should be shown with investment as deduction or addition as the case may be, .

c. Distributions received from an investee reduce the carrying amount of the investment.

d. Any subsequent change in share in net asset is adjusted in cost of investment and goodwill/capital reserve.

e. Consolidated Profit & Loss shows the investor's share in the results of operations of the investee.

Investment revaluation using post acquisition profit. Such post acquisition profit will also be included in CPL. Calculate post acquisition profit by preparing AOP of associate.

ACCOUNTING STANDRDS- 24

DISCONTINUING OPERATION

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

1. Which is being **disposed off*** pursuant to a single plan.
2. That is a reportable segment in accordance with AS-17.
3. That is financially and operationally separable.

*Where disposed off means

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

REPORTING OF DISCONTINUING OPERATION

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

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

Following event is not regarded as discontinuing operation

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

ACCOUTING STANDARDS – 25

INTERIM FINANCIAL REPORTING

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

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

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

INCOME, EXPENSES AND LOSSES RECOGNITION IN CASE OF INTERIM PERIOD

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

GUIDANCE NOTES ON INTERIM FINANCIAL REPORTING FOR TAX TREATMENT

Following step should be following to recognised tax expenses:

Step 1.Calculate estimated annual income.

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

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

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

ACCOUNTING STANDARDS -26

INTANGIBLE ASSETS

INTANGIBLE ASSETS: Para- 6 Identifiable non-monetary assets without physical substance, used for production of goods, rendering of services or for administrative purpose.

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

RECOGNITION

Recognise only when future economic benefit ensured from the assets and cost can be measured using substantial degree of estimation or reliably. Recognise intangible assets to the extent of future economic benefit ensure from assets and amortise it in the ratio of future economic benefit ensured from assets over year, if ratio not available the in straight line method. Internally generated goodwill is not recognised as assets. Capitalisation of intangible assets begin from the date of it meet criteria to recognise intangible assets till become developed; Subsequent expenditure should always be treated as expenses and expenditure incurred before it should not be capitalise.

RESEARCH

Para 56- Expenditure incurred during research phase or before it should not be capitalise, it should be recognised as expenses when it is incurred. Start up, staff training, advertisement, relocating expenses and preliminary expenses should also be treated as expenses when it is incurred that is it should not be capitalise irrespective of future economic benefit resulting from expenditure.

IMPROVEMENT

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

DEVELOPMENT

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

Mnemonics: TIMR

1. Technical feasibility should exist.
2. Intention to develop should exist.
3. Marketability of assets should exist.

4. Resource to finance intangible should exist.\

Amortization

Intangible assets should be amortised over useful life but should not exceed 10 year in the ratio future economic benefit are consume by the enterprises, if the pattern cannot be determined reliably, the straight line method should be used.

AS 27: FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.
Following are the features of Proportionate Consolidation Method:

a. Stress is given on substance over form i.e., more importance is given to the share of venturers in the profit or loss of the venture from the share of assets and liabilities rather than the nature and form of the joint venture.
b. Venturer’s share of joint assets, liabilities, expenses and income are shown on the separate lines in the consolidated financial statement.

ACCOUNTING STANDARDS – 28

IMPAIRMENT OF ASSETS

IMPAIRMENT OF ASSETS: Impairment of assets means reduction in the value of assets. An asset is said to be impaired when carrying amount of assets falls below recoverable value of assets. Impairment loss charged to profit and loss account. If there is impairment loss on already revalued assets then impairment loss to the extent of revaluation surplus recognised against such revaluation surplus and beyond that charge to statement of profit and loss.

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

CASH GENERATING UNIT

Impairment loss = Carrying amount – Recoverable value

Carrying amount = Cost of assets – Accumulated depreciation

Recoverable value = **higher** of following

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

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

Journal entry

SPL A/c Dr xxxxxx

To provision for impairment loss xxxx

This provision for impairment loss is shown in balance *sheet* as accumulated depreciation, that is deducted from fixed assets.

INDICATOR OF IMPAIRMENT LOSS

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

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

NON-CASH GENERATING UNIT

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

Step 1- Bottom up approach

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

Step – II

Top down approach

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

REVERSAL OF IMPAIRMENT LOSS

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

- Impairment loss already recognised.

Or

- Recoverable amount - carrying amount

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

ACCOUNTING STANDARDS – 29

PROVISION, CONTINGENT ASSETS AND CONINGENT LIABILITIES

PROVISION

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

It should not be discounted except decommissioning, restoration or similar liabilities at pre tax rate. Periodic unwinding of discount should be recognised in SPL. Periodic unwinding up of discount is just a finance chargeon present value, so as to ultimately whole amount as become equal to absolute amount.

All the existing amount of provision made for decommissioning restoration and similar liabilities should be discounted prospectively

CONTINGENT LIABILITIES

A contingent liability is 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 with in the control of the entity.

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

CONTINGENT ASSETS

Neither any disclosure in financial statement nor any provision is required to be made. However, it is usually disclosed in report of approving authority.

DISCLOURE REQUIREMENT OF ALL ACCOUNTING STANDARDS AT A ONE PLACE

ACCOUNTING STANDARDS – 1

DISCLOSURE OF ACCOUNTING POLICIES

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

ACCOUNTING STANDARDS -2

VALUATION OF INVENTORIES

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

ACCOUNTING STANDARDS 3

CASH FLOW STATEMENT

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

ACCOUNTING STANDARDS – 4

EVENT OCCURRING AFTER THE BALANCE SHEET DATE

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

ACCOUNTING STANDARDS – 5

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

1. Prior period item should be separately disclosed.
2. If there is change in accounting policies, then following disclosure is required to be made:
    i. Old policy
    ii. New policy

iii. Reason for change in policy
iv. Affect resulting from change in policies.

ACCOUNTING STANDARDS- 7

CONSTRUCTION CONTRACT

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

ACCOUNTING STANDARDS -9

REVENUE RECOGNITION

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

ACCOUNTING STANDARDS – 10

ACCOUNTING FOR FIXED ASSETS

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

DEPRECIATION ACCOUNTING

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

ACCOUNTING STANDARDS-11

THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE

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

ACCOUNTING STANDARDS-12
GOVERNMENT GRANT

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

ACCOUNTING STANDARDS-13
ACCOUNTING FOR INVESTMENT

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

ACCOUNTING STANDARDS-15

EMPLOYEE BENEFITS

RECONCILIATION STATEMENT

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

DETAIL OF EXPENSES

Current Service cost	#####
Past Service cost	#####

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

DETAIL OF INVESTMENT

Provide detail of portfolio of investment made in plan assets.

ACTUARIAL ASSUMPTION

Regarding following

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

ACCOUNTING STANDARDS-16
BORROWING COST

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

ACCOUNTING STANDARDS-17

SEGMENT REPORTING

Primary segment disclosure

1. Segment revenue
2. Segment profit
3. Segment assets
4. Segment liabilities
5. Segment capital expenditure
6. Segment depreciation

7. Segment other non-cash expenditure.

Secondary segment disclosure

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

ACCOUNTING STANDARDS-18

RELATED PARTY TRANSACTION

Following should be disclosed.

Mnemonics: N_3DTV

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

ACCOUNTING STANDARDS-19

LEASE

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

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

Reconciliation Statement

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

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

ACCOUNTING STANDARDS-20

EARNING PER SHARE

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

ACCOUNTING STANDARDS – 22

ACCOUNTING FOR TAXES ON INCOME

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

ACCOUNTING STANDRDS- 24

DISCONTINUING OPERATION

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

ACCOUNTING STANDARDS -26

INTANGIBLE ASSETS

1. Separately disclosed in financial statement.

2. Addition, deletion, amortisation and impairment should be disclosed.
3. Amortisation method and period of amortisation should be disclosed.

ACCOUNTING STANDARDS – 28

IMPAIRMENT OF ASSETS

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

ACCOUNTING STANDARDS – 29

PROVISION, CONTINGENT ASSETS AND CONINGENT LIABILITIES

Provision should be disclosed as follows:

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

Difference between IAS and IndAS

IndAS	IAS	IndAS
1	In case of loan liabilities which is classified as non-current, if condition is breached on the balance sheet date such should be classified as current liabilities.	If there is breach of provision with respect to long term loan arrangement & lender agreed to waive and not to recall or demand payment before the approval of financial statement, then such will continue to classify as non-current liabilities.
17	In case of operating lease all lease rental should be charged to SPL on the straight line method.	In case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined.
101	On first time adoption of IAS recognise PPE by retrospective application of IAS-16 or the same should be recorded at fair value.	Provides addition option to use carrying amount.
28	For applying equity method in the preparation of investor financial statement uniform accounting policies should be used.	It added the word unless impracticable to do so in the paragraph 35.
28	In case of associate excess of net assets over cost of investment recognised in SPL.	Ind AS 103- in capital reserve
32	Equity conversion option in case of convertible bond considered as derivative liabilities. Gain or loss recognise in SPL	Equity conversion option in case of convertible bond considered as equity instruments.
103	Bargain purchase gain arising on business combination to be recognised in SPL.	In equity as capital reserve.

Difference between AS and indas

Generally used sentence

1. There no such provision in the existing accounting standards.
2. Existing AS doesn't contain any Specific explanation in respect of such.
3. Existing AS doesn't deal with the same.
4. It is differ from treatment provided under the existing accounting standards.
5. Disclosure requirement given in indas is more detailed as compare to existing accounting standards.

INDIAN ACCOUNTING STANDARDS	ACCOUNTING STANDARDS
Ind AS 1 and AS 1 : DISCLOSURE OF ACCOUNTING POLICIES	
Explicit Statement of Compliance:	
Whether comply with all Ind AS	Existing AS doesn't contain any Specific explanation in respect of such
Current and Non-current Classification:	
It provides criteria of classification	There no such provision in the existing accounting standards. It is provided in Schedule III.
Disclosure of Judgments and Assumptions made:	
Require disclose of judgement of management and key assumption.	Existing AS doesn't contain any Specific explanation in respect of such
Classification of Expenses:	
It require nature wise classification.	Existing AS doesn't contain any Specific explanation in respect of such
Presentation of Balance Sheet:	
At the beginning of earlier period when entity apply an accounting policies retrospectively.	Existing AS doesn't contain any Specific explanation in respect of such
Disclosure of Reclassified of Items:	
Requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.	Existing AS doesn't contain any Specific explanation in respect of such
Statement of Other Comprehensive Income:	
Follow single statement approach in two section, statement of profit and loss & other comprehensive income.	Existing AS doesn't contain any Specific explanation in respect of such
Classification of Long-term Loan Arrangement:	

If there is breach of provision with respect to long term loan arrangement & lender agreed to waive and not to recall or demand payment before the approval of financial statement, then such will continue to classify as non- current liabilities.	There no such provision in the existing accounting standards.

Ind AS 8 and AS 5: PRIOR PERIOD ITEM AND CHANGE IN ACCOUNTING POLICIE

Extraordinary Items:	
Prohibit disclosure of Extraordinary Items	Existing AS doesn't deal with the same.
Definition of Accounting Policies:	
Accounting policies means accounting principle and method of applying those principles, **base, conversion, rules & practice** adopted in the preparation and presentation of financial statement	Accounting policies means accounting principle and method of applying those principles adopted in the preparation and presentation of financial statement
Accounting for Changes in Accounting Policies:	
Accounting policies should be applied consistently from one year to next year for similar transactions, other events and conditions.	Existing AS doesn't contain any Specific explanation in respect of such
Exceptions in Retrospective Accounting of Changes in Accounting Policies:	
Accounted retrospectively.	Existing AS doesn't contain any Specific explanation in respect of such
Prior Period Items:	
Ind AS 8 uses the term 'errors' and relates it to errors or omissions arising from a failure to use or misuse of reliable information	Income or expenses recognised in current year due to error or omission in preparation of financial statement of earlier period, it should be provided prospectively. It should be disclosed separately.
Rectification of Material Prior Period Errors:	
Ind AS 8 requires rectification of material Prior period errors with retrospective effect	Existing AS 5 requires the rectification of prior period items with prospective effect.

Ind AS 10 and AS 4: EVENT OCCURRING AFTER THE BALANCE SHEET DATE

Non Adjusting Events if Material:	
Material non-adjusting events are required To be disclosed in the financial statements	The same to be disclosed in the report of approving authority.
Proposed Dividend:	

Dividend declared after reporting period but before approval of account cannot be recognised as a liability in the financial statements, because no obligation exists at that time.	No any provision should be made for proposed dividend, only disclosure in notes to accounts is required. It is a part of equity.
Accounting Treatment and Disclosure in case of Inappropriateness of Fundamental Accounting Assumption of Going Concern:	
Requires a fundamental change in the basis of accounting.	If it is not expected to continue for foreseeable future depreciation and provision not provided, assets is disclosed at realisable value and liabilities at payable value
In case of breach of a material provision of a long-term loan arrangement:	
If there is breach of provision with respect to long term loan arrangement & lender agreed to waive and not to recall or demand payment before the approval of financial statement, then such will continue to classify as non- current liabilities.	There no such provision in the existing accounting standards.

Ind AS 34 and AS 25

Contents of Interim Report:	
In case of interim financial reporting, Condensed Statement of profit and loss, Condensed Balance sheet and Condensed Cash flow statement **and** in addition to the above, **a condensed statement of changes in equity**. Should be presented	In case of interim financial reporting, Condensed Statement of profit and loss, Condensed Balance sheet and Condensed Cash flow statement should be presented.
Reversal of Impairment Loss:	
Prohibits reversal of impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.	There is no such specific prohibition in the Existing standard.
Accounting Policies:	
Same accounting policies & method of computation should be followed in interim period.	Same accounting policies should be followed.
Contingent Liabilities and Contingent Assets:	
Requires furnishing of information on both contingent liabilities and contingent assets, if they are significant	Furnishing of information on contingent liabilities only
Change in Accounting Policy:	

Apportioned over interim period proportionately. Ind AS 34 additionally requires restatement of the comparable interim periods of prior financial years	Apportioned over interim period proportionately.
Ind AS 12 and AS 22	
Approach for creating Deferred Tax:	
Balance sheet approach	Statement of Profit and loss approach.
Recognition of Current and Deferred Tax:	
Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised	Para 15- Recognise deferred tax assets only when reasonable certainty that there will be sufficient future taxable income against which it can be realised
Recognition of Current and Deferred Tax for unabsorbed losses and depreciation	
Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised	Para 17 Deferred tax will be created on unabsorbed depreciation only when there is virtual certainty supported by convincing evidence that there will be future income against which such deferred tax assets can be realised.
Disclosure of DTA and DTL in Balance Sheet:	
Ind AS 12 does not deal with this aspect except that it requires that income tax relating to each component of other comprehensive income shall be disclosed as current or non-current asset/liability in accordance with the requirements of Ind AS 1.	It require disclosure of deferred tax assets and deferred tax liabilities in the balance sheet.
Disclosure Requirements:	
Disclosure requirement given in indas is more detailed as compare to existing accounting standards.	Limited disclosure
Ind AS 2 and AS 2 : VALUATION OF INVENTORIES	
Machinery Spares:	
Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular;	Existing AS doesn't contain any Specific explanation in respect of such
Inventories Acquired on Deferred Settlement Terms:	
If it is acquired in deferred credit term then the difference between the purchase price in case of normal credit term and the amount paid, is recognised as interest expenses.	Existing AS doesn't contain any Specific explanation in respect of such
Cost Formulae:	
Use of consistent cost formula for all inventory.	Specifically provides that the formula used in determining the cost of an item of inventory should

	reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

Ind AS 37 and AS 29

Discounting Provisions:	
Require discounting	Prohibit discounting Discounting only in case of **decommissioning, restoration or similar liabilities at pre tax rate.**
Disclosure of Contingent Assets:	
Requires disclosure of contingent assets in the financial statements when the inflow of economic benefits is probable.	Prohibit disclosure in financial statement only disclosure in report of approving authority.

Ind AS 38 and AS 26 :INTANGIBLE ASSETS

Definition of Intangible Assets:	
Identifiable non-monetary assets without physical substance, ~~used for production of goods, rendering of services or for administrative purpose.~~	Identifiable non-monetary assets without physical substance, used for production of goods, rendering of services or for administrative purpose.
Revenue Based Amortisation Method:	
Amortise intangible assets on the basis of revenue generated by an activity.	Existing AS doesn't deal with the same.
Payment Deferred beyond Normal Credit Terms:	
If it is acquired in deferred credit term then the difference between the purchase price in case of normal credit term and the amount paid, is recognised as interest expenses.	Existing AS doesn't contain any Specific explanation in respect of such
Intangible Assets Acquired in Exchange:	
Recognised at fair value.	Recognised at fair market value of book value.
Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant:	
Recognised at fair value	Recognised at nominal value or acquisition cost.
Useful Life of an Intangible Asset:	
It may be indefinite	Either finite over life of intangible assets or 10 year.
Valuation Model as Accounting Policy:	
Either cost model or revaluation model	Revaluation model is not permitted.
Change in Method of Amortization:	
It is change in accounting estimate.	It is change in accounting policies

Ind AS 40 and AS 13 : ACCOUNTING FOR

INVESTMENT

Disclosure requirement given in indas is more detailed as compare to existing accounting standards. It is detail standards dealing with various aspect.	Limited guidance on investment propeties
Applies to Owner Lessee under Financial Lease Lessor under operating lease Holds Land or Building or a part of Building for earning rentals or capital appreciation Assets can be under operating lease	Lease cover under AS 19

Ind AS 36 and AS 28: IMPAIRMENT OF ASSETS

Financial Assets:	
Also applies to financial assets such as investment in subsidiary, associate and joint venture.	Doesn't apply on such assets.
Biological Assets:	
Specifically excludes biological assets related to agricultural activity.	Does not specifically exclude biological assets.
Impairment Testing for an Intangible Asset with an Indefinite Useful Life:	
Annual impairment testing for intangible assets.	Not require the annual impairment testing for goodwill.
Reversal of Goodwill:	
Prohibits the recognition of reversals of impairment loss for goodwill.	May be in exceptional circumstances.
Bottom up and Top Down Test:	
There is no bottom-up or top-down approach for allocation of impairment loss over goodwill and other assets.	Impairment loss for non-cash generating unit is calculated in two steps, first bottom up approach and second top down approach.

Ind AS 17 and AS 19 : LEASE

Land:	
Dealing with leases of land and building applicable.	Excludes leases of land from its scope
Treatment of Initial Direct Costs:	
It is differ from treatment provided under the existing accounting standards.	
Current/Non-current Classification of Lease Liabilities:	
Requires current/noncurrent classification of lease Liabilities if such classification is made for other	Existing AS doesn't contain any Specific explanation in respect of such.

liabilities.	
Sale and Leaseback Transaction:	
Not specified the method of amortisation. That is retains the deferral and amortisation principle.	Contain detailed defer and amortisation method.
Recognition of Lease Payments:	
In case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined.	Existing AS doesn't contain any Specific explanation in respect of such.
Ind AS 105 and AS 24: DISCONTINUING OPERATION	
Scope and Objective*:*	
Deals with accounting for non-current assets held for sale, and the presentation and disclosure of *discontinued operations*.	Deals only with Discontinuing operation.
Discontinued vs Discontinuing Operations*:*	
A discontinued operation is a component of an entity that either has been disposed off or is classified as held for sale.	DISCONTINUING OPERATION: An operation is said to be discontinuing operation: 1. Which is being disposed off pursuant to a single plan. 2. That is a reportable segment in accordance with AS-17. 3. That financially and operationally separable?
Time Period*:*	
The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions	Does not specify any time period in this regard as it relates to discontinuing operations.
Initial Disclosure Event*:*	
Not mention.	Reporting of discontinuing operation is required to be made when initial disclosure event takes place
Measurement*:*	
Lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet.	AS 10 deal with itProfit or loss on sale of fixed assets is recognised in Statement of Profit and loss.
Ind AS 24 and AS 18: RELATED PARTY TRANSACTION	
Definition of Relative:	
"a close member of the family of a person" Who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: A. That person's children, spouse or domestic partner, brother, sister, father and mother; B. Children of that person's spouse or domestic partner; and	"relatives of an individual

C. Dependants of that person or that person's spouse or domestic partner.	
State Controlled Enterprise:	
"an entity that is controlled, jointly controlled or significantly influenced by a government."	*"an enterprise which is under the control of the Central Government and/or any StatGovernment(s)".*
Key Management Personnel:	
Includes KMP of entity and parent.	KMP of entity only.
Next Most Senior Parent:	
Requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use	There no such provision in the existing accounting standards

Ind AS 108 and AS 17

Identification of Segments*:*	
It is based on 'management approach' i.e. Operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker.	Segment is identified as business segment or geographical segment. Business segment identified on the basis of production of good or rendering of services. Geographical segment identified on the basis of situated in different geographical location.
Single Reportable Segment*:*	
Requires certain disclosures even in case of entities having single reportable segment	There is not such requirement.
Interest Expense*:*	
Requires the separate disclosures about interest revenue and interest expense of each reportable segment	Excludes interest
Disclosures*:*	
Disclosure requirement given in indas is more detailed as compare to existing accounting standards.	

Ind AS 7, AS 3 :CASH FLOW STATEMENT

Bank Overdraft Repayable on Demand:	
Includes bank overdrafts which are repayable on	Existing AS doesn't contain any Specific explanation

demand as a part of cash and cash equivalents.	in respect of such.
Treatment of Cash Payments to property dealer who held for sale, as Rent.	
Cash flows from operating activities	Existing AS doesn't contain any Specific explanation in respect of such.
Cash Flows associated with Extraordinary Activities:	
Separate disclosure.	Existing AS doesn't contain any Specific explanation in respect of such.

Ind AS 20, AS 12 :GOVERNMENT GRANT

Grant in respect of Non Depreciable Assets:	
Grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.	Credited to capital reserve or shown as deduction from the gross value of assets.
Government Grants in the Nature of Promoters Contribution:	
Grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.	Credited to capital reserve
Valuation of Non-monetary Grants given Free or at a Concessional Rate:	
Fair value.	Nominal value.
Accounting for Grant Related to Assets including Non-monetary Grant:	
Only deferred income.	Either deferred income or reduced from cost of assets.

Ind AS 21, AS 11 :THE AFFECT OF CHNAGE IN FOREIGN EXCHANGE RATE

Forward Exchange Contracts and other similar Financial Instruments:	
Excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with Ind AS 109.	There is no such exclusion.
Exchange Differences arising on Translation of Certain Long-term Monetary Items From Foreign Currency to Functional Currency:	
Dealt in accordance with indas 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.	PARA-46 Depreciable Assets: Exchange difference related to depreciable assets, Capitalised to assets and depreciate It over life of assets. Non depreciable assets: Exchange difference shown as FOREIGN CURRENCY MONETARY ITEM (FCMIT) Difference account under head of RESEREVE AND SURPLUS if credit balance and under head of non-current assets if Debit balance. It is written off over

	life of LTFCMI but not beyond 31st March 2020.
Approach for Translation:	
Functional currency approach.	Determine the foreign operations as non –integral foreign operations OR integral foreign for accounting purpose.
Ind AS 23, AS 16: BORROWING COST	
Qualifying Asset measured at Fair Value:	
Does not require an entity to apply this standard to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value,	AS 16 does not provide for such scope relaxation.
Applicability to Inventories:	
Not apply to inventory which are repetitive in nature.	Existing AS doesn't contain any Specific explanation in respect of such.
Explanation of Substantial Period of Time:	
It doesn't contain any Specific explanation in respect of such.	Qualifying assets means, Assets which takes substantial period of time to get ready to use or sale, that is exceeding 12 month.
Disclosure of Capitalisation Rate:	
Require disclosure,	Not require any disclosure.
Ind AS 19, AS 15 :EMPLOYEE BENEFITS	
Constructive Obligations:	
It cover .	It doesn't cover.
Definition of Employee:	
Includes all director.	Includes only whole time director.
Qualified Actuary:	
It specifically encourage the valuation by qualified actuary.	Does not specifically encourage the same
Recognition of Actuarial Gains and Losses:	
In other comprehensive income.	In SPL.
Financial Assumptions:	
Based on market expectation.	Not clarify the same.
Discounting of Post-employment Benefit Obligations:	
Require discounting with reference to market yields at the end of the reporting period on high quality corporate bonds	The rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.
Ind AS 33 and AS 20 EARNING PER SHARE	
Presentation of Basic and Diluted EPS from Continuing and Discontinued Operations:	
Requires presentation of basic and diluted EPS from continuing and discontinued operations separately.	Existing AS doesn't contain any Specific explanation in respect of such.
Options held by the Entity on its Shares:	

Deals with same.	Doesn't deal.
Disclosure of EPS with and without Extraordinary Items:	
Since as per Ind AS 1, '*Presentation of Financial Statements*', no item can be presented as extraordinary item, Ind AS 33 does not require the aforesaid disclosure.	Existing AS 20 requires the disclosure of EPS with and without extraordinary items.

Ind AS 28, AS 23

Definition of Significant Influence:	
'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'. Ind AS 28 defines joint control also.	'power to participate in the financial and/or operating policy decisions of the investee but is not control over those policies'.
Potential Equity Shares:	
existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not.	For considering share ownership for the purpose of significant influence, potential equity shares of the investee held by investor are not taken into account
Equity Method:	
Ind AS 28 requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary.	only when the entity has subsidiaries and prepares Consolidated Financial Statements.
Exemption:	
No such exemption is provided in Ind AS 28.	One of the exemptions from applying equity method in the existing AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee.
Explanation regarding the term 'Near Future':	
This explanation has not been given in the Ind AS 28 as such situations are covered by Ind AS 105, '*Non-current Assets Held for Sale and Discontinued Operations*'	An explanation has been given in existing AS 23 regarding the term 'near future'
Investment Classified as Held for Sale:	
Ind AS 28 requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal	AS 23 does not specifically deal with this aspect.

of that portion of the interest would fulfill the criteria to be classified as held for sale in accordance with Ind AS 105.	
Difference in Reporting Dates:	
As per Ind AS 28, length of difference in the reporting dates of the associate or joint venture should not be more than three months unless.	The existing AS 23 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. There is no limit on the length of difference in the reporting dates of the investor and the associate
Accounting Policies:	
Both the existing AS 23 and Ind AS 28 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate.	The existing AS 23 provides exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies.
Share in Losses:	
As per Ind AS 28, carrying amount of investment in the associate or joint venture determined using the equity method together with any long term interests that, in substance form part of the entity's net investment in the associate or joint venture shall be considered for recognising entity's share of losses in the associate or joint venture.	As per existing AS 23, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associate.

Ind AS 103 and AS 14

Scope	
Defines a business combination which has a wider scope.	Deals only with amalgamation.
Methods for Accounting:	
Only the acquisition method for every business combination	An amalgamation may be either in the nature of merger of nature of purchase.

Assets and Liabilities:	
At fair value.	At book value or fair value.
Amortisation of Goodwill:	
The goodwill is not amortised but tested for impairment on annual basis in accordance with Ind AS 36	The goodwill arising on amalgamation in the nature of purchase is amortised over a periodnot exceeding five years
Reverse Acquisitions:	
Deal with the same.	Does not deal with the same.
Bargain Purchase Gain:	
Recognised in other comprehensive income and accumulated in equity as capital reserve,	It shall be recognised directly in equity as capital reserve
Ind AS 111 and AS 21	
Mandatory preparation of Consolidated Financial Statements:	
Makes the preparation of Consolidated Financial Statements mandatory for a parent	Not mandatory.
Control:	
	More than one-half of the voting power of an enterprise or control of the composition of the board of directors or governing body
Clarification on more than one Parent of a Subsidiary:	
Doesn't provide clarification	Provides clarification.
Difference in Reporting Dates:	
Not exceeding 3 month.	Not exceeding 6 month.
Uniform accounting policies:	
Require the use of uniform accounting policies.	Require the use of uniform accounting policies. Unless it is impracticable.
Presentation of Non-controlling Interest in CFS:	
Non-controlling interests shall be presented in the consolidated balance sheet within equity separately from the parent shareholders' equity.	Minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders.
Exclusion from Consolidation:	
No such exclusion	Excludes from consolidation when investment is temporary.
Ind AS 110 andas 27	
Types of Joint Arrangement/Joint Venture:	
A joint arrangement is either a joint operation or a joint venture.	Recognises three forms of joint venture namely: (a) jointly controlled operations, (b) jointly controlled assets and (c) jointly controlled entities.
Equity method:	
Provides that a venturer can recognise its interest in joint venture using only equity method	Prescribes the use of proportionate consolidation method only.
Major Changes in Ind AS 11 vis-à-vis Notified AS 7	
(i) ***Inclusion of Borrowing costs:***	

Ind AS 11 does not specifically make reference to Ind AS 23.	Existing AS 7 includes borrowing costs as per AS 16, Borrowing Costs, in the costs that may be attributable to contract activity in general and can be allocated to specific contracts,
(ii) ***Fair Value***	
Ind AS 11 requires that contract revenue shall be measured at fair value of consideration received/receivable.	Existing AS 7 does not recognise fair value concept as contract revenue is measured at consideration received/receivable
(iii) ***Accounting for Service Concession Arrangements***	
Appendix A of Ind AS 11 deals with accounting aspects involved in such arrangements and Appendix B of Ind AS 11 deals with disclosures of such arrangements.	Existing AS 7 does not deal with accounting for Service Concession Arrangements, i.e., the arrangement where private sector entity (an operator) constructs or upgrades the infrastructure to be used to provide the public service and operates and maintains that infrastructure for a specified period of time
Major Changes in Ind AS 18 vis-à-vis Notified AS 9	
(i) ***Definition of 'Revenue':***	
Definition of 'revenue' given in Ind AS 18 is broad compared to the definition of 'revenue' given in existing AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants.	On the other hand, as per the existing AS 9, revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.
(ii) ***Measurement of Revenue:***	
requires the revenue to be measured at fair value of the consideration received or receivable.	As per existing AS 9, revenue is recognised at the nominal amount of consideration receivable.
(iii) ***Barter Transactions***:	
Ind AS 18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature.	This aspect is not dealt with in the existing AS 9.
(iv) ***Recognition of Separately Identifiable Components:***	

Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.	Existing AS 9 does not specifically deal with the same.
(v) ***Recognition of Interest:***	
recognised using effective interest rate method	recognition of revenue from interest on time proportion basis
(vi) customer loyalty programme	
: Ind AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme.	Existing AS 9 does not deal with this aspect.
(vii) ***Disclosure Requirements:***	
Disclosure requirements given in the Ind AS 18 are more detailed as compared to existing AS 9.	Less disclosure.