



AS- Introduction & Applicability

Accounting Standards	As are written policy documents insured by expert Accounting Body, or by other Regulatory Body, covering the following aspects of accounting transactions in financial Statements – 1. Recognition of transactions and events in the financial Statements' 2. Measurements of these transactions events, 3. Presentation of these transactions and events in Financial Statements, in a meaningful & understandable manner, and 4. Disclosure requirements in Financial Statements
Benefits	1. To promote the dissemination of timely and financial information to all Stakeholders and Users. 2. To provide a set of standard accounting policies, valuation norms and disclosure requirements. 3. To improve the quality of Financial reporting, by promoting comparability, consistency transparency. 4. To ensure disclosure a accounting principles and treatments, where important information is not otherwise statutorily required to disclosed. 5. To reduce (or eliminate if possible), accounting alternatives, thereby leading to better inter-Firm & intra- Firm comparison of financial Statements. 6. To reduce scope for creative accounting, i.e. twisting of accounting policies to produce financial Statements favorable to a particular interest group.
Drawbacks	1. In some case, alternative solutions to specific accounting problems may have valid supportive arguments. Choice of any one solution becomes difficult. 2. Standards may be applied in a rigid and inflexible manner, focusing more on form than substance. 3. Standards cannot override the statue, and should be framed within the framework of the Law.

As Applicability

Non- Corporate Entities (NCEs) are classified into three categories –Leave-I, Leave-II, Level-III & Level-IV, for the purpose of application of Accounting Standards-

Conditions	Level I	Level II	Level III
All Commercial Industrial and Business Reporting Entities, whose Turnover for the immediately preceding accounting year. {Note:- Turnover dose not include “Other Income”}	exceeds Rs.250 crores	exceeds 50 crore, but dose not exceed Rs. 250 crore	exceeds Rs. 50 crore, but dose not exceed Rs. 50 crore
All Commercial Industrial and Business Reporting Enterprises having Borrowings (Including Public Deposits) at any time during the Preceding accounting year.	in excess Rs. 50 crores	Rs. 10 crore, but not excess of Rs. 50 crore	Rs. 2 crore, but not in excess of Rs. 10 crore

Notes:

1. Entry falling in each Level includes its Holding and subsidiary Entities.
 - a. Level 1 Entities include.
 - (a) Entities whose Equity or Debt Securities are listed, or in the process of listing on any stock Exchange, whether in India or outside India.
 - (b) Banks (Including Co-operative Banks), Financial, or Entities carrying on Insurance business.
 - b. Non corporate Entities which are not covered under Level I, II & III are considered as Level IV Entities.

Ind As Applicability

Companies required to comply		w.e.f
A	(i) Companies whose Equity/ Debt Securities are listed or are in the Process of being listed on any stock Exchange in India or outside India, and having Net Worth > Rs. 500 Crores, (ii) Any Other Companies having net Worth > Rs 500 Crores. (iii) Holding, Subsidiary, joint or Associate Companies of above.	Accounting Period Starting on

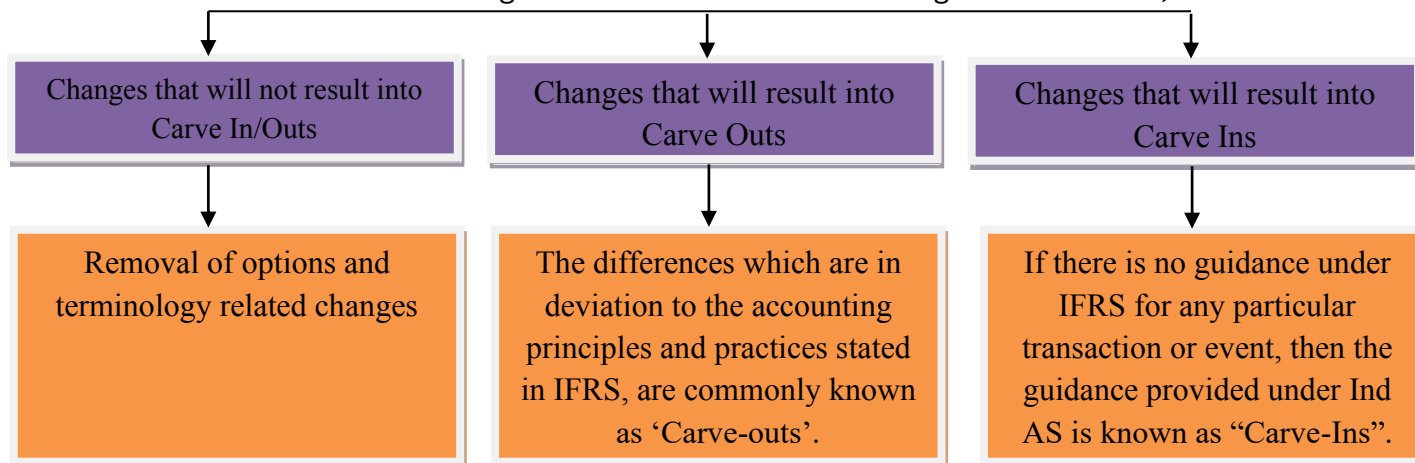
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		01.04.2016
B	(i) Companies whose Equity / Debt Securities are listed or are in the process of being listed on any Stock Exchange in India or outside India, and having Net Worth < ₹ 500 Crores, (ii) Unlisted Companies having Net Worth > ₹ 250 Crores but < ₹500 Crores. (iii) Holding, Subsidiary, Joint Venture or Associate Companies of above.	01.04.2017
C	(i) NBFCs having Net Worth > ₹500 Crore, and its Holding, Subsidiary, Joint Venture or Associate Companies (ii) Holding, Subsidiary, Joint Venture or Associate Companies of Scheduled	01.04.2018

	Commercial Banks (excluding RRBs)	
D	(i) NBFCs whose Equity / Debt Securities are listed or in the process of listing on any Stock Exchange in India or outside India, and having Net Worth < ₹500 Crore, (ii) Unlisted NBFCs, having Net Worth > ₹ 250 Crore but < ₹500 Crore, (iii) Holding, Subsidiary, Joint Venture Or Associate Companies of above.	01.04.2019

Carve In/out

Ind AS vs IFRS: These changes have been made considering various factors, such as-



Conceptual Framework

Assets and Liabilities can be measured under four alternative bases - (a) Historical Cost, (b) Current Cost, (c) Realisable (Settlement) Value, and (d) Present Value.

Measurement Base	Assets are recorded / carried at	Liabilities are recorded / carried at
Historical Cost	Acquisition Price, i.e. the amount of cash or cash equivalents paid, or fair value of the asset exchanged, at the time of acquisition.	Amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
Current Cost	Amount of cash or cash equivalents that would have to be paid, if the same or equivalent asset were to be acquired currently.	Undiscounted Amount of cash or cash equivalents that would be required, to settle the obligation currently.
Realisable Value	Amount currently realisable on the sale of the asset in an orderly disposal.	Undiscounted Amount of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.
Present Value	Present Value of future Net Cash Flows generated by the assets, in the normal course of business.	Present Value of future Net Cash Flows that are expected to be required to settle the liability, in the normal course of business.

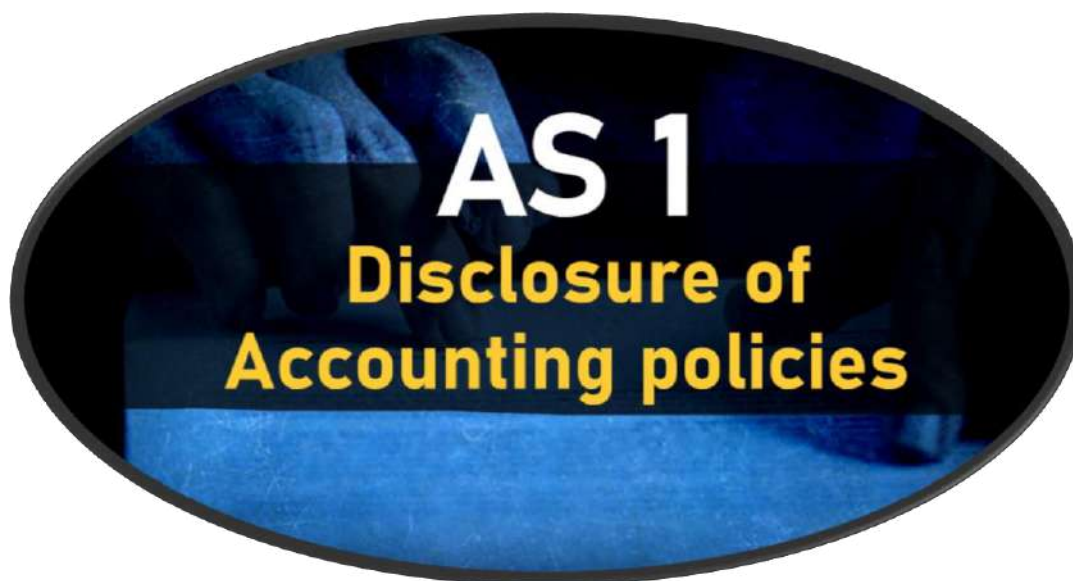
Capital Maintenance:

Particulars	Financial Maint. at Historical Cost	Capital at Current Purchasing Power	Physical Maint at Current Cost
Closing Capital / Sales	Selling price x No. of Units	Selling price x No. of Units	Selling price x No. of Units
Less: Required Closing Capital	Opening Capital	At current Purc. Power = Opening Capital $\times \frac{\text{Clg Index}}{\text{Opg Index}}$	At current cost = Closing cost x No. of Units
Permissible Drawings			

Financial Statements under Non Going Concern Assumption:

1. No Depreciation shall be provided on PPE, Intangible and Other Assets. They are written down to its current NRV.
2. Inventories should be valued at its current NRV. (i.e. 'Cost or NRV whichever is lower' principle is not applicable)
3. Any Unamortised Deferred Expenditure should be written off by transferring to P&L.
4. Prepayment Penalty on Loan, if any, should be provided.
5. Debtors whose collection depends on successful re-design of certain product already supplied to the customer should be written off as Bad and Doubtful Debts.

AS 1 Disclosure of Accounting Policies



Fundamental Accounting Assumptions	1. Going Concern: The enterprise is normally viewed as a Going Concern, i.e. as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations. 2. Consistency: The accounting policies are consistent from one period to another. 3. Accrual: Revenues & costs are accrued i.e. recognised as they are earned or incurred and recorded in Financial Statements of the periods to which they relate, and not when money is received or paid.
Disclosure	1. Followed: Disclosure is not required, since their acceptance and use are assumed. 2. Not followed: Disclosure is necessary specifying that the accounting assumptions are not followed.
Factors	To select and apply an accounting policy, the following points are considered - 1. Prudence: Prudence implies that Profits are not anticipated, they are recognised only when realised, though not necessarily in cash. However, provision is made for all known liabilities and losses, even if the amount is not certain and is only a best estimate, based on available information. Example: Provision for Doubtful Debts / Discount on Debtors, Valuation of stock at lower of Cost or NRV. 2. Substance over Form: This means that the accounting treatment and presentation in Financial Statements, of transactions and events, should be governed by their substance and not merely by the legal form. Example: Sale & Repurchase should be recorded only as a financing transaction. 3. Materiality: Financial Statements should disclose all material items, i.e. the knowledge of which might influence the decisions of the users of Financial Statements. Example: Payment of fines /penalties for violation of law should be disclosed separately, even if the amount is negligible.

AS 2 Valuation of Inventories



AS 2 - Valuation of Inventories

1. Valuation Principles

Inventories includes -	Valuation Principles
Raw Materials (RM)	FG valued at Cost: RM should also be valued at Cost. FG valued at Cost: RM should also be valued at Cost, or NRV, whichever is lower.
Work in Progress (WIP)	Cost, or Net Realisable Value (NRV), whichever is lower.
Finished Goods (FG)	Cost, or Net Realisable Value (NRV), whichever is lower.

2. Cost and NRV

Inventories	Cost	NRV
Raw Materials	Costs of Purchase + Costs incurred to bring the inventories to present location and condition	Replacement Cost
Work in Progress	Costs of Purchase + % of Costs of Conversion	Estimated Selling Price Less Estimated Cost of Completion Less Costs necessary to make the sale
Finished Goods	Costs of Purchase + Costs of Conversion	Estimated Selling Price Less Estimated Costs necessary to make the sale.

3. Costs of Purchase

Particulars	Amount
Purchase Price including Duties and Taxes (excluding tax refunds / credits)	
Add: Freight Inwards	
Other Expenditure directly attributable to the purchase (See Note)	
Less: Trade Discounts, Rebates, Duty Drawbacks and other similar items	

4. Costs of Conversion includes-

Type of Cost	Costs directly related to the units of production	Variable Production Overheads	Fixed Production Overheads
Description/ Example	e.g. Direct Labour, i.e cost of workers who are directly associated in the production process.	Indirect Costs which vary directly or nearly directly, with the volume of production, e.g Indirect Material, Indirect Labour	Indirect Costs which remain respectively constant regardless of the level of production, e.g, Factory Management Costs, Depreciation

5. Effect of differences in production on Fixed Overheads allocation

Situation	Low Production than normal	Higher Production than normal
Production	Actual Production < Normal Production	Actual Production > Normal Production
Absorption	Under – absorption of Overheads	Over absorption of Overheads
Treatment under AS-2	- Cost is assigned to output on the basis of normal capacity only. - Unallocated OHs of Idle Plant are treated as Period Cost	Cost per unit is decreased, to ensure that the inventories are not measured above cost

AS 3 Cash Flow Statements



1. Closing Balance of Cash & Cash Equivalents **(Less) Opening Balance** of Cash & Cash Equivalents
= Increase / (Decrease) in Cash and Cash Equivalents during the year, attributed to-

Operating Activities	Investing Activities	Financing Activities
Cash Generated from Operations, computed as under (Indirect Method)-	Changes (increase/decrease) in Investments & Long-Term Assets	Changes (increase / decrease) in Capital and Long-Term Liabilities
EBT + Non-Cash Items ± Non- Operating Items Operating Profit before WC adjustments ± Adjustments for WC changes Operating Cash Flow before Taxes (-) Taxes paid & Extraordinary Items Cash Flow Operating Activities	Note: Long term Assets items should be considered here. Capital Flows: Purchase / Sale of Fixed Assets and Long Term Investments. Revenue Flows: Interest/Dividend from Long term Investments	Note: Long Term Liability items should be considered here. Capital Flows: Issue/Redemption of Equity Share Capital/Preference Share Capital/Debt. Revenue Flows: Payment of Interest and Dividends (Equity and Preference)

2. Classification of Items

a) Cash Receipts from Trade Receivables	Operating Activities
b) Marketable Securities	Cash Equivalents [Assumed readily convertible into known amounts of cash]
c) Purchase of Investments	Investing Activities
d) Proceeds from Long Term Borrowings	Financing Activities
e) Wages & Salaries paid	Operating Activities
f) Bank Overdraft	Financing Activities / Operating Activities
g) Purchase of Goodwill	Investing Activities
h) Interim Dividend paid on Equity Shares	Financing Activities
i) Short-Term Deposits	If readily convertible Cash Equivalents, Otherwise Investing Activities
j) Underwriting Commission paid	Financing Activities
k) TDS on Interest received	Non Cash Flow

3. Transactions not having impact in Cash Flow Statements

- Meaning:** Many investing and financing activities do not have a direct impact on current Cash Flows through they affect the capital and assets structure of an enterprise. These are called Non-Cash Transactions.
- Examples:** (a) Acquisition of assets by assuming directly related liabilities, (b) Acquisition of an enterprise by means of issue of Shares, and (c) Conversion of Debt to Equity.
- Treatment:** Investing and financing transactions that do not require tire use of Cash or Cash Equivalents should be excluded from a Cash flow Statement. Such transactions should be **disclosed elsewhere** in the Financial Statements, in a way that provides all the relevant information about these investing and financing activities.

3. Format of Direct Method of reporting Cash Flows from Operating Activities

Particulars	Amt
Cash Receipts from Customers for Sale of Goods / Rendering of Services.	
Cash Receipts from Royalties, Fees, Commission and other Revenue.	
Cash Payments to Suppliers for Goods and Services.	
Cash Payments to and on behalf of Employees.	
Cash Receipts and Payments relating to Futures / Forward / Option / Swap Contracts when	

the contracts are held for dealing or trading purposes.	
Cash Generated from Operations before Taxes & Extra-ordinary Items	
Less: Cash Payments (Refunds) of Income-Taxes unless they can be specifically identified with Financing and Investing Activities.	
Cash Flows before Extra-ordinary Items	
Add / Less: Cash Receipts / Payments in relation to extraordinary items, e.g. Earthquake Disaster Settlement, etc.	
NET CASH FROM OPERATING ACTIVITIES	

4. Format of Indirect Method of reporting Cash Flows from Operating Activities

Particulars	Amt
Net Profit before Taxes and Extra-ordinary Items [Note]	
Adjustments for:	
Depreciation and similar non-cash items.	
Foreign Exchange Losses, if any.	
Interest / Dividend / Other Incomes relating to Investing / Financing Activities.	
Interest Paid.	
Taxes Paid (if PAT is considered initially instead of PBT).	
Operating Profit before Working Capital Changes	
Add / (Less): Decrease / (Increase) in Current Assets excluding Cash / Cash Equivalents.	
Increase / (Decrease) in Current Liabilities excluding Cash / Cash Equivalents.	
Cash Flows before extra-ordinary items	
Add / Less: Cash Receipts / Payments in relation to extra-ordinary items, e.g. Earthquake Disaster Settlement, etc.	
NET CASH FROM OPERATING ACTIVITIES	

Note:

1. If PBT is not given, $PBT = \text{Increase in Reverses \& Surplus} + \text{Preference \& Equity Dividend} + \text{Provision for Taxes}$.

2. Provision for Taxation Account

Particulars	₹	Particulars	₹
To Bank- Actual Taxes paid in CY		By balance b/d	Opening Balance
To balance c/d	Closing balance	By P&L – Provision created for CY	
Total		Total	

3. Dividend payable Account

Particulars	₹	Particulars	₹
To Bank- Actual Taxes paid in CY		By balance b/d	Opening Balance
To balance c/d	Closing balance	By P&L – Provision created for CY	
Total		Total	

4. If no information is available, it is assumed that opening balance in paid in CY and closing balance is provided from P&L

AS- 04 Events Occurring After B/Sheet Date

Adjusting & Non Adjusting Events



EVENTS OCCURING AFTER BALANCE SHEET DATE

A. ADJUSTING EVENTS

The following events occurring after the B/s Date Should be considered and adjusted in the Financial Statements-

Nature of event	Example
(a) Events relating to condition existing at the Balance Sheet date, and provide additional information materially affecting the determination of the amounts of assets/liabilities thereat.	Amount due from a customer as at 31 st March is considered should doubtful. Information on his insolvency is received on 15 th April.
(b) Events providing information that the fundamental accounting assumption-Going Concern – is not appropriate.	Destruction of a major Production Plant, or Loss of Substratum of the enterprise.
(c) Statutory Requirements or special nature events.	-

Accounting Treatment:

- Assets and Liabilities as at the Balance Sheet should be **adjusted**.
- Suitable disclosure should be made for the above in the Financial Statements.

B. NON-ADJUSTING EVENTS:

The following events occurring after Balance Sheet Date need not be reflected in the Financial Statements-

Nature of Event	Example
(a) Event does not relate to condition existing at the Balance Sheet date.	As at 31 st March, Cost of Investments is ₹ 75,000. (Market Value ₹ 90,000) Its value declines to ₹ 40,000 on 25 th April.
(b) Events that do not affects the figures stated in the Financial Statements.	Retirement of sales Director.
(c) Events which represent material changes and commitments affecting the financial position of the enterprise.	Substantial fall in market demand of the only product produced by the Company.

C. EXAMPLES:

Adjusting Events	Non-Adjusting Events
1. Natural calamities (destruction) occurring after the Balance sheet date but Going concern Assumption is getting Affected 2. Theft or Defalcation being noticed after B/S Date 3. Transaction Where sale is completed but deed is entered after Balance sheet Date (Note: As soon as the sale is completed, it should be recorded) 4. Cheque issued returned due to sign differences. 5. Legal suit pending as on B/s date but subsequently won before finalization of accounts.	1. Natural calamities (destruction) occurring after the B/s date (Going Concern Assumption is not affected) 2. Theft or Defalcation noticed after B/s Date and also after approval of Financial Statement by Board 3. Acquisition of a company, where (i) only negotiation is completed or (ii) only Terms and Conditions being decided, or (iii) only a proposal to sell is sent. 4. Cheque in transit (i.e not received by the entity as on the Balance Sheet Date). 5. Dividend Declared after the Balance Sheet date.

AS-05 Net Profit or Loss for the Period, Prior Period Items & Changes in Accounting Policies.



Types	Meaning	Example
Ordinary Activities	(a) Any activities which are undertaken by an enterprise as part of its business, and (b) Such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.	Purchase, Sales, Expenses paid, Income received etc.

Exceptional Items	Generally, ordinary activities need not be disclosed separately. But a separate disclosure of - (a) nature of activity, and (b) amount involved, is required when such items of Income or Expense a) Fall within the meaning of "ordinary" activities, b) Are of special size, nature or incidence, and c) Disclosure is relevant to explain the entity's performance.	Write-down of Inventories to NRV, & its reversal, Corporate Restructuring, Sale of PPE / Long- Term Investments, Legislative changes having retrospective application, Litigation settlements and Other reversals of provisions.
Extra ordinary Items	These are Income or Expenses - a) that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise, b) these are not expected to recur frequently or regularly.	a) Attachment of property of the Enterprise, (b) An Earthquake, (c) Refund of Government Grant etc.
Prior Period Items	These are Income or Expenses – a) that arise in the current period, b) as a result of errors or omissions in the preparation of the Financial Statements of one or more prior periods.	a) Applying incorrect Depreciation rate of in PY and rectifying it in CY, (b) Omission of Income or Expenditure in PY, and rectifying it now.
A/c Policies	These refer to a) the specific accounting principles and the methods of applying those principles b) adopted by an enterprise in the preparation and presentation of Financial Statements.	Change of Cost Model to Revaluation Model and vice versa, Change in Cost Formula in measuring the Cost of Inventories.
Not change in A/c Policies	1. Adoption of an accounting policy for events or transactions hat differ in substance from previously occurring events, 2. Adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.	Introduction of a formal Retirement Gratuity Scheme by an employer, to replace an adhocexgratia payment scheme

A/c Estimates	Accounting Estimates refer to Financial Statement items, which cannot be measured with precision, but can be estimated based on informed judgments.	Change in estimate of Provision for Doubtful Debts or Change in estimate of Useful Life of PPE.
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A. Change in Accounting Estimate vs Change in Accounting Policy

	Accounting Estimate	Accounting Policy
Frequency	Change in Accounting Estimate is a routine matter in accounting which is substantially based on estimates, e.g. estimate of Bad Debts is made on the basis of information at subsequent date, i.e. insolvency of a Debtor known afterwards.	Change in Accounting Policy is infrequent and amounts to almost a permanent change in the basis of accounting in the concerned area. For example, the accounting policy for charging depreciation may be changed from Cost Model to Revaluation Model.
Change	A Change in Accounting Estimate arises due to • change in circumstances on which the estimate was based, or • availability of new information, etc.	A Change in Accounting Policy is possible only for - • ensuring statutory compliance, or • ensuring compliance with another AS, or • more appropriate presentation of the Financial Statements.
Effect	The accounting picture may not get substantially altered by the change in the Accounting Estimate.	A change in Accounting Policy, generally, has a far reaching, material and long-term effect .
Disclosure	The nature and amount of a change in Accounting Estimate which has a material effect in the current period or expected material effect in future should be disclosed in the Financial Statements.	A change in Accounting Policy which has a material effect should be disclosed, along with the impact of and adjustments resulting from that change in the current period Financial Statements.

AS - 7 Construction Contracts

Contract Profit & Loss A/c (Non Cumulative)



Particulars	₹ in Crores	Particulars	₹ in Crores
To Contract Cost	Cost for the year	By Contract Revenue	Price x % of WC
To Provision for Loss	Bal. fig.	By Net Loss	Expected Loss
Total		Total	

Criteria for Separate Contracts	When a Contract Covers a number of assets, the Construction of each asset should be treated as a separate Construction Contract when- a) Separate proposals have been submitted for each asset, b) Each asset has been subject to separate negotiation, and the Contractor and Customer have been able to accept or reject that part of the Contract relating to each asset, and c) The costs and revenues of each asset can be identified.
Formulas	• Cost Incurred till date= Work Certified + Work to be Certified • Estimated Total Contract Costs= Costs Till date + Future Costs • Percentage of Completion = $\frac{\text{Cost Incurred till date}}{\text{Estimated Total Costs}}$ • Contract Revenue= Contract Price X Percentage of Completion • Expected Loss= Estimated Total Contract Costs Less Contract Price

- Cost Incurred + Recognised Profits- Recognised Losses-Progress Billings
If positive, Gross Amount due from customers. If negative, Gross Amount due to customers.

Recognition of Contract Revenue (Cumulative)

1. Basic Computation

Particulars	Year 1	Year 2	Year 3
1. Expected Total Contract Cost= Cost Incurred till date + Expected Cost			
2. % of Completion = $\frac{\text{Cost Till Date}}{\text{Total Contract Costs}}$			

2. Contract P&L A/C

Year	Particulars	Upto reporting date	Already recognised in Previous Year	Recognised during current year
1	Contract Revenue Contract Costs			
	Contract Profits			
2	Contract Revenue Contract Costs			
	Contract Profits			
3	Contract Revenue Contract Costs			
	Contract Profits			

As 9 Revenue Recognition



Sale of Goods	Revenue from sale of Goods should be recognised only when the following condition are satisfied- 1. Transfer of Property: This involves transfer of either-(a)property in goods, or (b) all significant risks and rewards of ownership, from the Seller to the Buyer. 2. Control over goods lies with Buyer: The Seller retains no effective control of goods transferred, to a degree usually associated with ownership. 3. Certainty of amount: No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. 4. Certainty of collection: It is reasonable to expect ultimate collection at the time of performance otherwise, Revenue Recognition should be proposed
Service	Revenue from rendering of services should be recognised if the following condition are satisfied- 1. Performance of Service: This performance may consist of execution of one or more acts. it should be measured using either- (a) Completed Services Contract Method, or (b) Proportionate Completion Method, Whichever relates the revenue to the work accomplished. 2. Certainty of amount: No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. 3. Certainty of collection: It is reasonable to expect ultimate collection at the time of performance otherwise, Revenue Recognition should be proposed.
Special Points	1. Interest: On a time proportion basis considering - (a) amount outstanding, and (b) rate of interest. 2. Royalties: On an accrual basis in accordance with the terms of relevant agreement. 3. Dividends: When the owner's right to receive payment is established.
Special Points	1. Revenue on Consignment Sales is recognised only when goods are sold by the agent to a third party. Cost of Inventory lying in the hands of Consignee should also be included as Closing Stock of Consignor.

	2. For Bill & Hold sales basis, Revenue should be recognised notwithstanding that physical delivery has not been completed so long as there is expectation that delivery will be made. 3. For Sale on Approval basis, Revenue should be recognised since the Buyer has formally accepted the goods or time period for rejection has elapsed, whichever is earlier. 4. For Sale & Repurchase basis, if the re-purchase price is pre-determined and covers the purchasing and holding costs, such transaction should be accounted as a Financing Transaction and not as a sale.
Trade Discounts	Trade Discounts and Volume Rebates received do not fall within the definition of Revenue, since they represent a reduction of cost. Hence, these Discounts and Volume Rebates given should be deducted to determine revenue.

AS 10 Property, Plant and Equipment



Bearer Plant	Bearer Plant is a living plant that is – a) is used in the production or supply of Agricultural Produce b) is expected to bear produce for more than one period, and c) has a remote likelihood of being sold as Agricultural Produce, except for incidental scrap sales.
Not a Bearer Plant	a) Plants cultivated to be harvested as Agricultural Produce (e.g. Trees grown for use as lumber), b) Plants cultivated to produce Agricultural Produce when there is more than a remote likelihood that the Entity will also harvest and sell the plant as Agricultural Produce, other than as incidental scrap sales (e.g. Trees that are cultivated both for their fruit and their lumber), and c) Annual Crops (e.g. Maize and Wheat).
Recognition Criteria	Cost of an Item of PPE should be recognised, only if – 1. it is probable that future economic benefits associated with the Item will flow to the Entity, and 2. Cost of the Item can be measured reliably.
Components of cost	1. Purchase Price + Import Duties + Non-Refundable Purchase Taxes - Trade Discounts &. Rebates. 2. Any Costs directly attributable to bringing the Asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. 3. Initial Estimate of Decommissioning, Restoration and similar Liabilities,
Directly Attributable Costs	1. Costs of Employee Benefits arising directly from the construction or acquisition of the item of PPE, 2. Costs of Site Preparation, 3. Initial Delivery and Handling Costs,

	4. Installation and Assembly Costs, 5. Costs of testing whether PPE is functioning properly Less Net Proceeds from selling any items produced while bringing PPE to that location & condition (e.g. Samples produced when testing), 6. Professional Fees.
Not included in cost	1. Costs of opening a New Facility or Business, such as, Inauguration Costs, 2. Costs of introducing a New Product or Service(including Costs of Advertising and Promotional Activities), 3. Costs of conducting business in a new location or with a new class of customer (including costs of Staff Training), and 4. Administration and other General Overhead Costs.
Models	1. Cost Model = Measured at Historical Cost - Accumulated Depreciation & Impairment Loss. 2. Revaluation Model = Revalued at least 3 years once.
Class of PPE	If an Item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued. A Class of PPE is a grouping of Assets of a similar nature and use in an Entity's operations. Examples of separate classes are – (a) Land (d) Ships, (g) Furniture and Fixtures, (b) Land and buildings (e) Aircraft, (h) Office Equipment, and (c) Machinery, (f) Motor Vehicles, (i) Bearer Plants
Office vs Factory Buildings	1. AS-10 permits Assets to be revalued on a class by class basis. The different characteristics of the Buildings enable them to be classified as different PPE classes. Office Buildings can be clearly distinguished from the Factories in terms of their function, their nature and their general location. 2. Different Models can be applied to these classes for subsequent measurement. Hence, Office Buildings can be measured using Revaluation Model. However, all properties within the class of Office Buildings must, be carried at Revalued Amount. Separate disclosure of the two classes must be given.
Revaluation	a) Upward Revaluation for First Time - Credited to Revaluation Reserve b) Revalued Downwards - Charged to P&L (Impairment Loss is different from Revalued downwards) c) Downward Revaluation if previously revalued upwards - Debit Revaluation Reserve to the extent of balance available, then Debit P&L d) Upward Revaluation if previously revalued downwards - Credit P&L to the extent of Revaluation e) Downwards, then Credit Revaluation Reserve.

Adjustment of Revaluation Reserve	Whole of Surplus is realised a) The whole Surplus may be realized on the Retirement or Disposal of the Asset. b) The entire Revaluation Surplus is transferred to Retained Earnings, directly, on Asset de-recognition. a) Some of the Surplus may be realized, as the Assets is used by the Entity. b) In this case, the amount of the Surplus realized = Difference between Amortisation based on the Revalued Carrying Amount of the Asset and Amortisation that would have been recognized based on the Asset's Historical Cost. Cumulative Revaluation Surplus included in Equity may be transferred directly to Retained Earnings, when the Surplus is realised. The treatment will be as under – OR Part of the Surplus is realized Note: The transfer from Revaluation Surplus to Retained Earning is not made through Profit or Loss.
Depreciation	1. Depreciation should be provided from the date when the asset is ready for use. Actual usage is not relevant. Depreciation will not be provided only if the Residual Value exceeds cost. 2. Permissible methods SLM, WDV & Units of Production
Components	1. Life & Depreciation for a PPE should be computed for each component separately. 2. When each major inspection is performed / Component is replaced, its cost is recognised in the Carrying Amount as a replacement. Any remaining Carrying Amount of the cost of the previous inspection / Component is de-recognised. 3. De-recognition of the Carrying Amount occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. 4. If necessary, the Entity may use the estimated cost of a future similar inspection as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Replacement	WDV of PPE on the date of Replacement Cost - Depreciation for past years Less: WDV of the old replaced part PV of Current Cost - Depreciation for past years Add: Cost of the new replaced part Revised WDV of PPE	
Estimate vs. Policy	1.Changes in Accounting Estimate: Changes in Residual Value, Changes in Useful Life Estimation and Changes in Depreciation Method (i.e. SLM to WDV or vice versa). 1. Changes in Accounting Policy: Change from Cost to Revaluation Model or vice versa	
Special Points	1. If Payment is deferred: Cash Price is recognised as Cost of PPE. Interest, i.e. Total Payment (Less) Cash Price, is either recognized as Expense over the credit period. 2. Insurance Claim i.e. Reimbursement from third party should be disclosed separately as Income in P&L.	
Exchange	If the Exchange Transaction	Measured at-
	Lacks commercial substance, or the Fair value of neither the Asset received nor the Asset given up is reliably measurable.	Carrying Amount of the Asset give up
	Has commercial substance and the Entity is able to measure reliably the Fair value of either the Asset received or the Asset given up	Fair Value of the Asset given up
	Has commercial substance and FV of the Asset received is more clearly evident.	FV of Asset received

AS 11 Effects of Changes in Forex Rates



1. Para 46A Option

Generally, Exchange Differences arising on reporting of Long-Term Foreign Currency Borrowings / Liabilities shall be expensed off in P&L. At the option of the Enterprise, such Exchange Differences can be dealt with as under –

Borrowings relating to	Treatment
Depreciable Capital Assets	• Exchange Differences relating to Foreign Currency Borrowings for such assets, can be adjusted in (i.e. added to or deducted from) the cost of the asset. • Depreciation for subsequent periods can be charged on the revised depreciable amount.
Other Long term Assets	• Exchange Differences relating to Foreign Currency Borrowings for such assets, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account"(FCMITDA). • The balance in FCMITDA can be amortised over the balance period of such long-term asset / liability, by recognition as Income or Expense in each such periods. • The unamortised balance, i.e. Debit or Credit balance in FCMITDA should be shown under the head "Reserves and Surplus", as a separate line item.

2. Integral Foreign Operation vs. Non Integral Foreign Operation

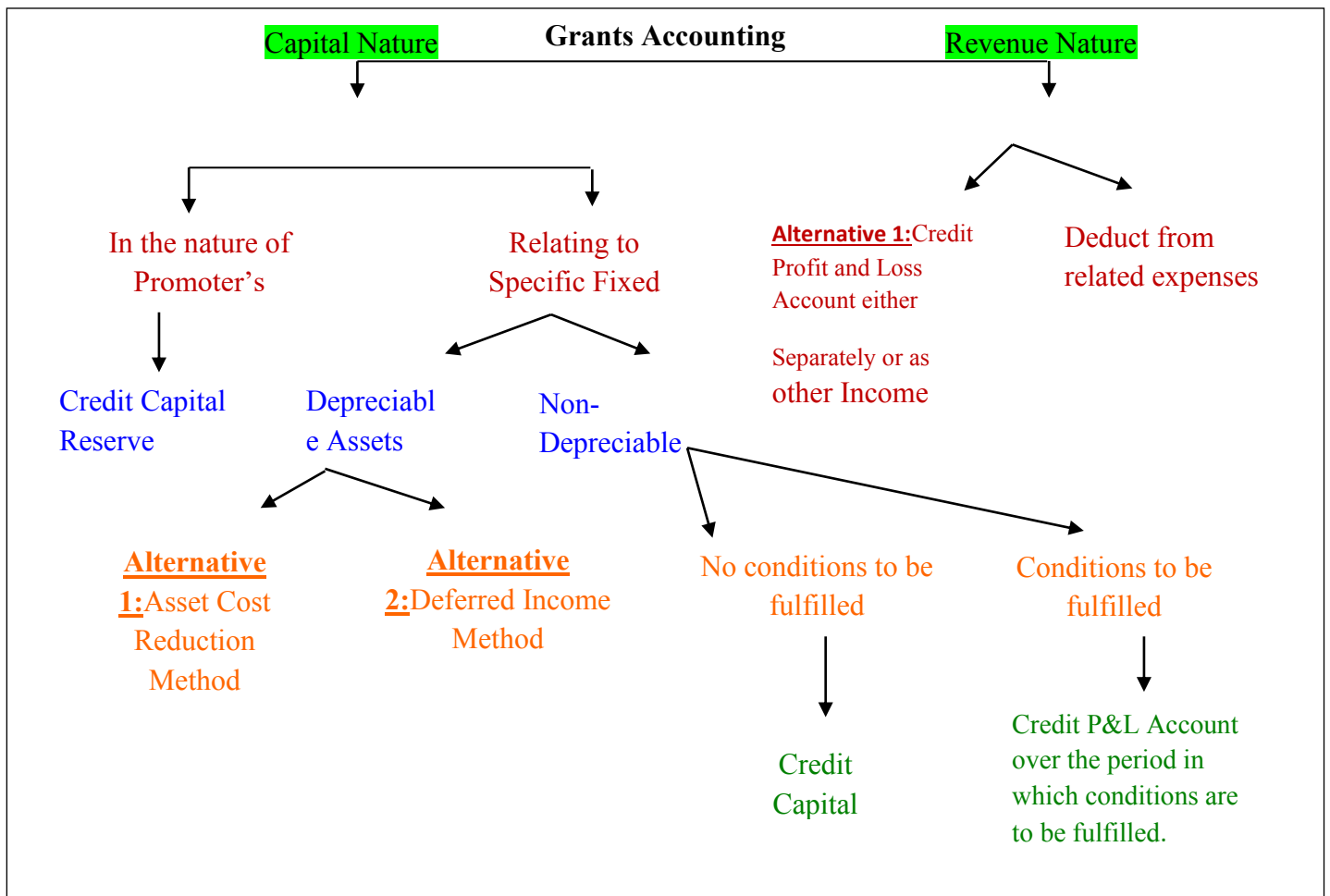
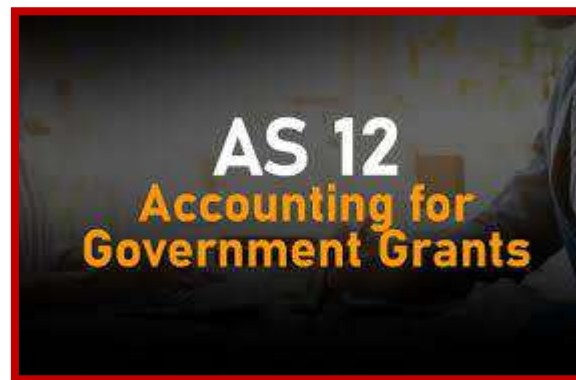
	Particulars	Integral Foreign Operation (IFO)	Non-Integral Foreign Operation (NFO)
1.	Meaning	It is a Foreign Operation, the activities of which are an integral part of those of the reporting enterprise.	It is a Foreign Operation that is not an Integral Foreign Operation.
2.	Business	The business of IFO is carried on as if it were an extension of the reporting enterprise's operations.	The business of NFO is carried on in a substantially independent manner by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowings, in its local currency.
3.	Example	Sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.	Production in a foreign country out of resources available in such country, independent of the reporting enterprise.
4.	Currencies Operated	Generally, IFO carries on business in a single foreign currency , i.e. of the country where it is located.	NFO business may also enter into transactions in foreign currencies , including transactions in the reporting currency.
5.	Cash Flows from Operations	Cash flows from Operations of the reporting enterprise are directly and immediately affected by a change in the exchange rate between the reporting currency and the currency in the country of IFO.	Change in the exchange rate between the reporting currency and the local currency, has little or no direct effect on the present and future Cash Flows from Operations of either the NFO or the reporting enterprise.

6.	Effect of change in Exchange Rate	Change in the exchange rate affects the individual monetary items held by the IFO rather than the reporting enterprise's Net Investment in the IFO.	Change in the exchange rate affects the reporting enterprise's Net Investment in the NFO, rather than the individual monetary and non-monetary items held by that NFO.
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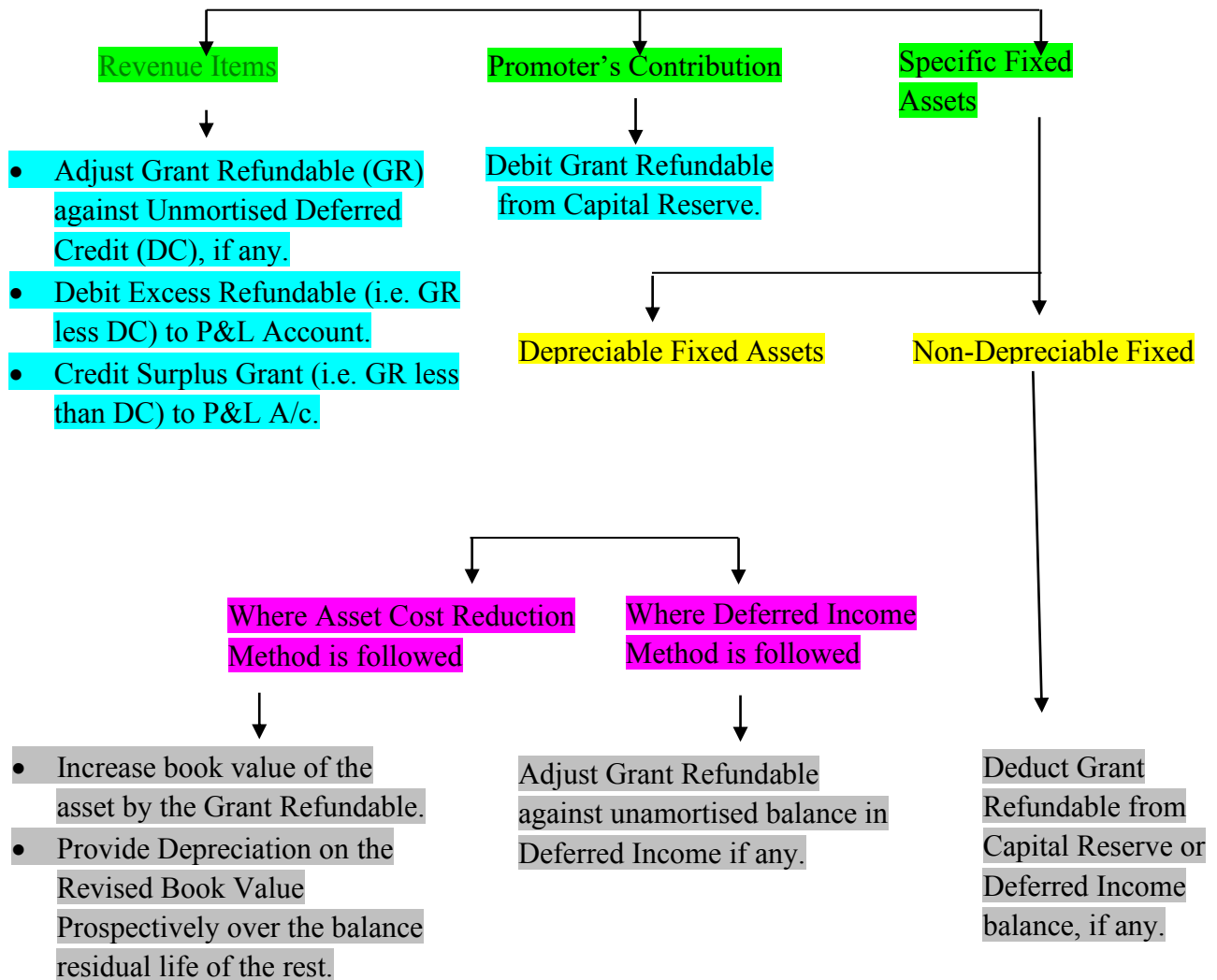
3. Special Points

Monetary Items	1. Monetary Items: They are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Example: Cash, Receivables, Payables. 2. Non Monetary Items: They are assets and liabilities other than monetary items Example: Share Capital, Fixed Assets, Inventories, Investments in Equity Shares, etc.		
Forex Gain or Loss	Exchange Rate-	Increases	Decreases
	For Receivables	Forex Gain	Forex Loss
	For Payables	Forex Loss	Forex Gain
Forward Contracts	1. Value at the rate prevailing at the inception of Forward Contract = Spot Rate 2. Value at the forward rate = Forward Rate / Agreed Rate 3. Total Loss / Gain on entering into forward contract (for the Forward Contract Total term) [Note] Loss / Gain to be recognized for the year ended 31st March (Proportionate for completed months)		

AS 12 Accounting for Government Grants



Refund of Government Grants relating to



AS13 Accounting for Investment

AS 13 ACCOUNTING FOR INVESTMENTS

A. Investment in Debentures / Bonds

1. Computation of cost of Purchase & Profit on sale

Cost of Purchase
Amount paid
Less: Interest (for Cum-Interest purchase only)
Add: Brokerage at given % of amount paid
Net Cost of Purchase

Net Sale Proceeds
Sale Proceeds
Less: Interest (for Cum-Interest purchase only)
Less: Brokerage at 1%
Net Sale Proceeds

Profit on sale = Net Sale Proceeds Less Cost on FIFO **Note:** If specifically given, Cost is computed on WAC basis.

2. Computation of Interest:

Date	Particulars	FV (₹)	Compute Interest from-
Account Opening date	(a) Opening Date and Last Coupon date are same	NIL	NIL
	(b) Opening Date and Last Coupon Payment date are different	XXX	Last Coupon Payment date to Opening Date
Purchase/ sale	Interest is not included in Ex-Interest Price	XXX	Last Coupon Payment date to date of

	Interest is included in Cum-Interest price		transaction
Coupon payment date	Irrespective of the period of holding, the Issuing company will pay full interest (annual or half yearly as the case may be) to the Holder for the No. of Debentures in hand on the date of payment.		Last coupon Payment date to Coupon Payment Date (12 Months of 6 months)
Account Closing date	(a) Closing Date and Last Coupon Payment date are same		NIL
	(b) Closing Date and Last Coupon Payment date are different		Last Coupon Payment date to Opening Date

3. Format of ..% Debentures Account

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
Opening	To balance b/d	XXX	WN 1	XXX	Sale	By Bank	XXX	XXX	XXX
Purchase	To Bank	XXX	XXX	XXX	Sale	By P&L Loss	-	-	XXX
Sale	To P&L Profit	-	-	XXX	Coupon	By Bank	-	XXX	-
Closing	To P&L - Trf	-	XXX		Closing	By P&L (WN 2)	-	-	XXX
					Closing	By bal. c/d	XXX	WN 1	XXX
	Total					Total			

- Balance will arise in Interest column, only if the Opening & Closing date does not coincide Coupon Payment date.
- Debentures should be valued at lower of Cost or Market Value. If MV is less, such Loss should be charged to P&L.

B. Investment in Equity Shares

1. Important Adjustments:

Bonus Shares	Due to Bonus issue, No. of Shares will increase. Since it is issued without any consideration, it will not have any impact in Investment Accounts. However, cost per Share will reduce and Profit on sale will increase. Cost per Share after Bonus = $\frac{\text{Purchase Price} + \text{Stamp Duty} + \text{Brokerage}}{\text{No. of Shares after Bonus}}$
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Rights Issue	1. If the Investor exercises: Investment in Equity Shares Dr. To Cash / Bank Rights exercised x Exercise Price		
	2. If the Investor lapses: No entry will be passed.		
	3. If the Investor Renounces: Renouncement Proceeds will be credited to P&L A/c.		
Dividend Types	1. Final Dividend: Dividend paid by the Company after the end of the Year. (Dividend for the Year is paid in the next year.) 2. Interim Dividend: Dividend paid by the Company before the end of the Year. (Dividend for the Year is paid in that year itself.)		
Treatment of Dividend	Types of Shares	Interim Dividend for CY	Final Dividend for PY paid in CY
	Opening No. of Shares	Credited to P&L	Post Acqn. Div So, Credited to P&L
	Additional Purchase	Credited to P&L	Pre Acqn. Div. So, Credited to Investment A/C
	Bonus Shares	Credited to P&L	Not eligible, unless otherwise given
	Rights Shares	Credited to P&L	Not eligible, unless otherwise given
Profit or Loss on Sale	Net Sale Proceeds i.e. Sale Value – Brokerage Less: WAC per Share i.e. $\frac{\text{Opening Balance} + \text{Cost for Additional Purchase} - \text{Pre Acquisition Dividend}}{\text{Opening No. of Shares} + \text{Addi. Purchase} + \text{Bonus} + \text{Rights exercised}}$		
Conversion of Debentures	1. Entry: Investment in Equity Shares Dr. Cost of Debentures converted x % of Conversion To Investment in % Debentures 2. Coupon Payment after Conversion: Interest shall be computed as under for the period - a) before Conversion = No. of Debentures x FV x Coupon % x No. of Months /12 b) after Conversion = No. of Debentures x (FV - % Conversion) x Coupon % x No. of Months /12 3. Valuation = Lower of – (a) Cost or (b) Closing Market value × (100- %Conversion)		

2. Format of Investment in Equity Shares Account

Date	Particulars	FV	Dividend	Cost	Date	Particulars	FV	Dividend	Cost
Opening	To balance b/d	XXX	-	XXX	Sale	By Bank	XXX	-	XXX
Purchase	To Bank	XXX	-	XXX	Sale	By P&L Loss	-	-	XXX
Sale	To P&L Profit	-	-	XXX	Note 1	By Bank	-	Note 1	Note 1
Closing	To P&L – Trf	-	XXX	-	Closing	By P&L	-	-	Note 2
					Closing	By bal. c/d	XXX	-	XXX
	Total					Total			

Note:

- Alternatively, Dividend Column can be written as a separate Account.

Items credited in Dividend Column	Items credited I Cost Column (i.e. Investment A/c)
Post Acquisition Dividend on Opening No. of Shares, Interim Dividend, Renouncement Value of Rights Shares renounced.	Pre Acquisition Dividend on Shares that are additionally purchased during the Year.

- Shares should be valued at lower of cost or Market Value. If MV is less, such Loss should be charged to P&L.

C. Types of Investments

Current Investment	Lower of Cost or Market Value
Long Term Investment – Valued at	Cost

D. Re-classification of Investments

Re-classification of Investments	From: Long Term Investments To: Current Investments	From: Current Investments To: Long Term Investments
Transfer are made at	a) Cost, or b) Carrying Account, whichever is less , at the date of transfer.	a) Cost, or b) Fair Value, whichever is less , at the date of transfer.

AS 15 Employee Benefits



Types	Meaning
Employee Benefits	a) Short Term Employee Benefits, STEB b) Post Employment Benefits, PEB c) Other Long Term Employee Benefits OLTEB d) Termination Benefits, TB Note: For the purpose of this Standard, employee includes Directors and other Management Personnel.
STEB	a) Employee Benefits (other than Termination Benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the Employees render the related service. 1 b) Example: Wages, Salaries, Paid Annual Leave, Profit Sharing and Bonuses, Non Monetary Benefits (such as Medical Care, Housing, Cars and free or subsidised goods or services) for current employees. c) Measurement: Recognised as Expenses. • Measurement of Short Term Benefits are measured on an undiscounted basis; and • It involves no Actuarial Assumptions to be made. So, any Actuarial Gain/Loss is not applicable.

Types of STEB	a) Short Term Paid Absences: Sick Leave, Maternity Leave. • Accumulating Paid Absences: Carried forward to future periods if not used now. It can be Vesting i.e. entitled to a Cash Payment for unutilized entitlement at the time of leaving the entity or Non-Vesting i.e. not entitled to a Cash Payment for unused entitlement on leaving. Recognized, when the Employees render service that increases their entitlement to future paid absences. • Non Accumulating Paid Absences: Not Carry Forward and they will lapse if the
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	current period's entitlement is not used in full by the employee and this also do not entitle employees to a cash payment for unused entitlement on leaving the entity. No Liability or Expense. E.g. Maternity Leave. b) Profit Sharing Bonus Plans - Charge Not Appn.: Recognized when it has a present legal or constructive j obligation to make such payments as a result of past events and a reliable estimate can be made.
PEB	a) Employee Benefits (other than Termination Benefits and STEB) that are payable after the completion of employment. Example: Pensions, Lumpsum Payments oh retirement. b) Type: Defined Contribution Plan, Defined Benefit Plan, Multi Employer Plans, State Plan, Insured Benefits

Particulars	Defined Contribution Plans	Defined Benefit Plans
Obligation	To contribute a limited amount to the fund as its legal or constructive obligation.	To provide the agreed benefits to current and former employees.
Risk bearer	Actuarial Risk and Investment Risk fall on the Employee and not on the Entity.	Actuarial Risk and Investment Risk fall on the Entity and not on the Employee.
Increase in obligation	Generally, no change in the Contribution of an Entity is made except certain conditions.	If Actuarial or Investment experience are worse than expected, obligation may be increased.
Amount of benefit	Determined by the amount of Contributions paid by an Entity and Employee.	Pre determined / Agreed Post Employment Benefits are received by the Employee.
Example	Provident Fund contribution by the employer	Gratuity / Leave Travel Concession

Point	Description
Multi-Employer Plans	Defined Contribution Plans or Defined Benefit Plans that: a) pool the assets contributed by various Entities that are not under Common Control; and b) Use those assets to provide benefits to Employees of more than one Entity, on the basis that contribution and benefit levels are determined without regard to the identity of the Entity that employs the Employees. Note: If it is DBP, it shall account for its share in the same way as for any other DBO. If information is not available, it shall account as DCO.

Contract	There may be a Contractual Agreement between the Multi-Employer Plan and its Participants that determines how the surplus will be distributed (or deficit funded). In such case, Participant should - - recognize the asset or liability that arises from the Contractual Agreement and - Resulting income or expense in Profit or Loss.
State Plans and Insured Benefits	- Normally established by Legislation to cover all Entities and are operated by National or Local Government or by another body which is not subject to control or influence by the Reporting Entity. Normally DCP. Insured Benefits: An Entity normally pays Insurance Premiums for funding a Post Employment Benefit Plan. The Entity shall treat such a Plan as a Defined Contribution Plan.

OLTEB	All Employee Benefits other than STEB, TB and PEB. Example: Long Term paid absences such as Long Service Leave or Sabbatical Leave, Jubilee or other Long Service Benefits.
TB	Employee Benefits provided in exchange for the termination of an Employee's Employment as a result of: - Entity's Decision to terminate an Employee's Employment before the normal retirement date; or - Employee's Decision to accept an offer of benefits in exchange for the termination of Employment.
Actuarial Gains and Losses	- PV of DBO Less FV of Plan Assets Less Unamortized Past Service Cost = +ve Net Liability / -ve Net Assets - An entity shall recognize immediately in P&L all of its actuarial gains and losses in measuring its defined benefit liability and this shall be presented in the statement of profit and loss. - Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets.
Cost	Current Service Cost: Increase in the Present Value of a Defined Benefit Obligation resulting from Employee Service in the current period. Interest Cost: Increase during a period in the Present Value of a Defined Benefit Obligation which arises because the benefits are one period closer to Settlement. Past Service Cost: Change in the Present Value of the Defined Benefit Obligation resulting from a Plan Amendment or Curtailment is known as Past Service Cost.

PV of DBO	In order to measure PV of DBO and the related Current Service Cost, it is necessary to – - apply an Actuarial Valuation Method; - attribute benefit to periods of service; and - make Actuarial Assumptions.
Actuarial Valuation Method	Projected Unit Credit Method (also known as Accrued Benefit Method pro-rated on service /Years of service method) perceives each period of service as which gives rise to an additional unit of benefit entitlement and measures each unit separately to report the final obligation.
Attribute benefit to periods of service	An Entity will attribute benefit to periods in which the obligation to provide PEB arises as Employees render services in return for PEB. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from: - date when service by the Employee first leads to benefits under the plan; until - date when further service by the Employee will lead to no material amount of further benefits.
Actuarial Assumptions	Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing PEB, Actuarial comprise: Demographic Assumptions deal with: Mortality, both during and after employment, employee turnover, disability and early-retirement, proportion of plan members with dependents who will be eligible for benefits, and claim rates under medical plans; Financial Assumptions, deal with: Discount Rate, Future Salary, in the case of Medical Costs, Cost of administering claims if material and the expected rate of return on plan assets.
Treatment	- Net Defined Benefit Liability (Asset) = Amount of the Deficit or Surplus = Present Value of the Defined Benefit Obligation (less) Fair Value of Plan Assets. - Amounts to be recognised in P&L - (a)Current Service Cost, (b) Past Service Cost and Gain or Loss on Settlement, (c) Net Interest on Net Defined Benefit Liability (Asset), (d) Expected Return on Plan Assets. - Re-measurements of the Net Defined Benefit Liability (Asset), to be recognised in "OCI" as Actuarial Gains and Losses and Return on Plan Assets.

Plan Assets A/c

Particulars		Particulars	
To balance b/d (given)		By Benefits paid out of Plan	

(Fair Value of Plan Assets at year beginning)		Assets	
		(Outflow out of Plan Assets)	
To Expected Return (Fair Value at year beginning × Interest Rate)	P&L	By balance c/d (given) (Fair Value of Plan Assets at year end)	
To Employer's Contribution for the period (Inflow to Create more Plan Assets)			
To Re-measurement Gain (b/f) (being Excess Actual Return on Plan Assets)	OCI		
Total		Total	

Defined Benefit Obligation A/c

Particulars		Particulars	
To Benefits paid out of Plan Assets (Outflow out of Plan Assets)		By balance b/d (given) (PV of DBO at year beginning)	
To Reduction in DBO due to Curtailment		By Interest Cost (Opg. × Interest rate)	P&L
To balance c/d (given)		By Current & Past Service Cost	P&L
(PV of DBO at year end)		By Re-measurement Loss (b/f)	OCI
Total		Total	

4. Journal Entries Loss

5. Extract of Statement of Profit or

Profit & Loss	Dr.		Profit or Loss	Service Cost	
Other Comprehensive Income	Dr.		Net Interest		
To Cash (Contribution)			Other Comprehensive Income Re- Measurement		
To Net Defined Benefit Liability			Total Comprehensive Income		

AS 16 Borrowing Costs



Qualifying Asset	Asset that necessarily takes substantial period of time to get ready for its intended use. The term "substantial period of time" is not defined and hence determined based on facts and circumstances.
Exclusions	1. Financial assets & inventories that are manufactured or produced, over a short period of time. 2. Assets that are ready for their intended use or sale when acquired are Not Qualifying Assets.
Borrowing Costs	1. Interest Expense calculated using the Effective Interest Method as per Financial Instruments Ind AS 2. Finance Charges in respect of Finance Leases recognised in accordance with Leases, and 3. Exchange Differences arising from Foreign Currency Borrowings to the extent that they are regarded as an adjustment to Interest Costs.
Exchange Difference	1. Find the difference between Interest on actual Foreign Borrowings and notional Indian Borrowings a) Interest on actual Foreign Loan = Forex Loan x Forex Interest Rate x Closing Exchange Rate b) Interest on Notional Indian Loan = (Forex Loan x Opening Exchange Rate) x Indian Interest Rate 2. Find the Exchange difference on actual Foreign Borrowings 3. Additional Borrowing Cost that can be capitalized = Lower of (1) or (2) 4. Borrowing Cost that can be capitalized = Interest on actual Foreign Loan + Additional Borrowing Cost 5. Exchange difference transferred to P&L as per Ind AS 21 = Step 2 - Step

	3, if any
Subsequent Treatment	If there is an Unrealised Exchange Loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised Gain of the same borrowing, the Gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.
Criteria for Capitalisation	1. Expenditure are directly attributable to the acquisition, construction, production of a Qualifying Assets, 2. Borrowing costs are being incurred, 3. Activities necessary to prepare the asset for its intended use / sale are in progress. 4. It is probable it will result in future economic benefits to the entity; and 5. Costs can be measured reliably.
Specific vs. General	1. Specific Borrowings: Actual Borrowing Costs - Income on temporary investment of such borrowings 2. General Borrowings: $\text{Expenditure incurred} \times \text{Capitalisation Rate} \times \text{No. of months outstanding} - 12$ Where $\text{Capitalisation Rate} = \frac{\text{Interest Expenses} - \text{Income on temporary investment}}{\text{Total Borrowings}}$.
Suspension	An Entity shall suspend capitalisation of Borrowing Costs during extended periods in which it suspends active development of a qualifying asset. However, an entity does not normally suspend capitalising when - a) it carries out substantial technical and administrative work b) temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. Example: Capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region.
Cessation	An Entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the Qualifying Asset for its intended use or sale are complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

AS - 17 Segment Reporting



Business Segment	A Business Segment is a distinguishable component of an Enterprise that is – • engaged in providing an individual product or service or a group of related products or services, and • Subject to risks & returns that are different from those of other Business Segments.
Geographical Segment	A Geographical Segment is a distinguishable component of an enterprise that is – • Engaged in providing products or services within a particular economic environment, and • Subject to risks and returns that are different from those of components operating in other economic environments.
Examples of Business Segment	1. Basic product is Batteries, but the risks and returns of the Batteries for Automobiles (Scooters, Cars and Trucks) and Batteries for Invertors and UPS are affected by different set of factors. 2. In the case of Automobile Batteries, the risks and returns are affected by the Government Policy, road conditions, quality of automobiles, etc. whereas in case of batteries for Invertors and UPS, the risks and returns are affected by power condition, standard of living, etc. 3. Thus, it has two Business Segments viz. 'Automobile Batteries' and 'Batteries for Invertors and UPS'.
Transfer Pricing	1. AS-17 requires that inter-segment transfers should be measured on the basis that the Enterprise had actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the Financial Statements.

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| | <p>2. The Enterprise can have its own policy for pricing inter-segment transfers. Hence, inter-segment transfers may be based on cost, below cost, below cost or market price, etc. Whichever policy is followed, the same should be disclosed and applied consistently.</p> |
|--|--|

Reportable Segment is Identified based on

1. **75% Principle** :If Total External Revenue attributable to Reportable Segments constitutes less than 75% of the Total Enterprise Revenue, additional segments should be identified a Reportable Segments, even if they do not meet the 10% thresholds, until atleast 75% of Total Enterprise Revenue include in Reportable Segments.
2. **Continuity Principle**: A Segment identified as a Reportable Segment in the immediately preceding period upon satisfaction of the relevant 10% thresholds, continues to be a Reportable Segment for the current period notwithstanding that its Revenue, Result, and Assets no longer meet the 10% criteria.
3. **Comparison Principle**: Where a Segment is identified as a Reportable Segment in the current period upon satisfaction of the relevant 10% criteria, preceding-period data presented for comparative purposes should be re-stated (unless it is impracticable to do so) to reflect the newly Reportable Segment as a separate segment, even if that segment did not satisfy the 10% criteria in the preceding period.

Segmental Reporting Matters

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	A	B	C		
Segment Revenue					
Sales:					
Domestic					
Export					
External Sales					
Inter-Segment Sales					
Total Revenue					

Segment Result (given)					
Head Office Expenses					
Operating Profit					
Interest Expense					
Profit before tax					
Other Information:					
Property, Plant & Equipment Net Current Assets Segment Assets Unallocated Corporate Assets Segment Liabilities Unallocated Corporate Liabilities					

Sales Revenue by Geographical Market (₹000's)

Particulars	Home Sales	Export Sales (by Division A)	Export to Europe	Export to America	Consolidated Total
External Sales					

AS 18 Related Party Disclosures



Control Relationship	Disclose the name of Party & nature of the relationship irrespective of any transactions exist or not - a) Enterprises that control the Reporting Enterprise, b) Enterprises that are controlled by the Reporting Enterprise, or c) Enterprises that are under common control with the Reporting Enterprise (this includes Holding Companies, Subsidiaries and fellow Subsidiaries), The above control may be either direct or indirect (through one or more Intermediaries).
Other Relationship	Disclose the details of transactions for the period during which the Related Party relationship exists- 1. Associates / Joint Ventures a) Associates and Joint Venture of the Reporting Enterprise, and b) Investing Party or Venturer, for whom the Reporting Enterprise is an Associate / Joint Venture. 2. Ownership
Disclosures	1. Name of the transacting Related Party, 2. Description of the Relationship between the parties, 3. Description of the nature of transactions, 4. Volume of the transactions either as an amount or as an appropriate proportion, 5. Any other elements of the Related Party transactions necessary for an understanding of the Financial Statements, e.g. disclosure making an indication that the transfer of a major asset had taken place at an amount

- | | |
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| | <p>materially different from that obtainable on normal commercial terms.</p> <p>6. Amounts or appropriate proportions of outstanding items pertaining to related parties at the Balance Sheet date and provisions for doubtful debts due from such parties at that date, and</p> <p>7. Amounts written off or written back in the period in respect of debts due from or to Related Parties</p> |
|--|---|

Residual Value of a Leased Asset –

Estimated Fair Value of the asset at the end of the Lease Term.

AS 19 Leases



Guaranteed Residual Value (GRV)

- a) **For the Lessee:** That part of the Residual Value which is guaranteed by the Lessee or by a party on behalf of the Lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable), and
- b) **For the Lessor:** That part of the Residual Value which is guaranteed by or on behalf of the Lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee.

Unguaranteed Residual Value (URV)

URV of a Leased Asset is the amount by which the Residual Value of the asset exceeds its Guaranteed Residual Value.

$$\text{Hence, } \text{URV} = \text{RV} - \text{GRV} \\ \text{(OR) } \text{RV} = \text{GRV} + \text{URV}$$

Residual Value	RV of a Leased Asset is the Estimated Fair Value of the asset at the end of the Lease Term. It is classified into – (a) Guaranteed Residual Value (GRV), and (b) Unguaranteed Residual Value (URV).
Terms	Gross Investment in the Lease, is the aggregate of the Minimum Lease Payments under a Finance Lease from the standpoint of the Lessor and any Unguaranteed Residual Value accruing to the Lessor. Net Investment in the Lease is the Gross Investment in the Lease less Unearned Finance Income. Unearned Finance Income is the difference between: - Gross Investment in the Lease, and - Present Value of - - Minimum Lease Payments under a Finance Lease from the standpoint of the Lessor, and - Any Unguaranteed Residual Value accruing to the Lessor.
For Lessor	- Gross Investment in the Lease = Minimum Lease Payments + Unguaranteed Residual Value. - Net Investment in the Lease = Gross Investment - Unearned Finance Income. - Unearned Finance Income = (MLP + URV) less (Present Value of MLP & URV)
Substance over Form	Whether a Lease is a Finance Lease or an Operating Lease depends on the substance of the transaction rather than its form. Situations that would classify a lease as Finance Lease are - Transfer of ownership of the asset to the Lessee by the end of the lease term, Option to purchase the asset, to the Lessee, at a price which is sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised, Lease Term is for the major part of the economic life of the asset even if title is not transferred, Present Value of the Minimum Lease Payments at the inception of the lease amounts to at least substantially all of the Fair Value of the Leased Asset, (i.e. PV of MLP = Fair Value approximately), and - The Leased Asset is of a specialised nature such that only the Lessee can use it without major modifications being made.
Sale and	When the transaction is established at Fair Value, there has been in effect a normal sale transaction and any Profit or Loss should be

Leaseback	recognised in the P & L Account immediately. 2. If Sale Price < Fair Value, any Profit or Loss should be recognised immediately. However, if the loss is compensated by Future Lease Payments at below Market Price, it should be deferred and amortised in proportion to the Lease Payments over the period for which the asset is expected to be used. 3. If Sale Price > Fair Value, the excess of Sale Proceeds over Fair Value should be deferred and amortised over the period for which the asset is expected to be used. 4. If the Fair Value at the time of a Sale and Leaseback Transaction is less than the Carrying Amount of the asset, a loss equal to the amount of the difference between the Carrying Amount and Fair Value should be recognised immediately.
------------------	--

Finance Lease Vs Operating Lease

Particulars	Finance Lease	Operating Lease
1. Definition as per AS – 19	It is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.	It is a Lease other than a Finance Lease.
2. Meaning	A Finance Lease is an arrangement to finance the use of equipment for a major part of its useful life. It is also called Capital Lease, as it is nothing but a loan in disguise.	A lease is classified as an Operating Lease if it does not secure for the Lessor the recovery of capital outlay plus a return on the funds invested, during the lease term.
3. Term	Compared to an Operating Lease, a Financial Lease is longer-term in nature.	The term of Operating Lease is shorter than the asset's economic life.
4. Risks and Rewards	Risks and Rewards incident to ownership are passed on to the Lessee. The Lessor only remains the legal owner of the asset.	The Lessee is only provided the use of the asset for a certain time. Risk incident to ownership belong wholly to the Lessor.
	Lessee bears the risk of	All risks (including Obsolescence Risk) incidental

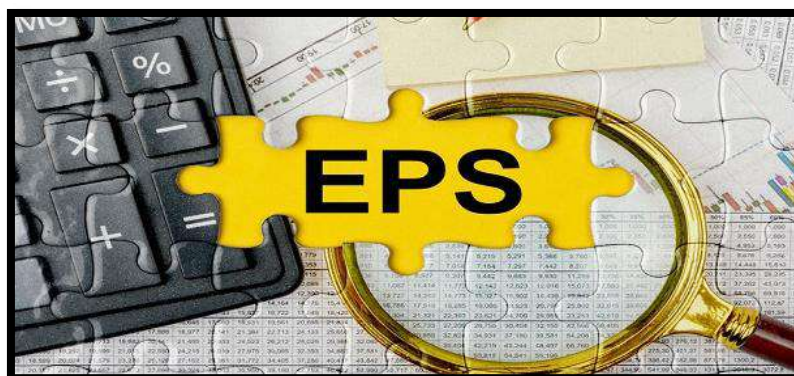
5. Obsolescence	obsolescence.	to ownership belong wholly to the Lessor.
6. Right to Cancel	Lessor is interested in his rentals and not in the asset. He must get his principal back along with interest. So, the lease is generally non-cancellable by either party.	As the Lessor does not have difficulty in leasing the same asset to any other willing Lessor, the lease is kept cancellable by the Lessor.
7. Cost of Repairs, etc.	Lessor enters into the transaction only as Financier. He does not bear the cost of repairs, maintenance or operations.	Usually, the Lessor bears cost of repairs, maintenance or operations.
8. Full pay-out	The lease is usually full pay-out, that is, the single lease repays the cost of the asset together with interest thereon.	The lease is usually non-payout, since the Lessor expects to lease the same asset over and over again to several users.

Journal Entries in the Books of the Lessee

S.No.	Particulars	Dr.()	Cr.()
1	Plant and Machinery A/c Dr. To Lease Payables A/c (Being Plant and Machinery purchased on Finance Lease recorded)		
2	Interest Suspense A/c Dr. To Lease Payables A/c (Being Interest Portion of Lease Payments recognized as Payable)		
3	Interest on Lease Payables A/c Dr. To Interest Suspense A/c		

	(Being Interest Expense recognized for Year 1)		
4	Depreciation A/c Dr. (17,25,820 × 10%) To Plant and Machinery A/c (Being Depreciation for the year, at 10% on Cost of Asset)		
5	Profit and Loss A/c Dr. To Depreciation A/c To Interest on Lease Payables A/c (Being Interest and Depreciation for the period transferred to P&L Account)		
6	Lease Payables A/c Dr. To Bank A/c (Being Payment to Lessor for the year)		

AS 20 Earnings Per



Cumulative Share Capital	1. Dividend on Non cumulative Preference Shares is deducted when declared in respect of the period. 2. Dividend on Cumulative Preference Shares for the period is deducted whether or not it is declared.
Change without a corresponding change in Resources	1. Capitalisation or Bonus Issue (sometimes referred to as a stock Dividend); 2. Bonus Element in any other issue, for example a Bonus Element in a Rights Issue; 3. Share Split; and Reverse Share Split (Consolidation of Shares). 4. No. of Shares outstanding before the event is adjusted for the proportionate change in the No. of Shares outstanding as if the event had occurred at the beginning of the earliest period presented.
Bonus Issue	1. Determine Weighted Average Number of Equity Shares ignoring the Bonus Issue / Share split. 2. Apply Bonus Ratio / Share Split ratio on the WANES before Bonus Issue / Share Split. 3. Based on the above Adjusted WANES, determine Basic EPS for current year. 4. Compute Adjusted Basic EPS for previous year, using Denominator as Previous year's WANES adjusted for Bonus Issue / Share Split Ratio.

Rights Issue	1. Theoretical Ex-Rights Fair Value / Price: $\frac{\text{Weighted Average Price} (\text{Base Shares Quantity} \times \text{Fair Value per Share Before Rights}) + (\text{Rights Issue Price})}{\text{Base Shares Quantity} + \text{Rights Shares Quantity}}$ 2. Adjustment Factor = $\frac{\text{Fair value before Rights Issue}}{\text{Theoretical Ex-Rights Price (as per stage 1)}}$ 3. WANES: Re-state all the shares prior to the date of Rights Issue, after multiplying with Adjustment Factor. Multiplication by Adjustment Factor is not applicable for shares after the date of Rights. 4. Basic EPS for Current Year = $\frac{\text{Earning available for Equity Shareholders}}{\text{Weighted Avg No. Equity Shares as per Stage 3}}$ 5. Adjustment EPS for Previous Year $= \frac{\text{Earnings available for Equity Shareholders for Prev. Year}}{\text{Previous Years' sWANES} \times \text{Adjustment Factor}}$
Diluted EPS – Incr. Earnings	Diluted EPS, an Entity shall adjust PAES, by the after tax effect of: - Dividend /other items related to Dilutive Potential Ordinary Shares is deducted in arriving at PAES; - any Interest recognised in the period related to Dilutive Potential Ordinary Shares; and - Any other changes that would result from the Conversion of the dilutive Potential Ordinary Shares.
Diluted EPS – Incr. Earnings	Convertible Instruments: No. of Instruments x Maximum Conversion Ratio Options / Warrants: Number of Shares issuable under Option x (FV-IP) / FV
Control Number	- The income from continuing operations is the control number. If there is a dilution in basic EPS for income from continuing operations, even though there is an anti-dilution for discontinued operations, diluted loss per share is reported. - If the inclusion of potential shares would result into anti-dilution effect on the control number (Continuing Operations), the dilutive effect of potential shares on EPS for income from discontinued operations and net income would not be reported because of the Loss from Continuing Operations.

A. Computation of Additional Earnings per Incremental Share to determine Sequence

Particulars	Options	Convertible Preference Shares	Convertible Debentures
Incremental Earnings	Nil	Pref. Dividend + DDT if any	Interest × (100% - Tax)

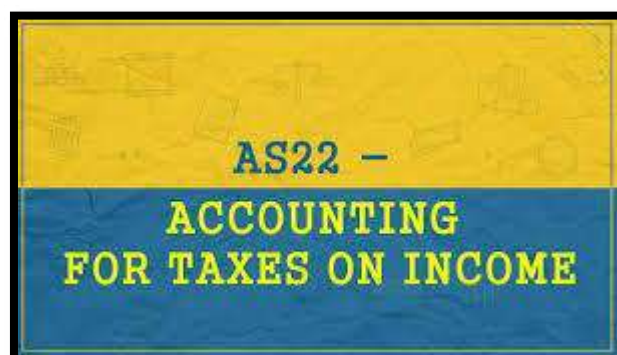
Incremental Shares	No. of Options × (FV-IP) / FV	No. of Preference Shares × Conversion Ratio × Timing Factor	No. of Debenture × Conv. Ration × Timing Factor
Incremental EPS	Sequence in Ascending Order		

C. Computation of Diluted EPS in the above sequence

Particulars	PAES	WANES	EPS	Nature
(1)	(2)	(3)	(4)=(2)+(3)	(5)
1. Net Profit as given				Basic EPS
2. Add: Adjustment for Options				
3. After Options Adjustment=(1+2)				Dilutive
4. Add: Adjustment for Preference Shares				
5. After Pref. Shares Adjustment=(3+4)				Dilutive
6. Add: Adjustment for Debentures				
7. After Debentures Adjustment=(5+6)				Anti-Dilutive

Note: Anti-Dilutive effect of the potential shares on EPS would not be reported (i.e. Diluted EPS < Basic EPS)

AS 22 Accounting for Taxes on Income



Point	Permanent Differences	Timing Differences
Meaning	They originate in one period and do not reverse subsequently.	They originate in one period and are capable of reversal in one more subsequent periods.
Examples	Cash Payments for Revenue Expenditure exceeding? 20,000 are disallowed u/s 40A (3). Such items will not be deductible in any period.	Expenditure of the nature mentioned in Sec.43B like Taxes, Duty, Cess, Fees, etc. accrued but allowed for tax purposes on payment basis.
Effect under AS-22	They do not result in Deferred Tax Assets (DTA) or Deferred Tax Liabilities (DTL)	They result in DTA (when Current Accounting Income < Taxable Income) and DTL (if Current Accounting Income > Taxable Income)

Step	Procedure
1	Compute Accounting Income (PBT) and Taxable Income (TI)
2	Compute Gross Difference (GD) between PBT and TI. If $PBT < TI$ it is Deferred Tax Asset (DTA), When $PBT > TI$, it is Deferred Tax Liability (DTL)
3	Compute Permanent Difference / Disallowances.

4	Commute Timing Differences for the year, and cumulative Timing Differences including past differences.
5	Compute Deferred Tax Asset / Liability = Step 4 x Tax Rate. Tax Expense for the period, comprising Current Tax and Deferred Tax, should be included in the determination of the Net Profit or Loss for the period. [Para 9]
6	Pass Journal Entries for the above.

Particulars		Creation of DTA / DTL
PBT as per Books Add: Items as per Books (e.g. Depreciation as per Books, Disallowed Expenses (Timing Differences)) Less: Depreciation as per IT Rules, Allowable Expenses Under IT Act (Timing Differences)	PBT A B	cNet If Positive , create DTA Diff. A – B If Negative , create DTL
Net Balance Add / Less: Permanent Differences	C	No Effect
Total Income under IT Act	$PBT + A - B \pm$ $C = D$	
If negative, the above Total Income will be segregated as- a) Unabsorbed Depreciation, and b) Business Losses	X Y	Create DTA subject to virtual certainty condition
	$X + Y = D$	

	In Accounting	In Tax Computation	Effect
Income	Credited in Current Year	Taxable in Later Years	Create DTL in CY, Reverse DTL in Next year.
	Creditable in Later Years	Taxed in Current Year	Create DTA in CY, Reverse DTA in Next year.
	Credited in Current Year	Exempt	Permanent difference , Ignored
Expenses	Debited in Current Year	Allowable in Later Years	Create DTA in CY, Reverse DTA in Next Year.
	debatable in Later Years	Allowed in Current Year	Create DTL in CY, Reverse DTL in Next year.
	Debited in Current Year	Disallowed	Permanent difference, Ignored

Alternative Procedure

DTA Account will be as under –

Particulars		Particulars	
To balance b/d (Opening Balance)		By P&L A/c (balancing figure) (if any)	
To P&L A/c (balancing figure) (if any)		By balance c/d (to be evaluated item-wise as under)	
Total		Total	

DTL Account will be as under -

Particulars		Particulars	
To P&L A/c (balancing figure) (if any)		By balance b/d (Opening Balance)	
To balance c/d (to be evaluated item-wise as under)		By P&L A/c (balancing figure) (if any)	
Total		Total	

Closing Balance of DTA / DTL Account will be the total of the following –

- a) Opening Balance of DTL/DTA, not yet reversed fully during Current Financial Year, reviewed based on new tax rates,**
- b) Current year originating Timing Differences.**
- c) Previously unrecognized DTA items, now re-assessed, due to virtual certainty condition.**

Recognition of DTA for Timing Differences arising due to ...

Virtual Certainty Condition
Unabsorbed Depreciation or Carry
Forward of Losses

DTA should be recognised and carried forward, only to the extent that there is a reasonable certainty that sufficient future Taxable Income will be available against which such DTA can be realised.

- There should be Timing Differences, the reversal of which will result in sufficient income , or
- There should be other convincing evidence that sufficient Taxable Income will be available against which such DTA can be realized.
- The nature of evidence supporting the recognition of DTA should be disclosed.

Other reasons- Reasonable Certainty
Condition [Para 15-16]

DTA should be recognised only to the extent that there is “Virtual certainty supported by convincing evidence” that sufficient future taxable income will be available against which such DTA can be realised.

Reasonable level of certainty would normally be achieved by-

- Examining the past record of the enterprise, and
- Making realistic estimates of future profits.

AS 24 Discontinuing Operations



Discontinuing Operation	A Discontinuing Operation is a component of an Enterprise - a) that the Enterprise, pursuant to a single plan, is - • disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the Enterprise's Shareholders, or • disposing of piecemeal, such as by selling off the Component's assets and settling its liabilities individually, or • terminating through abandonment, and b) that represents a separate major line of business or geographical area of operations, and c) that can be distinguished operationally and for Financial Reporting purposes. Note: A Discontinuing Operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.
Exclusions	Activities that do not necessarily result in Discontinuing Operation, but that might do so in combination with other circumstances, include -
	Gradual or evolutionary phasing out of a product line or class of service, 2- Discontinuing, even if relatively abruptly, several products within an ongoing line of business, 3. Shifting of some production or marketing activities for a particular line of

	business from on* location to another, d. Closing of a facility, to achieve productivity Improvements or other cost savings, 5. Changing the size of the workforce In response to market forces, and 6. Selling a Subsidiary whose activities are similar to those of the Parent or other Subsidiaries, (in 1 relation to Consolidated Financial Statements)
Initial Disclosure Event	In relation to a Discontinuing Operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier - 1. the Enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the Discontinuing Operation, or 2. the Enterprise's Board of Directors or similar Governing Body has both - (i) approved a detailed, formal plan for the discontinuance, and (ii) made an announcement of the plan.

Chapter 22 –

AS 25 Interim Financial Reporting



Applicability	This Standard does not mandate which Entities should be required to publish Interim Financial Reports, how frequently, or how soon after the end of an Interim Period. This Standard applies if an Entity is required or elects to publish an Interim Financial Report in accordance with Regulatory Requirements.		
Interim Financial Report	Financial Report containing either a Complete Set of Financial Statements, or a set of Condensed Financial Statements for an interim period. It include, at minimum 1. A Condensed Balance Sheet 2. A Condensed 3. A Condensed 4. A Condensed Statement of Cash Flows 5. Notes, comprising significant accounting policies and other explanatory information		
Reporting Period		Current	Comparative
	Balance Sheet	Current Interim Period	Current Interim Period
	Statement of Profit & Loss	Current Interim Period and cumulatively for CY to date	Comparable Interim Periods and cumulatively PY to date

	Statement of Cash Flows	Cumulatively for CY to date	Cumulatively for CY to date
Principle	Income and Expense should be recognised when they are earned and incurred respectively. Costs should be anticipated or deferred only when: (a) it is appropriate to anticipate or defer that type of cost at the end of the financial year, and (b) Costs are incurred unevenly during the financial year of an enterprise.		
Income Tax	Income Tax expense is recognised in each Interim Period based on the best estimate of the weighted average annual income tax rate expected for the full Financial Year.		

18 / March 24

AS 26 Intangible Assets



Internally
generated!
Intangible
Asset

Objective
To gain
knowledge

Research Phase Activities	Development Phase Activities
Research Activities include [Para 43]: (a) <u>activities aimed at obtaining new knowledge,</u> (b) <u>search for, evaluation and final selection of, applications of research findings or other knowledge,</u> (c) <u>search for alternatives of materials, devices, products, processes, systems or services, and</u> (d) <u>formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.</u>	Development Activities include [Para 46]: (a) <u>design, construction and testing of pre-production or pre-use prototypes and models,</u> (b) <u>design of tools, jigs, moulds and dies involving new technology,</u> (c) <u>design, construction and operation of a pilot plant which is not of a scale economically feasible for commercial production, and</u> (d) <u>design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.</u>
Research Phase Treatment	Development Phase Treatment
Recognition as EXPENSE [Para 41]: <u>PERMANENT</u> (a) <u>Intangible Asset arising from the Research (or from the research phase of an internal project) should not be recognised.</u> (b) <u>Expenditure on Research (or on the</u>	Recognition as ASSET [Para 44]: Intangible Asset arising from Development (or from <u>Development Phase of an internal project</u>)

①

Accounting Standard 26.

Intangible Asset

Amortisation

← Meaning of Intangible Asset

↓
Inclusions and Exclusion

↓
Recognition of Intangible Asset

→ Measurement of Intangible Asset

↙ Purchase from outside

↘ In House Research & Development

②

Meaning of Intangible Assets.

Intangible Assets means.

an identifiable

+

Non monetary asset

+

without any physical substance.

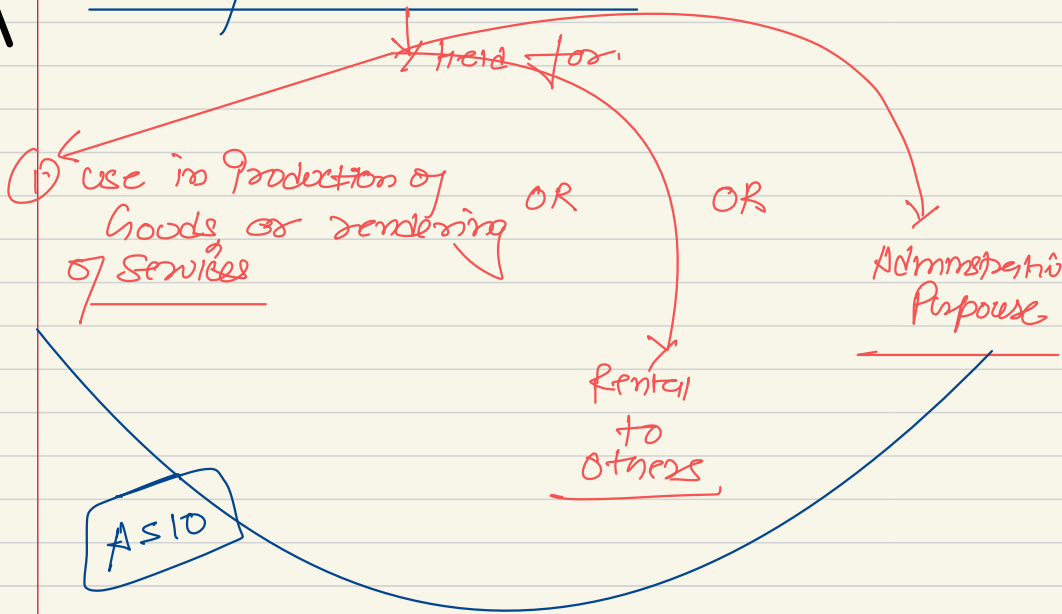
Intangible Asset

↓
Balance Sheet

Non Current Asset

AS 10

AS 26



Identifiable. :→ An intangible asset should be clearly distinguishable from Goodwill

Software. Patent, Trademark, License

③

2) Non Monetary Asset

Those which are not monetary

Monetary Asset → That asset which can be determined in fixed sum of money.

3) Without any Physical Substance.

↓
Essential element

↓ Present
↓
Tangible Asset

Recognition and Measurements

Recognition

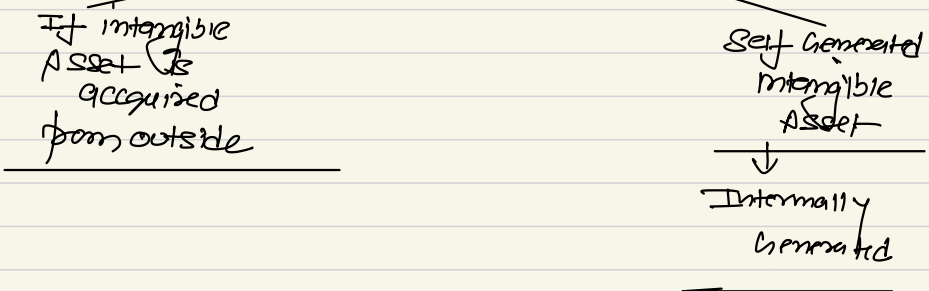
① It is certain that future economic benefit will arise

② Cost can be measured reliably

④

*

Measurement of Intangible Asset



In case when intangible asset is acquired from outside

Purchase Price
(Net of Discounts)

XXXX

Add: Taxes (but only if I.T.C/claim is not available)

XXXX

Add: Professional & legal fees

XXXX

Add: All other cost which are directly related.

XXX
XXXX

Total Cost

← XXXXX

P.T.R.

⑤

.) In case any intangible asset is imported

First of all

Custom Duty will
be added in P.P.

After added custom Duty

↓
Value xxx

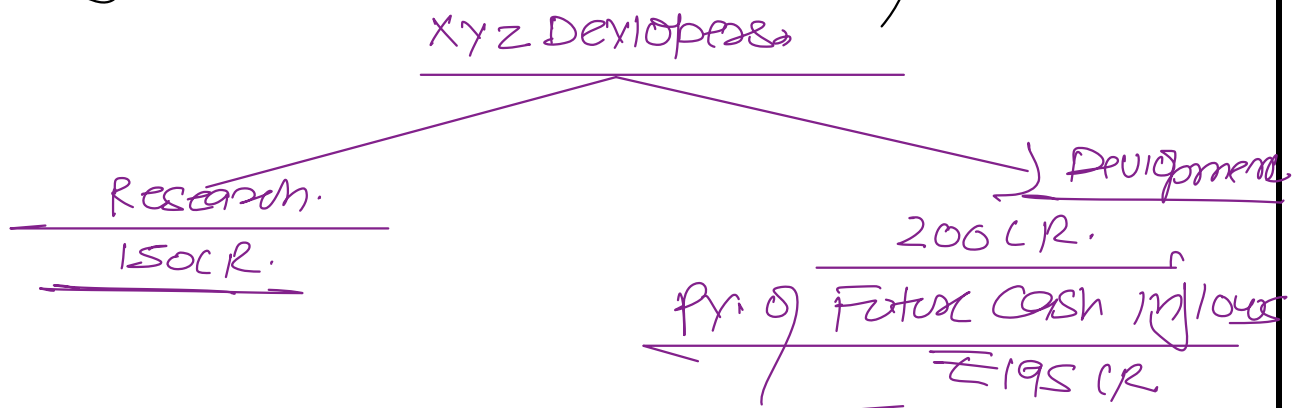
↓
Other Tax is charged on
this value,

6

Research Phase of an internal project) should be recognised as an expense when it is incurred. Reason: During the Research Phase of a project, an Enterprise cannot demonstrate - - The existence of an Intangible Asset and - The probable future economic benefits arising from such asset. Therefore, this expenditure is-recognised as an expense when it is incurred. [Para 42] However, identification of the existence of an Intangible Asset and the resultant future economic benefits is possible during the development phase as the project gets further advanced than the research phase. [Para 45]	<u>should be recognised</u> only when the Enterprise demonstrates all of the follow/ing - (a) technical feasibility of completing the Intangible Asset so that it will be available for use or sale, (b) its intention to complete the Intangible Asset and use or sell it, (c) its ability to use or sell the Intangible Asset, (d) manner of generation of probable future economic benefits by Intangible Asset, existence of a market for the output of the Intangible Asset or Intangible Asset itself or, if it is to be used internally, usefulness of the asset, (e) availability of adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset, and (f) its ability to measure the expenditure attributable to the Intangible Asset during its development reliably.
---	---

P.T.R.

① Development expenditure can be capitalised / recognised as intangible asset → upto the P.Y. of cash inflows



Research exp → 150 CR.

(7)

↓
Directly P2C A/G

Development → EXP 200 CR

Pr. of cash m/jiwa

195 CR

↓
I/T/A.

SCR

↓
P2C A/G

② If even after Development production is not feasible.

↓
cell exp.

→ P2C A/G

Accounting Standard 26

Question 1

K Ltd. launched a project for producing product X in October, 2016. The Company incurred ` 40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. You are required to **advise** the Company as per the applicable Accounting Standard. (RTP MAY 2018)

Answer

As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ` 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2017.

Question 2

Desire Ltd. acquired a patent at a cost of ` 1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on (SLM). After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ` 45,00,000, ` 42,00,000, ` 40,00,000, ` 38,00,000 and ` 35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows). You are required to compute the amortization cost of the patent for each of the years (1st year to 7th year). (RTP NOV 2018)

Answer

Desire Limited amortised ` 20,00,000 per annum for the first two years i.e. ` 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows	Amortization Ratio	Amortization Amount
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000

VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ` 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.

Question 3

A Company with a turnover of ` 375 crores and an annual advertising budget of ` 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ` 37.5 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ` 3 crores incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the Company correct?(RTP MAY 2019)

Answer

Adv.
Revenue Exp
I/T/S XXX

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of ` 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ` 37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ` 3 crores to the Profit and Loss account of the year is correct.

Question 4

K Ltd. launched a project for producing product X in October, 2018. The Company incurred ` 40 lakhs towards Research and Development expenses upto 31st March, 2019. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.(RTP NOV 2019)

Answer Repeated ICAI Repeated Question

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ` 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2019.(RTP MAY 2020)

Question 5

→ I/T/A.

A company acquired patent right for ₹ 1200 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	1	2	3	4	5
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300

3 = Actual life.
2 yrs. Remaining
Revised Remaining life
3 yrs.

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 150 lakhs. You are required to determine the amortization pattern under Accounting Standard 26. (RTP MAY 2020)

Answer

$1200 - 900 = 300$

Amortization of cost of patent as per AS 26 Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	600	.25 (1/4)	300
2	600	.25	300
3	600	.25	300
4	300	.40 (Revised)	120
5	300	.40 (Revised)	120
6	150	.20 (Revised)	60
			1200

Handwritten calculations:
 $1200 \times \frac{600}{2400} = 300$
 $1200 \times \frac{600}{2400} = 300$
 $1200 \times \frac{600}{2400} = 300$
 $300 \times \frac{300}{750} = 120$
 $300 \times \frac{300}{750} = 120$
 $300 \times \frac{150}{750} = 60$

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (600: 600: 600: 300: 300).

The unamortized amount of the patent after third year will be ₹ 300 lakh (1,200-900) which will be amortized in the ratio of revised estimated future cash flows (300:300:150) in the fourth, fifth and sixth year.

Question 6

X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya". X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. How should X Ltd. account for these legal costs incurred relating to the two trademarks? (RTP NOV 2020)

Answer

As per AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in

excess of its originally assessed standard of performance or can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs incurred for both trademarks must be recognized as an expense.

Question 7

Naresh Ltd. had the following transactions during the financial year 2019-

2020:-

(i) Naresh Ltd. acquired running business of Sunil Ltd. for 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

(ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were 60,000 during the financial year 2019-2020.

(iii) On 20th August, 2019, Naresh Ltd, incurred costs of 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years. Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020. (RTP MAY 2021)

Answer

Naresh Ltd.

Balance Sheet (Extract relating to intangible asset) as on 31st March 2020

	Note no.	Rupees
Assets		
(1) Non Current Assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extracts)

		Rupees	Rupees
1.	Intangible Assets		

	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer note 2)	1,50,000	
	Patents (Refer note 3)	<u>2,10,000</u>	8,11,200

Working notes:

		Rupees
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. Over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 year as per SLM)	(30,000)

Annual Fees.
↓
Directly
Exp

Less

Less

$$\frac{1,80,000}{6} = 30,000$$

$$\frac{2,40,000}{8} = 30,000$$

	Balance to be shown in the balance sheet	2,10,000
--	--	----------

Question 8

A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2021. This asset was acquired for ₹ 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard. (RTP NOV 2021)

Answer

As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should

be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at ₹ 72 lakhs i.e.

₹ 120 lakhs less ₹ 48 lakhs $\frac{120 \text{ lakhs} \times 4 \text{ years}}{10 \text{ years}} = 48 \text{ lakhs}$

The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortized over remaining 6 years by amortizing ₹ 12 lakhs per year.

$$\frac{120 \text{ L}}{15} \times$$

$$\frac{120 \times 4}{10} = 48$$

$$88 \text{ Lac}$$

$$120 - 48 = 72$$

$$Diff = 16 \text{ Lac}$$

↓
P2UAC

Question 9

(a) PQR Ltd. has acquired a Brand from another company for ₹ 100 lakhs. PQR Ltd. contends that since the said brand is a very popular and famous brand, no amortization needs to be provided. Comment on this in line with the Accounting Standards.

→ Wrong. Amortisation → Needs to be Done

(b) X Ltd. is engaged in the business of newspaper and radio broadcasting. It operates through different brand names. During the year ended 31st March, 2021, it incurred substantial amount on business communication and branding expenses by participation in various corporate social responsibility initiatives. The company expects to benefit by this expenditure by attracting new customers over a period of time and accordingly it has capitalized the same under brand development expenses and intends to amortize the same over the period in which it expects the

benefits to flow. As the accountant of the company do you concur with these views? You are required to explain in line with provisions of Accounting Standards.(RTP MAY 2022)

Answer

(a) AS 26 'Intangible Assets' provides that an intangible asset should be measured initially at cost. After initial recognition, an intangible asset should be carried at cost less any accumulated amortization and any accumulated impairment losses. The amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life for computing amortization. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. It must be ensured that the value of brand is amortized in accordance with AS 26, as brand is considered to be intangible asset. The contention of PQR Ltd. that Brand is very popular and famous, hence no amortization needs to be provided is not correct as there is no persuasive evidence that the useful life of the intangible asset will exceed 10 years.

(b) As per AS 26 on Intangible Assets, expenditure on an intangible item should be recognized as on expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. An intangible asset should be recognized if, and only if: (i) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (ii) the cost of the asset can be measured reliably. In the given case, no intangible assets or other asset is acquired or created that can be recognized, the accounting treatment by the company to amortize the entire expenditure over the period in which it expects the benefits to flow is not correct and the same should be debited to the profit and loss statement during the year ended 31st March, 2021.

P.D.F

Next AS.
AS 26

✓ 1. A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research and Development cost be charged to Profit and Loss account. If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company? (PPYQ)

Answer

(i) Based on sales, research and development cost to be allocated as follows:

Year	Research and Development cost allocation
	(₹ in lakhs)
I	$\begin{array}{r} 400 \\ \hline 1,000 \end{array} \quad 150 \quad 60$
II	$\begin{array}{r} 300 \\ \hline 1,000 \end{array} \quad 150 \quad 45$
III	$\begin{array}{r} 200 \\ \hline 1,000 \end{array} \quad 150 \quad 30$
IV	$\begin{array}{r} 100 \\ \hline 1,000 \end{array} \quad 150 \quad 15$

(ii) If at the end of the III year, the circumstances do not justify that further benefit will accrue in IV year, then the company has to charge the unamortised amount i.e. remaining ₹ 45 lakhs [$150 - (60 + 45)$] as an expense immediately.

Note: As per para 41 of AS 26 on Intangible Assets, expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred. It has been assumed in the above solution that the entire cost of ₹ 150 lakhs is development cost. Therefore, the expenditure has been deferred to the subsequent years on the basis of presumption that the company can demonstrate all the conditions specified in para 44 of AS

26. An intangible asset should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Hence the remaining unamortised amount of ₹ 45,00,000 has been written off as an expense at the end of third year.

2. AB Ltd. launched a project for producing product X in October, 2009. The Company incurred ₹ 20 lakhs towards Research and Development expenses upto 31st March, 2011. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard. (PPYQ)

Answer

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be

derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting ` 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2011.

3. An enterprise acquired patent right for ` 400 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	Estimated Future Cash Flows (` in lakhs)
1	200
2	200
3	200
4	100
5	100

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ` 50 lakhs. Determine the amortization under Accounting Standard 26. (PPYQ)

Answer

Amortization of cost of patent as per AS 26

Year	Estimated future cash flow(` in lakhs)	Amortization Ratio	Amortized Amount(` in lakhs)
1	200	.25	100
2	200	.25	100
3	200	.25	100
4	100	.40 (Revised)	40
5	100	.40 (Revised)	40
6	50	.20 (Revised)	<u>20</u>
			<u>400</u>

In the first three years, the patent cost will be amortised in the ratio of estimated future cash flows i.e. (200: 200: 200: 100: 100).

The unamortized amount of the patent after third year will be ` 100 (400-300) which will be amortised in the ratio of revised estimated future cash flows (100:100:50) in the fourth, fifth and sixth year.

4. Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ` 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ` 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ` 2 lakh per annum for next five years.

The cost of capital is 10%. The present value of annuity factor of ` 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS 26. (PPYQ)

Answer

Research Expenditure – According to AS 26 ‘Intangible Assets’, the expenditure on research of new process design for its product ` 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2012-13. Hence, it should be written off as an expense in that year itself.

Cost of internally generated intangible asset – it is given that development phase expenditure amounting ` 8 lakhs incurred upto 31st March, 2013 meets asset recognition criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	` 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (` 2 lakhs x 3.7908)	` 7.582 lakhs

The cost of an internally generated intangible asset would be lower of cost value ` 8 lakhs or present value of future net cash flows ` 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be ` 7.582 lakhs. The difference of ` 0.418 lakhs (i.e. ` 8 lakhs – ` 7.582 lakhs) will be amortized by Plymouth for the financial year 2012-13.

Amortisation - The company can amortise ` 7.582 lakhs over a period of five years by charging ` 1.516 lakhs per annum from the financial year 2013-2014 onwards.

5. NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ` 530 lakhs on research upto 31st March, 2011

The development of the process began on 1st April, 2011 and Development phase expenditure was ` 360 lakhs upto 31st March, 2012 which meets assets recognition criteria.

From 1st April, 2012, the company will implement the new process design which will result in after tax saving of ` 80 lakhs per annum for the next five years.

The cost of capital of company is 10%. Explain:

- (1) Accounting treatment for research expenses.
- (2) The cost of internally generated intangible asset as per AS 26.
- (3) The amount of amortization of the assets. (The present value of annuity factor of ` 1 for 5 years @ 10% = 3.7908) (PPYQ)

Answer

(1) **Research Expenditure** - According to para 41 of AS 26 ‘Intangible Assets’, the expenditure on research of new process design for its product ` 530 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. As the question states that the expenditure was incurred as ` 360 Lakhs in 2011-12 and ` 230 Lakhs in the financial year 2012-13 it should be written off as an expense in these two financial years

(2) **Cost of internally generated intangible asset** - The question states that the development phase expenditure amounting ` 360 lakhs incurred upto 31st March, 2012 meets asset recognition criteria. As per AS 26 for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	80 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908

Present value of net cash flows (₹ 80 lakhs x 3.7908)	303.26 lakhs
---	--------------

The cost of an internally generated intangible asset would be lower of cost value ₹ 360 lakhs or present value of future net cash flows ₹ 303.26 lakhs.

Hence, cost of an internally generated intangible asset will be ₹ 303.26 lakhs.

The difference of ₹ 56.74 lakhs (i.e. ₹ 360 lakhs – ₹ 303.26 lakhs) will be amortized by the enterprise for the financial year 2011-12.

- (3) Amortisation** - The company can amortise ₹ 303.26 lakhs over a period of five years by charging ₹ 60.65 lakhs per annum from the financial year 2012-13 onwards.

6. M Ltd. launched a project for producing product A in Nov. 2008. The company incurred ₹ 30 lakhs towards Research and Development expenses upto 31st March, 2010. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sell the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years. Advise the company as per the applicable Accounting Standard. (PPYQ)

Answer

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to the provisions of AS 26. Therefore, the management cannot defer the expenditure write off to future years and the company is required to expense the entire amount of ₹ 30 lakhs in the Profit and Loss account of the year ended 31st March, 2010.

7. A company acquired for its internal use a software on 28.01.2012 from the USA for US \$ 1,00,000. The exchange rate on that date was ₹ 52 per USD. The seller allowed trade discount @ 5 %. The other expenditure were:

- (i) Import Duty : 20%
- (ii) Purchase Tax : 10%
- (iii) Entry Tax : 5 % (Recoverable later from tax department)
- (iv) Installation expenses : ₹ 25,000
- (v) Profession fees for Clearance from Customs : ₹ 20,000

Compute the cost of Software to be capitalized. (PPYQ)

Answer

Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	\$ 1,00,000
Less: Trade discount @ 5%	<u>(\$ 5,000)</u>
	\$ 95,000
Cost in ₹ (US \$ 95,000 x ₹ 52)	49,40,000
Add: Import duty on cost @ 20% (₹)	<u>9,88,000</u>
	59,28,000
Purchase tax @ 10% (₹)	5,92,800

Installation expenses (₹)	25,000
Profession fee for clearance from customs (₹)	<u>20,000</u>
Cost of the software to be capitalized (₹)	<u>65,65,800</u>

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset.

8. Base Limited is showing an intangible asset at ₹ 85 lakhs as on 1-4-2011. This asset was acquired for ₹ 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard. (PPYQ)

Answer

As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use.

Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, Base Limited would be required to restate the carrying amount of intangible asset as on 1.4.2011 at ₹ 112 lakhs less ₹ 33.6 lakhs $\frac{112 \text{ lakhs}}{3} \times 3 \text{ years} = ₹ 78.4 \text{ lakhs}$.

10 years

9. Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in thousands)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. (PPYQ)

Answer

As per para 72 of AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-à-vis production is determined reliably. Initially net operating cash flow per thousand bottles is

₹ 3 lakhs for first two years and ₹ 4 lakhs from fourth year onwards, the pattern is established. Therefore Hera Ltd. should amortize the license fee of ₹ 200 lakhs as under:

Year	Net Operating Cash Inflow (NOCI)	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	<u>3,200</u>	<u>0.11 (bal.)</u>	<u>22</u>
	<u>27,400</u>	<u>1.00</u>	<u>200</u>

10. A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard. (PPYQ)

Answer

As per para 63 of AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

Company has been following the policy of amortisation of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2013 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs.

The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortised over remaining 6 years by amortising ₹ 12 lakhs per year.

11. M/s. Mahesh Ltd. is developing a new production process. During the Financial Year ended 31st March, 2013, the total expenditure incurred on the process was ₹ 60 lacs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 32 lacs.

Further expenditure incurred on the process for the Financial Year ending 31st March, 2014 was ₹ 90 lacs. As on 31-03-2014, the recoverable amount of know-how embodied in the

process is estimated to be ₹ 82 lacs. This includes estimates of future cash outflows and inflows:

You are required to work out:

- (i) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2013 ?
- (ii) What is the carrying amount of the intangible asset as on 31st March, 2013 ?
- (iii) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2014 ?
- (iv) What is the carrying amount of the intangible asset as on 31st March, 2014 ? (PPYQ)

Answer

As per AS 26 'Intangible Assets'

(i) Expenditure to be charged to Profit and Loss account for the year ending 31.03.2013

` 32 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2012. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) Carrying value of intangible asset as on 31.03.2013

At the end of financial year, on 31st March 2013, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ` 28 (60-32) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st December 2012).

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2014

	(` in lacs)
Carrying Amount as on 31.03.2013	28
Expenditure during 2013 – 2014	<u>90</u>
Book Value	118
Recoverable Amount	<u>(82)</u>
Impairment loss	<u>36</u>

` 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2014.

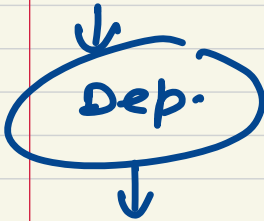
(iv) Carrying value of intangible asset as on 31.03.2014

	(` in lacs)
Book Value	118
Less: Impairment loss	<u>(36)</u>
Carrying amount as on 31.03.2014	<u>82</u>

Amortisation

18

PS10



Allocation of Cost
of Fixed/Tangible
Asset
over its useful life

PS26

Amortisation

↓

Systematic
Allocation

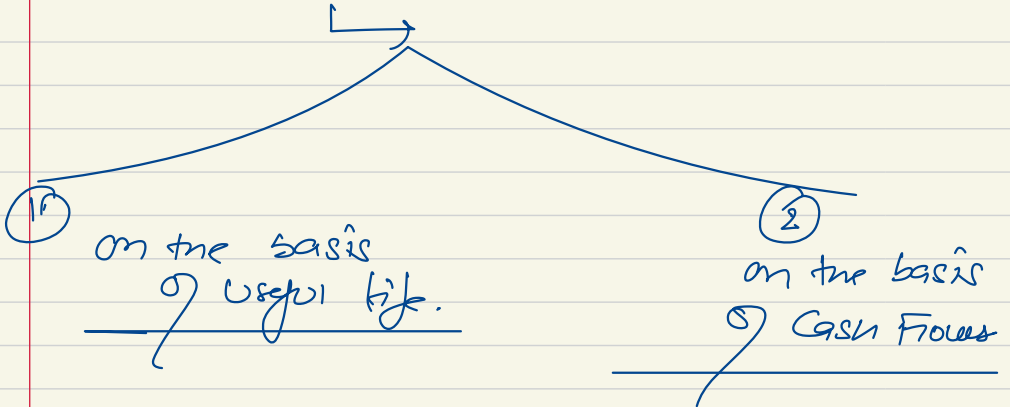
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of Intangible
Asset.

Process of Amortisation

⑨

I/T/Asset



END.

AS 28 Impairment of Assets



Applicable	An Entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, it is required to estimate the Recoverable Amount of the asset.
Indicators of Impairment	1. External source of Information • Decline in Market Value of Assets (other than as a result of passage of time) • Technological / Market / Legal / economic changes with an adverse effect on the Entity • Increase in Market Interest Rate • Carrying Amount of Net Assets > Market Capitalisation 2. Internal Source of Information • Obsolescence or Physical damage • Significant changes with adverse effect on the Asset • Poor economic performance of the Assets • Net Cash Loss from the operations
Recoverable Amount	Higher of - (a) Net Selling Price i.e. Fair Value Less Cost of Disposal or (b) Value in Use (i.e. Present Value of Cash Flows)
Exclusion from Value in	Estimates of Future Cash Flows do not include Cash inflows or outflows -

Use	(a) from receivables / Cash outflows from payables (b) expected to arise from future restructuring to which an entity is not yet committed (c) expected to arise from improving or enhancing the asset's performance (d) from financing activities / Income Tax (i.e. Discount Rate and Cash Flows should be pre tax).	
CGU	Cash Generating Unit (CGU) Is the smallest WentJflaWe group" of assets that grates Cash Wlow largely independent of the Cash inflows from other assets or ciroup r>f ' / ,r,,i	
Significance of CGU	The Recoverable Amount of the Machine (in a CGU) alone cannot be estimated because its value in uv (a) may differ from its Fair Value less Costs of Disposal, and (b) can be determined only for CGU to which the Machine belongs. Therefore, no Impairment Loss is recognised for the Machine. Nevertheless, the Entity may need to m- 1 assess the Depreciation Period / Method for the Machine. Perhaps a shorter depreciation period or a Uyjr-r 1 Depreciation Method is required to reflect, the expected remaining useful life of the Machine or the pattern j in which economic benefits are expected to be consumed by the Entity.	
Corporate Assets	Corporate Assets are those Assets other than Goodwill that contribute to the Futu Cash Flows of all CGUs It includes group or divisional assets such as the Building Research Centre. Its characteristics are that - (a) they do not generate Cash Inflow independently of other assets or groups of assets, and (b) their Carrying Amount cannot be fully attributed to a particular CGU.	
Corporate Asset given for Rent	The primary purpose of the building is to serve as a Corporate Asset. Therefore, the building cannot be considered to generate Cash Inflow which are largely independent of the Cash flows from the Company as a whole. Since the Building is not held as Investment, it is inappropriate to determine Value in Use of the Building based on the Future Market Rent.	
Entry	Impairment Loss Dr. To PPE	Revaluation Reserve Dr. (balance available) P&L Dr. (balancing figure) To Impairment Loss

Reversal	The Increased Carrying Amount of an Asset other than Goodwill, attributable to reversal of Impairment Loss, should not exceed the Carrying Amount that would have been determined (net of Amortisation or Depreciation), had the Impairment Loss not been recognized in prior years. Such excess over Carrying Amount is a revaluation, and should be dealt as per the applicable Ind AS.
No Reversal	Value in Use may become greater than the Carrying Amount simply because the Present Value of Future Cash Inflows increases as they become closer. Because, the service potential of the asset has not increased. Therefore, an Impairment Loss is not reversed just because of the passage of time, even if the recoverable amount of the asset becomes higher than its carrying amount.
Allocation of Loss	First goodwill will be impaired fully and then the remaining Impairment Loss will be allocated to PPE & Intangibles on pro-rata basis (i.e. Carrying Amount Ratio). If Impairment Loss can be computed for one PPE in that CGU individually, such allocated Impairment Loss cannot exceed such Impairment Loss.
Processing Industries – CGU	1. If an Active Market exists for the Output produced, that asset shall be identified as a CGU, even if some or all of the Output is used internally. 2. Even if part or all of the output produced is used by other units, this asset forms a separate CGU, if the entity could sell the output on an active market. This is because the asset could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. 3. If the Output produced could not be sold in an active market and is used internally, its Cash Flows are dependent on others and it cannot be considered to generate independent cash flows. In this case, both plants are the smallest group of assets that generates Cash inflows that are largely independent. 4. Though there is an active market for the products if the Cash inflows are dependent on the allocation of Production, it is unlikely that the future cash inflows can be determined individually.
Transfer price ≠ MP	If the Cash Inflows generated by any CGU are affected by Internal Transfer Pricing, an Entity shall use Management's best estimate of Future Price(s) that could be achieved in Arm's Length Transactions in estimating the Future Cash Inflows used to determine the CGU's value in use.

Say Corporate Asset X - Can be allocated on reasonable basis, Corporate Asset Y - Cannot be allocated

1. Allocation of Corporate Asset X and Computation of Impairment Loss

Particulars	CGU A	CGU B	CGU C	Total
Weighted Carrying Amount = (Carrying amount x Life)				
Allocation of Carrying Amount of Corporate Assets in above ratio				
Total Carrying Amount (after allocation of Corporate Assets)				
Recoverable Amount (given)				
Impairment Loss (only if Carrying Amount > Recoverable Amount)				

2. Allocation of Impairment Loss in CGUs of B and C

Particulars	For CGU B			For CGU C		
	Corp Assets	Others	Total	Corp Assets	Others	Total
Carrying Amt before Impairment Loss (above)						
Imp. Loss allocated in ratio of Carrying Amounts						
Carrying Amt after Impairment Loss						

3. Impairment Loss for the Larger CGU, i.e. the Company as a whole

Particulars	A	B	C	X	Y	Total Company
Carrying Amount (given)						
Impairment Loss (WN 2)						
Carrying Amount (after WN 2)						
Recoverable Amount for the Company as a whole						
Impairment Loss for the Larger CGU, i.e. Company						

AS 29 Provisions, Contingent Liabilities/Assets

Provisions, Contingent Liabilities and Contingent Assets



Criteria for Provision	1. Present obligation (Legal / Contractual) as a result of past events. 2. Economic outflow of resources is probable to settle the obligation. 3. Reliable estimate can be made. Note: If there is possible obligation and it is probable (i.e. more likely than not), then it will become present obligation i.e. Present obligation includes possible obligation with more than 50% probability. However, Provision should not be made for future operating losses.
Expert advice	Ind AS-37 provides that, in rare cases, it not clear whether there is a present obligation, for example, in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an Entity should determine whether a present obligation exists at the end of the reporting period by taking account of all available evidence, for example, the opinion of Experts.
Contingent Liability	1. A Possible Obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity. 2. A Present Obligation that arises from past events but is not recognised because - (a) it is not probable that an outflow of economic resources will be required to

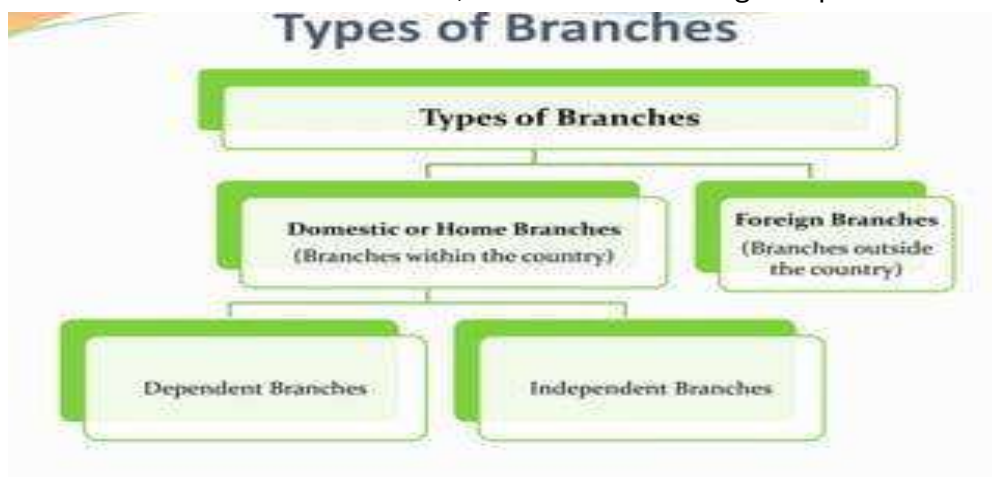
	settle the obligation; or (b) the amount of the obligation cannot be measured with sufficient reliability.			
Contingent Asset	A Contingent Asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.			
Likelihood	Likelihood	Probability	Contingent Liability	Contingent Assets
	Virtually certain	> 95%	Recognize the Provision	No disclosure is permitted
	Probable	50% - 95%	Recognize the Provision	No disclosure is permitted
	Possible but not probable	5% - 50%	Disclose Contingent Liability	No disclosure is permitted
	Remote	< 5%	No disclosure is permitted	No disclosure is permitted
Risk & Present Value	- A risk adjustment should be made for the amount that the entity would pay in excess of the expected present value of outflows due to uncertainty attached with the actual outcome. - Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. - Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as Borrowing Cost, (unwinding of discount)			
Onerous Contract	- Contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. - Before a separate provision is established, an entity should recognize any impairment loss that has occurred on assets dedicated to that contract. - Therefore, a provision should be made for the onerous element, being the lower of cost of fulfilling the contract and the penal cost of cancellation.			
Exception to	In extremely rare cases, disclosure of some or all of the information required can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent			

Disclosures	asset. In such cases, an entity need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.
Reimbursements	In certain cases, an Entity will be able to look to another party to pay part or all of the expenditure required to settle a Provision. The other party may either – (a) reimburse amounts paid by the Entity, or, (b) pay the amounts directly. Some examples of Third Party Reimbursements are – (a) Insurance Contracts, (b) Indemnity Clauses, and (c) Product Warranties.

Branch Accounts

1. Classification of Branches from the viewpoint of Accounting —

Branches are classified as under, from the accounting viewpoint –



2. Branch Stock Account /Trading Account when Goods are Invoiced at Wholesale Price to Retail Branches –

Particulars	Amt	Particulars	Amt
To Opening Stock at Shop (at Wholesale Price)		By Sales at Shop (Actual Sale Proceeds)	
To Value of Goods sent to Branch / Shop (at Wholesale Price) To Gross Profit at Branch / Shop c/d		By Value of Goods lost, stolen, etc. if any (at Wholesale Price) j By Closing Stock at Shop (at Wholesale Price) 1	
Total		Total	
To Branch Expenses (incl Abnormal Loss)		By Gross Profit at Branch / Shop b/d	

To Gross Profit at Branch / Shop c/d			
Total		Total	
To Stock Reserve on Closing Stock (Note) To Net Profit after all adjustments		By Net Profit at Branch / Shop b/d By Stock Reserve on Opening Stock (Note)	
Total		Total	

Note: Stock Reserve represents the difference between Wholesale Price and Cost to HD (Manufacturer)

3. Steps in Accounting for Independent Branches –

Step	Description
I	Preparation of Branch and HO Trading and P & L Account.
II	Preparation of Balance Sheet for Branch, HO, and Overall Company.
III	Preparation of any other account as required in the Question, i.e. Branch A/c in HO Books, HO A/c in Branch Books, etc. [Note: HO Balance in Branch Books and Branch Balance in HO Books are called Inter-Office Balances]
IV	Reconciliation of Inter-Office balances and passing Adjusting Journal Entries as required in the Question for 1 broadly four types of transactions - (a) Goods-in-Transit, (b) Cash-in-Transit, (c) Depreciation on Fixed Assets, where Fixed Asset Accounts maintained in HO Books, and (d) Any other Inter-Office Expenses/Errors.

4. Accounting Entries to be passed, when the Branches independently maintain Books of Accounts-

Transaction	HD Books	Branch Books
Goods sent by HO to Branch	Branch A/c Dr. To Goods Sent to Branch	Goods Recd. from HO A/c Dr. To HO A/c
Goods returned by Branch to HO	Goods Sent to Branch A/c Dr. To Branch A/c	HO A/c Dr. To Goods Recd. from HO
Branch Expenses incurred and paid by Branch		Expenses A/c Dr. 1 To Cash / Bank A/c

Branch Expenses paid by the Head Office	Branch A/c Dr. To Cash / Bank A/c	Expenses A/c Dr. 1 To HO A/c
Collection from Debtors, received directly by the HO	Cash / Bank A/c Dr. To Branch A/c	HO A/c Dr. To Sundry Debtors A/c
Payment by HO, for purchase made by the Branch	Branch A/c Dr. To Bank A/c	Purchases / Creditors A/c Dr. 1 To HO A/c
Purchase of Assets by Branch		Sundry Assets A/c Dr. 1 To Bank / Liability A/c
Asset Account maintained at HO and Asset purchased by Branch	Branch A/c Dr. To Branch Asset A/c	HO A/c Dr. To Bank / Liability A/c
Depreciation when Asset Account is maintained by HO	Branch Asset A/c Dr. To Branch A/c	Depreciation A/c Dr. 1 To HO A/c
Remittance of Funds by HO to Branch	Bank A/c Dr. To Branch A/c	Bank A/c Dr. To HO A/c
Remittance of Funds to HO by Branch	Branch A/c Dr. To Bank A/c	HO A/c Dr. 1 To Bank A/c
Transfer of Goods between different Branches	Recipient Branch A/c Dr. To Supplying Branch A/c	Supplying Branch A/c Dr. 1 To Goods reed, from HO A/c Goods reed, from HO A/c Dr. To HO A/c
HO Allocated Expenses to Branch ! Note: Reverse entry for Income	Branch A/c Dr. To Expenses A/c	Expense A/c Dr. To HO A/c

5. "Debtors System" of Accounting for Dependent Branches –

Under "Debtors System", the Branch A/c is prepared in the following format to ascertain the Net Profit from Branch –

Particulars	Amt	Particulars	Amt
To balances b/d (Assets at Branch at beginning) Stock Debtors		By Balance b/d (Liabilities at the beginning) Stock Reserve on Opening Stock Creditors (or) O/s Expenses By Cash - Remittances reed from Branch	

Petty Cash at Branch		By Goods sent to Branch (Profits included) By balances c/d (Assets at Branch at end) Stock Debtors	
To Goods sent to Branch (at Invoice Price)		Petty Cash at Branch	
To Bank - various expenses incurred at Branch To Balance c/d (Liabilities at the end of the year)			
Stock Reserve on Closing Stock			
Creditors (or) O/s Expenses To Net Profit trfd to General P&L Account			

Note: If goods are invoiced above cost, the Loading (i.e. Profit Element) on Opening Stock, Goods Sent from Head Office (net of returns) and Closing Stock are reversed, in order to ascertain the true profits.

6. "Stock and Debtors System" of Accounting for Dependent Branches –

Format of Branch Stock Account

Particulars	Amt	Particulars	Amt
To balance b/d (Opg. Stock at Cost + Loading if any)		By Cash (Cash Sales)	
To Goods Sent to Branch (Transfers made, at cost)		By Branch Debtors (Credit Sales)	
To Branch Adjustment A/c (Loading on Transfers made) To Branch Adjustment A/c (excess of Branch Sale Price if any, over the Invoice Price, i.e. rate at which goods were invoiced by HO to Branch)		By Goods sent to Branch (Returns at Cost)	
		By Branch Adjtmnt (Loading on Returns)	
		By Goods Lost / Stolen (recorded at cost)	
		By Branch Adjtmnt (Loading on lost/stolen)	
		By balance c/d (Clg. Stock at Cost + Loading)	
Total		Total	

Format of Branch Debtors Account

Particulars	Amt	Particulars	Amt
To balance b/d (Opening Balance)		By Branch Stock A/c (Sales Returns)	
To Branch Stock A/c (Credit Sales made)		By Branch Cash (Collections made)	
		By Branch Expenses (Discount, Bad Debts, etc.)	
		By balance c/d (Closing Balance)	
Total		Total	

Format of Branch Expenses Account

Particulars	Amt	Particulars	Amt
To Branch Cash A/c (Cash Expenses met at Branch)		By Branch P&L Account (transfer)	
To (Main) Cash A/c (Expenses paid by HO directly)			
To Branch Debtors (Discounts, Bad Debts, etc.)			
To Branch Assets (Depredation, if any)			
Total		Total	

Format of Branch Adjustment Account

Particulars	Amt	Particulars	Amt
To Branch Stock (Loading reversed on Returns)		By Stock Reserve (Loading on Opg. Stock)	
To Stock Reserve (Loading on Closing Stock)		By Branch Stock (Loading on Transfers made)	
To Branch P&L Account (Gross Profit trfd)		By Branch Stock (Excess of Sale Price over Invoice Price, if any)	
Total		Total	

Format of Branch P&L Account

Particulars	Amt	Particulars	Amt
To Branch Expenses Account (Expenses Transfer)		By Branch Adjustment (GP Transfer)	
To General			

P&L Account (NP Transferred)			
Total		Total	

Format of Goods sent to Branch Account

Particulars	Amt	Particulars	Amt
To Branch Stock (Returns from Branch, at Cost)		By Branch Stock (Transfers made, at Cost)	
To Purchases / Trading A/c (balancing figure)			
Total		Total	

7. Applicable Exchange Rate for Integral Foreign Operations:

Item	Rate
Revenue Items	Average Rate for the year.
Opening Stock	Rates prevalent at the Commencement of the Accounting Period, i.e. Opening Rate.
Closing Stock	Rates prevalent at the close of the Accounting Period, i.e. Closing Rate.
Fixed Asset	Translated at the Original Rate. If there is a change in the value of the Foreign currency Liabilities, adjustment should be made to Cost of Fixed Assets in Rupees.
Depreciation	Rate used for translation of value of Fixed Assets on which the depreciation is calculated.
Current Assets	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Current Liabilities	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Long Term Liabilities	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Head Office Account	Balance in 'Head Office Account' in the Branch Books is taken at the Indian Rupees for which 'Branch Account' in the Head Office books stands. It must be ensured that no transaction is left unaccounted in both the books.

Chapter 27 – Buyback of Shares

Determination of Maximum Number of Shares for Buy Back

Rule	Condition	Maximum Permissible Buyback Shares
1	Percentage of Shares Bought Back	25% of Total Shares Outstanding
2	Amount < 25% of (ESC + Free Reserves)	$\frac{(\text{Equity Share Capital} + \text{Free Reserve} + \text{Sec. Premium}) \times 25\%}{\text{Buyback Price i.e. Market Price} + \text{Premium}}$
3	Debt Equity Ratio to be 2:1	$\frac{(\text{Equity Share Capital} + \text{Free Reserve} + \text{Sec. Premium}) - (\text{Debt} - 2)}{\text{Buyback Price} + \text{Face Value}}$

Note: If one Share is bought back, the following Reduction will be made from Equity -

- (a) Face Value will be reduced from Share Capital,
 - (b) Premium on Buy Back will be reduced from Securities Premium,
 - (c) Amount equal to the Face Value ? 10 will be transferred from Free Reserves to CRR. Since CRR is not available for Dividend distribution, it is not a Free Reserves.
- Hence, on buy back such amount should also be excluded from Equity.

Hence, Total Reduction in Equity if one Share is bought back = FV + Premium + FV = Buy Back Price + FV

1. Accounting Entries for Buyback of Equity Shares-

Transaction	Journal Entry
Amount due on Buyback on Equity Shares	Equity Share Capital A/c Dr. Premium on Buyback A/c Dr. To Equity Shareholders A/c
Sourcing / Providing for Premium payable on Buyback	Securities Premium A/c Dr. Profit and Loss A/c Dr. General Reserve / Other Free Reserves A/c Dr. To Premium on Buyback A/c
Transferring Divisible Profit to Capital Redemption Reserve Account, to the	Profit and Loss A/c Dr. General Reserve / Revenue Reserves A/c Dr. Other Divisible

extent of Nominal Value of Shares bought back	Profits A/c (e.g. Dividend Equalization Reserve) Dr. To Capital Redemption Reserve A/c
Payment to Equity Shareholders	Equity Shareholders A/c Dr. To Bank A/c

Note: Amount transferred to CRR = Nominal Value of Preference capital to be Redeemed
Less: Nominal Value of any Fresh Issue of Share Capital

Financial Statements of Companies

PART I – FORM OF BALANCE SHEET

Name of the Company: Balance Sheet as at: (Rupees in)

	Particulars	Note	Figures as at the end of Current Reporting Period	Figures as at the end of the Previous Reporting Period
	1	2	3	4
I.	EQUITY AND LIABILITIES			
(1)	Shareholder's Funds			
	a) Share Capital			
	b) Reserve & Surplus			
	c) Money Received against Share Warrants			
(2)	Share Application money pending allotment			
(3)	Non-Current Liabilities			
	a) Long-Term Borrowings			
	b) DTL (Net)			
	c) Other Long Term Liabilities			
	d) Long Term Provisions			
(4)	Current Liabilities			
	a) Short Term Borrowings			
	b) Trade Payables			
	(A) Total Outstanding Dues of			

	Micro Enterprises and small Enterprises, and (B) Total outstanding Dues of Creditors other than Micro Enterprises and Small Enterprises c) Other Current Liabilities d) Short Term Provisions			
	TOTAL			
II.	ASSETS			
(1)	Non-Current Assets			
	a) Fixed Assets (i) Tangible Assets (ii) Intangible Assets (iii) Capital WIP (iv) Intangible Assets under Development b) Non-Current Investments c) DTA (Net) d) Long Term Loans & Advances e) Other Non-Current Assets			
(2)	Current Assets a) Current Investments b) Inventories c) Trade Receivables d) Cash & Cash Equivalents e) Short Term Loans & Advances f) Other Current Assets			
	TOTAL			

PART II – FORM OF STATEMENT OF PROFIT AND LOSS

	Particulars	Note No.	Figures for the Current Reporting Period	Figures for the Previous Reporting Period
I	Revenue from Operations		XXX	XXX
II	Other Income		XXX	XXX
III	Total Income (I + II)		XXX	XXX
IV	Expenses:			
	Cost of Materials Consumed		XXX	XXX
	Purchases of Stock-In-Trade		XXX	XXX
	Changes in Inventories of Finished Goods / Work-in-progress and Stock-In-Trade		XXX	XXX
	Employee Benefits Expense			
	Finance Cost			
	Depreciation and Amortization Expense			
	Other Expenses			
	Total Expenses		XXX	XXX
V	Profit before Exceptional & Extraordinary Items & Tax (III—IV)		XXX	XXX
VI	Exceptional Items		XXX	XXX
VII	Profit before Extraordinary Items and Tax (V -VI)		XXX	XXX
VIII	Extraordinary Items		XXX	XXX
IX	Profit before Tax (VII—VIII)		XXX	XXX
X	Tax Expense:			

	1) Current Tax 2) Deferred Tax		XXX XXX	XXX XXX
XI	Profit / (Loss) for the period from Continuing Operations		XXX	XXX
XII	Profit / (Loss) from Discontinuing Operations		XXX	XXX
XIII	Tax Expense of Discontinuing Operations		XXX	XXX
XIV	Profit / (Loss) from Discontinuing Operations (After Tax)		XXX	XXX
XV	Profit / (Loss) for the period (XI + XIV)		XXX	XXX
XVI	Earnings per Equity Share: Basic & Diluted			

Terms	Description
Current & Non-Current Assets	Current Assets: An Asset shall classified as Current when it satisfies any of the following criteria - (a) It is expected to be realized in, or is intended for sale or consumption in the Company's normal Operating Cycle, (b) It is held primarily for the purpose of being traded, (c) It is expected to be realized within 12 months after the Reporting Date, (d) It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for atleast 12 months after the Reporting Date. Non-Current Assets: All other Assets shall be classified as Non-Current.
Current Liability & Non-Current Liabilities	Current Liabilities: A Liability shall classified as Current when it satisfies any of the following - (a) It is expected to be settled in the Company's normal Operating

	Cycle, (b) It is held primarily for the purpose of being traded, (c) It is due to be settled within 12 months after the Reporting Date, or (d) The Company does not have an unconditional right to defer settlement of the Liability for atleast 12 months after the reporting date (Terms of a Liability that could, at the option of the counterparty, result in its settlement by the issue of Equity Instruments do not affect its classification.) Non-Current Liabilities: All other Liabilities shall be classified as Non-Current.
Operating Cycle (OC)	An Operating Cycle is the time between the Acquisition of Assets for processing & their realization in Cash or Cash Equivalents. If Operating Cycle cannot be identified, it is assumed to have duration of 12 months. Operating Cycle = Raw Materials Lead time + Raw Materials Holding Period + WIP Holding Time + Finished Goods Holding Time + Credit Period given for Debtors.
Dividend out of Free Reserves	In case of inadequacy or absence of profits in any year, a Company can declare dividend only out of Free Reserves, on fulfilling the following conditions - Rate of Dividend should be <Average Rates of Dividend of 3 immediately preceding, Amt withdrawn: Amount to be withdrawn from Accumulated Profits <1/10th of its Paid-Up Capital and Free Reserves. [Note: Amount withdrawn shall first be utilized to set off Current Year Losses, before declaration of Equity Dividend.] Reserves Balance: Balance in Reserves after such withdrawal >15% of its Paid-Up Share Capital

Internal Reconstruction

Journal Entries for various transactions In the course of Internal Reconstruction —

Transaction	Journal Entry
Reduction of Share Capital by reducing Paid-Up Value of Shares, without reducing Face Value (say 7 100 Face Value retained, but 7 100 already paid up is reduced to 7 IS paid up)	Equity Share Capital (7 100 each) Dr. 85 To Reconstruction A/c 85
Reduction of Share Capital by reducing both Face Value and Paid-Up Value, (say 7 100 reduced to 7 15)	Equity Share Capital (7 100 each) Dr. 100 To Equity Share Capital (7 15 each) 15 To Reconstruction A/c (balance written off) 85
Shareholders giving up their claim to Reserves and Accumulated Profits	Reserves A/c (individually) Dr. To Reconstruction A/c
Shares surrendered and cancelled subsequently	Equity Share Capital Dr. To Shares Surrendered A/c Shares Surrendered A/c Dr. To Reconstruction A/c (to the extent cancelled)
Downward Revaluation of Assets	Reconstruction A/c Dr. To Sundry Assets A/c (individually)
Upward Revaluation of Assets, i.e. Increase / Appreciation in Asset Values	Sundry Assets A/c (individually) Dr. To Reconstruction A/c
Sacrifices made by Debenture holders, Creditors, etc. by agreeing for a lower amount of dues payable to them	External Liabilities A/c (individually) Dr. To Reconstruction A/c (to the extent sacrifice made) To Bank A/c (to the extent payment made immediately)
Expenses of Reconstruction and previously unrecorded liability paid	Reconstruction A/c Dr. To Bank A/c
Provisions settled at higher amount than appearing in the Balance Sheet	Provision (for Taxation, etc.) (as per B/s) Dr. Reconstruction A/c (difference / additional amt) Dr. To Bank A/c (Total amount paid now)
Writing off of Fictitious Assets, Intangible	Reconstruction A/c Dr.

Items, and Losses	To Fictitious Asset A/cs (e.g. Goodwill, Patents, etc.) To P&L A/c (Dr. Balance if any) To Mise. Expenditure A/c (Disc, on Issue of Shares, etc.)
Transferring the balance left in Reconstruction A/c to Capital Reserve	Reconstruction A/c Dr. To Capital Reserve A/c
Variation in Shareholders' Rights without affecting Reconstruction A/c (Refer Note below)	Change in Rate of Dividend for Preference Shares: (Old) % Cum. Pref. Share Capital A/c Dr. To (New) % Cum. Pref. Share Capital A/c Conversion from Cumulative to Non-Cumulative Pref. Shares: ...% Cum. Pref. Share Capital A/c Dr. To ...% Non-Cum. Pref. Share Capital A/c
Conversion of Fully Paid Shares into Stock, or vice-versa (Refer Note below)	Conversion of Shares into Stock: Equity Share Capital (? each) Dr. To Equity Stock A/c Re-conversion of Stock into Stock: Equity Stock A/c Dr. To Equity Share Capital (^ each)
Sub-Division and Consolidation of Shares (Refer Note below) (say ? 100 Share divided into 10 Shares of ? 10 each)	Equity Share Capital (? 100 each) Dr. To Equity Share Capital (? 10 each)

Notes: The following alterations can be done without affecting Reconstruction A/c –

Variation in Shareholders' Rights	- When a Company has issued different classes of Shares with different rights or privileges attached to such Shares, e.g. Rights as to Dividend, Voting Rights, etc. any of such rights may be changed in any manner. - Some examples for change in rights are - (a) change in rate of dividend on Preference Shares, or (b) conversion of Cumulative Preference Shares into Non-Cumulative Preference Shares without changing the amount of Share
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	Capital.
Conversion of Fully Paid Shares into Stock, or vice-versa	• Stock is the aggregate of fully paid-up Shares of a Member, merged into one fund of equal value. • A Company can convert its Fully Paid Shares into Stock, by a resolution passed in General Meeting. • Stock can be divided into fractions of any amount. Any part of the Fund can be transferred. However, Companies may restrict the transfer of stock to multiples of, say, ₹ 100. • Upon the Company converting its Shares into Stock, the book-keeping entries merely record the transfer from Share Capital A/c. A separate Stock Register is now maintained, in which details of Members' holdings are entered and the Annual Return is modified accordingly.
Sub-Division and Consolidation of Shares	authorised by its Articles, a Company may, in a General Meeting, by passing an Ordinary Resolution, decide to sub-divide or consolidate the shares into those of a smaller or higher denomination than that fixed by the Memorandum of Association, so long as the proportion between the paid up and unpaid amount, if any, on the Shares continues to be the same as it was in the case of the Original Shares.

Accounting for Amalgamations

Steps involved in Accounting for Amalgamations

Step	Procedure
1	See whether the Amalgamation is in the nature of Merger or in the nature of Purchase.
2	- Determine the Purchase Consideration, i.e. Cash, Securities or Other Assets paid by the Purchasing Company to the Shareholders of the Selling Company. - Payment made to Debentureholders of the Selling Company or reimbursement of Liquidation Expenses of the Selling Company, does not constitute Purchase Consideration. - Purchase Consideration can be determined based on - (a) Net Payments basis, i.e. total of shares and cash paid by the Purchasing Company to the Selling Company, or Net Assets basis, i.e. Assets (Including Goodwill, if any) Less Liabilities taken over, at the agreed values.
3	Pass the necessary Journal Entries in the books of the Selling Company, so as to close its books.
4	Compute Goodwill / Capital Reserve for the Purchasing Company, in case of an amalgamation in the nature of Purchase.
5	Pass the necessary Journal Entries in the books of the Purchasing Company, and prepare the revised Balance Sheet of the Purchasing Company after absorption / takeover.

Journal Entries in the Books of Selling Company

Note: No distinction is made between Amalgamation in the nature of Merger or Purchase, in the books of the Selling Company. The Journal Entries are similar in both cases.

	Transaction	Journal Entry
1	Transfer of Assets taken over by Purchasing Company	Realisation A/c Dr.

		To Sundry Assets (individually) (at B/S Value)
	Note: - If Cash is not taken over by the Purchasing Company, it should not be transferred to Realisation A/c. - If Selling Company already holds Shares in Purchasing Company, such "Investments in Shares of Purchasing Company" A/c, should not be transferred to Realisation A/c.	
2	Transfer of Liabilities taken over by Purchasing Company	Sundry Liabilities A/c(individually) (at B/S Value) Dr. To Realisation A/c
3	Direct Sale of specific Assets not taken over by Purchasing Company	Cash / Bank A/c (amount received) Realisation A/c (if sold at Loss) Dr. To Sundry Assets A/c (specified asset) (at B/s Value) To Realisation A/c (if sold at Profit)
4	Direct Settlement of specific Liabilities not taken over by Purchasing Company	Sundry Liabilities A/c (at B/s Value)Dr. Realisation A/c (if settled at Loss) Dr. To Cash / Bank A/c (amount settled) To Realisation A/c (if settled at Profit)
5	Expenses of Liquidation / Realisation met by Selling Company	Realisation A/c To Cash / Bank A/c
	Note: If Purchasing Company meets the Realisation Expenses directly, no entry is required in Selling Co.'s Books. If the Purchasing Company reimburses the Liquidation Expenses, then "Purchasing Company" Account should be debited instead of "Realisation Account". A separate receipt entry should be passed for the reimbursement received. [Alternatively, the payment of Liquidation Expenses and receipt of reimbursement can be ignored in the books of the Selling Company] If the Liquidation Expenses are shared by the Purchasing Company and Selling Company, the Journal Entry in Item 5 should be made only for the Selling Company's Share of Expenses.	
6	Transfer of Share Capital to Sundry	Transfer of Share Capital to Sundry

	Shareholders Account If Purchasing Co. holds Shares in Selling Co	Shareholders 5 Account If Purchasing Co. holds Shares in Selling Co
7	Transfer of Reserves and Surplus (to Sundry Shareholders, i.e. Outsiders' Share only)	Reserves & Surplus A/c Dr. To Sundry Shareholders A/c (fully transferred)
8	Transfer of Accumulated Losses, if any	Sundry Shareholders A/c Dr. To P&L Account / Misc. Expenditure, etc.
9	Recording of Purchase Consideration due	Purchasing Company A/c To Realisation A/c Dr.
10	Receipt of Purchase Consideration	Cash / Bank A/c Shares in Purchasing Co. A/c
11	Transfer of Profit on Realisation (reverse entry is passed for Loss, if any)	Realisation A/c To Sundry Shareholders A/c
12	Final Settlement to Shareholders	Sundry Shareholders A/c To Cash / Bank A/c To Shares in Purchasing Co. A/c

Format of some Ledger Accounts in the books of Selling Company

1. Realisation Account

Particulars	Particulars
To Sundry Assets A/c (Assets taken over) (individually) (transfer at Book Values)	By Sundry Liabilities (Liab. taken over) (individually) (transfer at Book Values)
To Cash / Bank (Liquidation Expenses met)	By Purchasing Co. A/c (Purchase Consideration Due)
To Sundry' Assets / Liabilities A/c (Assets disposed off at loss if any, Liabilities settled at higher amounts than Book Values, if any)	(Assets disposed off at a gain if any, Liabilities settled at lower amounts than Book Values, if any)

To Sundry Shareholders A/c (Profit on Realisation transferred)	By Equity Share Capital A/c (Purchasing Co.'s Share in Equity Cap. Of Selling Co, If any) By Sundry Shareholders A/c (Loss on Realisation transferred, if any)	
Total	Total	

2. Equity Shareholders Account / Sundry Shareholders' Account

Particulars	Particulars	
To P&L A/c / Misc. Expenditure (Transfer of Accumulated Losses, Dr. Bal. etc.)	By Equity Share Capital (Outside Shareholders Portion of Equity Capital)	
To Realisation A c (Loss on Realisation, if any)	By Reserves (All Reserves, fully transferred)	
To Cash / Bank (Final Settlement)	By Realisation A/c (Profit on Realisation)	
To Equity Shares in Purchasing Company (Final Settlement)		
Total	Total	

3. Purchasing Company Account

Particulars	Particulars	
To Realisation A/c (Purchase Consideration due)	By Cash /Bank (Settlement of Purchase Consideration) By Equity Shares in Purchasing Co.(Settlement of Purchase Consideration)	
Total	Total	

**4. Investment in Equity Shares of Purchasing Company Account
(If Selling Company already holds Shares in Purchasing Company)**

Particulars		Particulars	
To balance b/d (Shares already held)		By Sundry Shareholders A/c	
To Purchase Company A/c (Purchase Consideration received now)		(Final Settlement / Distribution to Outside Shareholders)	
Total		Total	

Journal Entries in the Books of Purchasing Company

	Transaction	Journal Entry
1	Purchase Consideration Due	Business Purchase A/c Dr. To Liquidator of Selling Company A/c
2	Assets and Liabilities taken over (Note: Where the Purchasing Company already holds some Shares in the Selling Company, the relevant Investment Account is also credited, for cancellation purposes.)	PURCHASE METHOD: Sundry Assets A/c (at agreed values) Dr. Goodwill A/c (balancing figure, if any) Dr. To Sundry Liabilities A/c (at agreed values) To Business Purchase A/c (Purchase Consideration)
	Either Goodwill or Capital Reserve will arise as the balancing figure in case of Purchase Method. Excess consideration is adjusted against - (a) Free Reserves (incl. P & L) of Selling Co. (b) Free Reserves of Purchasing Co. and (c) finally, against P & L A/c of Purchasing Co. All Reserves (i.e. Statutory and Free) of Selling Company are fully recorded. Shortfall in purchase consideration is credited to Capital Reserve A/c.	To Capital Reserve A/c (balancing figure, if any) (If Purchase Consideration > Net Assets, Goodwill will arise as bal. fig.) (If Purchase Consideration < Net Assets, Capital Reserve will arise as b/f) B. MERGER METHOD: When Purchase Consideration > Net Assets of Selling Co. Sundry Assets A/c (at Book Values) Dr. Reserves A/c (balancing figure, if any) Dr. To Sundry Liabilities A/c (at Book Values) To Statutory Reserves of Selling Company A/c (if any)

		To Business Purchase A/c (Purchase Consideration) To Reserves A/c (balancing figure, if any) When Purchase Consideration < S.Cap of Sellina Co. Sundry Assets A/c (at B/s Values) Dr. To Sundry Liabilities A/c (at B/s Values) To Statutory Reserves of Selling Company A/c (if any) To Business Purchase A/c (Purchase Consideration) To Free Reserves of Selling Co. A/c To Capital Reserve A/c (as per EAC Opinion)	
3	Discharge of Purchase Consideration	Liquidator of Selling Company A/c Dr. To Equity / Preference Share Capital A/c To Securities Premium A/c (if any) To Cash / Bank A/c (for fractions, etc.)	
4	Realisation / Liquidation Expenses met /	A. PURCHASE METHOD	Goodwill / Capital Reserve A/c Dr. To Cash / Bank A/c
		B. MERGER METHOD	P & L Account / Reserves A/c Dr. To Cash / Bank A/c
	- If Selling Co. meets the Realisation Expenses directly, no entry is required in Purchasing Co's Books. - If the Realisation Expenses are shared by the Purchasing Company and Selling Company, the Entry in Item 4 should be recorded only for the Purchasing Company's Share of expenses.		
5	Recording of Statutory Reserves of Selling Company (for amalgamation in the nature of PURCHASE only)	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Note: This entry is Not Applicable for Merger Method)	
	Statutory Reserve is shown on the Liabilities Side under "Reserves and Surplus". Amalgamation Adjustment A/c; shown on the Assets Side of the Balance Sheet. The above entry is reversed once the statutory time period expires / obligations are completed.		

6	Elimination of Unrealised Profits on Stocks, if any	A. PURCHASE	Goodwill / Capital Reserve Dr.
		METHOD	To Stock Reserve / Stock
		B. MERGER	P&L Account / Reserve / A/c Dr.
		METHOD	To Stock Reserve / Stock

Types of Consolidation

Types	AS	Method	Holding % in General
→ Subsidiaries	21	Line by line Addition Method	More than 50%
→ Associate	23	Equity Method	20% or more
→ Joint Venture	27	Proportionate Consolidation	

Consolidated Financial Statements

Consolidated P & L

Account Head	Sales & Other Income		Admin. Expense	Selling & Distribn. Exp.	RM Consumed	Changes in Inventory
In the books of	A Ltd.	B Ltd.	B Ltd.	A Ltd.	B Ltd.	B Ltd.
Given Balance						
Inter Company Sales	(XX)				(XX)	
Profit included in Clg Stock						(X)
Inter Company Transactions	(X)		(X)			

Revised Balances						
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Verification: Profit after Tax in Consolidated P & L can be confirmed as Profit of A + Profit of B (-) Stock Reserve.

Steps for Consolidated Balance Sheet

Step 1	Step 2	Step 3	Step 4	Step 5
Basic Information Analysis	Computation of Revised Balances	Analysis of Reserves of Subsidiary	Consolidation of Balances to calculate - (a) Cost of Control / Goodwill / Capital Reserve, (b) Minority Interest, & (c) Consolidated Reserves.	Financial Statements Consolidation

Step 1: BASIC INFORMATION ANALYSIS

1. Holding Company, Subsidiary (ies).
2. Date of Obtaining Control
3. Date of Consolidation.
4. Extent of Holding Company's Share (P %) and Minority Interest (Q %)

For GI = Shares held by Holding / Total Shares in Subsidiary. Cost of Investments should not be considered.

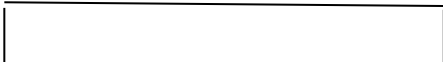
Step 2: COMPUTATION OF REVISED BALANCES

Adjustments to be made for Pre-Acquisition Dividend, Stock Reserve, Bonus Shares not accounted, Revaluation of Assets & its additional Depreciation etc. See table below

Step 3: ANALYSIS OF RESERVE OF SUBSIDIARY

P&L Balance on DoC B/s Value		R&S Balance on DoC B/s Value	
			
As on DOA Given	From DOA to DOC (bal.fig.)	As on DOA	From DOA to DOC
Less: Dividend declared		Less: Bonus declared	
Capital Profit	Revenue Reserve	Capital Profit	Revenue Reserve

In case of Intermediate Acquisition

Profit and Loss A/c: Balance on DoC B/s Value		
As on 1 st January = Given	1 st January to 31 st December = Bal.fig	
		
Capital Profit	Upto 31 st July Total Profit $\times 7 / 12$ Capital Profit	Upto 31 st December = Balance Rev. Profit
		
Total Capital Profit		

Special Adjustments

1. Revaluation Reserve & Additional Depreciation (Say Depn 10%)

Particulars	Result (₹)
(a) Balance on 1 st April = Clg balance + 90%	
(b) Depn. For 6 months = (a) × 10% × 6/12	
(c) Balance on 1 st October = (a - b)	
(d) Fair value on 1 st October = Given	
Revaluation Reserve = (d - c)	

Particulars	Result (₹)
(a) Depn. Required from Oct to Mar Fair value × 10% × 6/12	
(b) Depn. Provided from Oct to Mar Total Depn. – Depn. For 6 months	
Additional Depreciation Provided	

Step 4: CONSOLIDATION OF BALANCES (Credit in Positive, Debit in Negative)

Particulars	Total	Minority Interest	Group Interest (P %)		
			Pre Acquisition	Post Acquisition	
Stakeholding	100%	Q%	(All Reserves)	Reserve 1	Reserve 2
(a) Share Capital (including Bonus if any)	XXX XXX	XXX	XXX	-	-
(b) Reserve 1 (General Reserve)	XXX				
(c) Reserve 2 (Profit and Loss A/c)		XXX	XXX	XXX	-
(d) Adjustments in case of Intermediate Acqns:		XXX	XXX	-	XXX
(i) Stock Reserve on Upstream Transactions					
(ii) Depn Adjustment on Revaluation of FA		(XXX)			(XXX)
		(XXX)			(XXX)

Sub-Total [Cr.]		XXX	XXX	XXX	XXX
Cost of Investment (as per Step 2)			(XXX)		
Parent's Balances in Reserves (as per Step 2)				XXX	XXX
For Consolidated Balance Sheet		XXX	XXX	XXX	XXX
		Minority Interest	Capital Reserve / (Goodwill)	Reserve 1 (Gen. Res.)	Reserve 2 (P&L A/c)

Notes: Goodwill and Capital Reserve arising from different Subsidiaries **can be netted off** to disclose a Sing the Consolidated B/Sheet.

Step 5: FINANCIAL STATEMENTS CONSOLIDATION

Consolidated Balance of Holding Company and its Subsidiary as on

	Particulars as at 31 st March	Note	This Year	Prev.Yr
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	Share Capital (Capital of Parent)	1		
	Reserves & Surplus (Consolidated P&L+ Reserve of Parent + Capital Reserve)	2		
	Minority Interest (Step 4)			
(2)	Non-Current Liabilities (individually)(net of Mutual Owings) H + S - m/o		XXX	
(3)	Current Liabilities (individually)(net of Mutual Owings) H + S - m/o		XXX	
(4)			XXX	
	Total			

II	ASSETS			
(1)	Non-Current Assets			
	PPE & Intangibles: (i) Tangible H + S ± Revaluation and Depreciation adjts		XXX	
	(ii) Intangible Assets - Goodwill on Consolidation (Step 4)		XXX	
	Non-Current Investments (outside Investments only)			
(2)	Current Assets			
	Inventories (H + S – Stock Reserve)		XXX	
	Trade Receivables (H + S – m/o)		XXX	
	Cash & Cash Equivalents (H + S) Remittances in Transit (if any)		XXX	
	Total			

Revised Balances

Item	Books of	Treatment
1. Pre-Acquisition Dividend	H	It is a recovery of Cost and not Income. So, it has to be reduced from Cost of Acquisition. (a) If it is already credited to Investment: No Adjustments required now. (b) If it is already credited to P&L: Deduct from P&L [to reverse Income]
2. Sale of Goods at profit, and stock lying unsold with Buying Co.	H / S	Stock Reserve should be created to the extent of Profit element involved. So, (a) Deduct Profit element from Stock A/c of Buying Company, and (b) Deduct Profit element from Profit & Loss A/c of Selling Company. Special Point: In case of Intermediate Acquisition, Profit of Subsidiary will be apportioned without considering this adjustment, since it is a post-acquisition adjustment.
3. Bonus Shares issued by H/S not		Only in the books of Issuer] It should be accounted for - (a) debiting Reserves, i.e. reduce from Reserve A/c Balance, and

accounted	H / S	(b) Crediting Share Capital, i.e., add to Share Capital of Issuer Company.
4. Revaluation of Subsidiary's Assets	S	If some Fixed Assets of Subsidiaries are revalued for the purpose of Consolidation, such i Revaluation Gain should be treated as Capital Profit, and Additional Depreciation should be provided for such amounts out of Post-Acquisition Profits. Fixed Assets should be disclosed at revalued amounts. So - (a) Add Revaluation Gain to Fixed Assets A/c of Subsidiary, (b) Include the Gain as Capital Profit for computing Capital Reserve / Goodwill, in the Consolidation of Balances Step 4 (c) Deduct Additional Deprn on the above, from Subsidiary's Fixed Assets A/c & P&L A/c. Note: In case of Loss on Revaluation, the reverse of the above should be applied. Special Point: In case of Intermediate Acquisition, Profit of Subsidiary/ will be apportioned without considering this adjustment, since it is a post-acquisition adjustment.
5. Remittances in Transit	H / S	If the Creditors balance as per one Company's Books is different from the Debtors i balance as per other Company's Books, the different is treated as the Remittance in Transit (even if the question does not specify so). Suppose, Remittance made by Subsidiary is not received yet by Holding Company, then the Cash / Remittance in Transit can be adjusted in two ways as under - (a) By passing entry in the Receivers' Books: Cash in Transit A/c Dr. To Debtors, or (b) By reversing entry in the Payers' Books: Cash in Transit A/c Dr. To Creditors.
6. Mutual Owings	H / S	All Mutual Owings, i.e. Debtors, B/R, Loans Receivable of one Company should be set off / eliminated against Creditors, B/P, Loans Payable of the Other Company. Note: Only after adjusting the Remittances in Transit, Mutual Owings should be adjusted.

AS 23 A/c for Investments in Associates



Significant Influence

Significant Influence represents power to participate in financial & operating policy decisions of Investee (i.e. not control of the policies). It is generally presumed that -

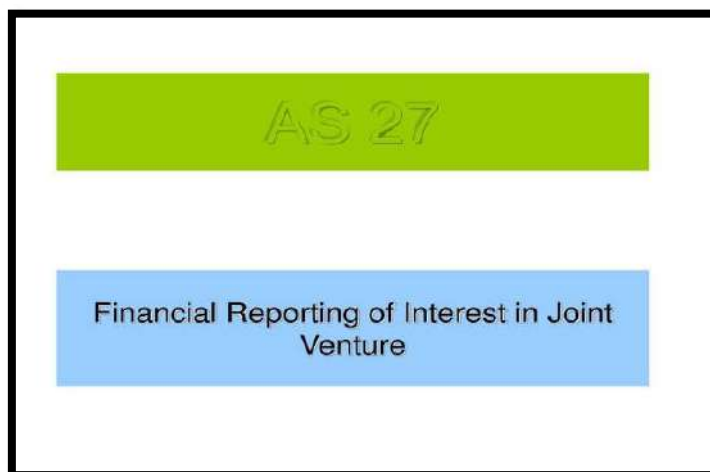
- (a) **Holding 20% or more:** Significant Influence exists, unless otherwise clearly demonstrated
- (b) **Holding <20%:** Significant Influence does not exist, unless otherwise clearly demonstrated

Equity Method

Consolidated P&L	Investment in ES of Associate
	Net Assets on DOA (incl. Revn Reserve) x %
	Add / Less: Goodwill / CR
	Cost of Investment as per SFS
Add: Post Acquisition Profits x %	Add: Post Acquisition Profits x %
Less: Additional Depn. on Revalued amounts No Adjustments, since already added in Profit	Less: Additional Depn. on Revalued amounts x %
Less: Stock Reserve x %	Less: Dividend received
	Less: Stock Reserve x % (In case of Downstream Transaction)
Consolidated P&L	Investment in ES of Associate

Note: In case of Upstream Transaction, Stock Reserve should be deducted from the Inventories in Investor Balance Sheet.

AS 27 Financial Reporting of Interest in JV



Proportionate Consolidation Method is same as Line by line Addition Method except Minority Interest Computation.

Particulars	Jointly Controlled Operations (JCO)	Jointly Controlled Assets (JCA)	Jointly Controlled Entities (JCE)
Meaning	JCO is an arrangement where two or more Venturers j combine their operations, resources and expertise, to manufacture, market and distribute, a product jointly .	JCA exists when there is (a) Joint Control & (b) Joint Ownership by the Venturers, of one or more assets, which are contributed to / acquired for & dedicated for the purposes of JV.	JCE is a separate Entity, whose 1 economic activity is jointly j controlled by two or more Joint Venturers as a result of a1 contractual arrangement.
Example(s)	Different parts of the manufacturing process of a product (say Aircraft) are carried out by each of the Venturers, each Venturer bearing its own costs and l sharing the revenue from the j sale of the aircraft, such share being determined in j accordance with the contractual arrangement.	(a) Oil Pipelines jointly controlled and operated by a number of Oil Production Companies, each Company uses the pipeline to transport its own products and bears an agreed proportion of the operating expenses, (b) Two Enterprises jointly control a property, each taking a share of the Rents received & bearing a share of the expenses.	(a) When two Enterprises combine their activities in a particular line of business by transferring the relevant assets & liabilities into a JCE. (b) When an Enterprise establishes a JCE abroad, in conjunction with the Government or other Agency in that country, the JCE jointly controlled by

			the Enterprise & the Govt. / other Agency,
Legal Entity	Not a separate Entity separate Entity	Not a separate Entity	Separate Legal Entity
Creation and Ownership of Assets	Venturer creates and fully owns the assets.	Venture does not fully own the assets, but owns them jointly or there is a common control over the assets.	Venturer does not own the asset, but owns the interest in the JCE jointly with others leading to common control.
Books of Account	Not maintained separately.	Not maintained separately	Maintained separately.
Financial Statements	Not prepared separately.	Not prepared separately	Prepared separately for applying Proportionate Consolidation Method, j
Recognition Principles in Ventures' books	In both SFS and CFS - Asset it controls and the Liability it incurs. Expenses incurred by it and its share of Income from the JCO.	In both SFS and CFS - - Share in JCA classified according to the nature of Asset. - Direct Liabilities incurred by the Venturer. - Share in Joint Liabilities, if any, incurred. - Share of Income & Exps. - Expenses incurred in respect of own interest in Joint Venture.	In SFS: Interest in JCE will be accounted as per AS - 30. In CFS: Proportionate Consolidation Method will be used. 1 Income, Expenses, Assets or Liabilities will be reflected as separate line items .
Contribution / Sale of asset by Venturer to JV	1. Recognize the share of Profit or Loss attributable to other Venturers. 2. Recognize full Loss if there is reduction in NRV of Current Asset or Impairment Loss		In SFS: Full Gain / Loss should be recognised. In CFS: Principles 1 and 2 given will apply.

Purchase of Asset by Venturer from Joint Venture	1. Recognize the share of Profit or Loss when it resells the asset to an independent party. 2. Recognize full Loss if there is reduction in NRV of Current Asset or Impairment Loss.	In SFS: Full Gain / Loss should be recognised. In CFS: Principles 1 and 2 given will apply.
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LIST OF ACCOUNTING STANDARDS ISSUED BY ICAI

S.NO	AS Tittle
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statements
4	Contingencies and Events Occurring After the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies
6	Depreciation Accounting
7	Construction Contracts
8	Research & development withdraw
9	Revenue Recognition
10	Accounting for fixed assets
11	The effects of changes in foreign Exchange rates
12	Accounting for Government grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segments Reporting
18	Related party Disclosures
19	Leases
20	Earning Per Share
21	Consolidated Financial Statements and Accounting For Invt. In Subsidiaries in financial statement
22	Accounting for Taxes on Income
23	Accounting for Invt. in associates
24	Discontinuing Operation
25	Interim financial reporting
26	Intangible Assets
27	Financial Reporting of interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets
30	Financial Instrument: Recognition & Measurement
31	Financial Instrument: Presentation
32	Financial Instrument: Disclosure