BCCA

CMA FINAL

CFR
CONCEPT BOOK

PAPER 18

CA CMA ANANTH SHARMA

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Preface to First Edition of CFR

We are delighted to place Corporate Financial Reporting in the hands of our readers. This book is mainly designed to provide the utmost conceptual clarity in a simplified manner. At the same time, every effort has been made to fulfill the needs of students appearing for CMA Final

This book is structured by complying Ind AS rules and regulatios.Every topic covered in this book are relevant for CMA offline examination. A single point solution for students who can can get at least 80 marks with conceptual knowledge.

A special thanks to all my colleagues and friends who motivated and supported me to bring this material to you.

I would like to dedicate this book to Goddesses Kameshwari Devi and my Father

P. Ananth

CA CMA Ananth Sharma

Dreams never comes true unless you have a courage to fulfill it ......

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Meaning

It is the tangible property held by the organisation-

- ✓ For use in production or supply of goods and services, for rentals to others or for administrative purpose.
- ✓ Expected to be used during more than one period.
- ✓ Not held for sale in the normal course of business.

Objective

The standard prescribe the accounting treatment for property, plant and equipment so that users of financial statement's understand the information about the investment in it's Property, Plant & Equipment

Recognition principle

- ✓ Recognition criteria.
- ✓ Recognition in BOA

Measurement Principle

At what price the PPE can be recognise in BOA

Scope

This standard applied in accounting for property, plant and equipment, but not applicable to the following :

- Biological assets related to agricultural activities other than bearer plant
- Wasting assets including mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar other non-regenerative resources
- PPE classified as held for sale as per Ind AS 105

What is bearer plant?

- ✓ Used in the production or supply of agricultural produce
- ✓ More than a period of 12 months
- ✓ In remote it can be sale like agricultural produce except for incidental scrap

Note: however this standard doesn't apply to the produce on bearer plant

Recognition criteria:

Property, plant and equipment should be recognise only if the following conditions were satisfied:

- It is probable that future economic inflows must be generated
- Cost of the asset can be measured reliably

Recognition of property, plant and equipment

- Initial recognition → At the time of acquisition or construction of PPE
- Subsequent recognition → At the time of preparation of balance sheet

Measurement principle

Property, plant and equipment initially recognised at cost price. It can be calculated as follows:

a. In case of Consideration paid in the form of cash

Particulars	Amount
Initial purchase price	xxx
Less: Trade discount	(xxx)
Actual purchase price	xxx
Add: Freight	xxx
Add: Non-refundable taxes	xxx
Add: All direct expenses	xxx
Add: PV of demolishing charges	xxx
Add: Borrowing cost (as per Ind AS 23)	xxx
Less: Government grant	(xxx)
Cost price of PPE	xxx

Direct expenses

Any expenditure incurred for bringing the asset into current location and condition
Here, condition means asset ready to use

The following expenses are excluded in capitalisation:

- ✓ General administration and other overhead expenses are usually excluded from the cost. If it is directly attributable to construction of project or acquisition of PPE or to bring it to working condition for it's intended purpose, it should be included in the cost of PPE
- ✓ Abnormal loss
- ✓ Cost of relocating or reorganising part or all of the entity's operations

b. Consideration other than cash

(i) Exchange of assets

↓

Ind AS-16 specifies that exchange of items of PPE, measured at fair value of asset given up or asset acquired if it is more evident unless:

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither of the assets exchanges can be measured reliably.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Example

NRC Ltd exchange car X with a book value of 13,000 having a fair value of 13,250 for cash of 150 and car Y which has a fair value of 13,100. The transaction lacks commercial substance as a company's cash flows are not expected to change as a result of the exchange. Therefore, NRC Ltd recognise, asset received at the book value of car X, cash of 150 and carrying value of car Y is 12,850.

(ii) by issue of securities:

Cost of PPE can be consider as follows:

Fair market value of asset given up/shares issue

(or)

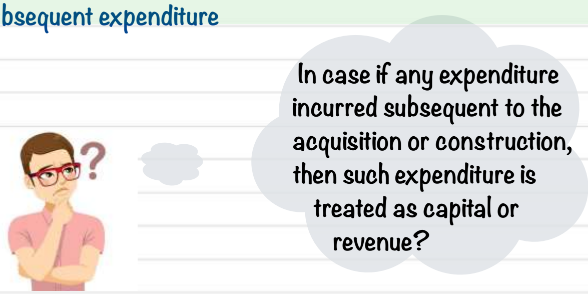
Fair market value of the asset received which ever is clearly evident

c. In case of self construction

cost can be calculated as follows:

All cost incurred for construction	xxx
Add: All allocated costs directly related for construction .	xxx
Cost of property, plant and equipment .	xxx

Subsequent expenditure



Major asset replacement and overhauling should be capitalised and depreciated over the useful life other than this remaining all subsequent expenditure is treated as revenue in nature and transfer to profit and loss account

Subsequent recognition

Cost model

Cost of PPE	xxx
Less: Acc Depreciation	(xxx)
Less: Impairment loss	(xxx)
Carrying value	xxx

Revaluation model

Revalued amount	xxx
Less: Acc Depreciation	(xxx)
Less: Impairment loss	(xxx)
Carrying value	xxx

Note: in case of revaluation model, accumulated depreciation and impairment loss should be deducted for calculation of book value only if it is subsequent to the revaluation

Revaluation of PPE

Upward revaluation

First time revalue upward of PPE

Such increased value should be transfer to Revaluation Reserve or Capital Reserve. Then the journal entry is-

PPE A/c Dr
  To Revaluation Reserve A/c

Subsequent revalue upward of PPE

To the extent earlier revaluation downward transfer to P&L A/c and beyond that it should be transfer to Revaluation Reserve or capital Reserve A/c. Then the journal entry is-

PPE A/c Dr
  To P&L A/c
  To Revaluation Reserve A/c

Downward Revaluation

First time Revaluation downward

Such decreased value should be transfer to P&L A/c. Then the journal entry is-

P&L A/c Dr
  To PPE A/c

Subsequent revaluation downward of PPE

To the extent earlier upward in earlier set off from Revaluation Reserve and then remaining decreased value transfer to P&L A/c. Then the journal entry is-

Revaluation Reserve A/c Dr
P&L A/c Dr
  To PPE A/c

Note: Revaluation model is an option given to the entity (i.e., it is not mandatory). When an item of PPE is revalued, the entire class of assets to which the item belongs must be revalued

Depreciation

✓ The depreciation amount of an asset shall be allocated over its useful life on systematic basis.

The following factors to be considered for calculation of depreciation

a. Cost of the asset
b. Scrap value or residual value.
c. Useful life of the asset.

✓ useful life and residual value must be reviewed at least at the end of the financial year.

✓ the amount of depreciation charged at the end of the each period should be recognised as an expenses and transferred to profit and loss account

✓ AS 10 does not specify a method to be used

Component method of depreciation

This can be followed by the entity if all the following conditions were satisfied :

Components of the asset can be identified separately	+	Cost of components can be calculated separately	+	Useful life of each component can be estimated separately

If all the above conditions were satisfied then depreciation needs to be calculated for each and every component separately otherwise depreciation needs to be calculated for the entire asset.

Methods of depreciation

1. Straight-line method : constant amount of depreciation over useful life
2. Diminishing balance method : amount of depreciation can be decreased over useful life
3. Production unit method: depreciation is based on output or expected use .

Note: If any changes in method of depreciation, re-estimation of life of the asset or re-estimation of scrap value leads to prospective effect (i.e., from the date of changes take place)

De-recognition of PPE

De-recognition means disposal of an item of PPE may occur in either by sale of asset or by entering into a finance lease or by donation.

At this time, the accounting treatment is as follows:

Accounting treatment

- Cost model
  - Profit or loss on disposal should be transferred to P&L A/c
- Revaluation model
  - If loss on disposal of PPE occurred
    - If revaluation surplus exists, then following steps to be consider:
      Step 1: Loss on disposal set off from revaluation surplus
      Step 2: Remaining loss if any transferred to P&L A/c
      Note: If no revaluation surplus exists, then entire loss transferred to P&L A/c
  - If profit on disposal of PPE generated
    - Entire profit on disposal transferred to P&L A/c

Meaning

It is an identifiable non- monetary asset without physical substance

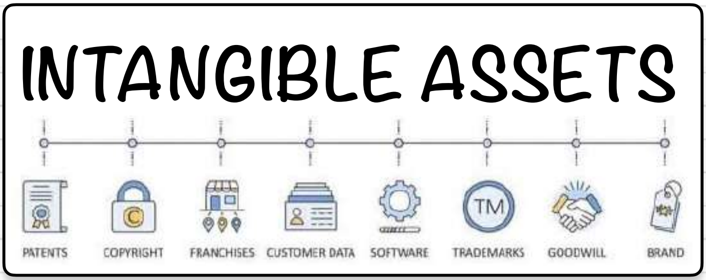
Analysis of meaning:

1. Identifiable Asset: An intangible asset is identifiable when
   - It is clearly distinguishable from goodwill
   - Economic inflows which were generated separately

Economic resources which were generated by way of usage of intangible asset either-
- Production purpose
- Administration purpose
- Rendering of services
- Rental purpose

2. Non- monetary asset means other than monetary asset.
   monetary asset means cash in hand and at bank as well as amount receivable.
   Example for monetary asset:- Bills receivable, Debtors, etc.

3. Physical substance means can be seen and touchable.



Note: If any asset which constitutes both tangible as well as intangible, then it can be classified on the basis of integral part of identifiable asset.

Example:-
- ✓ Compact disc- contains both tangible and intangible in nature. The integral part of the disc is software because without software, compact disc has no use. Therefore, it is treated as intangible asset
- ✓ Legal documentation in case of licence or patent
- ✓ Film in case of motion pictures

Objective

The objective of this standard is to prescribe the accounting treatment of Intangible assets that are not dealt with specifically in another standard

Accounting treatment
↓
- Recognition principle
  ↓
  ✓ Recognition criteria
  ✓ Recognition principle
- Measurement principle
  ↓
  At what price the intangible asset can be recognised in BOA

Scope

This standard applicable for all the type of Intangible assets but not applicable for the following Intangible assets:

✓ Intangible assets held for sale in the ordinary course of business (Ind AS 2)
✓ Intangible assets held for sale or discontinuing operations (Ind AS 105)
✓ Goodwill generated in a business combinations (Ind AS 103)
✓ Asset generated from employee benefits (Ind AS 19)
✓ Lease of Intangible assets (Ind AS 116)
✓ Such intangible assets covered under another Ind AS

Recognition criteria:

Intangible assets should be recognise only if the following conditions were satisfied:

- It is probable that future economic inflows must be generated
- Cost of the asset can be measured reliably

Recognition of Intangible assets in BOA

- Initial recognition
  ↓
  At the time of acquisition or development of intangible assets
- Subsequent recognition
  ↓
  At the time of preparation of balance sheet

Measurement principle

Intangible asset initially recognise at cost price, it can be calculated on the basis of following:

A. Consideration paid in form of cash

Particulars	Amount
Initial purchase price	xxx
Less: Trade discount	(xxx)
Add: Non- refundable taxes	xxx
Add: Registration charges	xxx
Add: Brokerage cost	xxx
Add: Professional fee for legal services	xxx
Add: Any directly attributable cost to make the asset ready for its intended use	xxx
Less: Government Grant	(xxx)
Historical cost	xxx

The following cost are not considered while calculation of historical cost:

- ✓ Cost of promotional expenses like advertisement
- ✓ Administration and general overheads
- ✓ Cost of relocating the business in a new location

B. Consideration other than cash

(i) Exchange of assets

↓

Ind AS-38 specifies that exchange of items of Intangible assets, measured at fair value of asset given up or asset acquired if it is more evident unless:

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither of the assets exchanges can be measured reliably.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

(ii) by issue of securities:

↓

Cost of intangible assets can be consider as follows:

Fair market value of asset given up/shares issue

(or)

Fair market value of the asset received which ever is clearly evident

In case of internally generated intangible assets

Cost of Intangible assets includes:

Cost of material / services consumed in generation of Intangible assets	xxx
Add: salaries, wages & other employment benefits paid to employees who is engaged in development process	xxx
Add: All costs which are directly related to generation of intangible assets Like registration fee, amortisation of patents, etc.	xxx
Add: All overheads which were allocated on a reasonable and consistent basis	xxx
Add: Borrowing cost which were capitalised as per Ind AS 23.	xxx

Note: the following costs should not be capitalised while calculation of cost of Intangible asset:

- ✓ Selling overheads
- ✓ Administration overheads (if it is directly related to generating the intangible asset can be capitalised)
- ✓ Abnormal loss of material, labour or any other inefficiencies
- ✓ Training costs to operate the asset (If training cost is for generating the asset then it should be capitalised)
- ✓ Initial operating losses

special provisions

Internally generated goodwill and brands

Internally generated goodwill and brands should not be recognised as an asset because it is not identifiable asset controlled by the entity and the cost of these cannot be measured reliably

Other internally generated intangible assets

Sometimes it is difficulty to determine whether the internally generated intangible assets meet the recognition criteria as discussed in earlier of the standard

The process of internally generated into two phases:

Research phase	Development phase
↓	↓
Research expenses should be charged to P&L A/c whenever they are incurred	Cost incurred for development phase can be capitalised as an intangible asset under development only when the entity satisfies the following all conditions-

Conditions for capitalisation of development expenses

1. There must be a technical feasibility to complete the intangible asset
2. The entity has an intention to complete the development process of intangible asset
3. Adequate technical, financial, other resources are available to complete the development process of intangible asset
4. Such intangible asset will generate the probable future economic inflows
5. The entity can reliably measure the expenditure incurred for the development activity

Research phase

Research is → Original & Planned → Investigation for new → Scientific or technical → Knowledge or understanding

Development phase

Development is → application of → research knowledge / other knowledge → For production of new/ substantially improved
✓ product/services
✓ devices/processes
Prior to commencement of commercial production or use

Subsequent expenditure

In case if any expenditure incurred subsequent to the acquisition or development, then such expenditure is treated as capital or revenue?

If any subsequent expenditure incurred which increases the probable economic inflows and such expenses arre measured reliably treated as capital expenditure otherwise treated as revenue expenditure

Subsequent recognition

Cost model		Revaluation model	
Cost of PPE	xxx	Revalued amount	xxx
Less: Acc Depreciation	(xxx)	Less: Acc Depreciation	(xxx)
Less: Impairment loss	(xxx)	Less: Impairment loss	(xxx)
Carrying value	xxx	Carrying value	xxx

Note: Revaluation model is an option to the entity (i.e., it is not mandatory). This method is to be select only when the fair value of intangible assets measured reliably

Amortisation

- ✓ Amortisation is the systematic allocation of depreciable amount of an intangible asset over its useful life
- ✓ Depreciable amount = cost (or) revalued amount less Residual value
- ✓ Method of depreciation is same like PPE (Ind AS 16)
  - Straight line method
  - Written down value method
  - Units of production methods

Review of Amortisation method and useful life

- ✓ Amortisation method and useful life for an intangible asset shall be reviewed at least once in a year (i.e., at the end of the year)
- ✓ If there is any changes in useful life or method of depreciation treated as changes in accounting estimates and it will be accounted for prospectively

Note:

- ✏️ In general, intangible asset is to be amortised over the maximum period of 10 years but if the entity proved that such intangible asset is expected to be used more than 10 years then such intangible asset is to be amortised more than 10 years.
- ✏️ If life of the intangible asset is infinite, then there is no concept of amortisation. Such intangible assets is to be impaired at the reporting date as per Ind AS 36 "Impairment of assets"

Retirement and disposal

An intangible asset should be de-recognised from the balance sheet on disposal or when future economic inflows are not expected from its use or disposal

The difference between consideration received and carrying amount is treated as gain or loss and it should be transfer to Profit & Loss A/c

Objective:

The objective of this standard is to prescribe the accounting treatment of impairment loss and reversal of impairment loss.

- Recognition principle → Recognition of impairment loss
- Measurement principle → Determination of impairment loss

Meaning:

At the end of the year, while calculation of financial position of the entity, needs to consider recoverable value of assets. In case recoverable value of assets is less than carrying amount, then it is reated as impairment of assets

Scope:

This standard applicable for all the identifiable assets includes financial assets such as investment in Subsidiary or Associate or Joint venture but not applicable for the following:

- ✓ Inventories
- ✓ Biological assets related to agricultural activities
- ✓ Non-current assets held for sale in accordance with Ind AS 105
- ✓ Financial Assets
- ✓ Contract that are recognised in accordance with Ind AS 115
- ✓ Deferred Tax Assets
- ✓ Assets arising from employee benefits

Calculation of impairment loss:

Impairment loss = Carrying value - Recoverable value

Carrying value can be calculated on the basis of either cost model or revaluation model which can be discussed clearly in the following manner:

Under Cost model		Under Revaluation model	
Cost	xxx	Revalued amount	xxx
Less: Accumulated Depreciation	(xxx)	Less: Accumulated Depreciation	(xxx)
Carrying Amount before impairment	xxx	Carrying amount before impairment	xxx

Recoverable value: Expected value that can be recoverable by the entity in case of sale of asset. It can be calculated on the basis of following:

Fair value less cost to disposal
(or)] ↑
Value in use

Value in use ⟶ Present Value of estimated future cash inflows
↓
Estimated future cash inflows x PV Factor

NOTE:
- ✏️ Estimated future cash inflows arising from the continuing use & ultimate disposal of assets.
- ✏️ Future cash inflows can be estimate by applying reasonable assumption
- ✏️ Apply the appropriate discount rate to the cash inflows by considering time value of mooney and risk specific to that asset

Example:

CAAS Ltd ⟶ Purchased Plant & machinery worth ₹ 10 lakhs on 1st Apr, 2020
Estimated life of the P & M is 10 years ⟶

Mr. Ananth

On 31st mar, 2023, entity estimates that PV of expected future cash inflows are ₹6L
Expected sale price of the same asset is ₹ 5L and selling expenses of ₹ 20K
Carrying amount of P & M as on 31st mar, 2023 is

Cost of P&M	10,00,000
Less: Acc. Depreciation	(3,00,000)
$\frac{10,00,000}{10}$ x 3 years	
Carrying amount	7,00,000

Fair value less cost to disposal = 5,00,000 - 20,000
= 4,80,000

Recoverable value = fair value less cost to disposal or value in use, whichever is higher
= 4,80,000 or 6,00,000, whichever is higher
= 6,00,000

Impairment loss = 7,00,000 - 6,00,000
= 1,00,000

Impairment testing:

In general, impairment process can be made only for individual assets which generates cash. If individual assets not generates cash then apply the concept of "Cash Generating Unit"

Cash Generating Unit (CGU) → It is a group which contains similar nature of identifiable assets which generates cash flows

<u>Steps for impairment testing for CGU is as follows:</u>

Step 1: Calculate the carrying amount of CGU

Step 2: Calculate recoverable value of CGU

Step 3: Identify the impairment loss of entire CGU, if carrying amount of CGU is greater than recoverable value of CGU.

Step 4: Allocation of impairment loss to the assets involved in CGU. Such allocation shall be made in the following manner:

- ✎ Initially impairment loss shall be allocated to goodwill to the extent of carrying amount of goodwill
- ✎ Remaining value of impairment loss shall be allocated to other assets in that CGU in the ratio of carrying amount of such assets

Timing of impairment testing:

Impairment testing is compulsory ?
If compulsory, then when can be made ?

This can be explained clearly in the following manner:

Impairment testing

Compulsory for the following assets at least once in a year. Generally at the end of the reporting year

- ✓ Intangible assets under development
- ✓ Intangible assets which has indefinite life
- ✓ Goodwill under business combinations

For all the assets impairment can be made only when there is an indications exists. Such indications which may be either internal indications or external indications

Internal indications
- ✓ Physical damage to the assets
- ✓ Continued cash losses

External indications
- ✓ Adverse technological changes
- ✓ Adverse effect due to lockdown
- ✓ Market capitalisation is less than book value

Accounting treatment of impairment loss:

- ✓ Impairment loss should be adjusted from capital reserve which created out of revaluation surplus
- ✓ If no revaluation surplus, then it should be transfer to profit & loss A/c

Reversal of impairment loss:

Subsequent to the valuation of impairment loss, if any increase in the recoverable value due to an improvement in service potential of the asset, then it is mandatory to reverse the impairment loss. Such reversal is termed as reversal of impairment loss.

Note:

✎ Reversal of impairment loss is possible for all the assets except goodwill in their ratio of carrying amount of such assets other than goodwill

✏️ Increase in service potential due to increase in earnings capacity. This can be due to the following

- ✓ Increase in absolute amount of cash flows
- ✓ Increase in net selling price
- ✓ Reduction of discount rate

<u>Steps for calculation of reversal of impairment loss:</u>

Step 1: Calculate carrying amount of assets before impairment

Step 2: Estimate the recoverable value as on the date of reversal

Step 3: Maximum ledger balance after reversal

Step 1 (or) step 2, whichever is lower

Step 4: Calculate ledger balance of the asset after impairment and depreciation

Step 5: Reversal of impairment loss

Step 3 - Step 4

Objective

✓ Ind AS 8 prescribes the

Criteria for -
- selection of Accounting Policies &
- changes in Accounting Policies

Accounting treatment & Presentation and disclosure of -
- changes in Accounting Estimates
- changes in Accounting Policies
- correction of prior period errors

✓ This standard is to meant increase the qualitative characteristics like relevance, reliability & comparability of an entity's Financial Statements

✓ It does not deal with tax effect of corrections of prior period errors

Meaning of Accounting Policies

Set of Accounting principles & Methods for applying those principles → for preparation and presentation of Financial Statements

Examples:
Valuation of inventory;
Valuation of investments
Valuation of Fixed Assets
Methods of Depreciation

Selection of Accounting Policies

while selection of accounting policies, the following should be consider

✓ Accounting policies adopted by the entity must comply with Ind AS.

✓ Financial Statements are prepared by adopting Accounting Policies gives reliable and relevant information to the users of Financial Statement

- Relevant means the information is useful for making economic decisions
- Reliability means the Financial Statements-
  - represents true and fair financial performance, financial position and cash flows of the entity
  - reflects economic substance of transactions, other events and conditions, that are not merely the legal form
    Examples: Hire purchase and leasing
  - Accounting policies adopted by the entity should be consistency in nature (i.e., the policies adopted in the previous year same policies should adopt in the current year as well as subsequent year).

- are prudent in nature i.e., Anticipate future losses and liabilities but not future incomes
- are complete in all material aspects

Change in accounting policies

An entity can change the accounting policy only if the change is -

- ✓ As per the requirements of statutory
- ✓ For compliances with Ind AS
- ✓ For better and appropriate presentation of Financial Statements

Accounting treatment: Changes in accounting policies which leads to retrospective effect (i.e., from the beginning onwards).

If there's is any changes in accounting policies in the current year, the entity shall disclose the following-

a. Nature of change in accounting policy
b. The reason why applying new accounting policy
c. The effect of current year financial statements as well as subsequent year financial statements due to such changes

The following are not considered as change in accounting policies:

- ✓ Adoption of new policy
- ✓ Adoption of new policy for substantially new transactions, other events or conditions

Changes in Accounting Estimates

- ✓ Estimations is an approximations where there is no precise mean

  Examples:

  1. Useful life & residual value of asset and method of depreciation
  2. Provision and reserve for doubtful debts
  3. Fair value of financial assets and financial liabilities

- ✓ Change in accounting estimate give rise to changes in carrying amount of an asset or liability or related to an item of equity.
- ✓ Change in accounting estimate leads to prospective effect (i.e., It shall be recognised by adjusting the carrying amount of asset or liability or equity in the period of change).

- ✓ The entity shall disclose the following-
  - ✏️ Nature and amount of change in accounting estimate
  - ✏️ The effect of current year as well as subsequent year financial statements due to such changes
  - ✏️ If change in accounting estimate is impracticable to measure the future effect, then disclose the same fact in the financial statements

Correction of Prior Period Errors

✓ Error means omission & misstatements in one single period.

✓ Error which includes

a. Mathematical errors, oversight;
b. Fraud;
c. Wrong interpretation of facts

✓ An entity shall correct the material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

a. Restating the comparative amounts for the prior period(s) presented in which the error occurred
b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented

Limitations on retrospective statement

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine effects of error in certain prior periods, the entity shall restate from the earliest period or from the prospective date it becomes practicable.

An entity shall disclose the following:

a. the nature of the prior period error;
b. for each prior period presented, to the extent practicable, the amount of the correction:
   (i) for each financial statement line item affected; and
   (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;
c. the amount of the correction at the beginning of the earliest prior period presented; and
d. if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Note: Financial statements of subsequent periods need not repeat these disclosures.

Borrowing cost

Meaning

Borrowing cost are the interest and other costs incurred in connection with the borrowing of funds

It includes the following

- ✓ Interest expense calculated using the effective interest method as described in Ind AS 39 "financial instruments: recognition and measurement"
- ✓ Finance charge in respect of finance lease as per Ind AS 116 " leases"
- ✓ Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Objective

This standard prescribe the accounting treatment of borrowing cost

↓

- Recognition principle
  ↓
  (i.e., whether the borrowing cost should be capitalised along with the assets or recognised as an expenses in the profit & loss statement)
- Measurement principle
  ↓
  At what value the borrowing cost shall be recognise in BOA

Scope

This standard deals with only borrowing cost

This standard does not deal with

↓

- Borrowings
- Actual cost incurred (or) Imputed cost (i.e.,opportunity cost/notional cost)
  ↓
  on owner's equity including preference share capital, if it is not classifies as liability

Recognition Principle

Borrowing cost ⟶ Directly related to → Acquisition / Construction / Production ⟶ Of a qualifying asset

↓

Is treated as capital in nature if satisfies the following conditions:

Conditions for capitalisation of borrowing cost

- It is probable that future economic inflows
- Borrowing cost can be measured reliably

Note: Borrowing cost related to other than qualifying asset is transfer to Profit & Loss A/c

QUALIFYING ASSET ?

An asset that necessary take a substantial period of time to get ready for it's intended to use or sale

Substantial period: It depends upon facts and circumstances of each case but in general it will be considered as 12 months

Period of capitalisation

This standard has given guidance on the following points:-

When to start the capitalisation
When to suspend
When to stop

Commencement of capitalisation

Commencement of borrowing cost shall be made only when the entity satisfies all the following conditions:

- ✓ Expenditure on qualifying asset is being incurred
- ✓ Borrowing cost are being incurred
- ✓ Activities that necessary to make the asset ready for it's intended to use or sale are in progress.

Examples:
- ➡ Physical construction of the asset
- ➡ Technical and administration work prior to the commencement of physical construction

Suspension of capitalisation

Capitalisation of borrowing cost should be suspended when there is no active development or active development is interrupted. Cost incurred during such suspended period are charged to Profit & Loss A/c

Cessation of capitalisation

Capitalisation of borrowing cost should be stopped when substantially all the necessary activities are completed

Amount of capitalisation

How much amount should be capitalised ?

If funds are specifically borrowed for obtaining a qualifying asset

Actual borrowing cost incurred during the year for such borrowings	xxx
Less: Any income on the temporary Investments of the borrowed funds	(xxx)
Amount to be capitalised	xxx

If funds are borrowed generally and are used for obtaining a qualifying asset

$$\text{Average borrowing cost} \times \frac{\text{Amount used for qualifying asset}}{\text{Total outstanding borrowings}}$$

Note: Total capitalisation amount of borrowing cost should not exceed the actual borrowing cost incurred during the period

Objective

This standard prescribe the accounting treatment of current tax as well as recognition of deferred tax

Definitions

1. Accounting Profit: Accounting Profit is profit or loss for a period before deducting tax expense
2. Taxable Profit: Taxable Profit is the profit (loss) as per Income Tax Act, 1961 upon which income taxes are payable(receivable).
3. Current Tax: Current Tax is Income Tax on taxable profit.
4. Tax Expense (Tax Income): Tax on Accounting Profit (Deferred+ Current)
5. Deferred tax: It is the difference between tax expenses and current tax. it may be either deferred tax asset or deferred tax liability.
6. Deferred Tax Liabilities: Income taxes payable in future periods in respect of Taxable Temporary Differences
7. Deferred Tax Assets: are the amounts of Income Taxes Receivable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses/ tax credits.
8. Temporary Difference: Difference between Carrying value & Tax Base

Taxable temporary differences ↓ Result in Deferred Tax Liability

Deductible temporary differences ↓ Result in Deferred Tax Asset

What is carrying value and tax base?

Carrying value ↓ Book value of asset or liability after applying all the Ind AS

Tax base ↓ Carrying value of asset or liability for tax purpose. It can be calculated on the basis of following:

Tax base

Asset	Liability	
Amount that will be deducted for tax purpose	Carrying amount	xxx
	Less: any amount that will be Deductible for tax purpose	(xxx)
	Tax base	xxx

Examples

1. A machinery cost Rs. 1,00,000. For tax purpose, depreciation of Rs.30,000 has already been deducted in the current year. The tax base of machinery is Rs.70,000
2. interest receivable has a carrying value of Rs.1,00,00. The related interest revenue will be tax on cash basis. The tax base of interest receivable is nil.
3. Current liabilities include accrued expenses with a carrying value of Rs.2,00,000. The related expenses will be deducted for tax purpose on a cash basis. The tax base of accrued expenses is nil
4. current liabilities include accrued expenses with carrying value of Rs.2,00,000. The related expenses has already been deducted for tax purpose. The tax base of accrued expenses is Rs.2,00,000

Accounting treatment of current tax expenses in profit and loss statement

If income or expenses is recognised in profit and loss	If income or expenses related to other comprehensive income
↓	↓
Tax expenses on such income or expenses will also be recognised in profit and loss	Tax on such item will also be recognised in other comprehensive income

Deferred tax

The following steps to be followed for recognition, measurement and presentation of deferred tax assets or liability:

Step 1: Compute carrying amount of asset or liability as per the accounting records

Step 2: Compute tax base of assets and liabilities

Step 3: Calculate temporary differences

Carrying amount of asset or liability	xxx
Less: Tax base	(xxx)
Temporary differences	xxx

Step 4:

Classification of temporary differences

- Asset
  - Carrying amount of asset > tax base → Taxable temporary differences
  - Carrying amount of asset < tax base → Deductible temporary differences
- Liability
  - Carrying amount of liability > tax base → Deductible temporary differences
  - Carrying amount of liability < tax base → Taxable temporary differences

Note:

- All the taxable temporary differences give rise to deferred tax liability.
- All deductible temporary differences give rise to deferred tax assets
- If carrying amount = tax base, then no temporary differences

Step 5: Recognition of Deferred Tax Assets

Deferred tax assets can be recognise if the following conditions were satisfied:

1. Existence of taxable temporary differences.
2. Probability of future profits.
3. Availability of tax planning opportunities.

Tax planning opportunities means entity would take necessary actions to create or increase the taxable income in a particular period

Note:

- ✏️ At the end of the each year, entity should reassess unrecognised, deferred tax assets. It may need to recognise previously and recognise deferred tax assets to the extent it has now become probable that future taxable profits will be available.
- ✏️ Deferred tax assets shall be recognised for carryforward of unused tax losses & unused tax credits.

Step 6: Determine tax rates for deferred tax

DTA/DTL Should be created using the tax rate which is consistent with the expected manner of recovery or settlement.

Step 7: Calculate deferred tax asset or liability

DTA = Deductible temporary differences x tax rate
DTL = Taxable temporary differences x tax rate

Step 8: Accounting for deferred tax

- If item pertains to P&L Eg: Depreciation → Deferred tax should be recognised in P&L
- If item pertains to Other Comprehensive Income eg:revaluation profit → Deferred tax should be recognised in Other Comprehensive Income
- If item is recognised directly in equity Eg: collection of errors as per Ind AS 8 → Deferred tax should be recognised in equity

Step 9: Offsetting Deferred Tax Asset & Deferred Tax Liability

Allowed only if:

- Entity has a legally enforceable right to set off current tax assets against current tax liabilities
- DTA & DTL relate to income taxes levied by the same taxation authority

Introduction

Mr. Ananth → Invested in → CAAS Ltd

Multinational company Which deals in

Cars | soaps | Liquor | stationary

As per the news liquor is going to banned in Bangladesh. Mr. Ananth is worried about the the effect of this news on the financial positions and financial performance of the company

↓

CAAS Ltd not prepared any separate financial financial statements for the business located in Bangladesh. Therefore, it is not possible to identify how much net worth as well as income is located in Bangladesh

↓

If the entity provides separate financial information for cars, soaps, liquor and stationary, it is easy to make decisions by the end users. Such separate financial information called as segment information.

Operating segment

Operating segment is a separate component which satisfies all the following conditions:

- ✓ The segment engages in business activities from which it may earn revenue and incurred expenses (including inter segment transfers);
- ✓ Whose operating results are regularly reviewed by entity's Chief Operating Decision Maker for making decisions
- ✓ For which discrete (separarte) financial information is available

Objective

The objective of this standard is to establish principles for reporting financial information about the different segments which helps the users:

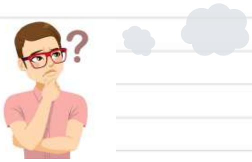
- ✓ Better understanding the financial performance of the entity
- ✓ Better assess the risks and returns of the entity; and
- ✓ Make more informed judgements about the entity as a whole

Scope

This is a disclosure standard (i.e., we cannot seen recognition and measurement principles) & applicable for all the companies to which Ind AS notified under the companies Act apply

Reportable segments

Reportable segments are operating segments identified, for which segment information is required to be disclosed in the financial statements



When can a segment is reportable by the entity ?

Segment is reportable if

- It is identifiable as a operating segment as discussed above
- Satisfies the following conditions

Conditions for reportable segment

1. 10% threshold

a. Segment revenue criteria:-

Segment revenue must be ≥ 10% of aggregate revenue of the entity

Segment revenue = External revenue + Inter- segment transfers

b. Segment result criteria

Segment result must be ≥ 10% of aggregate result of the entity

Aggregate result of the entity means aggregate profit or aggregate loss, whichever is higher

c. Segment assets criteria:-

Segment assets must be ≥ 10% of aggregate assets of the entity

Note: if a segment satisfies any of the above (a) or (b) or (c) condition then it is treated as reportable segment

2. If the segment is identified as reportable segment in the current year in accordance with 10% threshold then it should continue as reportable segment in the subsequent year also

3. 75% threshold
The revenue of the all reportable segments which satisfies the above conditions must be ≥ 75% of aggregate revenue of the entity. If not satisfied, then entity should designate additional segments as reportable segment

Disclosure

An entity shall disclose the following for each period for which the statement of profit and loss is presented:

A. General information

- ✓ factors used to identify the entity's reportable segment
- ✓ judgement made by the management in applying the aggregate criteria
- ✓ types of products ans services from which each reportable segments derives its revenues

B. Information about reported segment profit or loss, assets and liabilities such as-

- ✓ Revenue from external customers
- ✓ Inter-segment transactions
- ✓ Interest revenue
- ✓ Interest expenses
- ✓ Depreciation and amortisation
- ✓ Material items of income and expenses
- ✓ Entity's interest in the profit or loss of associates and joint ventures accounted by the equity method
- ✓ Income tax expenses or income

C. Measurement: The amount of each segment item reported shall be measure reported to the chief operating decision maker for the purpose of making decisions

D. An entity shall provide reconciliations of all the following total of the reportable segments to that of the entity:

- ✓ Revenue
- ✓ Profit or Loss before tax and discontinuing operations
- ✓ Assets
- ✓ Liabilities
- ✓ Amount for every other material item of information

E. Entity-wide disclosures: Following information shall be provided by an entity only if it is not provided as part of the reportable segment information-

- ✓ Information about products and services
- ✓ Information about geographical areas
- ✓ Information about major customers

Meaning

It is an agreement between two parties which
- transfer the right to control the usage
- of identifiable asset
- for a specific period of time
- in exchange for consideration

Analysis of definition

1. **Parties involved in lease**

- **Lessor** → A person who transfer the right to control of usage asset
- **Lessee** → A person who receives the right to control of usage of asset

2. **Right to control**

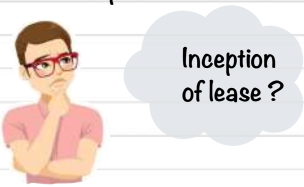
- Right to obtain maximum economic benefits from the usage of an asset such as increase in revenue as well as realising rent on sub lease
- Right to direct the usage of asset (i.e., lessee must have decision making rights that effects the economic benefits. Such decisions like how and what purpose that asset is to be used)

3. **Identified asset:** An asset is identified only if
   a. It is physically distinct in nature
   b. Supplier has no right to substitute the asset substantially

Note:
✏️ If supplier required to substitute the alternative asset only when underlying asset is not operating properly

- If supplier has a right or obligation to substitute the asset on a particular date or on occurance of particular event
- Asset is physically distinct in nature means asset must be independent in nature, which may be an entire asset or portion of asset.

4. Specific lease period: It is the period which initially agreed by both lessor and lessee at the time of inception of lease.



Date of agreement (or) date of agreeing the terms and conditions — Whichever is earlier

Can the lessee extend the lease period ?
Yes, lease period can be extended only if the following conditions are satisfied:
✓ Lessee who has to request to the lessor for extending the time period (and)
✓ Lessor has to accept the request for such extending time period

5. consideration:- Payments made by the lessee to lessor relating to the right to use an underlying asset during the lease term.

Scope

This standard applicable to all leases including Right of use ant in a sub-lease except

1. Leases to explore for or use minerals, oil, natural gas and any similar non regenerative resources(Ind AS 106)
2. leases of biological asset held by lessee (Ind AS 41)
3. leases of service concession arrangements(IndAS-115)
4. Licence of intellectual property granted by a lessor(IndAS -115)
5. Rights held by a lessee under licencing of motion picture time, video recordings, patents& copyrights as per Ind AS 38

Recognition emptions to following leases

Lessee has an option to exempt the recognition of following leases. Such as

1. short term leases
   ✓ Term period of lease < 12m
   ✓ Renewal option is not reasonably certain.

2. Lease for which the underlying asset is of low value

Types of Leases

Finance lease | Operating lease

Conditions for classification of lease

- ✓ The lessor transfers the ownership of the underlying asset to the lessee by the end of the lease term
- ✓ Lessee has an option to purchase the leased asset at any time during the lease period
- ✓ Lease period which substantially covers the economic life of the asset
- ✓ Present value of lease payments which substantially equals to fair value or underlying leased asset
- ✓ Leased asset can only be used by the lessee without major modifications

Note: if any of the above conditions are satisfied, then it is treated as finance lease otherwise it is treated as operating lease

Accounting treatment in the books of lessee

Lessee shall account the lease (whether operating lease or finance lease) in the following manner:

Initial Recognition

Lessee shall recognise the Right to Use (ROU) asset and lease liability as on the date of commencement of lease. Then the journal entry is-

ROU Asset A/c Dr (cost)
To Lease liability A/c (PV of remaining lease payments)

Cost price of ROU Asset:

Down payment	xxx
Add: PV of lease payments less incentives received.	xxx
Add: Initial direct cost	xxx
Add: Estimated cost of dismantling expenditure.	xxx
COST	xxx

PV of remaining lease payments can be calculated by using interest rate implicit on lease. If interest rate implicit on lease not available then use the incremental borrowing cost of lessee.
Note:
- ✏️ Interest rate implicit on lease:-
  Rate at which (PV of lease payments + guaranteed residual value) = (fair value of asset + initial direct cost to the lessor)
- ✏️ Incremental borrowing cost means rate of interest that a lessee would have to pay to borrow funds for a similar term and security

Subsequent recognition

ROU Asset can be disclosed under assets side of balance sheet on the basis of following steps:
Step 1 :- Apply either cost model or revaluation model as per Ind AS 16 "PPE"
step 2 :- Period of depreciation

- From the date of commencement to the end of useful life, if ownership will be transferred to lessee
- From the date of commencement to the remaining useful life or lease term whichever, is lower, if no ownership is going to transferred

For depreciation, the journal entry is-

Depreciation A/c	Dr
To ROU Asset A/c	

Closing journal entry for depreciation is-

P&L A/c	Dr
To Depreciation A/c	

Lease liability can be treated as financial liability as per Ind AS 109 and it can be amortised on cost basis. The accounting treatment is as following:
Interest expenses can be recognised at the reporting date. Then the due entry for interest expenses is

Interest expenses A/c	Dr
To Lease liability A/c	

payment of lease liability to lessor then the journal entry is-

Lease liability A/c Dr
To Bank A/c

Closing journal entry for interest expenses is-

P&L A/c Dr
To Interest Expenses A/c

Steps to be followed to solve the practical questions

Step 1:-	Calculate the lease liability
Step 2:-	Calculate the cost of ROU Asset
Step 3:-	On the reporting date, calculate depreciation and book value
Step 4:-	Calculate the interest include in lease payment & lease liability on that date
Step 5:-	Pass journal entries, if required

Special provisions

A. Re-measurement of lease liability

- ✓ Lessee shall remeasure the lease liability if there are any changes in the lease payments.
- ✓ Lease payments may be revised if there is-
  - ➡ change in the lease term
  - ➡ change in assessment of an option to purchase the asset
  - ➡ change in guaranteed residual value
  - ➡ change in lease payments
- ✓ Amount of re-measurement is recognised as an adjustment to the ROU Asset. Then the journal entry is-

  ROU Asset A/c Dr
  To Lease Liability A/c
- ✓ If the carrying amount of ROU Asset is reduced to zero and there is any further reduction in the measurement of lease liability. Then the journal entry is-

  Lease liability Dr
  To P&L A/c

B. In case of lease and non-lease components

Allocation of total consideration to lease & non- lease components in proportion of observable stand-alone prices of lease and non-lease components

Note: Non-lease component can be accounted on the basis of applicable other Ind AS

C. Combination of contracts

Two or more contracts entered with same party & entered at same time will be combined and treated as single contract only if-

All the contracts are negotiated as a single package + Consideration of one contract depends upon prices or performance of another contract + All or maximum ROU Assets are single lease component

D. In case of lease of multiple assets

treat separate lease contract for each asset if

- Each asset provides benefits on its own or together with other resources
- Each asset should be independent

Accounting treatment in the books of lessor

Accounting treatment in the books of lessor depends upon classification of lease.

A. In case of finance lease

Initial recognition

At the time of commencement of lease, lessor shall recognise the lease rentals receivable as an asset at NET INVESTMENT. Then the journal entry is-

Receivable from Lessee A/c	Dr (Net investment)
To Asset/ Sales A/c	

Net Investment = Gross Investment - Unearned financial income

Unearned financial income = Gross investment - PV of Gross investment

Gross investment = Lease payments + Guaranteed Residual Value + Un-guaranteed Residual Value

Subsequent recognition

On the reporting date, interest income should be recognised and due entry for interest income is

Receivable from Lessee A/c Dr
    To Interest income A/c

At the time of lease rent received, the journals entry is-

Bank A/c Dr
    To Receivable from Lessee A/c

Note: no journal entry for depreciation is to be recorded in the books of lessor since the ownership will be transfer to lessee at the time of completion of lease period

Closing journal entry for interest income is-

Interest income A/c Dr
    To P&L A/c

B. In case of operating lease

- ✓ Leased asset should be recognised in lessor's Balance Sheet (since ownership not transferable from lessor to lessee)
- ✓ Depreciation on leased asset shall also charged by lessor as per Ind AS 16 "PPE" or Ind AS 38 "Intangible Asset"
- ✓ Lease payments received should be charged and transfer to P&L A/c as an income on straight line basis over the lease period.
- ✓ The difference between actual amount received and amount to be Charles as per straight line basis is treated as deferred rentals
- ✓ Journal entry at the time of receipt of lease rent is-

Bank A/c Dr
Deferred Rent A/c Dr
    To Lease Rent A/c
    To Deferred Rent A/c

Objective

The objective of this standard is to prescribe

- ✓ how to include foreign currency transactions and foreign operations in the financial statements of the entity &
- ✓ how to translate financial statements into presentation currency

Scope

This standard shall be applicable to-

- ✓ Accounting for transaction & balance in foreign currency
- ✓ Translation of results & financial position of foreign operations
- ✓ translation of financial statements into presentation currency

This standard not applicable to the following-

- ✓ Derivative transactions & balances that are within the scope of Ind AS 109
- ✓ Hedge accounting of foreign currency items, including net investment in foreign currency operations covered in Ind As 109
- ✓ Presentation in statement of cash flow of transaction in a foreign currency or a foreign operations

Key Definitions

1. Functional currency: The currency of the primary Economic environment in which the entity operates. The choice of functional currency depends upon many factors and is usually either local currency or currency that of its parent company

Primary economic environment ?

Economic environment in which an entity primarily generates and expends cash

Indicators to decide functional currency

Primary indicators

Currency which influence the

- ✓ Selling price of goods/services
- ✓ Labour, material & other costs of providing goods/ services

Secondary indicators

Management should consider the following:

- ✓ Currency in which financing activities are taking place (i.e., issuing debt or equity instruments in that currency)
- ✓ Currencies in which receipts from operating activities are retained

2. **Presentation currency:** The currency in which the financial statements are prepared by the reporting entity
3. **Foreign currency:** Currency other than functional currency of the entity

Example

Apple Inc → wants to manufacture i phone 14 in → Apple Inc

Apple Inc
↓
US based company
Currency ⟶ USD

Bangalore, Karnataka
↓
Total transactions which performed by Apple Inc in Bangalore in Indian currency (₹) (i.e., local currency)

Analysis of example:
✓ The financial statements prepared for Bangalore operations by using Indian currency is treated as presentation currency
✓ Functional currency is also treated as Indian currency because all the transactions performed with Indian currencies
✓ Other than Indian currency is a foreign currency

Foreign currency transaction

An activity ⟶ between two persons ⟶ with an involvement of foreign currency
↓
Exchange of commodities or rendering of services

Accounting of foreign currency transaction in functional currency

Recognition and measurement
↓
- Initial recognition
  ↓
  Recognise in functional currency by using the spot rate
- Subsequent recognition
  ↓
  Depends on classification of items

Subsequent recognition of foreign currency transaction

- In case of P&L items
  - Recognise with spot rate or average rate as the case may be
- In case of balance sheet items
  - Monetary items
    - Recognise with closing rate
  - Non- monetary items
    - Carrying value is measured at
      - Historical cost
        - Recognise with spot rate or average rate as the case may be
      - Fair value/ NRV
        - Rate as on the date of fair value or NRV measured

Terminologies

1. **Spot rate:** Rate as on the date of transaction performed
2. **Closing rate:** Rate as on the reporting date
3. **Average rate:** $\left(\dfrac{\text{Opening rate} + \text{closing rate}}{2}\right)$
4. **Monetary items:** Cash in hand and cash at bank which includes amount receivable amount payable for such assets or liabilities
   Examples: Bills receivable, Debtor, Bills payable, Creditor, etc,.
5. **Non- monetary items:** other than monetary items
   Example: closing stock, PPE, Intangible assets, etc,.

Exchange differences:

If exchange differences on monetary items are treated as either profit or loss and it should be transfer to Profit & Loss A/c

If any exchange differences on non-monetary items is recognised in other comprehensive Income (OCI)

Translation of financial statements of foreign operations

Foreign operations means
- Subsidiary
- Associate
- Joint venture
- Branch

→ Whose activities are based

↓

In a country other than those of the reporting entity

Foreign operations

Integral foreign operations is an extension of the operations of reporting entity. Any change in the exchange rate between the reporting entity and exchange relating to the foreign operations, will have an immediate impact on the cash flows from operations of the reporting entity

Non-integral for an operation is an operation other than integral foreign operations. When there is a change in the exchange rate between the reporting currency and currency of the foreign operations, there is a little or no direct impact on the present and future cash flows from the operation of a the non-integral for an operation are the reporting entity. It is treated as separate Enterprises.

Accounting treatment for integral as well as non integral foreign operations is as follows:

Step 1: Identify the functional currency of foreign operation

Step 2: translation of functional currency of foreign operation

If the functional currency of foreign operations and functional currency of reporting entity is same

↓

Then there is no need to convert any balances of Foreign operations

If the functional currency of foreign operations and functional currency of reporting entity is not same

↓

Translation of foreign operations as follows:

- ✓ Balance sheet items (whether monetary or non- monetary items) at closing rate
- ✓ Profit & Loss item at average rate or spot rate as the case may be

↓

Exchange differences should be transfer to

- ➡ OCI → to the extent of parent co. share
- ➡ NCI → to the extent of NCI share

Note:

While transferring Foreign Operations balance sheet items, entity shall calculate goodwill or Gain on bargain purchase in Foreign Operations functional currency and then it should be translate into parent company functional currency

Disposal of foreign operations

In case of disposal of Foreign Operations without loss of control

Parent company share of Other Comprehensive Income (OCI) shall be proportionately transfer to NCI. Then the journal entry is -

OCI A/c Dr
To NCI A/c

In case of disposal of Foreign Operations with loss of control then the accounting treatment is as follows:

Parent co. share of OCI shall be transfer to consolidated FS
NCI in total as well as NCI share of OCI shall also be de-recognised

Translation of financial statements into presentation currency

conversion of financial statements from functional currency into presentation currency. At the time of conversation, the accounting treatment is as follows:

A. Functional currency is not a currency of hyper-Inflationary economy, then translation of functional currency on the basis of following rates-

✓ All Balance Sheet items ⟶ Closing rate
✓ All Profit & Loss items ⟶ Spot rate or average rate

Exchange differences shall be transfer to OCI

B. If functional currency is a hyper-inflationary economy, then all the functional currency balances are converted by using the rate on which most recent financial statements prepared

Introduction:

Share based payment occurs when the entity purchased goods or receiving services from the supplier or even may be employee also

Share based payment means an entity agrees to pay for goods or services in the form of its own shares (i.e., equity settlement) or a cash consideration which is based on the price of its own shares (i.e., cash settlement)

Scope:

This standard not applicable for the following circumstances-

A. Shares are issued to a person not in consideration for any goods or services

B. Shares are issued to all the shareholders Eg. Right shares

C. Equity instruments are issued in exchange for control of the acquiree
   Eg. business combination

D. Financial instruments are issued to buy / sell non- financial items which are settled at net as per Ind AS 109

Types of share based payments:

Equity settled	Cash settled.	Equity options with cash alternative
↓	↓	↓
For purchase of goods or receiving services, consideration is to be settled by issue of own equity shares	For purchase of goods or receiving services, consideration will be settled in cash or other assets but based on entity's own equity shares	Consideration will be settled by issuing shares or by giving cash or other assets based on entity's own equity share. It is the option to either entity or other party, who may provide the services or supplier of goods

Accounting for equity share based payments:

Accounting treatment can be made on the basis of persons receiving the consideration. It can be classified in the following manner:

1. Share based payments For employees
2. Share base payment for others (i.e., supplier of goods or services)

Employee share based payments:

- ✓ Employee share based payment is a payment based on price or value of shares. Share plans and share options are the common features of employee remuneration for directors, senior executives and many other employees.
- ✓ ESOPs are very much common among the startup gives ownership interest in the company to their employees

Key terms:

1. **Grant Date:** Date on which terms and conditions are finalised
2. **Vesting Date:** Date on which the employee has a right to receive cash or other assets or equity instruments of the entity
3. **Exercising Date:** Last date for exercising the options by employees
4. **Vesting period:** The period during which all the specified vesting conditions are to be satisfied.

Vesting conditions

Vesting conditions: Conditions that needs to be satisfied by the employees for exercising the options.

Vesting conditions

service conditions

- ✓ Conditions that requires the employees to complete the specified period of service.
- ✓ If employee fails to provide services during the vesting period then employee has no option to exercise the option.
- ✓ Service conditions does not require to meet the performance target.

performance conditions.

specific performance target should be met while the employee is rendering the services. Performance conditions which may be either market related or non- market related conditions.

Examples: Achieving sales target, profit target, market price target, etc.

Example:

CAAS Ltd → Issued 100 share options to each employee on 1st Apr, 2021 @₹25 each.
Face value per share is ₹10 →

Vesting conditions - employees must be in the entity of 2 years from the date of agreement
Options will be lapsed from the 31st day after the date of exercising the offer

Vesting period | Exercising period

Grant date
1st Apr, 2021

Vesting date
31st mar, 2023

Exercising date
30th Apr, 2023

Methods of employee share based payment plans

Fair value method

Intrinsic value method

Fair value method: Under this method, in the vesting period at the end of the reporting date the employee benefit expenses and share based payment reserve needs to be created at fair value. Then the journal entry is as follows:

Employee Benefit Expenses A/c Dr
To Share Based Payment Reserve A/c

At the end of the same reporting period, employee benefit expenses should be transfer to profit and loss account then the journal entry is

Profit & Loss A/c Dr
To Employee Benefit Expenses A/c

Note: Employee benefit expenses should be transfer to profit & loss account over the vesting period to the extent of employees exercising the offer. It can be explained cleared with the following example:

Example:

CAAS Ltd ⟶ Issued 100 share options to each employee on 1st Apr, 2021 @₹25 each.
Face value per share is ₹10 ⟶

Vesting conditions - employees must be in the entity of 2 years from the date of agreement
Options will be lapsed from the 31st day after the date of exercising the offer
Number of employees in the entity = 50 employees

Total employee benefit expenses = (50 employees x 100 shares) x ₹ 25 per share
= ₹ 1,25,000

The value of employee benefit expenses of ₹ 1,25,000 can be amortised over 2 years.
It can be amortised in the following steps:
Step 1: Calculate the accumulated value of expenses from the grant date to current year
Step 2: Identify the accumulated value of expenses till the previous year
Step 3: Determine the expenses to be transfer to the current year

Employee benefit expenses for the current year = step 1 - step 2

Year	accumulated value	accumulated till PY	Recognised in the CY
1	75,000 $\left(\frac{1,25,000 \times 1}{2}\right)$	-	75,000
2	1,25,000 $\left(\frac{1,25,000 \times 2}{2}\right)$	75,000.	75,000

During the vesting period
When the employees exercises the options, then the journal entry is

Bank A/c	Dr	(exercise price)
Share Based Payment Reserve A/c	Dr	(Fair value)
To Equity share capital A/c		(nominal value)
To Securities Premium A/c		(Premium amount)

At the time of lapse of share options, the journal entry is

Share Based Payment Reserve A/c	Dr
To Retained Earnings A/c	

If fair value of equity option cannot be measure reliably — Follow Intrinsic value method

Intrinsic value ?
↓
Excess of fair market value over the exercise price of the options

Example:

CAAS Ltd →

Issued 50 share options to each employee on 1st Apr, 2022
Face value per share is ₹10
Exercise price = 20 per share
Fair market value as per the independent valuer is ₹ 35 per share →

Intrinsic value = Fair market value of share - exercise price of share
= ₹ 35 - ₹ 20
= ₹ 15 per option

Intrinsic value of each equity instrument can be valued on the following dates:
- ✏️ Initially
- ✏️ At the end of the each reporting period
- ✏️ At the date on which the award is finally settled

For a grant of share options, the award is finally settled when the options are exercised or forfeited or when they lapsed

Any changes in the intrinsic value is recognised in the profit & loss statement

Employee benefit expenses amount should be recognised as an expenses to the extent of number of equity instruments that ultimately vest or exercised

Modifications of Employee Share Based Payment:

If modifications favourable to employees

Example:

- Decrease in exercising price
- Increase in number of options
- Increase in fair value of options

↓

- Recognise the option expenses as per the original terms and conditions
- Recognise the incremental fair value over the remaining vesting period prospectively

If modifications unfavourable to employees

Example:

- Increases in exercises price
- Decrease in number of options
- Decrease in fair value of options

↓

Ignore the modifications and continue as per original terms

How to calculate the incremental fair value ? →

Incremental fair value	
Fair value of modified instrument as on the date of modifications	xxx
Less: Fair value of the original equity instrument	(xxx)
Incremental fair value	xxx

NOTE: If modifications occurs after the vesting period, recognise the incremental fair value in the following manner:

- ☑ Immediately as employee cost; (or)
- ☑ Over the vesting period if employee is required to complete additional period of services as per modifications

Example:

CAAS Ltd → Issued 100 share options to each employee on 1st Apr, 2021 @₹25 each.
Face value per share is ₹10 →

Vesting conditions - employees must be in the entity of 3 years from the date of agreement
Options will be lapsed from the 31st day after the date of exercising the offer
Number of employees in the entity = 500 employees
On 31st mar, 2023 company's share price has been dropped and company decided to reduce the share exercise price. Revised fair value of the option is ₹ 30 per share.
Number of employees left in the year

2021-22 = 50 members
2022-23 = 25 members
2023-24 = 50 members

Year	Accumulated expenses	Expenses till PY.	Expenses for the CY
2021-22	3,75,000 {(450 employees x 100 shares x 25 each) x 1/3}	-	3,75,000
2022-23	7,08,333 {(425 employees x 100 shares x 25 each) x 2/3}	3,75,000.	3,33,333
	1,06,250(Incremental) {(425 employees x 100 shares x 5) x 1/2}	-	1,06,250
2023-24	9,37,500 {(375 employees x 100 shares x 25 each) x 3/3}	7,08,333.	2,29,167
	1,87,500 (Incremental) {(375 employees x 100 shares x 5each) x 2/2}	1,06,250.	81,250

Cancellation of Employee Share Based Payment:

If an award is cancelled or settled during the vesting period, then the entity shall account of such cancellation as an acceleration of vesting & recognise the amount immediately instead of recognising over the remaining vesting period.

Cash compensation to employees on cancellation shall be accounted as follows:

- Up to the fair value on the date of cancellation
  ↓
  Adjusted from Share Based Payment Reserve A/c
- Excess compensation, if any (I.e., compensation amount - fair value)
  ↓
  Treated as loss on cancellation & it should be transfer to Profit & Loss A/c

Note: If any balance in share based payment reserve A/c shall be transfer to Retained Earnings A/c

Share Based Payments for Goods or Services:

Measured at fair value of goods or services

Note: If fair value of goods or services are not available then measured at fair value of shares or options

cash settled share based payment:

During the vesting period, <u>cash share based payment liability can be recognised with fair value.</u>

<u>Then the journal entry is as follows:</u>

Employee benefit expenses A/c Dr
    To Share Based Payment Liability A/c

<u>closing journal entry for employee benefit expenses is-</u>

Profit & Loss A/c Dr
    To Employee Benefit Expenses A/c

Note: At the end of the every reporting period, it is mandatory to re-measure the fair value of liability. If any changes in the fair value it should be transfer to Profit & Loss A/c.

During the exercising period, the accounting treatment is as follows:

<u>At the time of exercising the options by employees the journal entry is as follows:</u>

Share Based Payment Liability A/c Dr
To Bank A/c

<u>At the time of lapse of options, the journal entry is as follows:</u>

Share Based Payment Liability A/c Dr
To Profit & Loss A/c

Share Based Payment with Cash Alternatives:

Under this method, either entity or employees has an option to settle the transaction in cash or other assets or by issuing entity's own equity shares.

<u>The entity need to follow the following procedure for accounting the transactions:</u>

Step 1: Estimate the total fair value of equity options
(Number of equity shares x fair value for equity)

Step 2: Estimate the total fair value of cash plan
(Number of cash options x fair value of each cash option)

Step 3: Recognise the share based payment liability equal to step 2 & at the end of each reporting period, it is mandatory to revalue the fair value

Step 4: Recognise share based payment reserve by difference of step 1 & step 2 over the period of vesting period

Step 5: Settlement

If equity options selected

✓ Share based Payment Liability shall be transfer to Share Based Payment Reserve. Then the journal entry is as follows:

Share based Payment Liability A/c Dr
To Share based payment Reserve A/c

✓ Issue of equity shares out of share Based Payment Reserve, then the journal entry is as follows:

Share Based Payment reserve A/c Dr
To Equity Share Capital A/c
To Securities Premium A/c

If cash options selected

✓ Discharge of share based payment liability, then the journal entry is as follows:

Share Based Payment Liability A/c Dr
To Bank A/c

✓ Share Based Payment Reserve shall be transfer to general reserve then the journal entry is as follows:

Share based Payment Liability A/c Dr
To General Reserve A/c

Group share based payment:

In certain cases, parent company might agree to issue shares to the employees of the subsidiary company (or) vice versa.

The accounting treatment in their standalone books is as follows:

A. Parent company issue the share in share based plan of subsidiary company

In the books of parent company

Investment in subsidiary A/c Dr
To Share Based Payment Reserve A/c

In the books of subsidiary company

Employee benefit Expenses A/c Dr
To capital contribution from parent A/c

B. Subsidiary company issue shares in Share based plan of parent company

In the books of parent company

Employee Benefit Expenses A/c Dr
To Dividend A/c

In the books of subsidiary company

Dividend A/c Dr
To Share Based Payment Reserve A/c

Objective:
This standard prescribe the accounting treatment for an individual contract with a customer.

Accounting treatment

- Recognition principle
  ↓
  Criteria for recognition of revenue from contract with customer
- Measurement principle
  ↓
  Entity should calculate at what price the revenue should be recognise

Scope:
The standard applies to all the contract with customers, except the following:
a. Revenue from lease contracts covered under Ind AS 116
b. Revenue from insurance contract covered under Ind AS 104
c. Financial instruments and such other contractual rights or obligation within the scope of Ind AS 109, Ind AS 110 or Ind AS 111 or Ind AS 27 or Ind AS 28
d. Non-monetary exchanges between entities in the same line of business

Recognition and measurement Principle
The entire recognition process can be divided into 5 steps which as follows:
Step 1:- Identify whether any contract with customer
Step 2:- identify separate performance obligation
Step 3:- Determine the transaction price
Step 4:- Allocate the transaction price to performance obligation
Step 5:- Recognise revenue when performance obligation is satisfied

Example:

CAAS Ltd

Enter into a contract for construction of building as on 1st April 2023

T&C which agreed in the contact is
Contract price ₹50L
Time period to complete the contract 1 year from agreement

Mr. Ananth

Analysis of example
In this example,
✓ There is a contract between Mr Anand and CAAS Ltd
✓ The performance obligation is to complete the contract within one year from the date of agreement
✓ The transaction price of ₹50L
✓ ₹50L is only for construction of building
✓ Revenue of ₹50L is to be recognise only when the completion of construction of building

Step 1: Identify whether any contract with customer
Before identifying whether any contract with customer first we need to understand meaning of contract

Contract:

It is an agreement between Two or more parties → that creates enforceable rights and obligations

Note: The contract can be either written, oral or as per other customary business practises

Contract must involve the following:
✏ Contract has been approved by parties to the contract
✏ Identify each party's rights regarding goods or services to be transferred
✏ The entity can identify the payment terms
✏ There must be an involvement of commercial substance
✏ It is probable that entity will collect the consideration substantially
Note: the standard is applicable only when a contract meet all the above conditions

Contract which may be either combining contract or separate contract. It can be classified on the basis of following:
An entity shall combine two or more contracts entered into at or near the same time with the same customer or related parties of the customer treated as single contract or combining contract if one or more of the following conditions are satisfied:
A. Contract are negotiated as a single package
B. Consideration of one contract depends upon performance of another contract

C. Goods or services promised in the contract are a single performance obligation.
NOTE: If any of the above conditions are not satisfied then it is treated as separate contract

Modifications in contract:

a. In case of increase in scope or consideration for which -
- ✓ goods or services are distinct and
- ✓ standalone consideration for such increased scope or consideration

then treat such modifications as a separate contract

b. If goods or services are not distinct (or) no standalone consideration for such increased scope or consideration then it is mandatory to modify the existing contract in the following manner:

Remaining goods or services are distinct in nature	Remaining goods or services are not distinct in nature	Some goods or services are distinct & some of them are not distinct
↓	↓	↓
Terminate old contract & create new contract	Revenue can be recognised on cumulative catch up basis	✏️ To the extent goods or services are distinct treated as separate contract (and) ✏️ remaining goods or services which are not distinct recognise under cumulative catchup basis
↓		
Contract revenue:		
unrecognised revenue of old contract xxx		
+/- Revenue on modifications xxx		
revenue xxx		

Examples:

1. Bata Ltd entered into a contract with one of the customer to sell 50 pair of shoes for ₹ 50,000 (₹ 1,000 per pair). The goods are distinct and are transferred to the customer over a period of 3 months. The parties d modify the contract in the second month to sell additional 25 pair of shoes for ₹ 900 each. The price of the additional goods represents the standalone selling price on the modification date. The modification to sell the additional 25 pair of shoes for ₹ 900 each should be accounted as a separate contract because additional goods are distinct in nature and the price reflects their standalone selling price.

2. CAAS Ltd. Provides consultancy services, enter in to a contract with MB Ltd to provide 3 years services for ₹ 1,50,000 (₹50,000 per year) is the standalone selling price for the services at the inception. At the end of the second year, the parties agree to modify the contract as follows:
   - ✓ the fee for the third year is reduced by ₹ 20,000 and
   - ✓ the contract is extended for another 3 years for ₹ 1,20,000.

   In this case the price of the contract did not increase by an amount of consideration that reflect the standalone selling price of the additional services and additional services might be distinct. Hence the modification is not accounted for as a separate contract. the modification is accounted for prospectively i.e., terminate the existing arrangement and then enter into a new contract. CAAS Ltd should reallocate the remaining consideration to all of the remaining services to be provided. CAAS Ltd recognise the total of ₹ 1,50,000 (1,20,000 + 30,000) over the remaining 4 years of service period which is one year remaining under original contract plus three additional years.

3. CAAS Ltd provides tax consultancy services, enter into a contract with NRC Ltd for a period of 2 years for ₹ 1,00,000 (₹ 50,000 per year) is the standalone selling price for the services at the inception. At the end of the first year, both the parties agree that fees should be ₹ 75,000 per year because of increase increase in volumes where much larger than expected. In this case services are not distinct and only consideration increases. Hence the entity should recognise the ₹ 25,000 as cumulative catch up adjustment.

Step- 2: Identify the separate performance obligation

Before we identify whether the performance obligation is separate performance obligation or single performance obligation first we need to know the meaning of performance obligation.

Performance obligation is a promise in a contract to transfer to the customer either

a. Goods or services that are distinct; or

b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer of transfer to the customer

Separate performance obligation means goods or services are distinct for which -

✓ Customer can receive benefit alone or with readily available resources &

✓ Separately identifiable from other promises of the contract

Separately identifiable

Which satisfy the conditions such as
- No significant integration services
- No significant customisation or modification
- Not highly dependent or inter-related

Mr. Ram

Purchased Jio sim
With a cost of ₹ 350 which
Includes one month recharge

→ Jio

Jio sim as well as 1 month
Services which were provided
By Jio

In this case, Jio sim as well as one month services both were highly dependent or inter-related. So it is not treated as separate performance obligation. It is treated as single performance obligation.

<u>customer option for additional discount</u>

✏️ If the option provides the additional rights to the customer (i.e., customer paid the advance amount to the entity for which future goods or services). In this case recognise the revenue only when goods transferred in future or when option expired.

Example:
Mr. Balu purchased XUV 300 from Neon Mahindra on 1st may, 2023 with a cost of ₹ 12,00,000. Cost price includes additional warranty of 3 years which the value is ₹ 25,000. This ₹ 25,000 of revenue is to be recognise only when the services provided or time period of 3 years lapsed. In the current year, Neon Mahindra can recognise revenue of ₹ 11,75,000 (12,00,000 - 25,000)

✏️ If the discount price is in the option to reflect the standalone selling price, then it is deemed to be treated as marketing offer.
Example: Buy 1 get 1, Off up to 50%, clearance sale, etc.,

✏️ If the standalone selling price to acquire additional goods or services is not directly observable, then the entity has to estimate the selling price by considering the following;

- ✔ Any possible discount for the customer without exercising the option.
- ✔ Probability of exercising the option

Example:
An entity enter into a contract for sale of product X for ₹ 5,000. As per the contract, the entity gives the customer a 40% discount voucher for any future purchases up to 2,000 in the next 30 days. The entity intends to offer a 10% discount on all the sales during the next 30 days as a part of seasonal promotions. The 10% discount cannot be used in addition to the 40 % discount voucher.
The entity believes that 70% of customer will redeem the voucher and on an average a customer will purchase 1,500 of additional product.
In this case, there are 2 performance obligations which were

Product x ₹ 5,000

Discount voucher ₹ 420
[(2,000 x 70%) x 30%]

Performance obligation	Allocated transaction price
Product X	4,613 $\left(\frac{5,000 \times 5000}{5420}\right)$
Discount voucher	387 $\left(\frac{5,000 \times 420}{5420}\right)$

Long term arrangements

If the contract can be renewed or cancelled by either party at the end of the each period
↓
Treat it as separate one year performance obligations

Otherwise
↓
Single performance obligation

Step 3: Determination of transaction price:

While determination of transaction price, it is mandatory to check whether the entity is act as principal or agent

When the entity is acting as principal → Recognise gross amount as revenue

When the entity is acting as an agent → recognise net amount as revenue

Indicators that entity act as principal:

- ✏️ Entity is primarily responsible for fulfilling the contract
- ✏️ Entity has inventory risk
- ✏️ Entity has discretion in establishing the prices of goods or services

Calculation of transaction price:

Consideration promised in a contract may be either -

Fixed consideration | Variable consideration

Fixed consideration: Fixed contract price which agreed by both the parties at the time of agreement entered. It always included in the transaction price.

Variable consideration: The value of consideration which depends upon future events.
Example: Performance bonus, penalty, etc,.
It should be consider while determining transaction price on the basis of entity's estimation receiving the consideration

How the entity can estimate the amount of variable consideration ?

In case more than two outcomes → Expected value method

Only two possible outcomes → Most likely method

Under expected value method, variable consideration can be calculated on the basis of following:

Step 1:- Calculate total variable consideration

Variable consideration = Estimated amount of consideration x probability of outcome

Step 2:- Weighted average number of units

Weighted average number of units = Sales volume x Probability outcome

Step 3:- Variable consideration per unit

$$\text{Variable consideration p.u} = \frac{\text{Total variable consideration}}{\text{Weighted average number of units}}$$

Most likely method: In this method, single most likely amount (i.e., consideration of which probability is higher) is taken as variable consideration

Example:

Mr. Das

→ Enter into a contract to construct the building for ₹ 50L on 1st Apr, 2023 → Time period to complete the contract is 12 months

Mr. surya

Variable consideration:
If contract complete within 10 months - 10% bonus- 25% chance
If contract complete within 9 months - 15% bonus - 45% chance
If contract complete within 8 months - 20% bonus - 15% chance

Calculation of total consideration:

A. Fixed consideration		₹ 50,00,000
B. Variable consideration		
Estimated consideration amount	Probability outcome.	Probability of estimated outcome
5,00,000	25%.	1,25,000
7,50,000	45%.	3,37,500
10,00,000	15%.	1,50,000
		₹ 6,12,500
C. Total consideration (A + B)		₹ 56,12,500

Special provisions:

1. Entity shall includes variable consideration only to the extent that it is highly probable that significant reversal of revenue recognised will not occur in future
2. Entity shall reestimate the variable consideration at the end of the reporting period. If any changes in variable consideration then recognise revenue on cumulative catchup basis.

Cumulative catchup basis

Revenue to be recognised till the date	xxx
less: Revenue already recognised	(xx)
Adjustment in revenue	xxx

Adjustment in revenue shall be transfer to Profit & Loss A/c.

3. Consideration involved in this contract other than in the form of cash then transaction price is treated as fair value of non- cash consideration received. If fair value is not identifiable then standalone selling price of goods or services promised to the customer is consider as transaction price.
   example: Issue of shares by customer, exchange of asset, etc,.
4. Consideration payable by the customer is greater than fair value of goods or services than excess amount shall be deducted from transaction price
5. Effect of significant finance component
   If there is any time gap between date of fulfilling the performance obligation and date of payment then there is a chance of involvement of finance component. This finance component needs to be adjusted from transaction price

A. Entity satisfies the performance obligation but customer makes the payment on a later date then transaction value can be calculated on the basis of following:

Step 1: calculate PV of payment made by the customer
(amount paid by customer x PV factor)

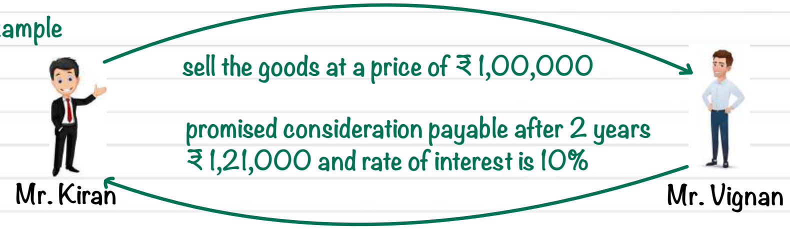
Step 2: Interest = Amount to be paid by the customer - PV of amount paid by customer

Step 3: transaction value

Total amount payable by customer in future	xxx
Less: Interest	(xx)
Transaction value	xxx

B. If customer makes the payment in advance but entity satisfies its performance obligation in future then it is treated as contract liability and chargeinterest expenses on such contract liability over a period in Profit & Loss A/c

Example



Transaction price = PV factor at 10% after 2 years x promised consideration
= 0.8264 x 1,21,000
1,00,000

Interest = 1,21,000 - 1,00,000
= 21,000

Interest at the end of the year 1 = 10,000 (1,00,000 x 10%)
Interest at the end of the year 2 = 11, 000 (1,10,000 x 10%)

While calculation of financial component, the following factors should be consider:

- ✓ Difference between amount of promised consideration and cash selling price
- ✓ Length of time period
- ✓ Prevailing interest rates in the market
- ✓ Time value of money

Time value of money effect should be consider only if the period is more than 1 year and the amount is significant

<u>Time value of money need not be consider in the following cases</u>

- ✏️ Customer paid in advance and the timing of the transfer is at the discretion of the customer
- ✏️ substantial amount of consideration is variable and timing of consideration is depending on future event
- ✏️ The difference between promised consideration and cash selling price arises because of other reasons (i.e., other than provision of finance)
- ✏️ Length of the period is less than one year

5. Sale with right of return :

In such cases, revenue recognition shall be as per the substance of the arrangements

A. In case of consignment sale - Account as per guidance related to consignment sale

B. Other cases- To account for sales with right of return, recognise all of the following:

- ✓ Revenue to be recognised for the products that are not expected to be returned
- ✓ Consider the refund liability*
- ✓ Consider an asset - for right to recover products at cost
- ✓ Exchange by customers of one product for another of same kind- Not considered as returns
- ✓ Return of defective products - consider as part of warranties

✏️ *Entity shall recognise the refund liability if it expects to refund some amount of consideration received. Refund liability is updated at the end of the reporting period

6. <u>warranties:</u> The accounting treatment of warranties depends upon the following -

If the customer has an option to purchase the warranty separately.	Customer does not have the option to purchase the warranty separately.
✓ Consider it as distinct services ✓ Account for the promised warranty as performance obligation and allocate the transaction price	Account for the warranty as part of the provisions as per Ind AS 37

Mr. Vinay → Sale of laptop along with 2 years of extended warranty of ₹ 54,000.
Standalone selling price of laptop = ₹ 50,000
Standalone selling price for warranty = ₹ 4,000 → Mr. Balaji

In this example, we can consider two separate performance obligations

sale of laptop with a transaction price of ₹ 50,000	Extended Warranty with a transaction price of ₹ 4,000

Step 4: Allocation of transaction price to separate performance obligation

Entity shall allocate the transaction price to each performance obligation on a relative standalone price basis except for -

- ✓ Allocating discount
- ✓ Allocating variable consideration

If the entity observes standalone selling price of goods or services, then use observable prices otherwise entity should estimate the standalone selling prices on the basis of the following:

- Adjusted market assessment approach
- Expected cost plus margin approach
  ↓
  Standalone selling price = cost + profit %
- Residual approach
  ↓
  Total transaction price less sum of observable standalone selling price of others

Allocating discount

Before we allocating discount, first we need to understand how to calculate the discount.

Discount	
standalone selling prices of each performance obligation	xxx
Less: transaction price	(xxx)
Discount	xxx

Allocation of discount to performance obligation:

- If discount can be allocated to separate Performance obligation
  ↓
  Allocate to each performance obligation separately
- If discount can not be allocated to separate Performance obligation
  ↓
  discount can be allocate to each performance obligation on the ratio of standalone selling price of each performance obligation

Allocation of variable consideration:

Variable consideration may relate to either multiple performance obligations or single performance obligations. Allocation of variable consideration on the basis of following:

Allocation of variable consideration

If variable consideration related to specific performance obligation or part of performance obligation
↓
allocate to that performance obligation

Other cases
↓
Allocate to each performance obligations on the basis of ratio standalone selling price of each performance obligation

Step 5: Recognise the revenue when performance obligations satisfied

Entity recognise the revenue when it satisfies the performance obligation by transferring the goods or services to customer.

When performance obligation satisfies?

Answer: When customer obtains control of asset

Indicators to be consider for transfer of control to customer:

- ✏️ Ability to direct the use of such commodity
- ✏️ Ability to prevent others from directing the use and obtaining substantial benefits
- ✏️ Entity has present right to payment
- ✏️ Customer has legal title to asset
- ✏️ Entity transferred physical possession of asset
- ✏️ Customer has significant risks and reward of ownership of assets

At the time of inception of contract, entity has to check whether the control transferred over a period of time or at a point in time

If control transferred over a period of time
↓
Revenue to be recognise over a period of time

If control transferred at as point in time
↓
revenue to be recognised at a point in time

Recognition of revenue:

a. If performance obligation is satisfied at a point of time - revenue is to be recognise only when performance obligation satisfied

b. If performance obligation is satisfied over a period of time then revenue can be recognise on the basis of following methods

Input method

↓

Revenue recognition is based on entity's efforts or inputs

Example: Labour hours expected, machine hours used, cost incurred

Output method

↓

Revenue recognition is based on percentage of satisfaction of performance obligation

Example: survey of performance obligation satisfied

NOTE: When cost based input method is used, it is mandatory to adjust the following:

- ✏️ Cost of wasted materials, labour or other resources are ignored while measuring work in progress
- ✏️ When cost incurred is not proportionate to the entity's progress then recognise the revenue to the extent of cost incurred

Repurchase agreements:

Meaning: A repurchase agreement is a contract in which an entity sells an asset and also promises or option to repurchase the asset. It can be classified on the basis of following:

Forward contract

↓

Entity's obligation to repurchase the asset

Call option

↓

Entity's right to repurchase the asset

Put option

↓

Entity's option to repurchase at customer's request

Accounting treatment for repurchase agreement

1. If repurchased agreement is a forward option or call option
   - ✏️ If Repurchase price ≥ Selling price then it is treated as financial arrangement
   - ✏️ If repurchased price < selling price then accounting as per Ind AS 116 lease

2. If repurchased agreement is a put option
   - ✏️ If repurchase price ≥ selling price then it is treated as financial arrangement
   - ✏️ If repurchase price < selling price and customer has significant economic incentives to exercise the right then treated as lease under Ind AS 116

✏️ If repurchase price < sale price and customer has no significant incentive to exercise the right then recognise the revenue with right to return

Contract cost:

Contract cost

- **Contract acquisition cost**
  - Incremental cost to obtain contract which would not have been incurred if contract is not obtained
    Example: sales commission, bonus based on targets, etc,.
  - Such costs are treated as capitalised in nature and amortised over the contract term period
- **Contract fulfilling costs**
  - Cost incurred in fulfilling the contract with a customer
    Example: Equipment, software, designing costs, other goods and services
    - If such cost incurred by entity is covered under another Ind AS (PPE, Inventory, Intangible Assets, etc) → Apply such respective Ind AS
    - Such cost incurred by the entity is not covered under another Ind AS → Recognise as an asset under this standard and amortise over the term period

Service concession arrangements:

✓ Private sector entity (an operator) constructing / upgrading the infrastructure for a specific period of time.
✓ Here, infrastructure means roads, bridges, tunnels, hospitals, airports.
✓ The party that grants the service arrangements (guarantor) in usually a government or public sector entity

Accounting treatment:

Such infrastructure shall not be treated as recognised as PPE of the operator because service arrangements does not convey right to use of infrastructure to operator

Accounting treatment

↓

Service provider
↓
Recognise the revenue as per Ind AS 115

If operator provides construction or upgrade services
↓
Consideration receivable from grantor to operator
↓
Recognise at fair value
↓

If the operator has unconditional right to receive cash or other financial asset from the grantor
↓
Treat it as financial asset

If the operator has right to charge users of the public services
↓
Treat it as intangible asset

Fair value measurement

Meaning

Price that would be
- Received to sell an asset
- Paid to transfer a liability

- in an ordinary transaction
- between market participants
- at measurement date

Objective

To define fair value
To set up a framework for measurement of fair value
To specify requirements of disclosure of fair value measurement

Scope

This standard not applicable to the following cases
- Share Based Payment transaction as per Ind AS 102
- Leasing transaction as per Ind AS 116
- NRV of inventories as per Ind AS 2
- Value in use of assets as per Ind AS 36

Measurement of fair value

✓ fair value should be Asset or Liability

While determining the Fair Value, entity specific restrictions should not be considered but asset or liability specific restrictions should be considered

✓ Unit of Account

Level of aggregation or disaggregation of asset or liabilities will be considered while calculation of Fair Value

Example:
Securities listed i nStock Exchange ⟶ Individual level
CGU (group of assets as per Ind AS 36) ⟶ Aggregate level

✓ Oder of transaction

It is assumed that transaction takes place which either

- Principal market (First priority)
  ↓
  In which asset or liability are transacted with highest volume
  Fair Value = Sale price - Transportation cost
- Most advantageous market (Second priority)
  ↓
  In which net proceeds from sale of asset is maximised or net payment for liability is maximised

Net proceeds = Sale price - transaction cost - transportation cost

✓ Market participants: Buyer and seller
should be independent
should not be under any stress or force
should have reasonable & sufficient information

Calculation of Fair Value

For Financial Assets, Financial & Non- financial Liabilities
↓
Apply valuation techniques using maximum observable Inputs & Minimum Unobservable Inputs

For Non- financial assets
↓
Based on highest & best use
Note: it must be physically possible, legally permissible & financially feasible

Market Approach
↓
Quoted price or other relevant information generated by market

Income Approach
↓
PV of future cash flows by applying discount rate

Cost Approach
↓
Replacement cost of Asset or Liability

Fair value hierarchy:

This Ind AS establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value.
(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
(ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
(iii) Level 3 inputs are unobservable inputs for the asset or liability.

Introduction:

- ✓ Share valuation is a technique of determining the actual worth of a company using quantitative techniques.
- ✓ Accountants use the company's financial information such as current earnings and cash flows, assets, capital structure and future cash flows to determine the company's current value
- ✓ By identifying the true value, accountants can determine whether the shares of the company are over valued or under valued and make ash investment decision

Purpose of valuation of shares:

1. Purchase of a block of shares for acquiring a control interest in the company
2. Purchase of shares by employees of the company where the retention of such shares is limited to the period of their employment
3. Assessment under the wealth tax law
4. Formulation of scheme of amalgamation, absorption, etc.
5. Acquisition of interest of dissenting shareholders under a scheme of reconstruction
6. Conversion of preference shares into equity shares
7. Advancing a loan on the scheme of shares

Methods for valuation of shares:

There are three basic methods for valuation of shares.

Intrinsic value or Asset backing method	Yield- basis or Earning capacity method	Fair value method or Dual method

Intrinsic value method or asset backing method:

Under this method, the value of equity shares is determined as follows:

Step 1: Calculation of net assets available for equity shareholders

Net assets available for equity shareholders	
All assets including non trading investments and goodwill excluding fictitious assets	xxx
Less: External liabilities	(xxx)
Net assets available for shareholders	xxx

Less: Preference share capital	(xxx)
Less: Arrears of dividend	(xxx)
Less: Proposed preference dividend	(xxx)
Net Assets available for equity shareholders	xxx

Step 2: Intrinsic value per share

$$\text{value per share} = \frac{\text{Net assets available for equity shareholders}}{\text{Number of shares}}$$

Note: However if some portion of equity share capital is unpaid or uncalled in that case the entity can follow any of the following approaches:

a. By adding noting call amount to the net asset available for equity shareholders and then calculate value per share. It can be identified clearly in the following steps:

Step 1: calculate total net assets available for equity shareholders if unpaid or uncalled paid up

Net assets available for equity shareholders	xxx
Add: Unpaid or uncalled capital	xxx
Total net assets available for equity shareholders	xxx

Step 2: Intrinsic value per share

$$\text{Value per share} = \frac{\text{Total Net assets available for equity shareholders}}{\text{Number of shares}}$$

b. Value per share can be calculated by using equivalent fully paid up shares. It can be explained clearly in the following manner

Step 1: Calculate the actual net assets available for equity shareholders

Step 2: Calculate equivalent fully paid up shares

Example: CAAS Ltd issued 10,000 equity shares of ₹ 10 each of which ₹ 6 called up and paid up. Total paid up share capital is ₹ 60,000 (10,000 shares x ₹ 6 each).

Equivalent fully paid up shares = ₹ 60,000/ ₹ 10 per share
= 6,000 shares

Step 3: Intrinsic value per share

$$\text{Value per share} = \frac{\text{Net assets available for equity shareholders}}{\text{Number of shares}}$$

2. Yield basis or Earning capacity basis method

- ✓ Yield is the effective rate of return on investments which is invested by the investors. It is always expressed in terms of percentage.
- ✓ If valuation of shares is made on the basis of yield then called it as yield basis method.
- ✓ Under this method, valuation of shares is made either of the following basis:

Profit basis | Dividend basis

A. Profit basis: Under this method, value per share can be calculated on the basis of following steps.

Step 1: Calculate adjusted profit/ Profit available for equity shareholders

Average annual normal profits	xxx
Less: Provision for taxation, if profits are given before the tax.	(xxx)
Less: Transfer to general reserve, if question states so	(xxx)
Less: Preference dividend	(xxx)
Profits available for equity shareholders.	xxx

Step 2: Calculate capitalised value of profits

$$\text{capitalised value of profits} = \frac{\text{Adjusted profits}}{\text{Normal rate of return}}$$

Step 3: value per share

$$\text{value per share} = \frac{\text{capitalised value of profits}}{\text{number of equity shares}}$$

B. Dividend basis: Under this method, shares which can be valued either on the basis of -

Total amount of dividend | Percentage or rate of dividend

I. On the basis of total amount of dividend: under this method, valuation of shares can be made on the basis of following steps:

Step 1: Capitalised value of profit

$$\text{Capitalised value of profits} = \frac{\text{Total amount of dividend}}{\text{Normal rate of return}}$$

Step 2: value per share

$$\text{Value per share} = \frac{\text{capitalised value}}{\text{Number of equity shares}}$$

II. On the basis of percentage or rate of dividend: Share valuation can be made on the basis of following steps:

$$\text{Value of each equity share} = \frac{\text{Rate of dividend} \times \text{paid-up value of each equity share}}{\text{Normal rate of return}}$$

3. Fair value of shares method:

Fair value of shares is the average of net assets method and yield method.

$$\text{value per share} = \frac{\text{Value per share under net assets method} + \text{Value per share under yield method}}{2}$$

Meaning:

It is the reputation of the organisation which can be calculated on the basis of profits of the entity. Goodwill is an intangible asset. The real value of non-purchased goodwill cannot be identifiable but it can be estimated on the basis of following methods. Such methods as follows

1. Average profits method
2. Super profits method
3. Annuity method
4. Capitalisation of future maintainable profits method
5. Capitalisation of super profits method

1.Average profits method:

Under this method goodwill is to be calculate on the basis of average future maintainable profits and number of years purchased. It can be clearly understand on the basis of following steps

Step 1: Calculate future maintainable profits

Total profits for the previous years	xxx
Add: Any abnormal loss like loss by fire or theft,etc.	xxx
Less: Any abnormal profits like decrease in prices of Raw materials/ duty drawback	(xxx)
Less: Non- trading incomes like dividend received, interest received,etc.	(xxx)
A.Total adjusted profits	xxx
B. Number of years	xx
C. Average adjusted profits (A/B)	xxx
Add: Future basins and savings	xxx
Less: Future losses and expenses	(xxx)
Less: Any opportunity cost	(xxx)
Future maintainable profits	xxx

NOTE:

- ✏️ While calculation of average future maintainable profits, the entity should check whether it is simple average or weighted average.
- ✏️ If profits are either increasing trend or decreasing trend then use weighted average profits method otherwise use simple average method
- ✏️ If question has no clear information whether the profits are either increasing or decreasing trend then use simple average profits method.

Step 2: Calculation of Goodwill

Goodwill = Average future maintainable profits x number of years purchased

2.Super profits method:

Under this method goodwill can be calculated on the basis of super profits and number of years purchased.Before calculation of goodwill first we need to understand the meaning of super profits.

Super profit is the excess of actual profit over normal profit.

Goodwill can be calculated on the basis of following steps:

Step 1: Calculation of average future maintainable profits

Step 2: Calculation of normal profits

Normal profits = Average capital employed x normal rate of return

Note:

✏️ Average capital employed = $\dfrac{\text{Opening capital employed + closing capital employed}}{2}$

✏️ If no opening capital employed is given in the question then average capital employed can be calculated on the basis of

closing capital employed - $\frac{1}{2}$ of current year profit

✏️ Capital employed = Total Assets - External liabilities

Step 3: calculation of super profits

Super profits = Average future maintainable profits - normal profits

Step 4: Goodwill = Super profits x number of years purchased

3. Annuity method:

Under this method goodwill can be calculated on type basis of super profits should be discounted using appropriate discount factor. It can be clearly understand on the basis of following-

Step 1: calculate super profits

Step 2: Goodwill = Super profits x Annuity factor

4. Capitalisation of future maintainable profits method:

Under this method entity calculate the goodwill by applying the following formula:

Goodwill = capitalisation value - capital employed

Note:

$$\text{capitalisation value} = \frac{\text{Future maintainable profits}}{\text{Normal rate of return}} \times 100$$

5. Capitalisation of super profits method:

Under this method goodwill is calculated by capitalising super profits at an agreed rate.

$$\text{Goodwill} = \frac{\text{Super profits}}{\text{capitalisation rate}} \times 100$$

Meaning:

Financial Instrument is a contract that give rise to a financial asset to one entity and financial liability or equity instrument to another entity

Contract refers to
- ✓ An agreement between two or more parties;
- ✓ Usually enforceable by law
- ✓ Contract can be in writing or oral

A Contract which
- Creates in party 1 books → Financial Asset
- Creates in party 2 books either → Financial Liability (OR) Equity

Example 1

On 1st Apr, 2023 Sold goods worth ₹ 20,000 →

Consideration agreed to pay after 3 months

Mr. Ananth
↓
Financial Asset (Trade Receivable)
↓
Right to receive the money in future

Sale of goods is a contract and Mr Ananth & Mr. Prakash are the two parties involved in contract

Mr.Ravi
↓
Financial Liability (Trade Payable)
↓
Obligation to pay the money in future

Example 2

CAAS Ltd → Issued Debentures Worth ₹ 1,00,000 → Mr. Ananth

CAAS Ltd
↓
Financial Liability to be created in books

Mr. Ananth
↓
Investment in Debentures in CAAS Ltd is a Financial Asset

The following three Indian Accounting Standards are relevant for recognition, measurement and disclosure of Financial Instruments

Financial Instruments: Presentation (Ind AS 32)
Financial Instruments: Recognition and measurement (Ind AS 109)
Financial Instruments: Disclosure (Ind AS 107)

Financial Instruments classified in the following manner:

(i) Financial asset;
(ii) Financial Liability;
(iii) Equity Instrument

As per Ind AS 32 in financial statements financial instruments are presented as financial asset or as financial liability or equities

Financial Asset

Financial asset includes:

a. Cash (includes deposited with bank or any other financial institution is a financial asset as it represents right to obtain cash from bank or financial institution)
b. An equity instrument of another entity
c. Contractual right to receive cash or another financial asset from another entity
   Examples: Trade Receivables
   Loans & Advances
d. Contractual right to exchange Financial Asset or Financial Liability with another entity under conditions that are potentially favourable to the entity

Example

CAAS Ltd → Holds call option to purchase equity shares in For ₹ 100 per share at the end of the say 90 days period → NRC Ltd

NRC Ltd ⇓ Listed company

↓

If the value per share as on exercise date/ settlement date is greater than ₹ 100 per share

↓

Then it is potentially favourable condition

e. A contract that will or may be settled in entity's own Equity Instrument and for which entity is or may be obligated to receive a variable number of entity's own Equity Instrument

Example

CAAS Ltd → Sells a plot of land to →

Mr. Ananth,
Shareholder of CAAS Ltd

Consideration which settles through Variable number of Equity shares of CAAS Ltd

Financial Liability

a. A contractual obligation to deliver cash or any Financial Asset to another entity
Examples:
(i) Trade payables
(ii) Loans raised

b. A contractual obligation to exchange Financial Asset or Financial Liability with another entity under conditions that are potentially unfavourable

Example

CAAS Ltd → Holds call option to purchase equity shares in For ₹ 100 per share at the end of the say 90 days period → NRC Ltd

NRC Ltd ⇓ Listed company

↓

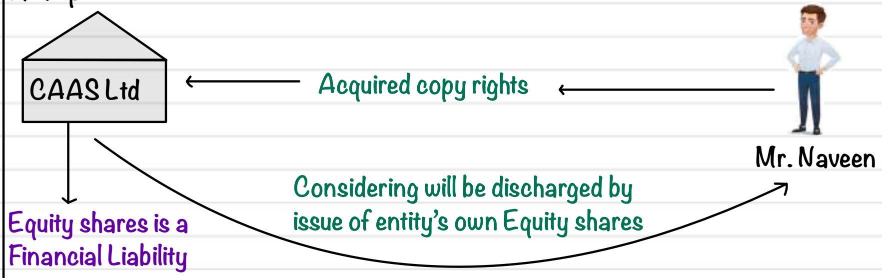
If the value per share as on exercise date/ settlement date is greater than ₹ 100 per share

↓

Then it is potentially unfavourable condition to NRC Ltd & it is treated as Financial Liability to the entity

c. A contract that will or may be settled in entity's own equity instruments and entity is obliged to deliver equity instrument

Example:



Equity instrument:

It is a contract that evidences a residual interest in their assets of an entity after deducting all its liabilities

An instrument is called as equity instrument if both the following conditions are satisfies:

1. An instrument that includes no contract obligation
   - to deliver cash or other financial asset to another entity
   - to exchange Financial Asset or Financial Liability with another entity under conditions that are potentially unfavourable to the issuer
2. If the issuer will or may be settled in the issuer's own equity instrument, it is :
   - A non- derivative that includes no contractual obligation for the issuer to deliver variable number of it's own equity instrument
   - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments

Analysis

Particulars	Classification.	Reason
a. Investment in equity shares	Financial asset.	As per the definition
b. Investment in loans	Financial Asset.	Contractual right to receive cash or any other Financial asset
c. Trade & other receivable	Financial Asset.	Contractual right to receive cash or any other Financial asset
d. Investment in Govt Bonds or gold bonds	Financial Assets.	Contractual right to receive cash or any other Financial asset

e. Issue of debentures	Financial Liability.	Contractual obligation to deliver cash or any financial asset
f. Perpetual debentures	Financial Liability.	Contractual obligation to deliver cash or any financial asset
g. Deposits and advances received	Financial Liability.	Contractual obligation to deliver cash or any financial asset
h. Bank loan raised	Financial Liability.	Contractual obligation to deliver cash or any financial asset
i. Sundry creditors or Bills Payable	Financial Liability.	Contractual obligation to deliver cash or any financial asset

Note:

1. Inventories, PPE, Intangible assets are just the assets held by an entity
2. For Prepaid expenses, no contractual right to receive cash or any other financial asset although there is no right to receive some services against the same
3. For Income taxes, not an obligation under contract. It's an obligation due to statutory requirements

Derivatives:

A derivative is an instrument -

- ✓ whose value changes in response to changes in the value of underlying asset
- ✓ that requires little or no initial investment
- ✓ that is settled a future date

The most common underlying assets for derivatives are stock, bonds, commodities, currencies, interest rates and market indexes. Contract value depends upon changes in the prices of the underlying assets.

Example:

CAAS Ltd → Hold options to purchase equity shares after 100 days for ₹ 15,000 from → NRC Ltd

Analysis of example:

A. Contract to purchase equity shares of NRC Ltd after 100 days for ₹ 15,000.

B. At the time of entering into a contract, no initial investment was made or amount spend

C. Underlying asset is equity shares

Note: A derivative is a financial instrument as it gives a right to one party to exchange financial asset or financial liability with another party under conditions that are potentially favourable for one party and unfavourable to another party

Example

CAAS Ltd → On 1st, Apr, 2023 enter in to a contract with → Mr. Ravi

↓

For purchase of 1,000 kg of Rice @ ₹70 per kg as on 4th June, 2023

Mr. Ravi

↓

In this case, asset underlying is a stock (Rice) and value shall change, little or no initial investment required and settlement will be done in future with an option to delivery or net cash. If Market value or rice per kg increase than compared to agreed price ₹ 70, than it is favourable to CAAS Ltd and unfavourable to Mr. Ravi.

Embedded Derivatives

Embedded derivatives are financial instruments included in non-derivative contracts, such as loan agreements or insurance policies.

These derivatives are embedded within the host contract and cannot be separated and traded independently.

The value of embedded derivatives is derived from an underlying variable such as interest rates, foreign exchange rates or commodity prices

Example

CAAS Ltd → Capital market

Issues bonds in

Payment of coupon and principal is linked with price of gold.

Bond issued by CAAS Ltd is the debt instrument (Non- derivative). Payment are linked with another instrument which is Gold (derivative component). This derivative component is known as embedded derivative

Note: non- derivative component is also known as host contract and combined contract is known as hybrid in nature

Puttable Instruments

It is a financial instrument → gives the holder the right → to put the instrument back to the issuer → For cash or another financial asset or automatically put back to the issuer

- On occurrence of an uncertain future event

(or)

- Death or retirement of the instrument holder

Instrument back to the issuer ?

Redemption of the instrument

Note: ordinarily it satisfies all the conditions of being classified as financial liability. Puttable financial instruments is classified as equity instrument where it entitles the holder a pro rata share of the entity's net assets on liquidation it is classified as equity

Methods for recognition and measurement of Financial Asset & Financial Liability

a. For Financial Asset, it can be measured on the basis of following methods:

Amortised cost method
↓
If entity's intention is to hold the asset till the maturity date
↓
Intention is to collect only contractual cash flows of the asset (Interest or principal)

Fair value through Other Comprehensive Income
↓
Intention is to hold the asset for some time & sell it before the maturity date
↓
Intention to collect contractual cash flows & cash flows from sale of asset (taking benefit of market prices)

fair value through profit or Loss
↓
If intention is to hold the asset for trading purpose only
↓
Intention to collect cash flows from sale of asset only (taking benefit of market prices)

Eg: Investment in equity shares of any other equity;
Derivative financial asset

Note: In case of investment in equity shares of any other equity which is irrevocable choice can be shown at Fair Value through Other Comprehensive Income. Entity has to follow it forever & it cannot show this investment in equity shares at Fair Value through Profit or Loss again in future

b. For financial liabilities, in general it can be measured at amortised cost only.
Note: Financial Liabilities should be measured at Fair Value through Profit or Loss in the following cases-

(i) Derivative financial liability
(ii) Financial Guarantee

Introduction

Non-Banking Financial Companies (NBFCs), forms an integral part of Indian financial system, providing various financial services. In recent times, activities of NBFCs have undergone variety of changes through financial innovation. NBFC initially gets incorporated under Indian Companies Act, 2013 and later on obtains Certificate of Incorporation from RBI.

Meaning

Non-Banking Finance Company (NBFC) is a financial institution which does not meet the legal definition of bank but carries the similar activities to that of bank like lending and making investments i.e. such an institution does not hold a banking license.

As per Sec. 45I(f) of RBI Act, 1934, a non-banking financial company" means:

(i) a financial institution which is a company;

(ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;

(iii) such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

Classification of NBFC

NBFC broadly classified into two categories. Such as

- Deposit taking NBFC
- Non-Deposit taking NBFC
  - Non- deposit Systematically Important
  - Non-Deposit Non systematic Important

Deposit taking NBFCs (referred to as NBFCs-D):

These NBFCs are subject to the requirements of Capital adequacy norms, Liquid assets maintenance norms, Exposure norms (including restrictions on exposure to investments in land, building and unquoted shares), Asset Liability Management (ALM) discipline and reporting requirements

Non-Deposit tasking NBFC

Thus, now the NBFCs-ND shall be categorized into two broad categories in accordance with the revised threshold limit for systemic significance:

- ✓ NBFCs-ND NSI(those with assets of less than 500 crore) and
- ✓ NBFCs-ND-SI (those with assets of 500 crore and above)

Asset Classification for NBFCs

Every non-banking financial company shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

(i) Standard assets;
(ii) Sub-standard assets;
(iii) Doubtful assets; and
(iv) Loss assets

Standard Asset

Standard Asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived

Sub-standard asset

a. An asset which has been classified as non-performing asset for a period not exceeding 18 months;
b. An asset where the terms of the agreement regarding interest and/ or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms

Doubtful asset

a. a term loan, or
b. a lease asset, or
c. a hire purchase asset, or
d. any other asset, which remains a sub- standard asset for a period exceeding 18 months

Loss asset

a. An asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Reserve Bank of India during the inspection of the non-banking financial company,
b. An asset which is adversely affected by a potential threat of non-recoverability

Non-performing Asset:

As per the "Non-systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015", a non-performing asset (NPA) means:

a. an asset, in respect of which, interest has remained overdue for a period of six months or more;
b. a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
c. a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
d. a bill which remains overdue for a period of six months or more;
e. the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/ advances, which facility remained overdue for a period of six months or more;
f. any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
g. the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more

Prudential norms for recognition of income

For Performing Asset, income can be recognised in Accrual basis and for Non- Performing Asset, income can be recognised in cash basis

Provisions Requirements for NBFC as per RBI regulations

Particulars	Percentage of provision
For Standard asset	0.40%
(Note: The above percentage is revised by the end of March, 2018, earlier it was 0.35% by the end of Mar,2017 and by the end of mar, 2016 it was 0.30%)	
For Sub-standard Asset	10%
For Doubtful Asset	
(i) Secured	
upto one year	20%
one to 3 years	30%
More than 3 years	50%
(ii) Unsecured portion	100%
For loss asset	100%

Note: For standard asset in case of NBFC Non Deposit Non Systematic Important, 0.25% of provision

On lease and Hire purchase assets

Where hire charges or lease rentals are overdue upto 12 months	Nil
Where hire charges or lease rentals are overdue for more than 12 months but upto 24 months	10 percent of the net book value
Where hire charges or lease rentals are overdue for more than 24 months but upto 36 months	40 percent of the net book value
Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value
Where hire charges or lease rentals are overdue for more than 48 months	100 percent of the net book value

Introduction

A. CAAS Ltd → Investment in shares of Less than 20% → NRC Ltd

Consider it is a normal investment & CAAS Ltd account it as normal investment as per Ind AS 109. No need to prepare consolidated Financial Statements

B. CAAS Ltd → Investment in shares of ≥ 20% but ≤ 50% → NRC Ltd

CAAS Ltd: Investor company

NRC Ltd: Investee company

Investor company has to prepare two set of financial statements:

- Standalone Financial Statements as per Ind AS 27
- Consolidated Financial Statements as per Ind AS 28

C. CAAS Ltd → Investment in shares of > 50% → NRC Ltd

CAAS Ltd: Investor company

NRC Ltd: Investee company

In this case CAAS Ltd has control over NRC Ltd called as Business combinations

Here, Investor company is treated as parent company or acquirer company or holding company & Investee company is termed as subsidiary company

Investor company has to prepare two set of financial statements

- Standalone Financial Statements as per Ind AS 27
- Consolidate Financial Statements
  - On the date of acquisition as per Ind AS 103
  - On the reporting date as per Ind AS 110

D. Joint arrangements

- In the form of joint operations
  ↓
  Investor company has to prepare separate financial statements as per Ind AS 111
- In the form of joint venture
  ↓
  Investor company has to prepare two set of financial statements
  - Standalone financial statements as per Ind AS 27
  - Consolidated financial statements as per Ind AS 28

NOTE:

1. Investor company and it's subsidiary company, Associate, Joint Arrangements are combined together called as group
2. Accounting of investment in Subsidiary, Associate or Joint Venture in a separate financial statements by the investor company as per Ind AS 27.
   - ✓ Such investments can be disclosed at either cost (or) fair value as per Ind AS 109 "Financial Instruments"
   - ✓ Any dividend income received from those investments is recognised in Profit & Loss A/c in standalone Financial Statements

Meaning of business combinations:

Business combinations occurs when a company acquires control over the "business of other company"

Business means integrated set of activities having following 3 elements-

Inputs	Process	Output
Those resources or assets required to generate output. Eg: PPE, Intangible Assets, Human Resources, etc.	Techniques or technical know-how that used on inputs to generate output Eg: Production process, management process, etc.	It means ability to generate revenue by using inputs & processes

When can the entity obtain the control over the another entity ?

- By acquiring more than 50 % of equity shares of other company
- Control over the composition of BOD
- By acquiring power to direct all relevant activities

In the above situation, the acquirer company has to prepare 2 set of financial statements. Such as:

1. Separate financial statements as per Ind AS 27 &
2. Consolidated financial statements
   a. As per Ind AS 103 on the date of acquisition
   b. As per Ind AS 110 on the reporting date

Note: control can also be obtained by acquiring net assets of another entity. In this case acquirer company has to prepare business combinations as per Ind AS 103 but no need to prepare Consolidated Financial Statements as per Ind AS 110

Accounting for Business combinations:

Ind AS 103 prescribe acquisition method for every business combinations unless it is a business combination under common control.

Acquisition method ?

- On the date of acquisition, transferor company recognise the identifiable assets and identifiable liabilities on the basis of their fair values.
- Identifiable assets and identifiable liabilities which includes assets and liabilities not recorded in the financial statements of the transferor company
- In case of purchase consideration $>$ Net Assets of the acquiree company , then it is treated as Goodwill
- In case of purchase consideration $<$ Net Assets of the acquiree company , then it is treated as Gain on Bargain

While preparing consolidated financial statements as per Ind AS 103, acquirer company needs to comply the following steps as on the date of acquisition:

Step 1: Identify the Acquirer company

Acquirer company is the company who obtains the control over the business of acquiree company except in a case of reverse acquisition. This can be explained in the following example.

CAAS Ltd → Acquired 60% of shares → ABC Ltd

CAAS Ltd ↓ Legal acquirer because CAAS Ltd obtain control over ABC Ltd

ABC Ltd ↓ Legal acquiree

Note: if control lies with ABC Ltd even 60% of rights acquired by CAAS Ltd then ABC Ltd is termed as Accounting acquiree and this process called as reverse acquisition.

Step 2: Determining the date of acquisition

Date on which the acquirer company obtain the control over the acquiree company (i.e., Agreed date of control). If any approval is required from the government, then date of approval by government will be considered as Acquisition Date.

Step 3: Identify the percentage (%) of control by acquirer company in acquiree company

It can be identified by observing number of shares issued by acquiree company in total and number of shares invested by acquirer company in acquiree company.

Step 4: Identify the percentage of Non- controlling Interest (NCI)

Percentage of NCI = 100% – % of control by acquirer company

Step 5: calculation of purchase consideration (PC)

Purchase consideration means total amount agreed to pay to both equity shareholders as well as preference shareholders of acquiree company.

It can be calculated as on the date of acquisition, which is as follows:

Cash paid	xxx
Add: Fair value of any asset transferred	xxx
Add: Fair value of equity shares issued	xxx
Add: Fair value of debentures issued	xxx
Add: Fair value of contingent consideration	xxx
Add: Present value of deferred consideration.	xxx
Add: Fair value of ESOP relating to pre combination period in case of replacement award	xxx
TOTAL PURCHASE CONSIDERATION.	xxx

Step 6: Identifying the net assets of Acquiree company taken over by acquirer company

✓ All assets and liabilities of acquiree company are taken over at fair value on date of acquisition	xxx
✓ Non-current assets held for sale of acquiree company is taken over at fair value less cost to disposal	xxx
✓ Contingent liability of acquiree company is also taken over & recognised as liability at fair value as on the date of acquisition (if contingent liability is a present obligation)	xxx

✓ Such Intangible assets that meet the recognition criteria as per Ind as 38 but are not recorded in acquiree books are also taken over & recognise at fair fair value as on the date of acquisition.	xxx
✓ Indemnification assets promised by Acquiree company shall also be taken over to the extent of contingent liability is a present obligation	xxx
✓ Recognised Rights are also taken over and recognise at fair value as on the date of acquisition. Example: Existing contractual relationship licence appearing in books of acquiree company.	xxx
✓ DTA/DTL arising due to net assets taken over of acquiree company in business combinations	xxx

- If fair value of net assets taken over > carrying amount of net assets taken over → DTL is to be create
- If fair value of net assets taken over < carrying amount of net assets taken over → DTA is to be create

NOTE:

✏️ Here, fair value of net assets taken over is treated as carrying amount as per books and carrying amount of net assets taken over is treated as tax base.

✏️ If any DTA/DTL already appearing in Acquirer's books is also to be consider for calculation of net assets at fair value

Step 7: Calculation of goodwill or Gain on Bargain Purchase as on the date of acquisition

Goodwill or Gain on Bargain Purchase can be calculated in following two methods:

Fair value method

Purchase consideration	xxx
Add: NCI	xxx
Less: Net Assets of acquiree Company	(xxx)
Goodwill	xxx

Proportionate method

Purchase consideration	xxx
Add: NCI	xxx
Less: Net Assets taken over of Acquiree company	(xxx)
Goodwill	xxx

NOTE:

- ✏️ If it is in negative balance in both the cases, then it is treated as Gain on Bargain Purchase which is recognised in Other Comprehensive Income but accumulated as capital reserve under the head Other Equity in Balance Sheet
- ✏️ Under fair value method, NCI is given in the question. If not, it can be calculated on the basis of following:

  No. of shares held by NCI X Fair value per share of acquiree company
- ✏️ Under proportionate share method, NCI is to be calculated on the basis of following:

  Total Net Assets taken of acquiree company taken oven by acquirer company X % of control acquired by acquirer company

Journal Entries in the books of acquirer company as on the date of acquisition:

In Consolidated Financial statements

Sundry Assets A/c	Dr
Goodwill A/c (Bal.fig)	Dr
To Liabilities A/c	
To NCI A/c	
To Gain on Bargain Purchase A/c (Bal. fig)	
To Purchase Consideration A/c (refer step 5)	

Note:

- ✏️ Sundry Assets and sundry liabilities taken over from acquiree company
- ✏️ Instead of purchase consideration, entity can also credit "Investment in Acquiree A/c" in the above journal entry
- ✏️ Either goodwill or Gain on Bargain Purchase any one

Step 8: Preparation of consolidated balance Sheet of acquirer company as on the date of acquisition date.

Consolidated Balance Sheet can be prepared by acquirer company by considering the following:

- ✓ Carrying value of assets , liabilities, Equity & Other Equity of acquirer company as on the date of balance sheet
- ✓ Effect of above business combination journal entry

In separate financial statements:

Investment in Acquiree company A/c Dr
To Purchase consideration A/c
(Refer step 5)

Accounting treatment in the books of acquiree company as on the date of acquisition:

1. On the date of acquisition, acquiree company needs to close all the assets and liabilities which disclosed in before with their book values and it should be transfer to Realisation A/c, then the journal entry is as follows:

a. For assets-

Realisation A/c Dr
To Sundry Assets A/c

b. For liabilities-

Sundry Liabilities A/c Dr
To Realisation A/c

2. Due entry for Purchase consideration

Acquirer company A/c Dr
To Realisation A/c

3. For cancellation of Equity share capital and Other equity-

Equity share capital A/c Dr
Other equity A/c Dr
To Equity Shareholders A/c

4. For cancellation of Preference share capital-

Preference share capital A/c Dr
Realisation A/c* Dr
To Preference Shareholders A/c

*Premium on redemption of preference shares should be transfer to Realisation A/c

5. For Profit on Realisation A/c-

Realisation A/c Dr
To Equity Shareholders A/c

6. For loss on realisation A/c-

Equity Shareholders A/c	Dr	
To Realisation A/c		

7. On receipt of purchase consideration-

Equity shares in acquirer company A/c	Dr	
Preference shares in acquirer company A/c	Dr.	Refer step 5
Debentures in acquirer company A/c	Dr	
To Acquirer company A/c		

8. For settlement to preference shareholders-

Preference shareholders A/c	Dr	
To Equity shares in acquirer company A/c		
To Preference shares in acquirer company A/c		Refer step 5
To Debentures in acquirer company A/c		

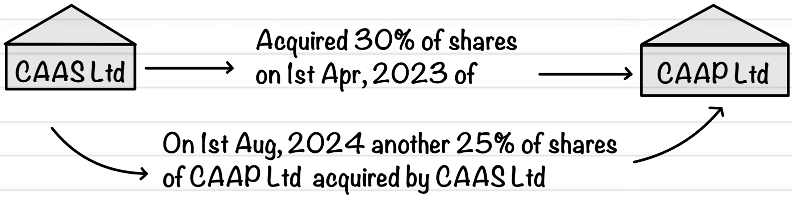
9. For settlement to equity shareholders-

Equity shareholders A/c	Dr	
To Equity shares in acquirer company A/c		
To Preference shares in acquirer company A/c		Refer step 5
To Debentures in acquirer company A/c		

NOTE:- In case of acquirer company acquires only shares in acquiree company, then no accounting treatment in the books of acquiree company because the entity is continuing in nature

Business combinations achieved in stages or step-up Acquisition

- ✓ Acquirer company obtain control over acquiree company in instalment basis (i.e., step by step) through the series of purchase of stake or share in acquiree company
- ✓ In this case, acquirer company can obtain control over acquiree company on the date when the stake purchased in acquiree company exceeds 50%



Total shares acquired by CAAS Ltd on CAAP Ltd on 1st, Aug, 2024 is 55% which exceed 50%. Therefore, control acquired on this date by CAAS Ltd

Accounting for business combination in case of step up acquisition

Step 1: Identify the date of control

Date which exceeds 50% of stake in Acquiree company will be considered as date of control

Step 2: Identify the fair value of previously held investment in Acquiree company

Step 3: calculate gain or loss on re measurement of previously held investment in acquirer company.

Gain or loss can be calculated on the basis of Difference between fair value of previously held investment as on the date of acquisition and carrying value in acquirer company

Step 4: calculate Goodwill or Gain on bargain

Purchase consideration	xxx
Add: Previously held investment at fair value.	xxx
Add: NCI	xxx
Less: Net Assets at fair value on acquisition date	xxx
Goodwill or (Gain on bargain).	xxx/(xxx)

Note :- NCI can be calculated either proportionate net assets method or fair value method

Step 5:- Journal entries

1. On the date of acquisition, due entry for purchase consideration

    Sundry Assets A/c Dr
    Goodwill A/c (Bal. Fig) Dr
        To Sundry Liabilities A/c
        To Purchase consideration A/c
        To Investment A/c
        To NCI A/c
        To Gain on bargain A/c (Bal.fig)

2. Settlement of purchase consideration

    Purchase consideration A/c Dr
        To Equity Share Capital A/c
        To Pref. Share Capital A/c
        To Debentures A/c, Etc,.

Step 6:- Prepare consolidated financial statements

Business combination under common control

Business combination under common control means entities or businesses which are controlled by same party or parties as before and after the business combination. It is merely called as Corporate Restructuring

Under common control, entity shall use pooling of interest method.

Pooling of interest method ?

- Transferor company recognise the identifiable assets and identifiable liabilities on the basis of their book values.
- Identifiable assets and identifiable liabilities which does includes assets and liabilities not recorded in the financial statements of the transferor company
- In case of purchase consideration > Net Assets of the acquiree company , then it is adjusted from Capital Reserve
- In case of purchase consideration < Net Assets of the acquiree company , then it is transfer to Capital reserve

Accounting for business combination under common control

Step 1:- Identifying the acquirer company

Step 2:- Determining the date of acquisition

Step 3:- Determining the purchase consideration

Step 4:- Calculate net assets of acquiree company at their book values

Step 5:- Calculation of Capital Reserve (Gain or loss on restructuring)

If Purchase Consideration > net assets then it is treated as loss on restructuring	If Purchase Consideration < net assets then it is treated as profit on restructuring
↓	↓
Debited to Capital Reserve	Credited to Capital Reserve

Step 6:- Journal entries in the books of Acquirer company as on the date of acquisition

(i) Due entry for purchase consideration

Sundry Assets A/c Dr
Capital Reserve A/c (Bal.fig). Dr
To Sundry Liabilities A/c
To Reserve A/c
To Purchase consideration A/c
To Capital Reserve A/c (Bal.fig)

(ii) Discharge of purchase consideration

Purchase consideration A/c. Dr
To Equity Share Capital A/c
To Pref. Share Capital A/c
To Debentures A/c, Etc,.

Step 7:- Prepare consolidated Balance Sheet of Acquirer company on the date of acquisition by considering the following-

All the assets, labilities and reserves of acquiree company at their book values

All assets, liabilities and equity of acquirer company

Business combination in case of reverse acquisition

CAAS Ltd ⟶ Acquired ⟶ CAAP Ltd

Accounting acquirer

Legal acquirer

Legal acquiree

↓

Equity shares before business combination of 2L shares

PC of ₹ 60L discharged by issue of 3L shares of ₹ 20 each

↓

Total equity shares of CAAS Ltd after business combination is 5L shares out of which 3L shares hold by CAAP Ltd which is 60%. control of CAAS Ltd lies with CAAP Ltd.

Accounting of business combination in case of reverse acquisition

Step 1:- Identifying the Accounting Acquirer company

Step 2:- Determining the date of acquisition

Step 3:- Calculation of Purchase Consideration

Step 4:- Calculation of net assets of legal acquirer at fair values

Step 5:- Calculation of Goodwill or Gain on bargain

Purchase consideration	xxx
Less:- Net assets at fair values	(xxx)
Goodwill or Gain on bargain	xxx

Note:-

✓ If positive goodwill or in negative gain on bargain

✓ NCI is not applicable in case of reverse acquisition

Step 6:- Journal entries in the books of Accounting Acquirer

Step 7:- Preparation of consolidated balance sheet

✓ Consolidated balance sheet will be prepared by Accounting acquirer in the name of legal acquirer.

✓ While preparation of consolidated balance sheet accounting acquirer should consider fair value of assets and liabilities of legal acquirer and book value of assets and liabilities of accounting acquirer

Business combination in case of Demerger

It is an arrangements where transfer of one or more divisions or parts of the entity to another entity.
The entity which transfer the divisions or parts called as "Demerged entity"

Example

CAAS Ltd → Mobile division, Laptop division, Tab division

Tab division → Sale of this division → CAAP Ltd

In this case, accounting treatment in the books Acquirer depends upon to whom the consideration is paid, which is discussed in the following manner:

Consideration received by

- Demerged entity directly → Use pooling of interest methods
- Shareholders of Demerged entity
  - Shareholder has a control over the Demerged entity → Use pooling of interest methods
  - Shareholder has no control over the Demerged entity → Use acquisition method

Note: If consideration received by the Demerged entity directly or shareholder of Demerged entity who has control over the Demerged entity follows pooling of interest method except Reserves of Demerged entity will not be taken over.

In the books of Demerged entity

A. Journal entries

(i) Due entry for purchase consideration

Sundry liabilities A/c	Dr
Purchase consideration A/c	Dr
Loss on sale or Reconstruction A/c	Dr
To Sundry Assets A/c	
To Profit on sale or Reconstruction A/c	

(ii) For transfer of profit on sale of reconstruction to Capital Reserve A/c
Profit on sale or Reconstruction A/c Dr
To Capital Reserve A/c

For transfer of loss on sale or Reconstruction to Capital Reserve A/c
Capital Reserve/ General Reserve/ P&L A/c. Dr
To Loss on sale or Reconstruction A/c

(iii) Settlement of consideration
a. If consideration has been received by the members of the Demerged entity
Capital Reserve A/c Dr
To Purchase Consideration A/c

b. If consideration received by Demerged entity
Shares in Demerged Co. A/c Dr
To Purchase Consideration A/c

B. Preparation of balance sheet of Demerged entity after journal entries

In the books of Acquirer Company

A. Journal entries
For taking over assets and liabilities of Demerged entity
Sundry Assets A/c Dr
Capital Reserve A/c (Bal.fig) Dr
To Sundry Liability A/c
To Purchase consideration A/c
To Capital Reserve A/c (Bal.fig)

For settlement of consideration
Purchase Consideration A/c Dr
To Share Capital A/c

B. Preparation of Balance Sheet of acquirer company after journal entries

Business combination in case of chain holding

Chain holding refers to transaction of business combination where a parent company is acquiring control of its subsidiary (intermediate parent) which in turn acquiring control of another company (sub-subsidiary)

Example

CAAS Ltd ⟶ Acquired 80% shares ⟶ CAAP Ltd ⟶ Acquired 90% shares ⟶ CAAK Ltd

Control over CAAP Ltd is 80% ; NCI is 20% &
control over CAAK Ltd is 72% (90 x 80%); NCI is 28%.

Accounting treatment in the books of Acquirer (consolidated set)

Step 1:- Identify the date of Acquisition

Example

1. CAAS Ltd acquired 80% shares on CAAP Ltd on 1st, Apr,2023 and CAAP Ltd acquired 90% shares on 1st, Aug,2023 then date of Acquisition is

   for CAAP Ltd 1st, Apr,2023
   for CAAK Ltd 1st Aug,2023

2. CAAS Ltd acquired 80% shares on CAAP Ltd on 1st, Apr,2023 and CAAP Ltd acquired 90% shares on 1st, Aug,2022 then date of Acquisition is

   for CAAP Ltd & CAAK Ltd 1st Apr, 2023

Step 2:- Identify the acquirer
Step 3:- Determine the Purchase Consideration
Step 4:- Determining fair value of net assets of subsidiary company as well as sub subsidiary company
Step 5:- Determining NCI of subsidiary company as well as sub-subsidiary company
Step 6:- Calculate Goodwill or Gain on Bargain as like earlier either on the basis of fair value method or proportionate net assets method
Step 7:- Pass the journal entries
Step 8:- Prepare consolidated balance sheet of parent company

Introduction

- ✓ As per section 129 of companies act 2013, an entity which has one or more subsidiaries or joint venture or associates will need to prepare consolidated financial statements
- ✓ The standard prescribe the accounting treatment for preparation and presentation of consolidated financial statements of a parent company which controls one or more subsidiaries

Meaning of consolidated financial statements

Financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of a parent company and its subsidiaries are prescribed as those of a single entity

Key definitions

Parent company:- It is a company that controls one or more entities
Subsidiary company:- It is an entity that is controlled by another entity
Group:- Parent and its Subsidiaries
Control:- An investor is said to control over the investee in the following cases:

When can the entity obtain the control over the another entity ?

- By acquiring more than 50 % of equity shares of other company
- Control over the composition of BOD
- By acquiring power to direct all relevant activities

Note:-

1. Consolidation begin from the date the parent or investor acquires control over the subsidiary or investee
2. Consolidation ends when the parent losses control over subsidiaries.

Procedure for preparation of consolidated balance sheet at the end of the every year

Step 1:- Identify the date of acquisition and date of consolidation

Here, Date of acquisition means the date on which the subsidiary company is acquired by parent company and date of consolidation means the date of preparation of consolidated balance sheet

Step 2:- Identify the percentage of shares holding by parent company in subsidiary company, as on the date of acquisition

$$\frac{\text{Number of shares invested by parent company in subsidiary company}}{\text{Total number of shares invested in subsidiary company}} \times 100$$

Step 3 :- Ascertain percentage of non-controlling interest in subsidiary company as on the date of acquisition

Percentage of Non-Controlling Interest = 100% - percentage of shares holding by parent company

Step 4:- Analysis of reserves of subsidiary company

Particulars	pre-acquisition reserves of subsidiary company.	Post-acquisition reserves of subsidiary company	
		Retained earnings	General Reserves
Retained earnings	xxx	xxx	
General reserve	xxx		xxx
Total	xxx	xxx	xxx
Percentage of parent company share in post-acquisition reserves		xxx	xxx
Percentage of NCI share in post acquisition reserves		xxx	xxx

Special adjustments

a. If subsidiary company is acquired in between the year.
The profit earned by subsidiary company in that year, will be allocated in pre and post period on time basis.

b. Dividend paid by subsidiary company in current year after acquisition date but before the consolidation date.
This transaction is treated as intra- group transaction and it should be eliminated while preparation of Consolidated Financial Statements
Accounting treatment of dividend is as follows:

Accounting treatment

- Added back to Reserves & surplus of subsidiary company
  - If subsidiary company is acquired on or before the commencement of current year
    - ↓ Entire dividend paid by subsidiary company is added to the Post Acquisition Reserves & Surplus
  - If subsidiary company is acquired during the current year
    - ↓ Dividend paid by subsidiary company is added to pre and post acquisition period Reserves & Surplus on a timely basis
- Share of parent company in dividend paid by subsidiary company is deducted from Group Reserves & Surplus
- Share of NCI in dividend paid by subsidiary company is deducted from NCI

c. **Impact of Fair Value of assets and liabilities of Subsidiary Company as on the date of acquisition**

While preparation of consolidated financial statements as per Ind AS 110, entity needs to calculate Net Assets at Fair Value of subsidiary company but subsidiary company recognise those all the assets and liabilities at carrying values. At this stage the Fair Value of assets and liabilities which may either increases the or decreases. For such increases or decreases, the accounting treatment is as follows:

(i) For assets of subsidiary company

- If fair value of asset > carrying value as on the date of acquisition
  - Add such increased portion to the pre-acquisition Reserves & Surplus of Subsidiary company
  - Add such increased portion to the respective asset in Consolidated balance Sheet
- If fair value of asset < carrying value as on the date of acquisition
  - Deduct such decreased portion from the pre-acquisition Reserves & Surplus of Subsidiary company
  - Deduct such decreased portion from the respective asset in Consolidated balance Sheet

(ii) For liabilities of subsidiary company

If fair value of liability > carrying value of liability as on the date of acquisition
- Deduct such increased portion from pre- acquisition Reserves & Surplus of Subsidiary company
- Add such increased portion to the concerned liability while preparation of Consolidated Balance Sheet

If fair value of liability < carrying value of liability as on the date of acquisition
- Add such decreased portion to the pre-acquisition Reserves & Surplus of subsidiary company
- Deduct such decreased portion from the concerned liability while preparation of Consolidated Balance Sheet

Note:

1. In case of depreciable asset such as Plant & machinery, Furniture & Fixture, etc., additional effect for depreciation due to increase or decrease in fair value over carrying value of subsidiary company, entity needs to calculate the increased value of depreciation or decreased value of depreciation. Such increased or decreased value is calculated as follows:

Depreciation on fair value of asset from acquisition date to consolidation date	xxx
Less:- Depreciation on carrying value of asset from the acquisition date to consolidation date.	xxx
Increased value of depreciation/ (Decreased value of depreciation).	xxx/(xxx)

Accounting treatment for such increased value of depreciation or decreased value of depreciation

In case of increased value of depreciation
- ✓ Deduct from post-Acquisition Reserves & Surplus of subsidiary company
  &
- ✓ Deduct from concerned asset in Consolidated Balance Sheet

In case of decreased value of depreciation
- ✓ Added to post-acquisition Reserves & Surplus of subsidiary company
  &
- ✓ Added to concerned asset in Consolidated balance Sheet

carrying amount of depreciable asset as on the date of consolidation date is to be calculated in the following manner

Carrying value of depreciable asset of subsidiary company as on the consolidation date in Balance Sheet	xxx
Add/Less:- Increased/ Decreased value of asset	xxx/(xxx)
Add/Less:- Decreased value/ (Increased value) of depreciation	xxx/ (xxx)
carrying amount of depreciable asset as on the Consolidation date.	xxx

2. In case of increase/ decrease in fair value of inventory of subsidiary company as on the acquisition date and the same inventory is sold after the acquisition date but before consolidation date. In this case, the effect of previously increased / decreased value of such inventory should be reversed back. It can be explained clearly in the following manner:

In case of Fair Value of inventory > carrying value as on the date of acquisition

↓

- ✓ Deduct such increased value of inventory from post-acquisition Reserves & Surplus of Subsidiary company

&

- ✓ Deduct such increased value from inventory in Consolidated Balance Sheet

In case of Fair Value of inventory < carrying value as on the date of acquisition

↓

- ✓ Add such decreased value of inventory to post-acquisition Reserves & Surplus of Subsidiary company

&

- ✓ Add such decreased value to the inventory in Consolidated Balance Sheet

The same principle is applicable for Trade Receivable as well as Trade Payable

d. Treatment of unrealised gain on Inventory

In case, subsequent to the date of acquisition but before to the consolidation date, if Parent Company sold or purchased commodities to or from Subsidiary Company and the same commodities is remains unsold on the date of consolidation. If any unrealised gain involved then it should be adjusted.

Here, unrealised gain means differences between sales amount and cost of goods

(i.e., unrealised gain = Sales - cost of goods sold)

Accounting treatment for unrealised gain is as follows:

Down stream transaction	Up stream transaction
Parent company sold goods to Subsidiary company	Subsidiary company sold goods to Parent company
Accounting for Unrealised gain on inventory should be - ✓ Deduct from Group Reserves & Surplus ✓ Deduct from Inventory in Consolidated Balance Sheet	Accounting for unrealised gain on inventory should be- ✓ Deduct from post-acquisition Reserves & surplus of Subsidiary company ✓ Deduct from inventory in Consolidated Balance Sheet

e. Treatment of unrealised gain on PPE

- ✓ In case, subsequent to the date of acquisition but before to the consolidation date, if Parent Company sold or purchased PPE to or from Subsidiary Company and the same PPE is remains unsold on the date of consolidation. If any unrealised gain involved then it should be adjusted.
- ✓ Here, unrealised gain means differences between sales amount and carrying amount of PPE as on the date of sale

  (i.e., unrealised gain = Sales - Carrying amount of PPE as on the date of sale)
- ✓ Carrying amount can be calculated on the basis of provisions of Ind AS 16 “PPE”

✓ The accounting treatment for unrealised gain is as follows:

Down stream transaction	Up stream transaction
Parent company sold PPE to Subsidiary company	Subsidiary company sold goods to Parent company
Accounting for Unrealised gain on inventory should be - ✓ Deduct from Group Reserves & Surplus & ✓ Deduct from PPE in Consolidated Balance Sheet	Accounting for unrealised gain on PPE should be- ✓ Deduct from post-acquisition Reserves & surplus of Subsidiary company & ✓ Deduct from PPE in Consolidated Balance Sheet

Note: in case of up-stream transaction, parent company would charged depreciation on purchased price from subsidiary company. The additional depreciation charged on such PPE should be reversed back, which as follows:

- ✓ Added to Group Reserves & Surplus

&

- ✓ Added to PPE in Consolidated Balance Sheet

Additional depreciation charged on unrealised gain on PPE is calculated as below-

Depreciation on sale/purchased amount within the group	xxx
Less: Depreciation on carrying value	(xxx)
Additional Depreciation.	xxx

Step 5:- Calculation of net assets at fair value of subsidiary company taken over by parent company as on the acquisition date

Share capital of subsidiary company	xxx
Add: Pre-Acquisition reserves of subsidiary company	xxx
Net assets at fair value	xxx

Step 6:- Calculation of Non-Controlling Interest (NCI) as on the date of consolidation

NCI as on the date of	xxx
Add: Share of NCI in post-acquisition Reserves of Subsidiary company	xxx
Less: Share of NCI in dividend paid by Subsidiary Company	(xxx)
NCI as on the date of consolidation	xxx

Step 7:- Calculation of Goodwill or Gain on Bargain as on the date of consolidation

The calculation of Goodwill or Gain on Bargain is same like calculation as on the date of acquisition

Purchase consideration	xxx
Add: NCI as on the date of acquisition.	xxx
Less: Net Assets at fair value as on the date of acquisition	xxx
Goodwill / Gain on Bargain	xxx

Step 8:- Calculation of Group Reserves & Surplus as on the date of consolidation (i.e., Other Equity of Parent company)

Parent company own Reserves & Surplus as on the date of consolidation.	xxx
Add: Share of Parent company in post-acquisition Reserves & Surplus of subsidiary company after all adjustments	xxx
Other Equity of Parent Company.	xxx

Step 9:- Preparation of Consolidated Balance Sheet as on the reporting date

Consolidated Balance Sheet can be prepared by considering the following-

- ✓ All assets & Liabilities of Parent company & Subsidiary company at their book values on that date

  Except the following:
  - ➡ Investment amount by parent company in subsidiary company
  - ➡ Share Capital of Subsidiary company
  - ➡ Reserves & Surplus of Subsidiary company
- ✓ Recognise Goodwill or Gain on Bargain as well as NCI
- ✓ Impact of increase or decrease in value of asset and liability (Fair Value of asset or liability either > or < carrying value)
- ✓ Impact on unrealised gain on inventory
- ✓ Eliminate intra-group transactions, if any

Consolidated Financial Statements in case of Chain Holding

Chain holding refers to transaction of business combination where a parent company is acquiring control of its subsidiary (intermediate parent) which in turn acquiring control of another company (sub-subsidiary)

Procedure for preparation of Consolidated Financial Statements

Step 1:- Identify the share of Parent company in Subsidiary company and Sub-subsidiary company as well as share of NCI in Subsidiary company and Sub-subsidiary company

Example

CAAS Ltd ⟶ Acquired 80% shares ⟶ CAAP Ltd ⟶ Acquired 90% shares ⟶ CAAK Ltd

Control over CAAP Ltd is 80% ; NCI is 20%. &

control over CAAK Ltd is 72% (90 x 80%); NCI is 28%.

Step 2:- Identifying the Date of Acquisition

Example

1. CAAS Ltd acquired 80% shares on CAAP Ltd on 1st, Apr,2023 and CAAP Ltd acquired 90% shares on 1st, Aug,2023 then date of Acquisition is

for CAAP Ltd	1st, Apr,2023
for CAAK Ltd	1st Aug,2023

2. CAAS Ltd acquired 80% shares on CAAP Ltd on 1st, Apr,2023 and CAAP Ltd acquired 90% shares on 1st, Aug,2022 then date of Acquisition is

for CAAP Ltd & CAAK Ltd	1st Apr, 2023

Step 3:- Identify the Date of Consolidation

Step 4:- Analysis of Reserves & Surplus of Subsidiary company and Sub-subsidiary company

Step 5:- Calculation of net assets of Subsidiary and Sub-subsidiary company at fair values as on the date of acquisition

Step 6:- Calculation of NCI in Subsidiary company and Sub-subsidiary company as on the date of consolidation

Step 7:- Calculation of Goodwill or Gain on Bargain as on the date of consolidation

Step 8:- Calculation of other equity of parent company as on the date of consolidation

Parent company own Reserves & Surplus as on the date of consolidation.	xxx
Add:- Share of Parent company in Post acquisition Reserves & Surplus of Subsidiary company & Sub-subsidiary company (after all adjustments)	xxx
Other Equity of Parent company as on the consolidation date	xxx

Step 9:- Preparation of Consolidated Balance Sheet

Meaning

A joint arrangement is an arrangement of which two or more parties have joint control over the business

An arrangement can be a joint arrangement even though not all the parties have joint control of the arrangement (At least two of all the parties must have joint control)

Types of joint arrangements

Joint arrangement can be either

- Joint operations
- Joint venture

Joint venture or joint operations which can be classified on the basis of rights & obligations of the parties to the arrangements. It can be clearly explained in the following manner:

1. Joint operations

- ✓ It is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relations to the arrangement.
- ✓ The parties involved in the joint operations called as Joint operators.

Example for jointly controlled asset is an oil pipelines jointly controlled and operated by a number of oil production companies

2. Joint venture

- ✓ It is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
- ✓ Parties involved in the joint venture called as Joint venturers

Example:- Mercedes-Benz and Volvo combined together and started electric charging stations

Accounting for Joint arrangements

1. Joint operations

- ✓ In case of Joint operations, entity needs to follow proportionate consolidation method, which means joint operators shall recognise its share in Assets, liabilities, income & expenditure of joint operations in respective heads in separate financial statements
- ✓ In this case, no need to prepare consolidated Financial Statements separately

Special transactions in case of joint operations

a. Sale of asset to joint operations by joint operator.

In this case, recognise sale only to the extent of share of other parties in joint operations then the journal entry is as follows-

Bank A/c Dr
(Amount received on sale x share of other party in joint operations)
Loss on sale of asset A/c Dr
To Asset A/c
(Carrying value of asset sold x share of other party in joint operations)
To Profit on sale of asset A/c

b. Purchase of asset from joint operation by joint operator

In this case recognise the asset which purchased to the extent of share of other parties in joint operations. Then the journal entry is as follows-

Asset A/c Dr
(Amount paid x share of other party in joint operations)
To Cash/ Bank A/c

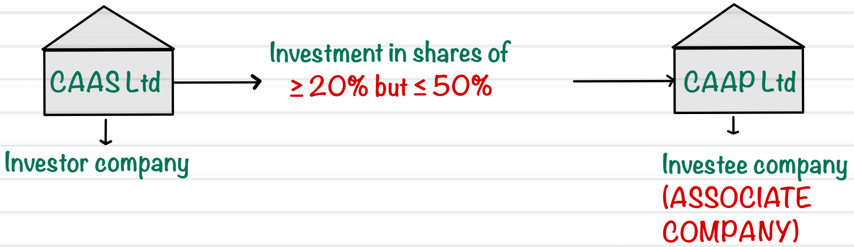
2. Joint venture

In case of joint venture, investor company (i.e., joint venturers) has to prepare two types of financial statements which as follows-

- Separate financial statements as per Ind AS 27
- Consolidated Financial Statements as per Ind AS 28

Meaning of Associate company

If one company (Investor company) invests 20% or more but less than equals to 50% of equity shares of another company (Investee company). Then it is consider as investor company has significant influence and Investee company is treated as Associate company



Accounting for investment in Associate and Joint venture in CFS (Equity method)

1. Recognise such investment in associate or joint venture initially at cost price. Then the journal entry is as follows:

   Investment in Associate or Joint venture A/c Dr
   To Cash/ Bank A/c

2. Subsequent to the date of investment, recognise if any profit or loss made by the Associate or Joint venture. Then the journal entry is as follows:

   (i) For profit
   Investment in Associate or Joint venture A/c Dr
   To Profit & Loss A/c

   (ii) For loss
   Profit & Loss A/c Dr
   To Investment in Associate or Joint Venture A/c

3. Recognise the entity (investor) share in OCI of Associate or Joint venture

   (i) For profit
   Investment in Associate or Joint venture A/c Dr
   To OCI A/c

   (ii) For loss
   OCI A/c Dr
   To Investment in Associate or Joint Venture A/c

Introduction

- ✓ 4P Bottom Line or Quadruple bottom line (QBL) reporting is an extension of 3P bottom line or triple bottom line (TPL) reporting.
- ✓ The phrase "triple bottom line" was first coined in 1994 by John Elkington, the founder of a British consultancy called 'Sustain Ability'. He further articulated the concept in his 1997 book 'Cannibals with Forks: The Triple Bottom Line of 21st Century Business'.
- ✓ The concept of 'Triple bottom line 'incorporates two technical terminologies – 'Triple' and 'Bottom Line'.

Bottom Line:

In traditional accounting and common parlance, the "bottom line" refers to either the "operating result", which is usually recorded at the very last line (or, bottom) of the income statement. Over the last few decades, environmentalists and advocates of social justice have been challenged to introduce a broader concept of 'bottom line' into public consciousness by introducing full cost accounting.

Quadruple:

The Quadruple bottom line concept requires an organisation to measure and report on four dimensions viz. social, environmental, economic/ financial and spiritual performance of the organisation

Concept of 4P Bottom Line Reporting

- ✓ Quadruple bottom line reporting (QBLR) expands the traditional reporting framework to take into account social and environmental and spiritual performance in addition to financial performance. The concept of 4P bottom line reporting states that reporting should incorporate the social, environmental, financial and spiritual performance of an organisation.
- ✓ QBL reporting refers to the publication of economic, environmental and social and spiritual information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance. They are discussed hereunder:
  - ➡ The first bottom line happens to be the bottom line of the "income statement" (which is the traditional measure of operating result).
  - ➡ The second bottom line is that of an organisation's "people account" (a measure in some shape or form of how socially responsible an organisation has been throughout its operations); and
  - ➡ The third bottom line is that of the organisation's "planet account" (which measures how environmentally responsible the company has been).

4P Bottom line Reporting

➡️ The fourth bottom line relate business with happiness of stakeholders. That is when the question of why one is doing business becomes relevant.

Benefits emerging from 4P bottom line reporting

- ✓ Enhancement of reputation and brand
- ✓ Securing a social license to operate
- ✓ Attraction and retention of high calibre employee
- ✓ Improved access to investor market
- ✓ Establish position as a preferred supplier
- ✓ Reduced risk profile
- ✓ Identification of potential cost savings
- ✓ Increased scope for innovation
- ✓ Aligning stakeholder needs with management focus
- ✓ Creation of sound basis for stakeholder dialogue
- ✓ Altruism and happiness of the stakeholders

Introduction

- ✓ Introduction In 2012, the Securities Exchange Board of India (SEBI) passed a circular amongst the top 100 companies based on market capitalisation, making it mandatory for firms to report their environmental, social and governance initiatives.
- ✓ This report, Business Responsibility Report (BRR), has to be filed as part of their annual reports based on nine principles of National Voluntary Guidelines (NVG). At the time of introduction, only the top-100 BSE-listed firms were required to present BRRs as part of annual reports. In 2016, after signing a memorandum of understanding (MoU) with Global Reporting Initiative, the mandate was extended to top-500 BSE listed companies. The nine principles aim to cover all aspects which hold significant importance in business operations and sustainability.
- ✓ The principles complement the guidelines and further act as a pathway for flexible and quality reporting standards.
- ✓ Suggested Format For Business Responsibility Report
- ✓ There are five sections (A, B, C, D and E) in the suggested format.

Section A: General Information about the CompanyCorporate Identity Number (CIN) of the Company

- ➡ Name of the Company
- ➡ Registered Address
- ➡ Website
- ➡ E-mail ID
- ➡ Financial Year Reported
- ➡ Sector(s)

Section B: Financial details of the entity

- ➡ Paid Up Capital(INR)
- ➡ Total Turnover(INR)
- ➡ Total profit after taxes (INR)
- ➡ Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after Tax (%)

Section C: Other Details

- ➡ Does the Company have any Subsidiary Company/ Companies?
- ➡ Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company? If yes, then indicate the number of such subsidiary company(s)

- Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/entities? [Less than 30%, 30- 60%, More than 60%]

Section D: BR Information

- Details of Director/Directors responsible for BR
- Principle-wise (as per NVGs) BR Policy/policies

Section E: Principle -Wise Performance

Nine Principles to Assess Compliance With Environmental, Social and Governance Norms as per National Voluntary Guidelines (NVG)

Principle 1: Businesses should conduct and govern themselves with Ethics, Transparency and Accountability

Principle 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

Principle 3: Businesses should promote the wellbeing of all employees

Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

Principle 5: Businesses should respect and promote human rights

Principle 6: Business should respect, protect, and make efforts to restore the Environment.

Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner

Principle 8: Businesses should support inclusive growth and equitable development

Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner

Introduction

- Sustainability is a balancing act where business decisions take into account the impact they may have on the various aspects of sustainability including the economic viability of the business.
- Sustainability usually makes us think about carbon footprints, greenhouse gases and ecosystems. This is the environmental aspect of sustainability. Moreover, two additional aspects are generally recognised as contributing to sustainability: spiritual factors, economic factors and social factors. Together these three pillars of sustainability are often referred to as 'People – Planet – Profit'.
- In this scenario, every entity should consider the following

Social sustainability activities focus on maintaining mutually beneficial relationships with employees, customers and the community. These activities often have benefits in terms of positive profile and customer and community support.	Environmental sustainability activities focus on the impact of resource usage, hazardous substances, waste and emissions on the physical environment. These activities may have a direct benefit for a business by reducing costs.	Economic sustainability activities focus on business efficiency, productivity and profit

Sustainability Reporting

Sustainability Reporting is defined as "an organisation's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development. Through this process, an organisation identifies its significant impacts on the economy, the environment, and/or society and discloses them in accordance with a globally accepted standard."
Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs

Benefits of Sustainability Reporting

Internal benefits for companies and organizations can include:

- Increased understanding of risks and opportunities
- Enhanced link between financial and non-financial performance
- More focus on long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives

External benefits of sustainability reporting can include:

- ✓ Mitigating – or reversing – negative environmental, social and governance impacts
- ✓ Improving reputation and brand loyalty
- ✓ Enhanced perception on organisation's value

The Global Reporting Initiative (GRI)

- ✓ The Global Reporting Initiative (GRI) is considered "the best-known framework for voluntary reporting of environmental and social performance by business and other organisations worldwide." (Szejnwald Brown, H., 2011).
- ✓ Guidance and standards of Global Reporting Initiative (GRI) are the most widely used framework of sustainability reporting.
- ✓ As per GRI "materiality" is a key principle for reporting. Materiality is achieved when a report covers topics, which "can reasonably be considered important for reflecting the organisation's economic, environmental, and social impacts, or influencing the decisions of stakeholders."

Introduction

- ✓ Integrated Reporting Framework issued by International Integrated Reporting Council (IIRC)
- ✓ An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.
- ✓ In other words, integrated report is the representation of the financial and nonfinancial performance of a company in a single report.
- ✓ IR provides non-financial data such as how the company performs on environmental, social and governance (ESG) parameters, how sustainability is embedded in the core business strategy etc.

Objectives of Integrated Reporting

- ✓ To improve the quality of information available to providers of financial capital
- ✓ To promote more cohesive and efficient approach to corporate reporting
- ✓ To enhance accountability and stewardship for the board based of capitals and promote understanding of their interdependences
- ✓ To support integrated thinking, decision making and actions that focus on the creation of value over short, medium and long term

Principles for preparation and presentation of Integrated Reporting

Being a principle-based approach, integrated reporting allows much scope of adaptations to cater to the diversity among organisations across the world. Thus, to improve consistency and comparability, IIRC advocated certain (seven) guidelines while preparing and presenting integrated reports. These are:

a. Strategic focus and future orientation
b. Connectivity of information
c. Stakeholder relationships
d. Materiality
e. Conciseness
f. Reliability and completeness
g. Consistency and comparability

Judgement is needed in applying them, particularly when there is an apparent tension between them (e.g., between conciseness and completeness).

Forms of capital

IIRC used the term capitals to denote various resources with six capitals identified. Such as:

1. Financial capital
2. Manufactured capital
3. Intellectual capital
4. Human capital
5. Social and relationship capital
6. Natural capital

Contents of Integrated Reporting

Components of value creation process in the organisation are:

- ➡️ Capitals
- ➡️ External environment
- ➡️ Purpose, mission and vision
- ➡️ Governance
- ➡️ Risk and opportunities
- ➡️ Strategy and resources allocation
- ➡️ Performance
- ➡️ Outlook
- ➡️ Business model

SEBI Regulations

SEBI advised top 500 companies to adopt Integrated Reporting on voluntary basis from F.Y. 2017-18. As of now, Integrated Reporting is not mandatory

Meaning

XBRL is a language for e-communication of financial and business data for business reporting. It is a standardized communication language in the electronic form to express, report, or file financial statements by Companies. However, XBRL is only a method of presentation or reporting. It does not attempt to make any changes in the content to be reported.

Applicability

The following companies shall be applicable for XBRL filing

- All public companies listed in the stock exchange in India and their Indian subsidiaries.
- Such other public companies which satisfies any of the following conditions
  - Turnover of ₹ 100 crores or more.
  - paid-up capital of ₹ 5 crores or more.

The following companies are exempted from filing financial statements under these rules.

- ✓ Non-banking financial companies,
- ✓ Housing finance companies, and
- ✓ Companies engaged in the business of the Banking and Insurance sector

Moreover, the companies which have filed their financial statements in XBRL under section 137 shall continue to file their financial statements and other documents in XBRL only, though they may cease to fall under the class of companies specified above.

Benefits of XBRL

XBRL offers many benefits in the field of business reporting and analysis:

- ✓ Improved way of reporting
- ✓ Automated data collection
- ✓ Reliable and accurate
- ✓ Cost-effective
- ✓ Time-saving process
- ✓ Analytical process
- ✓ Safe in data handling
- ✓ Helps in better decision making

Documents required for XBRL for MCA

The following documents need to be filed in XBRL Format:

- ✓ Balance Sheet
- ✓ Profit and Loss Statement
- ✓ Cash Flow Statement
- ✓ Schedules related to Balance Sheet and Profit and Loss Statement
- ✓ Notes to Accounts
- ✓ Statement pursuant to Section 212 of the Companies Act, 1956 relating to subsidiaries
- ✓ Audit and Annual Report

Steps for filing IND AS financial statements in XBRL format on MCA portal

Step 1:- Creation of XBRL instance document

Step 2:- Download XBRL validation tool

Step 3:- Download the IND-AS 2017 Taxonomy from the „Taxonomy" menu bar in the tool.

Step 4:- Select IND-AS 2017 Taxonomy from the „Taxonomy" menu bar in the tool to load the taxonomy.

Step 5:- Load the instance document from the File menu.

Step 6:- Validate the instance document

Step 7:- Pre-scrutiny of the instance document.

Step 8:- Do not open and edit the instance document post successful Pre-scrutiny, to avoid unnecessary errors during upload of the e-Form, which occur due to accidental changes in the file.

Step 9:- Convert to PDF and verify the contents of the instance document.

Step 10:- Fill AOC-4 XBRL and select „Ind AS Taxonomy".

Step 11:- Attach pre-scrutinized instance document to the Form AOC-4 XBRL.

Step 12:- Perform Check Form and Pre-scrutiny on Form AOC-4 XBRL.

Step 13:- Upload Form AOC-4 XBRL on the MCA portal.

Meaning

Corporate Social Responsibility (CSR) means "the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."

Present Legislation on CSR in India

In India, traditionally, regulators' effort to bring CSR under the ambit of a well-defined regulatory structure was never whole hearted. The Companies Act, 2013 has only introduced the idea of CSR to the forefront.

The Legal Framework

The present legal framework on CSR in India comprises of –

- ✓ Section 135 of Companies Act 2013;
- ✓ Schedule VII of Companies Act 2013; and
- ✓ Companies (Corporate Social Responsibility Policy) Rules 2014.

Applicability of CSR

As per Sec 135 (1) of Companies Act 2013, CSR is applicable to all the companies including foreign company as well as sec 8 companies which satisfies any of the following conditions during the immediate preceding financial year -

Net worth of	Turnover of	Net Profit of
≥ ₹ 500 cr	≥ ₹ 1000 cr	≥ ₹ 5 cr

Note:

1. If CSR is applicable to the entity, then it has to comply with CSR obligations for 3 financial years even the entity does not satisfy the above mentioned criteria for all those 3 years
2. CSR requirements are specific to each entity (i.e., Holding or Subsidiary company needs to comply with CSR only if they fulfil the above mentioned criteria)

CSR Committee

- ✓ CSR committee shall consists of three or more directors of which at least one director must be independent director (If Board not required to appoint Individual Director U/S 149(4), it shall have in its CSR committee, 2 or more directors

✓ Role of CSR Committee

According to Section 135(3) of Companies Act 2013, the CSR Committee shall -

(a) formulate and recommend to Board
  (i). CSR Policy indicating the activities to be undertaken by the company which specified in Schedule VII;
  (ii). the amount of expenditure to be incurred on the above activities and

(b) monitor the CSR Policy of the company from time to time.

Role of the Board in CSR

The Board of the company shall have the following responsibilities:

- ✓ The Board's report under section 134(3) shall disclose the composition of the Corporate Social Responsibility Committee;
- ✓ Based on the recommendations of the CSR Committee, the Board shall approve the Corporate Social Responsibility Policy designed for the company, and disclose contents of such Policy in its report and also place it on the company's website;
- ✓ The Board shall ensure that the activities undertaken by the company as per Schedule VII of COA,2013;
- ✓ The Board shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years (or during such immediately preceding financial years in case the company has not completed three years). [Section 135(5)]

Permissible CSR Activities

Activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013.

- ✓ Eradicating extreme hunger and poverty;
- ✓ Promotion of education;
- ✓ Promoting gender equality and empowering women;
- ✓ Reducing child mortality and improving maternal health;
- ✓ Combating HIV, AIDS, malaria and other diseases;
- ✓ Ensuring environmental sustainability;
- ✓ Employment enhancing vocational skills;
- ✓ Social business projects;
- ✓ Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
- ✓ Such other matters as may be prescribed

Quantum of CSR Spending

While an eligible company needs to spend at least two percent of the average net profits of the company made during the three immediately preceding financial years, amount overspent or remaining unspent shall be treated as follows:

- ✓ If the company spends an amount in excess of the requirements, then it may set off such excess amount against the requirement to spend for three succeeding financial years.
- ✓ Any amount remaining unspent, pursuant to any ongoing project, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within thirty days from the end of the financial year to a special account Unspent Corporate Social Responsibility Account.
  Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within thirty days from the date of completion of the third financial year.
- ✓ Where the amount unspent is not related to any ongoing project, the amount shall be transferred to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.
- ✓ The board shall ensure that the administrative overheads shall not exceed five percent of total CSR expenditure of the company for the financial year.

Accounting for CSR transactions

1. For CSR expenditure incurred

CSR Expenditure A/c	Dr
To Cash/Bank/Purchase/Cost of Goods consumed A/c	

2. Unspent CSR expenditure on ongoing project

CSR expenditure A/c	Dr
To Cash/Purchase/Cost of Goods consumed A/c	
To CSR to be spent on ongoing project A/c	

3. Unspent CSR expenditure other than on ongoing project

CSR expenditure A/c	Dr
To Cash/Purchase/Cost of Goods consumed A/c	
To CSR to be Deposited in Fund A/c	

4. Excess spent CSR expenditure

CSR Expenditure A/c	Dr
CSR pre-spent A/c	Dr
To Cash/Purchase/Cost of Goods consumed A/c	

CSR Reporting:

Rule 8 of the Companies (CSR) Rules, 2014, provides that the companies, upon which the CSR Rules are applicable on or after 1st April, 2014 shall be required to incorporate in its Board's report an annual report on CSR containing the following particulars:

- ✓ A brief outline of the company's CSR Policy,
- ✓ The composition of the CSR Committee;
- ✓ Average net profit of the company for last three financial years;
- ✓ Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);
- ✓ Details of CSR Spent during the financial year on aspects such as
    - ➡️ total amount to be spent for the financial year;
    - ➡️ amount unspent, if any and
    - ➡️ manner in which the amount has been spent in a given pro-forma.
- ✓ In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;
- ✓ A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.
- ✓ The disclosure of contents of Corporate Social Responsibility Policy in the Board's report and on the company's website, if any, shall be as per annexure attached to the CSR Rules.

Government Accounting

Meaning

According to Oshisami and Dean, "Governmental Accounting is the process of recording, analyzing, classifying, summarizing,communicating, and interpreting information about government in aggregate and in detail, reflecting all transactions involving the receipts, transfer, and disposition of government funds and property."

By the given definition, it is clear that the government account is the systematic and scientific process of recording, presenting, analyzing, summarizing, classifying and communicating the financial transaction of the government offices. It is concerned with keeping a record of government revenue and their proper utilization in different development and administration work. It presents the receipt and payment position of the public fund. It reveals how public funds have been generated and utilized for the welfare of the general public.

Features of Government Accounting

1. Double Entry System: Government accounting is based on the principles and assumptions of double entry system of book keeping system
2. Fund-based Accounting: governmental accounting encompasses employment of separate funds.
3. Specific system of accounting: It is a specific accounting system which is followed by government in its departments, offices and institutions.
4. Reporting of utilisation of public funds: The government and its institutions are public institution and such Government has to reveal how public funds and resources have been used.
5. Government Regulations: Government accounting is maintained according to government rules and regulations.
6. Budget Heads: All the expenses of government offices are classified into different budget heads and expenditures.
7. Budgetary Regulation: No government can make expenditure more than the amount allocated in the budget. As such, government accounting, on can say, gets regulated by the budget.
8. Banking: All government transactions are supposed to be performed through banks.
9. Auditing: books of accounts maintained by government departments, offices or institutions are audited.

Objectives of Government Accounting

- ✓ Recording financial transactions of revenues and expenditure relating to the government organisations.
- ✓ Making available reliable financial data and information about the operation of public fund.
- ✓ Recording the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
- ✓ Avoiding excess expenditures beyond the limit of the budget approved by the government.
- ✓ Facilitating the auditing by the concerned government department.
- ✓ Preventing misappropriation of government properties/ assets by maintaining the systematic records.
- ✓ Estimating the annual budget.

Differences between Government Accounting and Commercial Accounting

Government Accounting	Commercial Accounting
The accounting system applied in the government departments, offices and institutions is referred to as government accounting	Accounting system applied by non-government organisation, whether profit or NPO is treated as commercial Accounting
The main objective is for recording and reporting the utilisation and position of public funds	The main objective is to identifying the financial performance and financial position of the entity
It is directly influenced by the government budgeting system	It does not follow the government budgeting system
Government Accounting may be done on cash basis	Commercial Accounting is prepared either cash or accrual. Sometimes it may be prepared on hybrid basis
Government Accounting has the system of central level and operating level accounting	Commercial Accounting has no provision of central level and operating level accounting
Government Accounting is strictly maintained by following the financial rules and provisions as set by concerned government	Commercial Accounting is maintained by following the applicable rules and the GAAP (Generally Accepted Accounting Principles)
BOA maintained by government department, offices or institutions are to be audited by recognised department of government	BOA maintained by commercial Accounting are to be audited by any professional auditor

Comptroller & Auditors General of India (CAG) role in the context of Government accounting in India.

- ✓ Under section 10 of the Comptroller and Auditor Generals (Duties, Powers and Conditions of Service) Act, 1971, the Comptroller and Auditor General shall be responsible-

    - ➡ for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
    - ➡ for keeping such accounts in relation to any of the matters specified in above clause as may be necessary;

- ✓ Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-
    - (i) The said accounts of the Union (either at once or gradually by the issue of several orders);
      or
    - (ii) The accounts of any particular services or departments of the Union;

- ✓ Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-
    - (i) the said accounts of the State (either at once or gradually by the issue of several orders); or
    - (ii) the accounts of any particular services or departments of the State

- ✓ Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-
    - (i) for compiling the accounts of any particular service or department of the Union or of a State, or
    - (ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

Public Accountant Committee

The Public Accounts Committee (P.A.C.) is a committee of selected members of Parliament, constituted by the Parliament of India.

The main functions of the Committee are:

- ✓ to examine the reports and accounts of public undertakings.
- ✓ to examine the reports of the Comptroller & Auditor General on public undertakings.
- ✓ to examine the efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.

Constitution of Public Accounts Committee (P.A.C)

- ✓ The Public Accountant Committee was first set up in India the year 1921
- ✓ The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote, and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee.
- ✓ The present P.A.C is a joint committee of the two Houses.
- ✓ The Chairman is appointed by the Speaker of Lok Sabha from amongst its members of Lok Sabha. Since 1967, the chairman of the committee is selected from the opposition. Earlier, it was headed by a member of the ruling party.
- ✓ However, it is to be noted that, a Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

Review of Accounts

The accounts of Government companies set up under the provisions of the Companies Act (including Government Insurance Companies and deemed Government Companies) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 143 of the Companies Act, 2013. Under these provisions, the C&AG:

- ➡ shall appoint statutory auditor of a Government company,
- ➡ may conduct supplementary or test audit of accounts of a Government Company, and
- ➡ may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

Note:-The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited

Government Accounti'ng Standards Issued by Government Accounting Standards Advisory Board

The Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller and Auditor General of India (C&AG) with the support of Government of India through a notification dated August 12, 2002.

This Board was constituted to establish and improve the standards of governmental accounting and financial reporting, and enhance the accountability mechanisms.

The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with International trends.

The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

Structure of GASAB

The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organisations. The board consists of the following members:

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary, Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Government of India
8. Deputy Governor, Reserve Bank of India, or his nominee 9-12. Principal Secretary (Finance) of four States, by rotation
13. Director General, National Council of Applied Economic Research(NCAER), New Delhi
14. President, Institute of Chartered Accountants of India (ICAI), or his nominee
15. President, Institute of Cost and Works Accountants of India, or his nominee
16. Principal Director in GASAB, as Member secretary

GASAB has been developing two types of Accounting Standards,

- Indian Government Accounting Standards (IGAS)
- Indian Government Financial Reporting Standards (IGFRS) for the Government.

These standards have been developed to address the issues related with the existing cash system of accounting and its migration to the accrual system of accounting in future.

List of Indian Government Accounting Standards

IGAS 1:- Guarantees given by Governments: Disclosure Requirements
IGAS 2:- Accounting and Classification of Grants-in-aid
IGAS 3:- Loans and Advances made by Governments
IGAS 7:- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations
IGAS 9:- Government Investments in Equity
IGAS 10:- Public Debt and Other Liabilities of Governments: Disclosure Requirement

The standards being developed for accrual system of accounting in the Government are called the Indian Government Financial Reporting Standards (IGFRS).
Accrual based Accounting Standards, i.e., Indian Government Financial Reporting Standards (IGFRS), approved by the Government Accounting Standards Advisory Board (GASAB) under consideration of Government of India.

List of Indian Government Financial Reporting Standards

IGFRS 1:- Presentation of Financial Statements
IGFRS 2:- Property, Plant & Equipment
IGFRS 3:- Revenue from Government Exchange Transactions
IGFRS 4:- Inventories
IGFRS 5:- Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements.

Structure of Government Accounts

The accounts of government are kept in three parts. Such as

- Consolidated fund in India
- Contingency fund in India
- Public Account

Consolidated Fund in India

- All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India.
- Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund.
- All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament.
- This is further segregated into revenue section and capital section.

Contingency Fund of India

- The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under Article 267 of the Constitution of India.
- Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure.
- Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, and Department of Economic Affairs.

Public Account of India

- In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India.
- The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid.
- The transactions relating to Remittance, and Suspense, shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments.
- The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

IGAS 1 :- Guarantees given by Government: Disclosure requirements

- ✓ The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union, the State Governments and Union Territory Governments (with legislature) in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.
- ✓ This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments.
- ✓ The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.
- ✓ Disclosure: The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the details of all the guarantees given.

IGAS 2 :- Accounting and Classification of Grants-in-aid

- ✓ The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee.
- ✓ The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.
- ✓ This Standard applies to the Union Government and the State Governments in accounting and classification of Grants-in-aid received or given by them.
- ✓ Accounting Authority is the authority which prepares the Financial Statements of the Government
- ✓ Financial statements: It means the Annual Finance Accounts of the Governments.

IGAS 3:- Loans And Advances Made By Government

- ✓ Objective: The objectives of the Standard are:
  - ➡ To lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, realistic and uniform accounting practices, and
  - ➡ To ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

- This Standard applies to Loans and Advances given by the Government for incorporation and presentation in the Financial Statements of the Government. Financial Statements shall not be described as complying with this Standard unless they comply with all the requirements contained therein. This standard shall apply only to government accounts being maintained on a cash basis.
- A loan shall be recognized by the disbursing entity as an asset from the date the money is actually disbursed and not from the date of sanction and if a loan is disbursed in instalments then each installment shall be treated as a separate loan for the purpose of repayment of principal and payment of interest, except where the competent authority specifically allows consolidation of the installments into a single loan at the end of the concerned financial year.
- The loans converted into equity shall be treated as conversion and shall lead to a reduction in the outstanding loan amount
- The debt assumption due to invocation of guarantees shall be treated as disbursement of loan, unless otherwise so specified.
- Historical Cost measurement shall be the basis for accounting and reporting on loans and advances made by Governments.
- The Financial Statements of the Union and State Governments shall disclose the Carrying Amount of loans and advances

IGAS — 7 Foreign Currency Transactions and Loans or Gain by Exchange Rate Variation

- The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure.
- The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain.
- The Accounting Authority which prepares and presents the financial statements of the Government under the cash basis of accounting, should apply this Standard:
  - (a) in accounting and disclosure for transactions in foreign currencies;
  - (b) in accounting and disclosure for financial effects of exchange variations in terms of loss or gain by exchange rate variation, and
  - (c) in disclosure of foreign currency external debts and the rate(s) applied for disclosure.
- This Standard shall apply to foreign currency transactions of the Union Government as well as that of the State Governments.

- This Standard deals with presentation of expenditure and revenue in terms of loss or gain by exchange rate variations arising from foreign currency transactions.
- This Standard does not deal with disclosure requirements of external guarantees.
- All losses or gains by exchange rate variation in respect of Government transactions in foreign currencies shall be recognised as revenue loss or gain.
- The financial statements shall disclose
  - loans outstanding on historical cost basis at the beginning and end of the year;
  - loans outstanding on closing rate basis at the beginning and end of the year;
  - loans outstanding in foreign currency units at the beginning and end of the year;
  - additions during the year in foreign currency terms and in Indian Rupee along with the rate of exchange adopted;
  - discharge during the year showing separately the amounts in foreign currency units, on historical basis and
  - current rate of exchange basis;
  - loss or gain on repayment of loans due to variation of exchange rate;
  - amount outstanding at the end of the year in foreign currency units, on historical basis and on closing rate basis;
  - interest paid on external debt; and
  - closing rate of exchange applied.

IGAS — 9 Government Investments in Equity

- The objective of the Standard is to lay down the norms for recognition, measurement, and reporting of investments of the Government in the Financial Statements so that the financial statements provide a true and fair view of investments of the Government, consistent with best international practices.
- This Standard applies to investments made in different investee entities by the Govt. for incorporation, and presentation in the Financial Statements. This standard will apply only to Government accounts being maintained on cash basis.
- An investment in equity shall be recognised by the Government as an asset from the date on which the investment details are entered in the books of the entity.
- Loans converted into equity and dividends declared but not distributed by the investee entity, converted into equity shall be treated as equity investments from the date on which such conversion takes place, i.e. from the date on which details of conversion are entered in the books of the investee entity.
- The method of initial measurement of investments in the financial statements of the Government is the historical cost of the investment. Where investment in equity is acquired on payment of cash including on exercise of rights granted by the investee, the historical cost is the amount of cash disbursed.

- Historical cost of Bonus shares is nil as there is no payment of cash. In case the Govt acquires equity shares in consideration of any other asset,
- Investments subsequent to initial measurement shall also be reflected in the F.S. at cost.
- The total amount of investments on the last date of an accounting period shall be the investments at the beginning of the period with additions and disinvestment / sale of investments during the period.

IGAS 10:- Public Debt and Other Liabilities of Governments: Disclosure Requirements

- The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements.
- It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Govt for the benefit of various stake holders.
- The proposed IGAS shall apply to the financial statements prepared by the Union and State Governments and Union Territories with legislature.
- Measurement & Valuation: The Public Debt and Other Obligations incurred by Governments shall be accounted and reported on the basis of Face Value. For the purpose of reporting external debt, changes in the Balance at the end of the Accounting Period arising from variations in the rate of exchange shall also be reported.

IGFRS 1: Presentation of Financial Statements

- IGFRS 1 has prescribed the manner of presentation of financial statements by Govt. entities that follow accrual basis of accounting.
- It sets out over all requirement for the presentation of financial statements, guidance for their structure and minimum requirements for the content of financial statements presented under the accrual basis of accounting.

IGFRS 2: Property, Plant and Equipment

- This standard has prescribed the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment.
- The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

- ✓ In addition, this standard aims at categorizing assets according to their nature and also aims to provide for depreciation of assets, taking into account their usage over the life of the assets.

IGFRS 3:- Revenue from Government Exchange Transaction

- ✓ This Standard lays down the principles to be followed for recognition and measurement of revenue from exchange transactions by government entities under accrual basis of accounting, wherein transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid).

IGFRS 4:- Inventories

- ✓ This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.
- ✓ It also provides guidance on the cost formulas that are used to assign costs to inventories.
- ✓ This Standard aims at using accrual principles of accounting for inventories – both at the stage of charging as expense and depicting the closing stock in the financial statements at the end of the reporting period.

IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

- ✓ This standard has laid down the principles for disclosure requirements of Contingent Liabilities (other than guarantees) and Continent Assets for both the Union and the State Governments including Union Territories with Legislatures, in their respective Financial Statements in order to ensure uniform and appropriate disclosure of such liabilities and assets.
- ✓ The purpose of this standard is to provide for disclosure requirements of contingent liabilities (other than guarantees) and contingent assets of Governments in the financial Statements.