

Accounting standard - 10

Meaning of Property, Plant & Equipment

PPE is a
Tangible Fixed Asset

Expected to be used
MORE THAN 12 MONTH

and

HELD FOR USE IN

PRODUCING
GOODS

PROVIDING
SERVICE

RENTAL
TO OTHERS

FOR
ADMINISTRATION
PURPOSE

Example:-

(Plant & Machinery)

(Delivery
van)

(HOUSE)

(Computer
Furniture)

Objective (Is AS ka kya object hai)

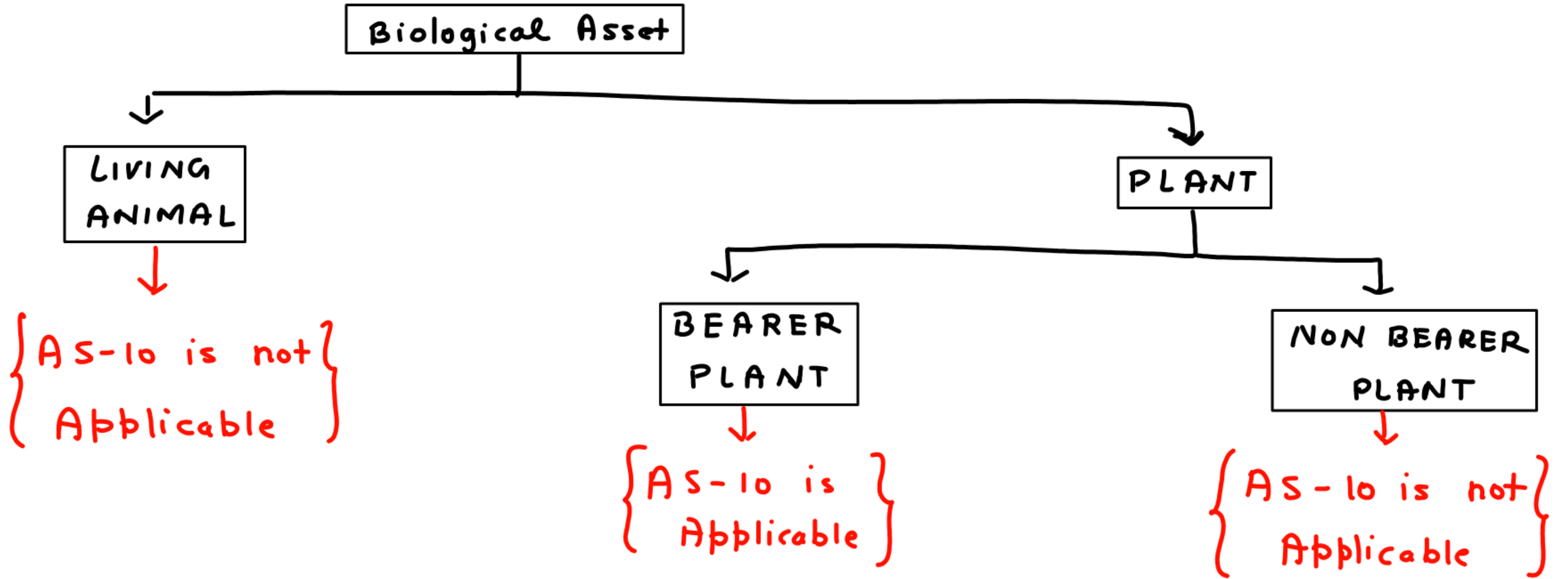
OBJECTIVE

Prescribed Accounting
Treatment of P.P.E
So, that users of
Financial Statement know
about the investment of
Company in P.P. & E

Change in
Such
Investment

- 1) Recognition of Assets
- 2) Determination of Carrying Amount
- 3) Impairment losses
- 4) Depreciation charged

#



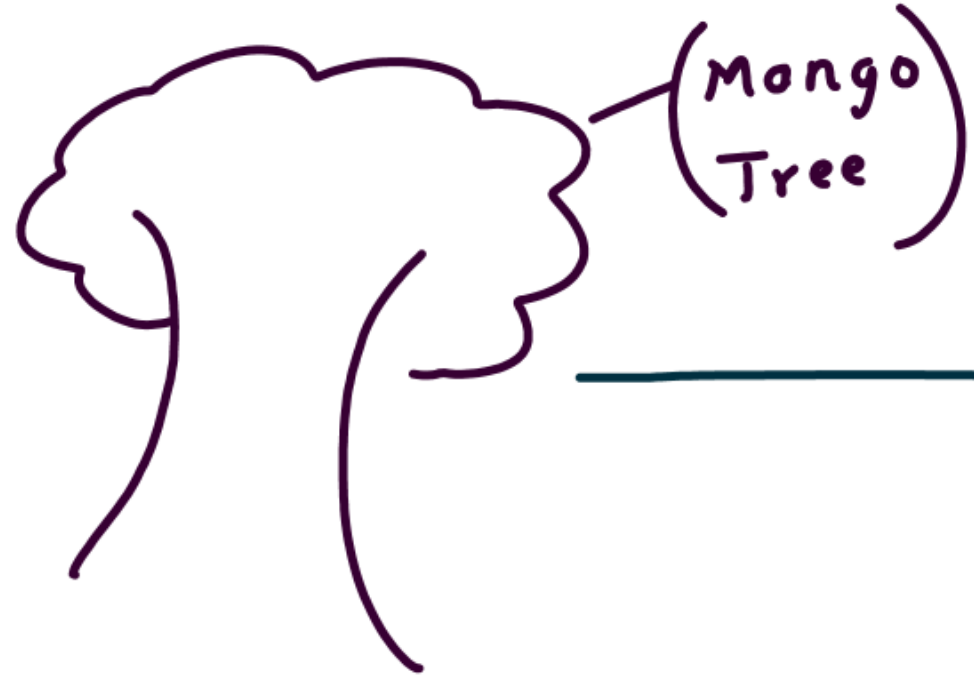
Bearer Plant

① Is used in the production or supply of agriculture output

② Is used to produce for more than 12 month

③ has a Remote likely hood of being sold as agriculture produce Except for incidental Scrap Value

Example



#

Non Bearer
Plant

Plant which are
cultivated to be
harvested as agriculture
produce

Ex:-> Dhaniya ke
ped

Plant which are
cultivated to be
sold and production
also sold.

EX (Gulab ka Phool aur
Gulab ka पौधा)

Annual
Crop

[Ex:- Wheat]

Agriculture Activity

↓
[Is managed by enterprise]

For Biological transformation

Ex

100 गाय/cow mai Rakha aur unse 100 Bache hue. un bacho kilaya pilaya bada krne ke lie tabhi bikenge

(ek plant ka bada krna aur sell krna)

(Harvest for Biological Asset for sale)

or

(Plant ugaya sell krne ke lie phir baad mai apne uska production sell krna)

(Conversion into agriculture produce)

or

(into additional Biological Asset)

Carrying Amount

Gross Carrying Amount (Cost)	=	xxxx
less:- Accumulated Depreciation	=	(xxx)
less:- Accumulated impairment loss	=	(xxx)
		<hr/>
Carrying Amount		xxxx
		<hr/>

Impairment loss

When Carrying Amount is Exceed from Recoverable Amount

$$\begin{array}{ccc} \text{Carrying} & > & \text{Recoverable} \\ \text{Amt} & & \text{Amount} \end{array}$$

Recoverable Amount

Value in use
⊕
Net Selling price

} Higher

331

Machine = 10 lakh

Economic life = 10 year

Dep charge @ 10% on SLM

Cost of Machine = 10 lakh

less:- Dep of 1st year 10% = (1 lakh)
B.V / WDV 9 lakh

less:- Dep of 2nd year (1 lakh)
B.V / WDV 8 lakh

less:- Dep of 3rd year (1 lakh)
WDV after 3rd year 7 lakh

$$\begin{aligned}
 \text{BV / WDV of Machine after 4 year} &= \text{Cost of Machine} - \text{4 year 1ca Dep. (Accumulated Dep)} \\
 &= 10L - 4L \\
 &= \boxed{6 \text{ lakh}}
 \end{aligned}$$

If the Accumulated impairment loss is Nil then what will be Carrying Amt. ?

**COST
MODEL**

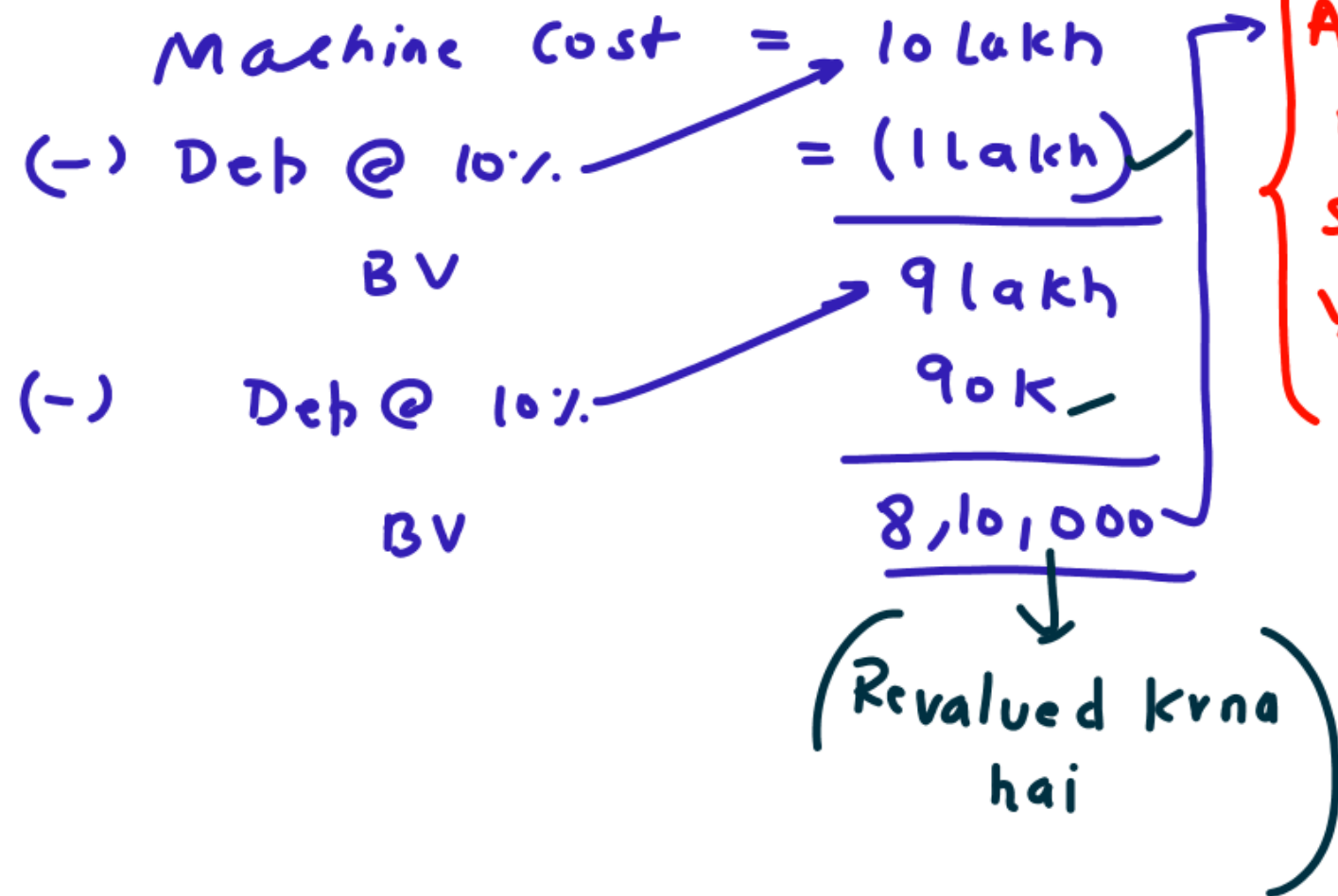
$$\left\{ \begin{array}{l}
 \text{Cost of Machine} = \text{Gross Carrying Amt} = 10 \text{ lakh} \\
 \text{less:- Accumulated Depreciation} = (4 \text{ lakh}) \\
 \text{less:- Accumulated Impairment loss} = \text{(Nil)} \\
 \hline
 \text{Carrying Amount} = \underline{\underline{6 \text{ lakh}}}
 \end{array} \right.$$

Ex = 2

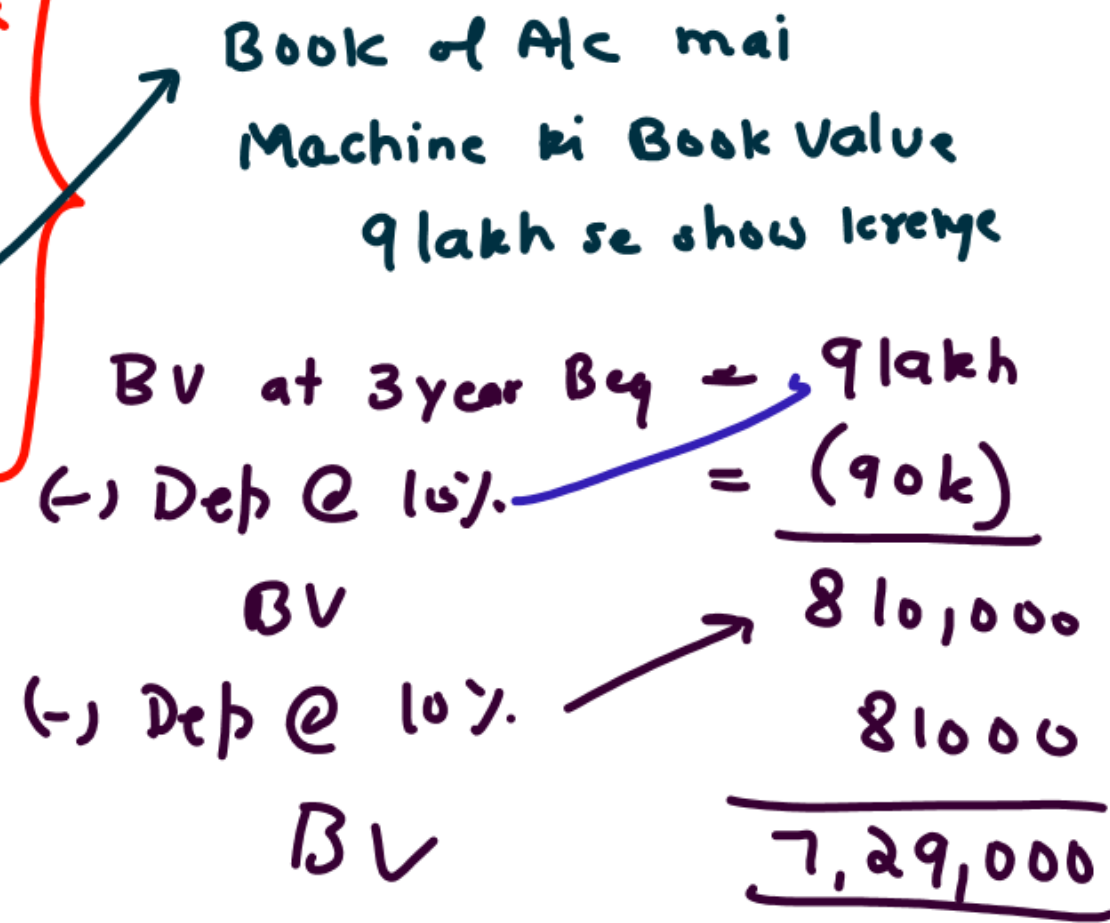
Machine = 10 lakh → (2020)

Dep @ 10% (WDV)

At what value of Machine should be Recorded in 2025 under Revaluation Model. And Revalued the machine in 3rd year



Agar aaj yhe Machine mai market mai sell krne jaau toh yhe Machine 9 Lakh ki sell hojayegi



Gross Carrying Amt = 10 lakh

(-) Accumulated Dep till 5 year = (361,000)

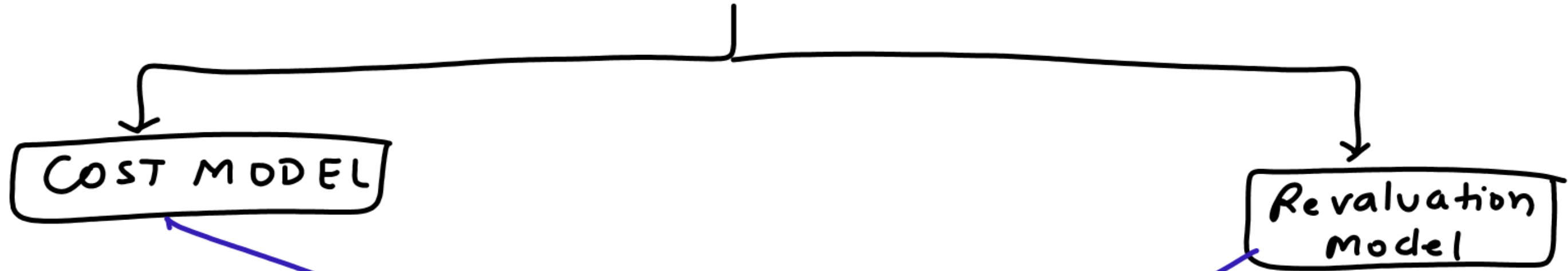
[1,90,000 + 1,71,000]

(-) Accumulated Impairment
loss = Nil

Carrying Amt

6,39,000

Carrying Amt Can be
Calculated from 2 Model



{ Already discuss
in previous two
Example }

Recoverable Amount

Value in use

or

Net selling price

Higher

Ex

BV of Asset in use = 850,000

Net selling price = 800,000

Higher

Recoverable Amt = 850,000

700,000

800,000

Higher

$\Rightarrow (800,000)$

Impairment loss

Ex

Carrying Amt = 6,39,000

Recoverable Amt = 6,00,000

Impairment loss

39,000

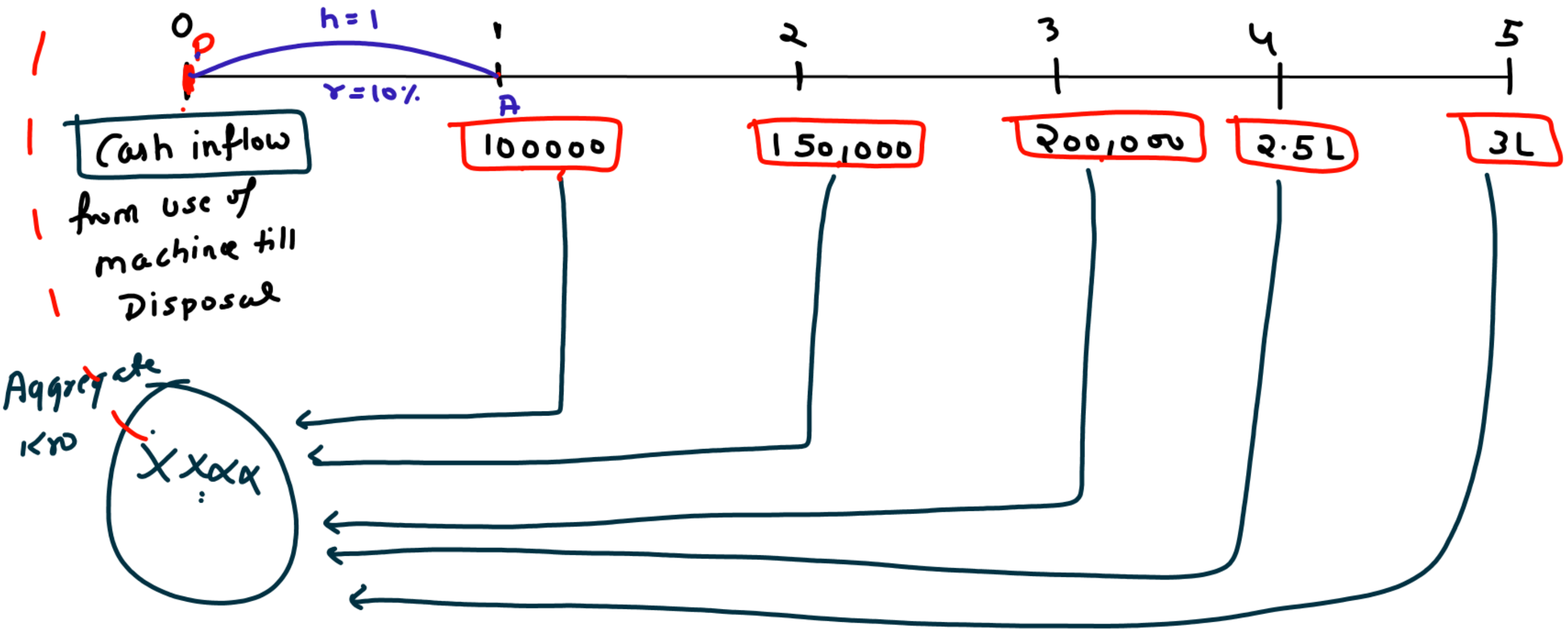
Aaj meri Asset
is value par
Record ho rhi
hai Book mai

Is Asset ko sell
krke mai itna
Amt Recover kr paunga

Enterprise - Specific Value

Machine = 10 lakh \longrightarrow [Production of unit \longrightarrow Sale \longrightarrow Cash inflow of unit]

Useful life of Machine = 5 year



Compound Interest

$$A = P \left(1 + \frac{r}{100}\right)^n$$

$$\frac{A}{\left(1 + \frac{r}{100}\right)^n} = P$$

A = Amount | Future value

P = Principle | Present value

n = no. of year

r = Rate of Interest

$$\frac{100,000}{\left(1 + \frac{10}{100}\right)^1} = \frac{100,000}{(1 + 0.1)}$$

$$= \frac{100,000}{(1.1)^1}$$

$$PV \text{ of IL} = \boxed{90,909}$$

AS-11 [The effect of changes in Foreign Exchange Rate]

This Accounting Standard deal with the Reporting of Foreign Exchange transaction in the Financial statement

Foreign Currency →

Any Currency other than Rupee ₹

Ex:-

\$	¥	€	₽
↓	↓	↓	↓
dollar	Japan Yen	Euro	Russian

As per AS-11
Rupees ₹ will
be the
Reporting
Currency

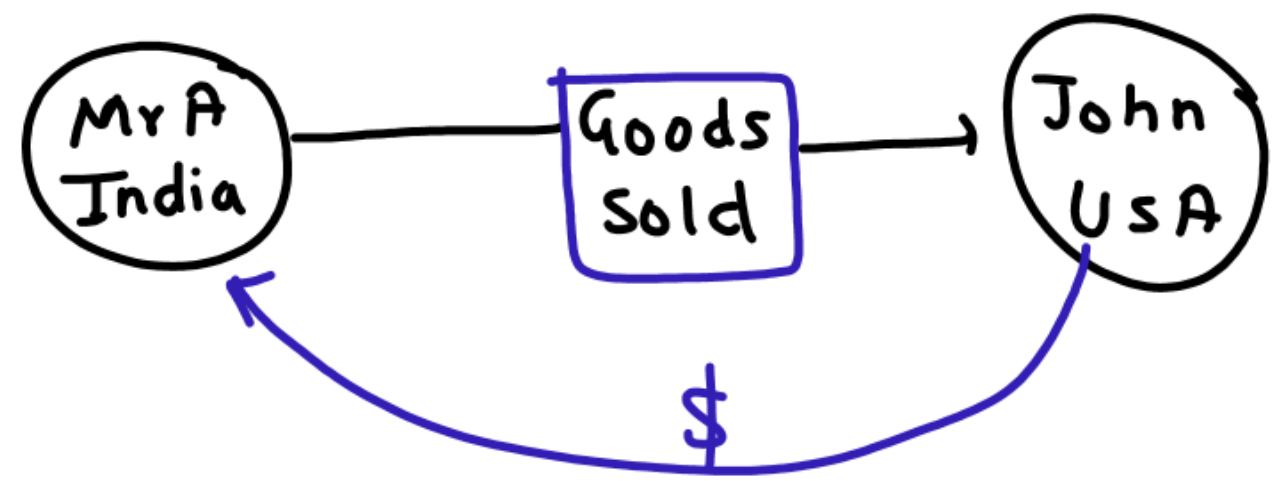
objective

An enterprise may carry on activity involving Foreign Exchange in

Two way

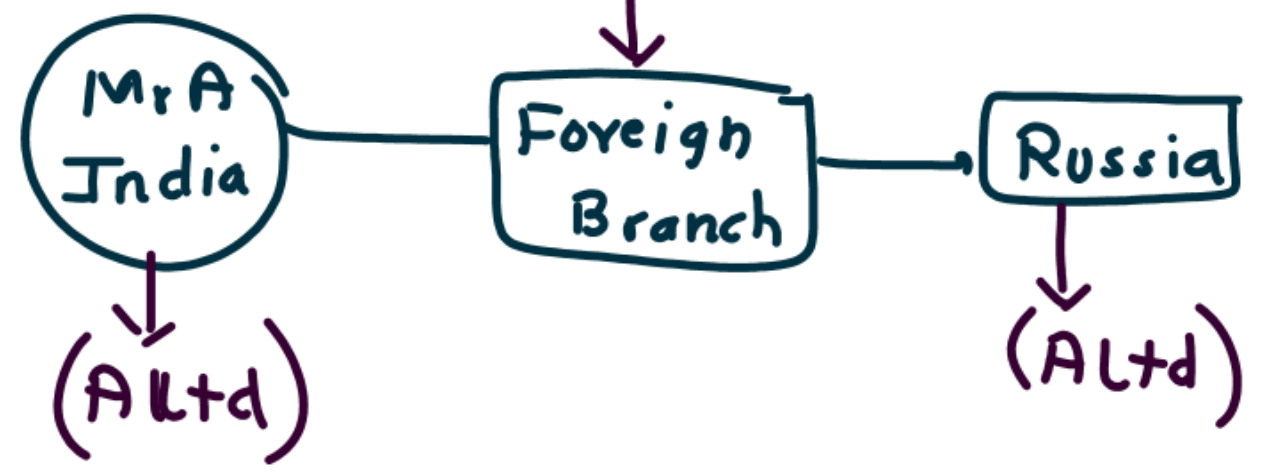
It may have
Transaction in

Foreign Currency



It may have

a Foreign operation



Scope

AS-11 deal with

Accounting For
Transaction in
Foreign Currency

↓
Paper mai isi Concept
se question aane ke
chance hote hai

Translating Financial
Statement of Foreign
operation to reporting
Currency

↓
Agar apki Foreign Branch
hai Toh Foreign Branch
Accounting jab Head office (India)
Record krega toh AS-11 ke
hisab se korega

Accounting For foreign
Currency transaction in
the Nature of
FORWARD EXCHANGE
CONTRACT

The standard However does not cover the following Issue

- It does not specify the currency in which an enterprise should present in financial statement
- Re-statement of an enterprise's financial statement from its reporting currency to another currency.
(₹) (\$)
- Cash Flow of Foreign operation (AS-3 Cash Flow statement)
(Study Mat se pura padna hai)
- Foreign Currency Borrowing (AS-16 Borrowing cost)

Important definition

- ① Closing Rate → Jis din apka Financial year close hota hai (31 March) us din ke Exchange Rate ko closing Rate kenge.
- ② Average Rate → Pure Saal mai jo jo Exchange Rate hue unke Avg ko Avg Rate kenge
- ③ Exchange Rate → Do Country ki Currency ke Ratio ko Exchange Rate khte hai ex $(1 \$ = ₹ 80)$

④ Monetary items →

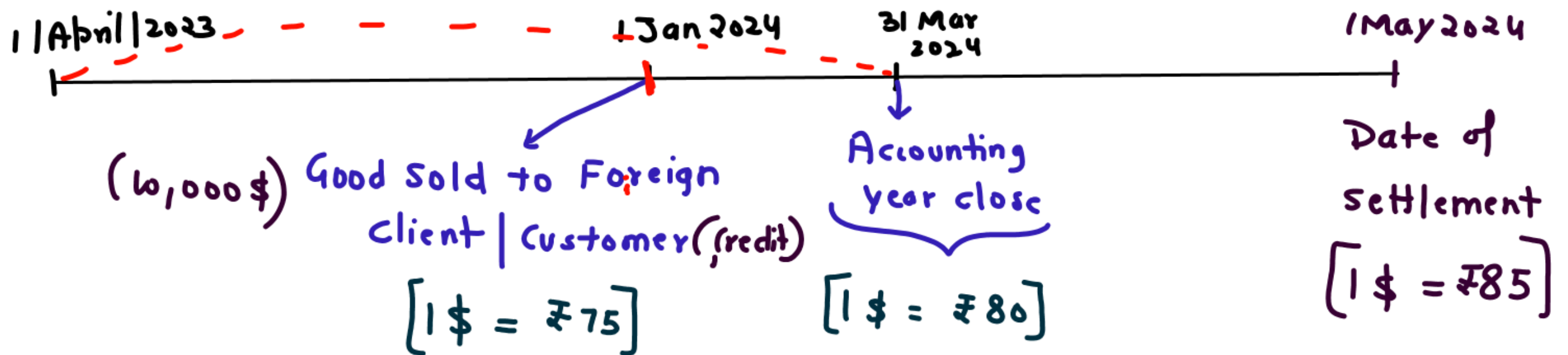
It means money held and other items whose settlement (or) realised amount is a determined sum of money.

Ex:- Cash, Debtor, B/R, Trade Receivable.

Guidelines as per AS-11 Revised

- ① As per AS-11 Revised all Foreign Currency Transaction should be **Initially Recorded** by applying Foreign Exchange Rate [FER] prevailing on the date of transaction.

Example



At this present case

Journal Entry

[Exchange Rate 1\$ = 75]

1 Jan 2024

Foreign Debtor A/c - Dr [10,000 x 75] 750,000

To Sale A/c - 750,000

(Being good sold to Foreign Debtor) (non monetary item)

② As per AS-11 Revised on the Reporting Date (Balance Sheet Date)

all monetary items such as Debtor, B/R, loan, Creditor, B/P etc

Should be recorded by Apply F E R Prevailing on the Reporting

Date (Closing Exchange Rate) Further any loss or gain should be Recognised
in Statement of P&L A/c

Journal Entry

31 Mar 2024

Ex. Rate [1\$ = 80]

Foreign Debtor A/c - Dr 50,000
 To Statement of P&L 50,000

$$* [(10,000 \times 80) - (10,000 \times 75)]$$

Note

During the year, Jitne Bhi Monetary items ko Record krna usko change krke closing Exchange Rate se hi B/s mai show krenge Aur jo Bhi profit/loss hoga usko Statement of P&L mai dalenge.

③ As per AS-11 Revised on the date of settlement any loss or gain shall be recognised in statement of Profit & loss.

Example

① Date of settlement (1 May 2024)

[1 \$ = 85]

Balance sheet (Foreign Debtor) = 800,000

Bank A/c — Dr	850,000	(10,000 × 85)
To Foreign Debtor	800,000	(10,000 × 80)
To Statement of P&L	50,000	(10,000 × 5)

[Being in case of profit due to F.R]

② Date of Settlement [1 \$ = 75]

[Foreign Debtor = 800,000]
B/s

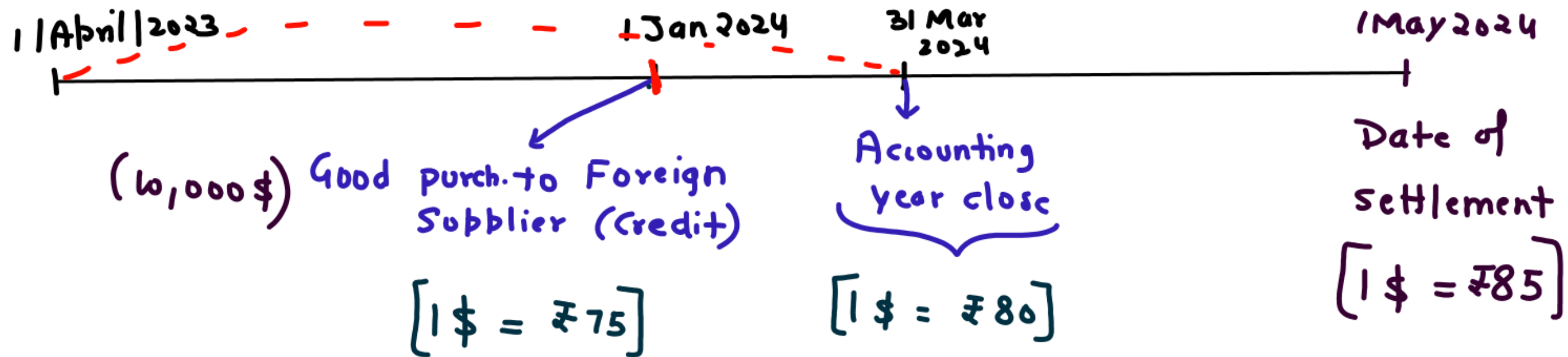
Bank A/c — Dr 750,000

Statement P & L A/c — Dr 50,000

To Foreign Debtor 800,000

[Being in case of loss due to $\text{£} \cdot \text{R}$]

Full Fledge Example



On Initial Recording

1 Jan 2024 → Purchase A/c — Dr 750,000
To Foreign creditor 750,000
(Being Goods purchase in credit) — (monetary item)

On Reporting Date (1\$ = 80)

31 Mar 2024

Statement to P & L A/c — Dr 50,000

To Foreign Creditor 50,000 (10,000 · [80 - 75])

on Date of Settlement (1\$ = 85)

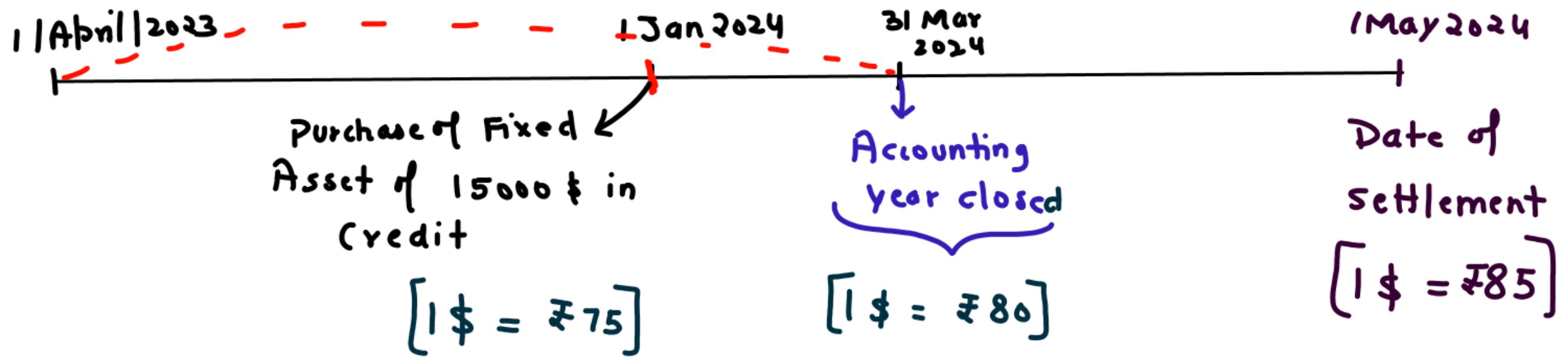
Statement to P & L A/c — Dr 50,000

Foreign Creditor A/c — Dr 800,000

To Bank A/c 850,000

- ④ As per AS-11 Revised if any Fixed Asset has been acquired in Foreign Currency then on the Reporting Date Fixed Asset (Non monetary items) shall be reflected at **Historical Cost**. and if any liabilities in relation to Fixed Asset should be recognised at **Closing Exchange Rate** any loss/gain shall be Recognised in statement of P&L

Example



1 Jan 2024 (Initial Recording)

Fixed Asset A/c — Dr (15000 X 75) 11,25,000
To Foreign creditor 11,25,000

(non monetary item)
(monetary item)

31 March 2024 (Reporting Date)

Stmnt of P & L A/c — Dr 75000
To Foreign creditor 75000 (15000 X ₹5)

B/S
Creditor | 12L

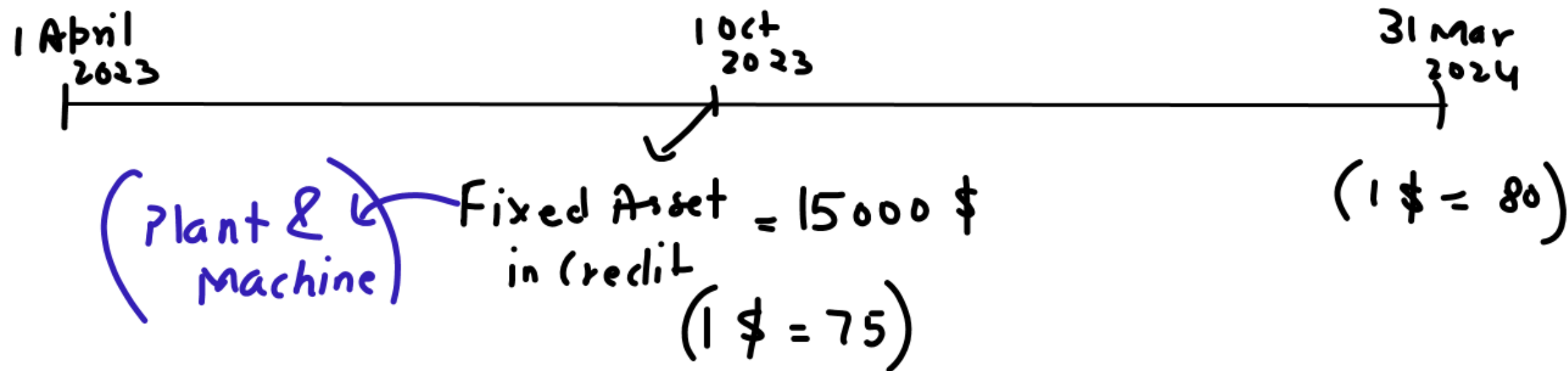
1 May 2024 (Settlement Date)

Stmnt of P & L A/c — Dr 75000
Foreign creditor A/c — Dr 1200,000
To Bank A/c 12,75,000

Para 46 A

The Para 46 A has been inserted by ministry of corporate affair. This Para deal with Acquisition of Fixed Asset by way of Foreign Currency loan. If entity has acquired a Depreciable Fixed Asset by the way of Foreign Currency loan the entity can opt for Para 46 A and as per this Para Loss or profit on the Reporting Date due to change in F.E.R can be debited / Credited to Fixed Asset A/c

Ex



If Para 46A is not opted

If Para 46A is opted

① Initial Recording

P & M A/c - Dr (15000×75)
To Foreign creditor 11,25,000

[SAME]

② Reporting Date [1\$ = 80] (Difference)

Stmnt of P&L A/c - Dr 75000
To Foreign creditor A/c 75000

P & M A/c - Dr 75000
To Foreign creditor 75000

Topic - 2 Translation of Financial Statement of Foreign operation

Important Note →

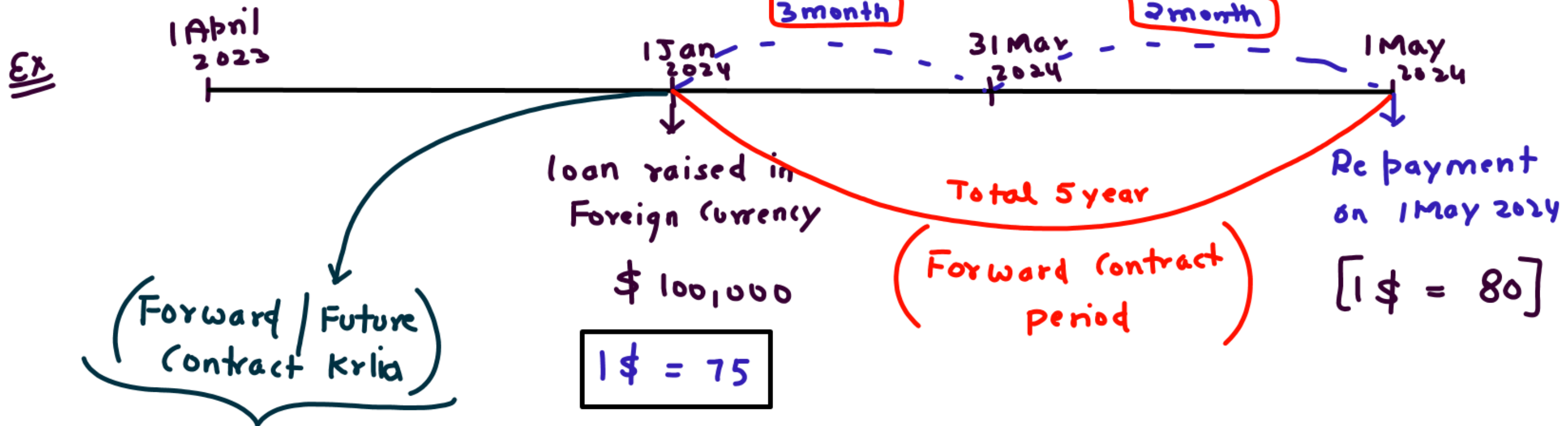
→ This Topic will cover in Foreign Branch under Branch chapter [Jinhone nhi pada]

→ This Topic is already covered in Foreign Branch under Branch chapter [Jinhone he padh lia]

Topic - 3

FORWARD EXCHANGE CONTRACT

As per AS-11 Revised **any loss** on Forward Contract shall be amortised over the life of Forward Contract



Irrespective of E.R increase or decrease i will pay at $[1\$ = 78]$

$$\text{Loan Amount} = 100,000 \times 75 = 75 \text{ lakh}$$

$$\text{Repayment Amt} = 100,000 \times 78 = 78 \text{ lakh}$$

loss due to Forward Contract

3 lakh

(Amortised over the life of Forward Contract)

In 2023-24

$$\text{loss Amortised} = \frac{300,000}{5} \times 3 = \boxed{180,000}$$

In 2024-25

$$\text{loss Amortised} = \frac{300,000}{5} \times 2 = \boxed{120,000}$$

Illustration-7

7/Dec/2021 = \$ 24000 transaction

20/May/2022 = Settlement Date

7/Dec/2021 \Rightarrow 1 \$ = 68.80

31/Mar/2022 \Rightarrow 1 \$ = 70.45

20/May/2022 \Rightarrow 1 \$ = 71.50

Sol 7/12/21 Technical service A/c - Dr (24000 x 68.80)
To Lucas Ltd 16,51,200

31/12/22 Statement of P&L - Dr 24000 (70.45 - 68.80)
To Lucas Ltd 39,600

Loss for 2021-22

Loss = 39,600

20/05/2022

Lucas A/c — Dr 16,90,800

Stat. of P & L A/c — Dr 25200

To Bank A/c (24000 × 71.50) 17,16,000

Loss for 2022-23

Loss = 25200

Initial Recording

7/12/2021

$$\begin{aligned}\text{Lucas Ltd} &= 24000 \times 68.80 \\ &= 16,51,200\end{aligned}$$

Reporting Date

31/12/22

$$\begin{aligned}\text{Lucas Ltd (creditor)} &= 24000 \times 70.45 \\ &= 16,90,800\end{aligned}$$

For 2021-22

$$\begin{aligned}\text{Loss transfer to statement} &= 16,90,800 - 16,51,600 \\ \text{of P\&L} &= \textcircled{39,200}\end{aligned}$$

Alternate Solution

Settlement date

20/5/2022

$$\text{Lucas Ltd} = 24000 \times 71.50$$

$$= 17,16,000$$

$$\text{Lucas Ltd (B/s)} = 16,90,800$$

→ loss = 25,200

Loss for 2022-23

Statement to P&L = 25,200

Illu. 8

1/4/2021

Cost of Machine = ₹ 2,16,00,000

$$1 \$ = 67.50$$

$$\$ x \times 67.50 = ₹ 216 \text{ lakh}$$

$$\$ x = \frac{216 \text{ lakh}}{67.50}$$

Cost of Machine
in \$ = \$ 3,20,000

$$\text{loss for this year 2021-22} = \$3,20,000 (70.45 - 67.50)$$

$$= \$320,000 \times 2.95$$

$$= \boxed{\text{₹944,000}}$$

↓
[Statement of P&L]

AS-12 [Accounting for govt. Grants]

INTRODUCTION

- ① Government across the world provide different form of incentives and grants to various organisation which undertake activities that are importance to the Country
- ② The grant Received by Company from the government are in various form
 - Incentive
 - Subsidy
 - duty drawback etc

③ Accounting standard 12 deal with Accounting for govt. Grants.

④ However this standard does not deal with :-

a) the special problem arising in Accounting for govt. grants in financial statement reflecting the effect of changing price

b) government assistance other than in form of govt grants

c) government participation in the ownership of enterprise

Meaning of government

→ Central govt.

→ state govt

→ Govt agencies

→ Local authority

→ nation & international govt.

Meaning of govt. grants

Govt. grants given by government in cash or kind to an enterprise for

→ PAST COMPLIANCES

→ FUTURE COMPLIANCES

With certain condition.

Recognition

Govt. grants should not be recognised until there is a reasonable assurance that.

(i) the enterprise will **Comply** with the condition attached to them

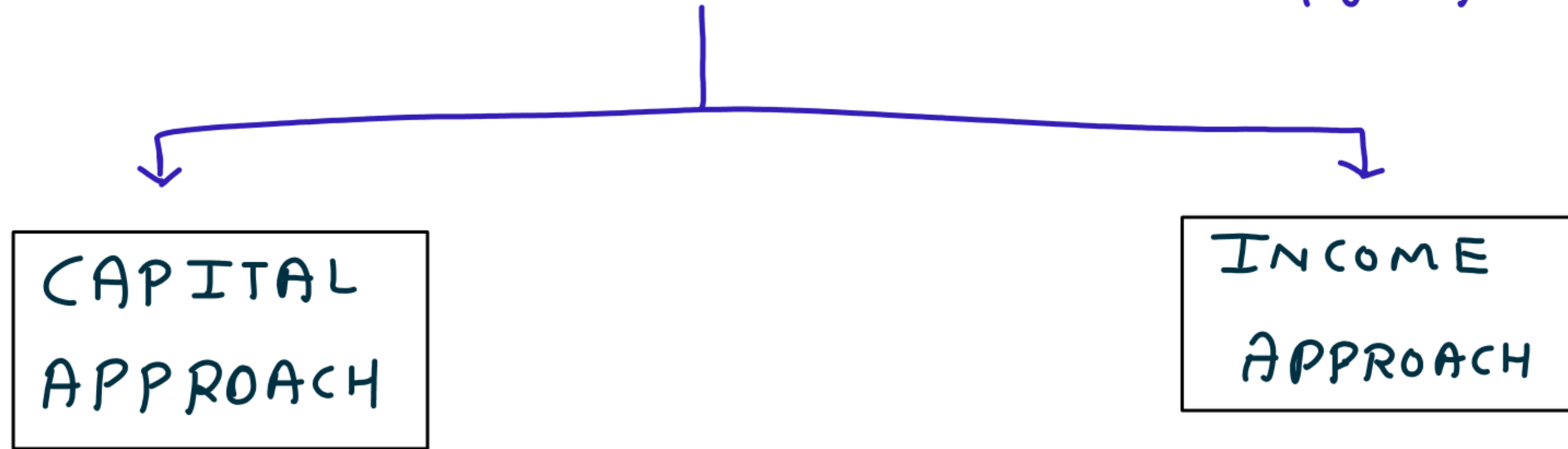
and

(ii) the grant will be Received.

Mere Receipt of grant is not necessary a conclusive Evidence that
condition attaching to the grant have been **(or)** will be fulfilled
only

Method of Accounting for govt. grants

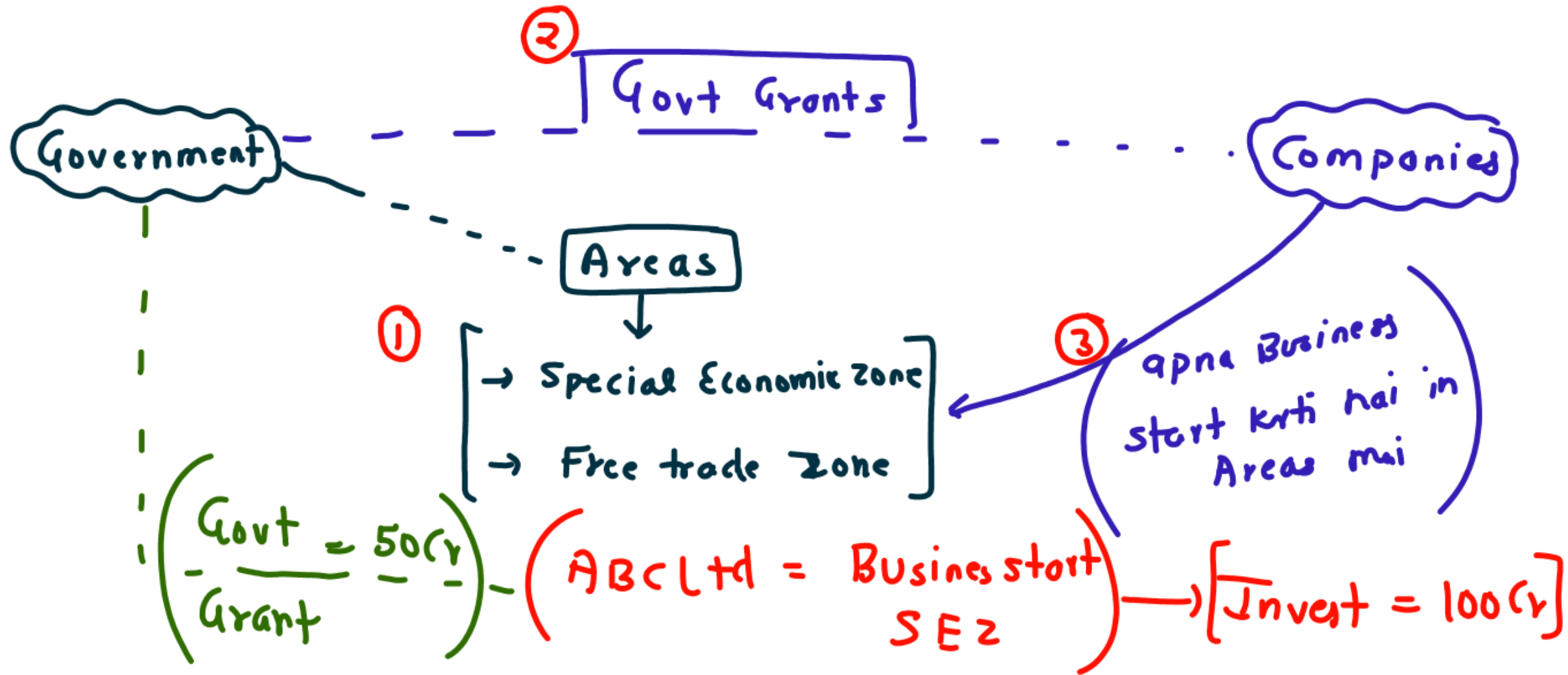
There are two approach for accounting Treatment of govt. grants



Capital Approach

① Grant Received in which the Nature of Development of PROMOTER Interest then, Such Grant is Capitalised by Crediting it to Capital Reserve

Ex



Summary

ABC Ltd Business start SFZ

Fixed Asset = 100 Cr

Govt. Grant = 50 Cr

Recognition

① Fixed Asset Alc — Dr 100 Cr
To Bank 100 Cr

② Bank Alc — Dr 50 Cr
To Govt Grant 50 Cr

③ Govt Grant Alc — Dr 50 Cr
To Capital Reserve 50 Cr] (Capital Approach)

② Grant Received for **Acquisition of NON-DEP. ASSET** . Such Grant is Capitalised by Crediting **Capital Reserve**

Ex

ABC Ltd → SEZ

Land = 50 Cr

Grants = 20 Cr

Accounting Treatment

① Land A/c - Dr 50 Cr

To Bank A/c 50 Cr

② Bank A/c - Dr 20 Cr

To Govt Grants 20 Cr

③ Govt Grants A/c - Dr 20 Cr

To Capital Reserve 20 Cr

In Case of Refund of Govt Grants

Capital Reserve A/c - Dr 20 Cr

To Bank 20 Cr

③ Grants Received from Acquisition of Depreciable Asset the Accounting treatment will be in different alternative.

Alternative - 1

Under this Alternative Amount of grant is Capitalised by reducing the Cost of Fixed Asset

Ex

Plant & Machine = 10 Cr
Useful life = 5 year
Govt Grant = 5 Cr

① P & M Alc - Dr 10 Cr
To Bank Alc 10 Cr

② Bank Alc - Dr 5 Cr
To Govt. Grant 5 Cr

③ Govt. Grant Alc - Dr 5 Cr
To P & M Alc 5 Cr

③ P & L Alc - Dr 1 Cr
To P & M 1 Cr

$$\begin{aligned} \text{Amt of Dep.} &= \frac{10 \text{ Cr} - 5 \text{ Cr}}{5} \\ \text{Per year} &= \boxed{1 \text{ Cr}} \end{aligned}$$

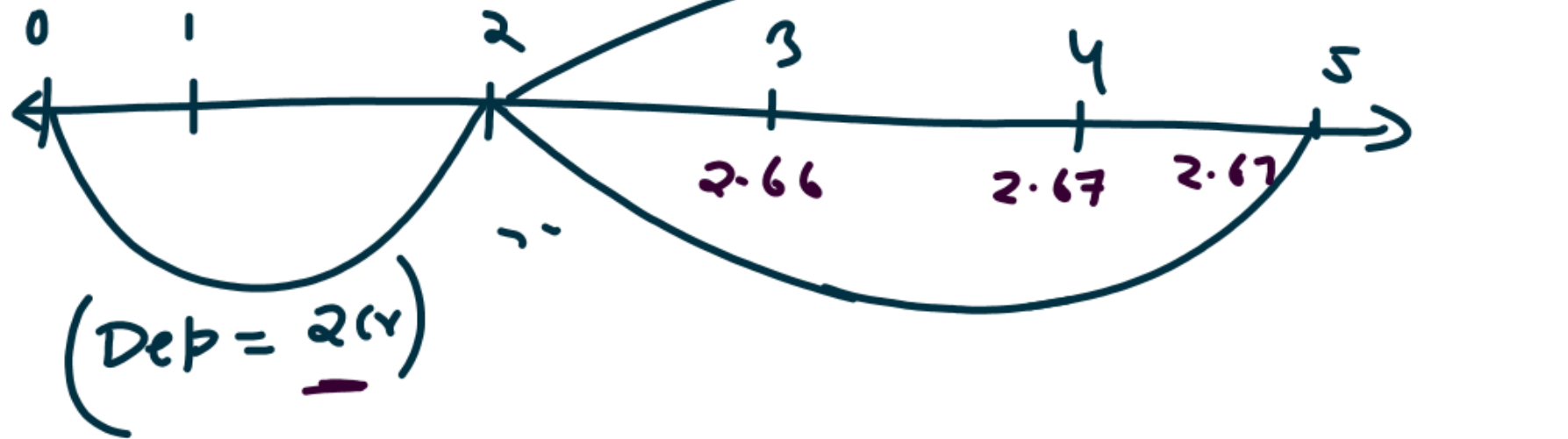
~~Dep Alc - Dr 1 Cr
To P & M 1 Cr~~

~~P & L Alc - Dr 1 Cr
To Dep 1 Cr~~

Refund of grant after 2 year

P & M A/c - Dr 5 Cr

To Bank A/c 5 Cr



Cost of Mach = 10 Cr

$$(-) Dep = \frac{2 Cr}{8 Cr}$$

mai aane
vale 3 saal

Dep korunga

$$Dep per year = \frac{8 Cr}{3} = 2.\overline{66} Cr$$

Alternative II

Under this alternative amount of Grants is treated as deferred Income and amount of grants as such credited to

Deferred govt. grant Alc [DGG Alc]

Example

Plant & Machine = 10 Cr
Useful life = 5 year
Govt Grant = 5 Cr

Beg

1. P & M Alc - Dr 10 Cr
To Bank Alc 10 Cr

2. Bank Alc - Dr 5 Cr
To Govt Grant 5 Cr

3. Govt Grant Alc - Dr 5 Cr
To Deferred govt grant 5 Cr

Deferred govt grant should be transfer to P & L Alc in the of Depreciation

$$\text{Transfer to P\&L} = \frac{5 \text{ Cr}}{5} = (1 \text{ Cr per year})$$

end of
1st year

DGA Alc - Dr 1cr
To P&L Alc 1cr

end of
2nd year

DGA Alc - Dr 1cr
To P&L Alc 1cr

After 2 year Refund of Grant

Deferred Govt Grant = 5cr
(-) Amortised till date = (2cr)
Unamortised Amt 3cr

Entry in Case of Refund

DGA Alc - Dr 3cr
Stmnt of P&L Alc - Dr 2cr
To Bank Alc 5cr

4

Grant Received in KIND | NON MONETARY TERM



AT Concessional Rate & Record the Asset at Concessional Rate

AT Free of Cost In this Case Asset will be Recorded at Nominal Value i.e. 1 or 100

Ex Land = 100 lakh
Cost
Govt has give at Concessional Rate @ 10 lakh

Recording
Land Alc - Dr 10L
To Bank Alc 10L

Ex Land Cost = 100 lakh
Govt has give free of cost

Record
Land Alc - Dr ₹1
To Bank ₹1

INCOME APPROACH

Grant Received against Expense Amount of Such grants is

treated as **REVENUE INCOME**

Accounting Treatment

Method-I

SPL

OTHER INCOME

Govt Grants = xxx

0r

Method 2

SPL

EXPENSE

Other Expense

Govt Grant Relate Exp xxx

0r

Method 3

Set-off

Other Income

Govt Grant

(-) Expense

= xxx

= (xxx)

Name of the Company:
 Profit and Loss Statement for the year:

(₹ in)

Particulars	Note No.	Figures as at the end of Current Reporting Period	Figures as at the end of the Previous Reporting Period
1	2	3	4
I. Revenue from Operations		XXXX	XXXX
II. Other Income → Govt Grant*		XXXX	XXXX
III. Total Revenue (I + II)		XXXX	XXXX
IV. Expenses:			
Cost of Materials Consumed		XXXX	XXXX
Purchase of Stock-in-Trade		XXXX	XXXX
Changes in Inventories of Finished Goods, Work-in-Progress, and Stock-in-Trade		XXXX	XXXX
Employee Benefit Expense		XXXX	XXXX
Finance Costs		XXXX	XXXX
Depreciation and Amortisation Expense		XXXX	XXXX
Other Expenses → Govt Grant Related Exp*		XXXX	XXXX
Total Expenses		XXXX	XXXX
V. Profit before Tax (III-IV)		XXXX	XXXX
VI. Tax		(XXXX)	(XXXX)
VII. Profit after Tax (V - VI)		XXXX	XXXX

ex. 10

1 April 2020

Machine Cost = 44,85,000

Govt Grant = 7,35,000

Useful life = 4

Residual Value = 15,36,000

Govt Grant Refunable in the year 2022-23

$$\textcircled{1} \quad \text{Net Cost of Machine} = 44,85,000 - 7,35,000 \\ = \boxed{37,50,000}$$

$$\textcircled{2} \quad \text{Dep per year} = \frac{37,50,000 - 15,36,000}{4} = \boxed{5,53,500}$$



Till Dep = $5,53,500 \times 2$
 = 11,07,000

Net Cost = 37,50,000
 (-) R.V = 15,36,000
 22,14,000

(-) Dep till date 11,07,000
11,07,000 ✓
7,35,000 ✓

(Refund of Grant) (+)

Total amt 18,42,000
 to be depreciate

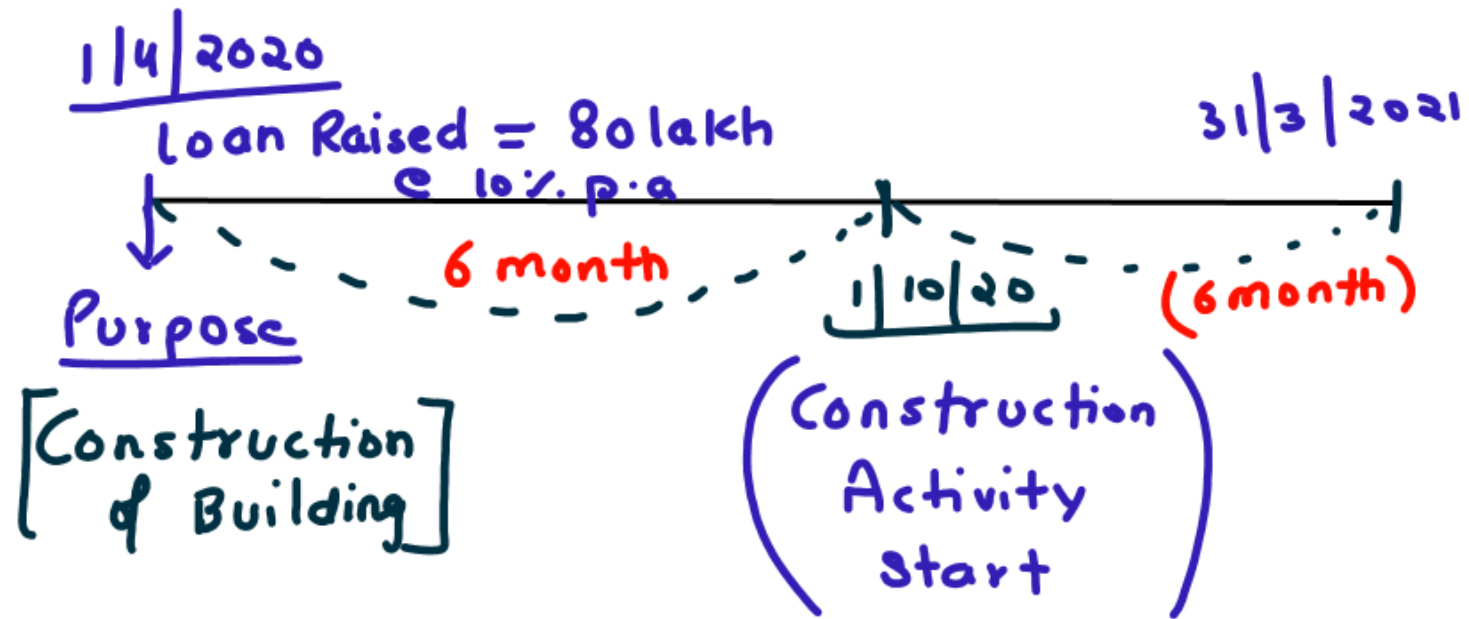
Next 2 year Dep
 will = 18,42,000

Per year =
 2022-23 9,21,000
 2023-24 9,21,000

AS-16 (Borrowing Cost)

The Better understanding of this Accounting with the help of Example

1st year



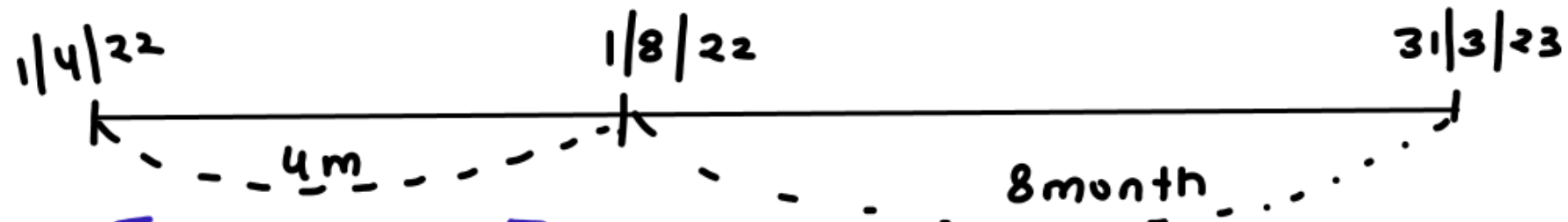
$$\begin{aligned} \text{Interest} &= 80 \text{ lakh} \times 10\% \\ \text{Paid} &= \boxed{800,000} \end{aligned}$$

Journal Entry

① Interest Alc - Dr 8L
To Bank 8L

② P&L Alc - Dr 4L
Building Alc - Dr 4L
To Interest 8L

3rd Year



[Construction Interrupted]

due to labour strike,
Govt Ban Const. Activity
temp.

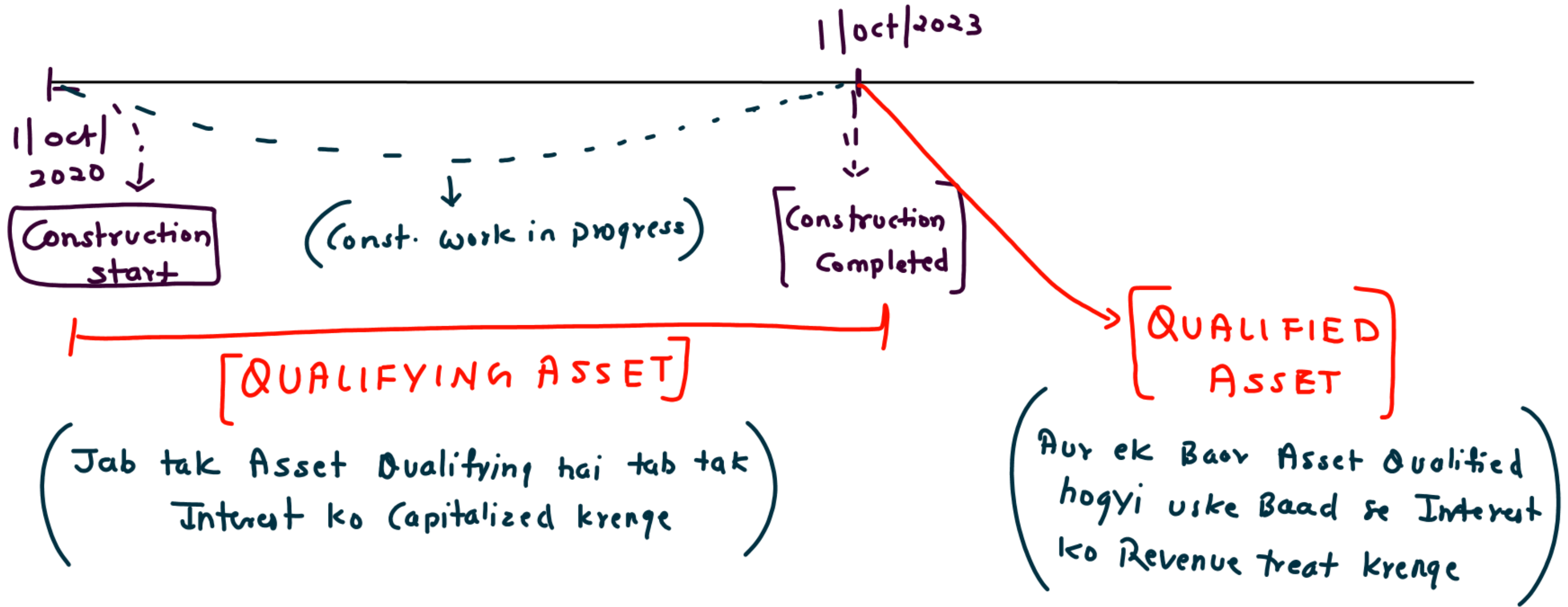
[Construction in progress]

This stopped is not necessary for completion of work. So in this period Int. Amt is Revenue Exp.

Journal Entry

- ① Interest A/c - Dr 8L
To Bank 8L
- ② P&L A/c $(8L \times \frac{4}{12})$ 2.67L
Building A/c $(8L \times \frac{8}{12})$ 5.33L
To Interest A/c 8L

Summary Diagram



Theory Note

① Borrowing Cost →

- a) Interest charges
- b) Commitment charges
- c) Ancillary charges
- d) Amortization of Discount & Premium for issue of Securities
- e) Lease Finance charges
- d) Exchange difference on Foreign Currency Borrowing

② Commencement of Capitalization of Borrowing Cost

- Expense on Asset
- Borrowing Cost being incurred
- Construction Activity in Work in Progress

③ Note on Suspension of Capitalization of Borrowing Cost

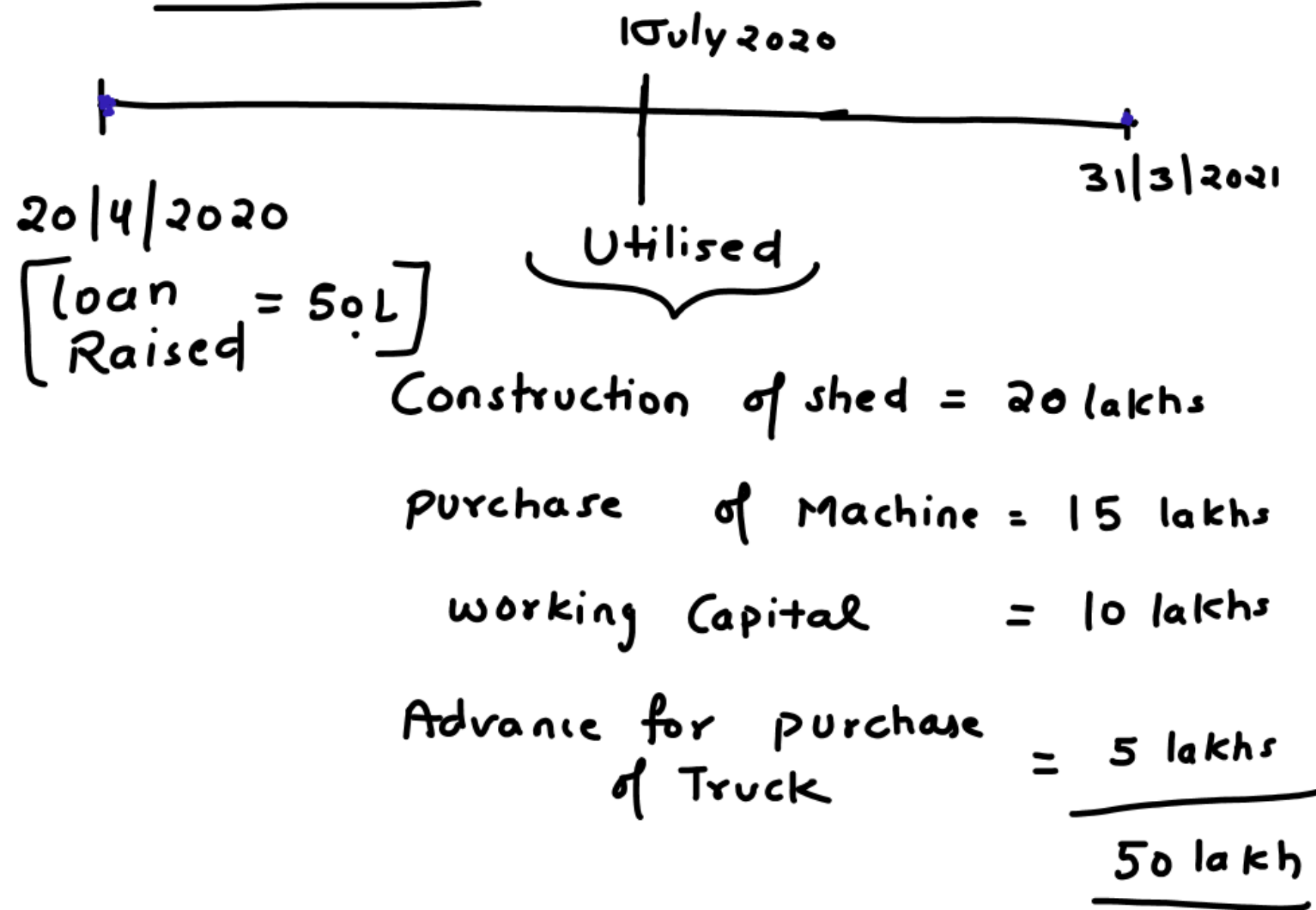
Capitalization of Borrowing Cost should be suspended when ACTIVE DEVELOPMENT STOPPED get interrupted but such stoppage is not necessary to Final Completion of Asset

Example :- Construction stoppage due to

- labour strike
- Banned by Govt for temporary due to pollution.
- any other case as may be.

Ex-1

ABC Ltd



→ Construction of shed Completed by 31 Mar 2021

→ Delivery of truck is not Received

→ Total Interest charged on Loan amount for 2020-21 = 9 lakhs

→ How much Amount should be Capitalised & Revenue

Ans

Statement showing Amt to be Capitalised & Transfer to P&L

Particular	Capitalized Amt	Transfer to P&L
① Const. of shed Completed at end of year	$\frac{9 \text{ lakh}}{50 \text{ lakh}} \times 20 \text{ L} = \boxed{3.6 \text{ L}}$	—
② Purchase of Machine	—	$\frac{9 \text{ L}}{50 \text{ L}} \times 15 \text{ L} = \boxed{2.7 \text{ L}}$
③ Working Capital	—	$\frac{9 \text{ L}}{50 \text{ L}} \times 10 \text{ L} = \boxed{1.8 \text{ L}}$
④ Advance paid for Truck	—	$\frac{9 \text{ L}}{50 \text{ L}} \times 5 \text{ L} = \boxed{0.9 \text{ L}}$
	360,000	5,40,000

Ex = 2

XYZ Ltd loan Raised = 32 Cr

₹ 32 Cr

31/3/22

1/4/21

[loan Amt utilised]

① Construction of a Sea link
(It is necessary to stop the Const. for Better Completion of work)

= 25 Cr
[Capitalised]

② purchase of Machinery

= 3 Cr P&L

③ working Capital

= 2 Cr P&L

④ Vehicles purchased

= 50 lakh
P&L

- ⑤ Advance for Tools & Crones = 50L
P&L
- ⑥ purchase of Technical know how = ₹ 1 Cr
P&L

Total Interest charged ₹ 80 lakh

How much interest is Capitalised & Revenue

Ans

$$\frac{80L}{3200L} \times 2500L = 62,50,000 \text{ Capitalised}$$

Remaining

$$80L - 62.50L = 17,50,000 \text{ (P&L A/c)}$$

Ex=3

P & R Ltd started a construction on 1 April 2022

Special loan is taken = 400,000
@ 10% p.a

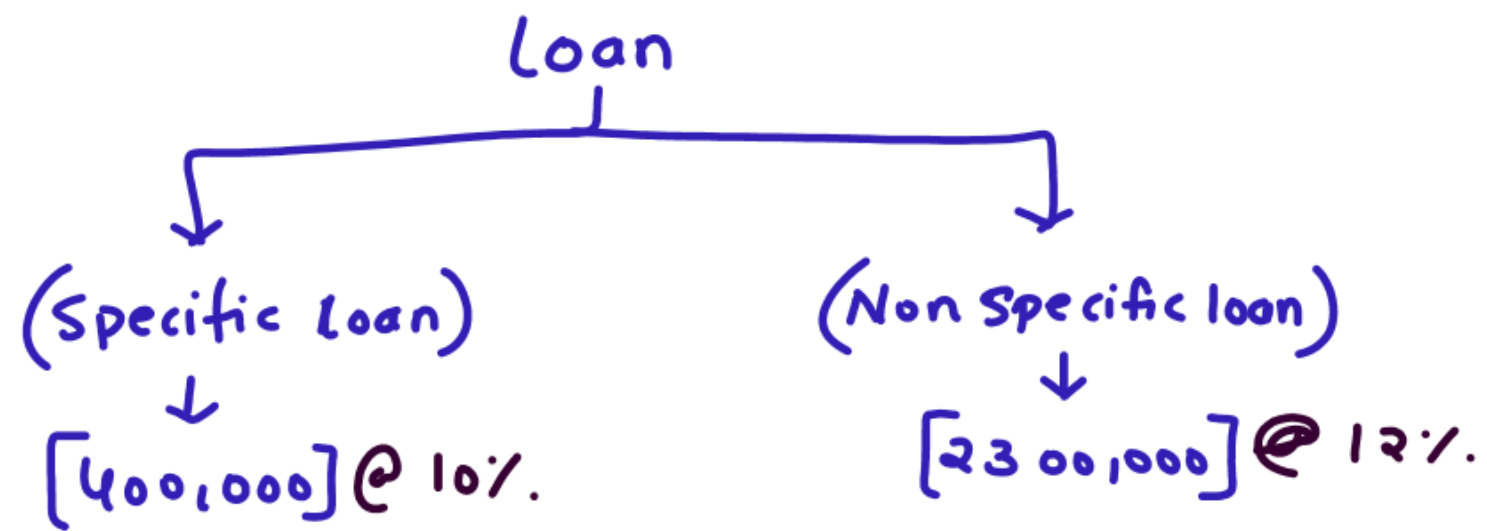
(To Finance the Const of plant)

Expenditure made on Const. of plant:-

1/4/2022 = 5L	} 19 lakh
1/8/2022 = 12L	
1/1/2023 = 2L	

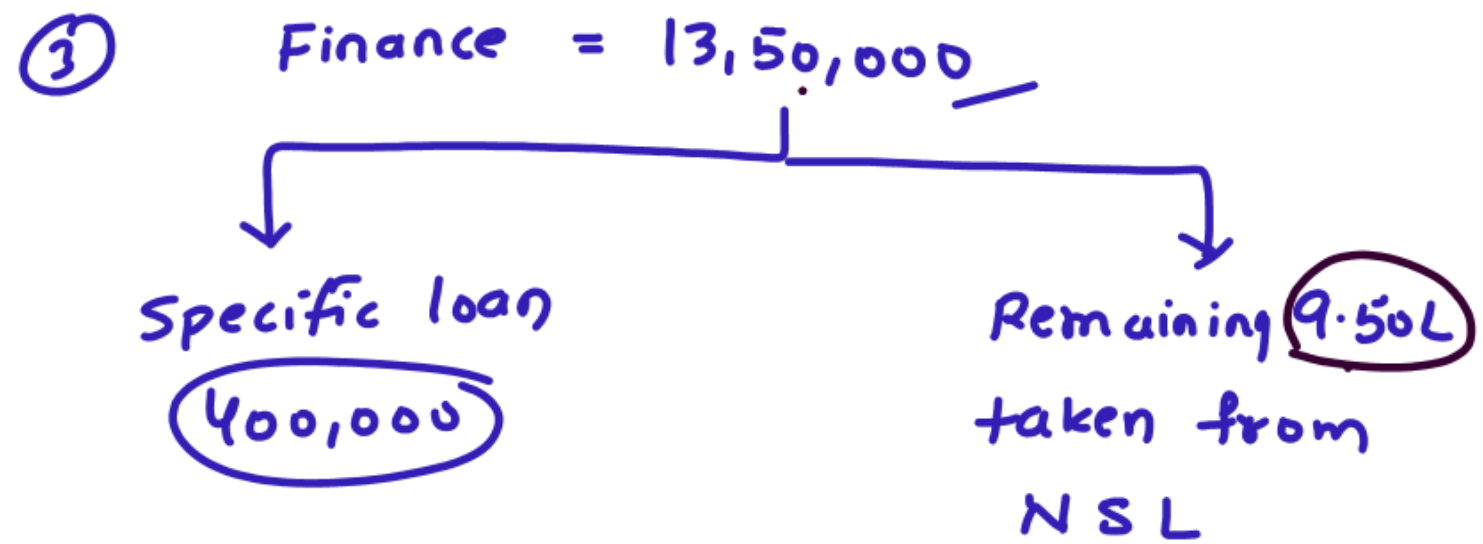
P & R Ltd other outstanding Non Specific (General) loan 23 lakh @ 12% p.a.

Plant got construction on 31/3/2023.



① Calculation of Avg Accumulated Expense on Plant

$$\begin{aligned}
 1.4.22 &\rightarrow \frac{500,000}{12} \times 12 = 500,000 \\
 1.8.22 &\rightarrow \frac{12,00,000}{12} \times 8 = 8,00,000 \\
 1.1.23 &\rightarrow \frac{2,00,000}{12} \times 3 = 50,000 \\
 &\underline{\underline{13,50,000}}
 \end{aligned}$$



Now, Amt to be Capitalised

$$\begin{aligned}
 400,000 \times 10\% &= 40,000 \\
 9,50,000 \times 12\% &= 1,14,000 \\
 &\underline{\underline{1,54,000}} \\
 \text{Amt to be Capitalized} & \underline{\underline{1,54,000}}
 \end{aligned}$$

Accounting for Taxes on Income - [AS-22]

- ① This standard deal with "ACCOUNTING FOR TAX"
- ② Basic object of AS-22, is that Current year Income should Taxed in the same year

Example Net Income before tax of ABC Ltd of ₹100,000. ABC Ltd has raised a loan of ₹50,000 @ rate of 20%. Interest p.a in the Beg. of the year. Current year Interest is still outstanding by the end of current year. Tax Rate @ 30%.

Net profit as per Accounting

Net Profit as per Income tax

P & L A/c

To o/s Int. on loan	10,000	By Gross profit	100,000
To Net profit	90,000		
	<u>100,000</u>		<u>100,000</u>

[Tax @ 30% = 27000]

P & L A/c

To Interest (As per IT provision Interest is allowed on payment)	-	By Gross profit	100,000
To Net profit	100,000		
	<u>100,000</u>		<u>100,000</u>

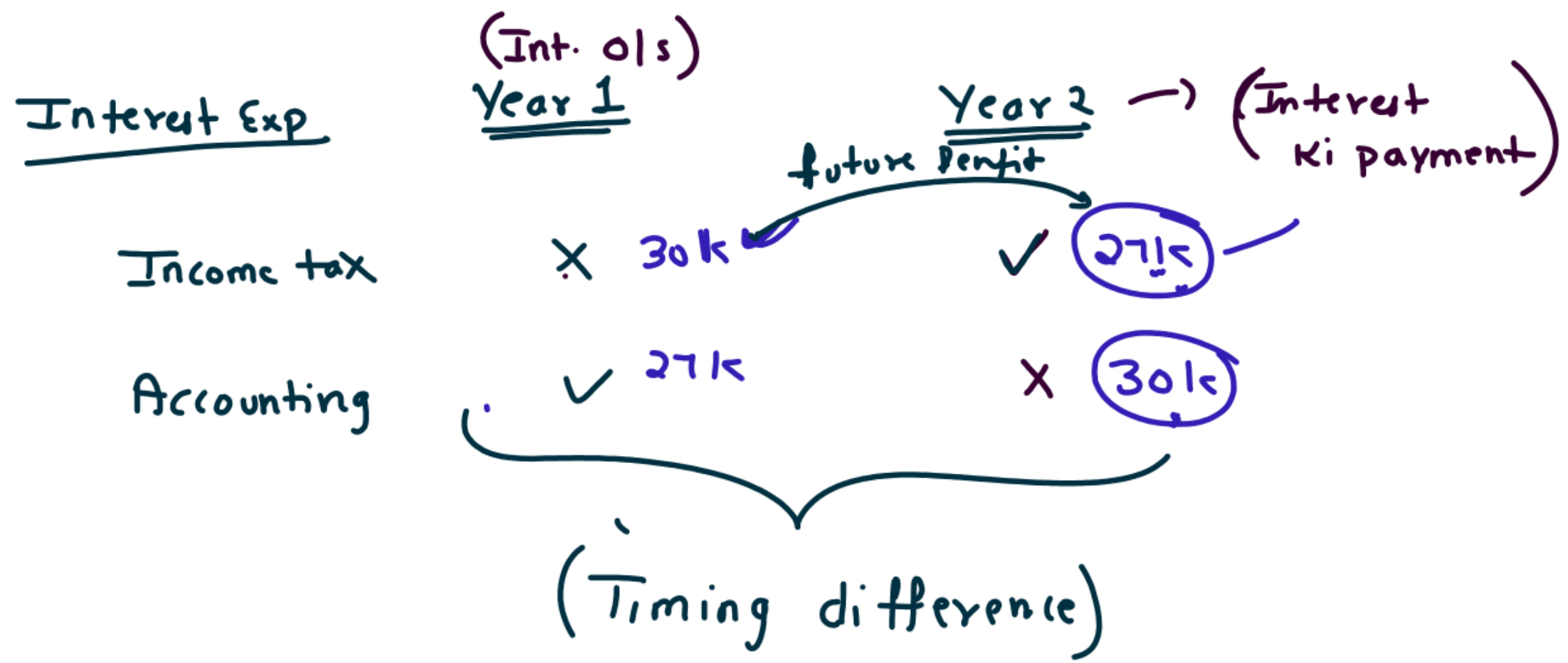
[Tax @ 30% = 30,000]

(That diff will be deal in this standord)

Que Why the Difference is arised in Tax liabilities ?

Ans Due to Timing difference.

Explanation



Revised P&A/c | Revised Income statement (As per Accounting View)

To Tax Expense*	
Current tax (As per I.T Record)	30,000
(-) D.T.A	<u>(3000)</u>
	27000

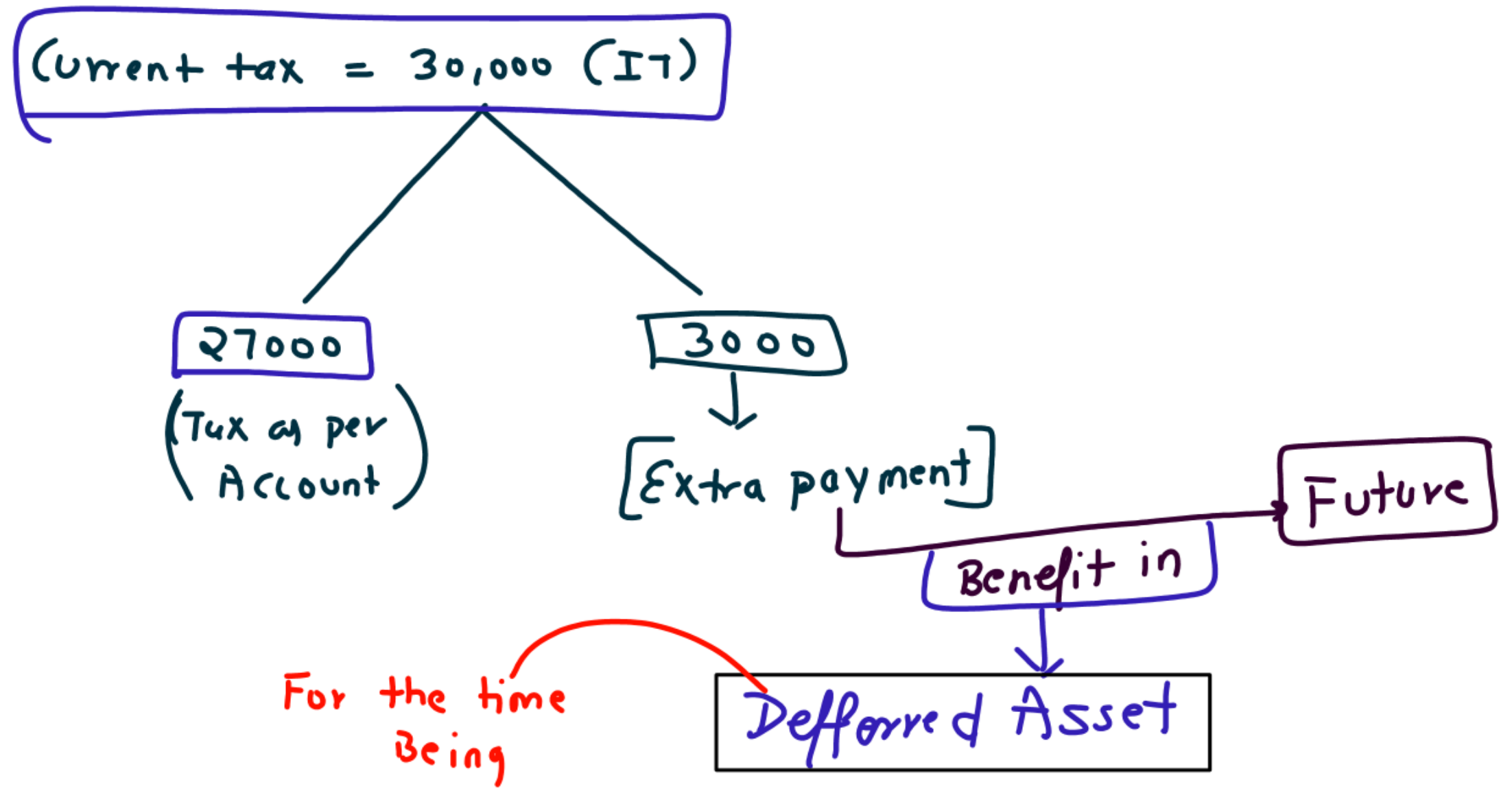
(As per Accounting tax)

By Net Income 100,000

DTA A/c - Dr	3000
To SPL	3000

B/s	
DTA	3000

*
$$\text{Tax Expense} = \text{Current tax as per Income tax Record} \pm \text{Deffered Tax}$$

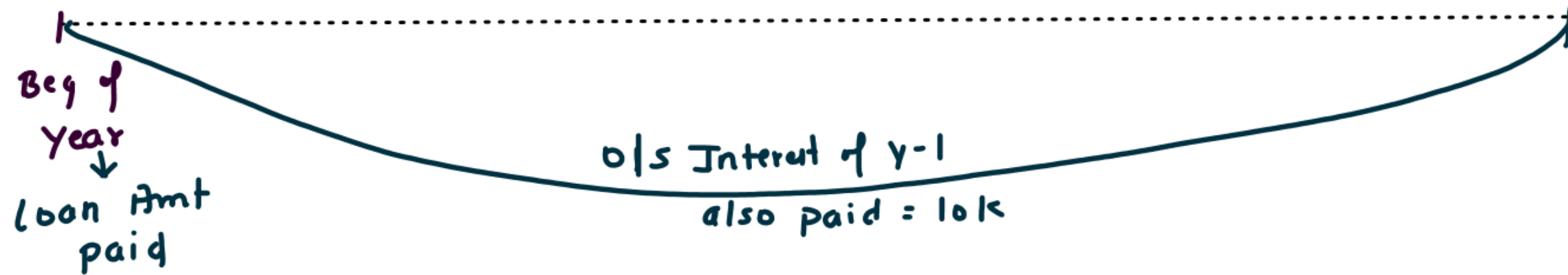


Ex=2

Subsequent year (year 2)

- (i) Int o/s of year 1 is paid in year 2
- (ii) Loan Amt is paid in Beg.
- (iii) Net Income 100,000 in year 2.

loan 50,000



Net Income as per IT Act

Net Income	=	100,000
(-) O/s Int paid	=	(10,000)
		<hr/>
Net Income before tax		90,000
Tax @ 30%		27,000 ✓
		<hr/>
NI after tax		<u>63,000</u>

Net Income as per Accounting

Net Income	=	100,000
(+) O/s Int paid	=	No Treatment
		<hr/>
NI before tax		100,000
Tax @ 30%		30,000
		<hr/>
NI after tax		<u>70,000</u>

Revised Income statement

Tax Expense

Current tax	27000	→	Actually itna pay kia
(+) D.T.L	3000	→	itna kom pay kia hai
	<u>30,000</u>	→	Accounting ke hisab se itna pay krna tha

SPL A/c - Dr 3000
To DTL 3000

DTL A/c - Dr 3000
To DTA 3000

Tax as per Income tax	30,000	27,000
Tax as per Accounting	27,000	30,000
	3,000 (Extra)	3,000 (Kom pay kia)

(Future Benefit) →

↓
Deferred tax Assets (D.T.A)

↓
Deferred tax Liability (D.T.L)

→ (Future obligation)

Class - 2

Example :-

Net profit before providing Tax & Depreciation of ABC Ltd are ₹100,000
ABC Ltd purchase an Equipment worth ₹30,000 during the year
and having a life of 2 year

As per Income tax Act Dep. on such Asset (as used
in Scientific Research) is allowed full in First year itself

Tax Rate @ 30%.

Analysis

<u>Equipment</u>	<u>1 yr</u>	<u>2 yr</u>
IT	30,000	-
Accounting	15,000	15,000

Year 1

Tax liab as per IT

Net Income = 100,000
(-) Dep on Equipment = (30,000)

70,000

Tax liab @ 30%: 21,000

Tax liab as per Accountig

Net Income = 100,000
(-) Dep on Equipment = (15,000)

85,000

Tax liab @ 30%: 25,500

Revised Income Statement

Tax Expense
Current Tax 21,000
A) DTL + 4,500 → 25,500

SPL A/c — Dr 4,500
To DTL 4,500

BIS

DTL	4,500
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Year 2

Tax liab as per IT

Net Income = 100,000

(-) Dep on Equipment = —

100,000

Tax liab @ 30%

30,000

Tax liab as per Accounty

Net Income = 100,000

(-) Dep on Equipment = (15,000)

85,000

Tax liab @ 30%

25,500

Revised Income Statement

Tax Expense

Current Tax 30,000

(-) DTA 4,500

25,500

DTA A/c - Dr 4,500

To SPL 4,500

DTL A/c - Dr 4,500

To DTA 4,500

Theory Notes

- 1) Accounting Income :- Net Profit as per Financial Book
- 2) Taxable Income :- Net Profit as per Income Tax Act.
- 3) Current Tax :- Tax payable / paid as per Income Tax Act
- 4) Deferred Tax :- Tax effect due to Timing difference
- 5) Tax Expense = $\text{Current Tax} \pm \text{Deferred Tax}$

⑥ Deferred Tax Asset →

When Income tax benefit is postponed i.e., Entity shall receive benefit in Future - DTA get created.

DTA should be created only when there is reasonable certainty that sufficient income will be available in future.

⑦ Unabsorbed Dep or Carry Forward of losses:- As per IT law, can be offset against future tax income and pay less tax in future. However such can be set off only to the extent there is virtual certainty.

Example 3

ABC Ltd is a listed company and incurring heavy losses since last several years and Industry in which it is functioning is not expected to perform better in the next few year.

While Finalising the Accounts for the year 1 ended 31 Mar 2021, the CFO of the company decided to create DTA for tax Benefit that would arise in future year

Solution:- As per AS-22, DTA should be Recognised for all timing difference Subject to Consideration of prudence

Recognition of DTA with respect to Unabsorbed Dep and
Carried forward of losses required virtual certainty Supportive by conclusive
evidence that there would be sufficient income in future

However in the present case there seems no virtual
certainty and therefore Entity should not create DTA

Ex = 4

XYZ Ltd providing following information

Deb as per Alc Records = 2 lakh

Deb as per IT Records = 5 lakh

Unabsorbed preliminary Exp as per Tax records = 30,000

There is a adequate Evidence of profit sufficient

Show how many DTA / DTL should be Recognised

Tax Rate @ 30%.

Case-1

Depreciation

Red pen = Use for illu. 15 of Book

IT Records

Net Income (let) = 10L 25L
 (-) Dep = 5L (20L)

 5L 5L

Accounting Records

Net Income (let) = 10L 25L
 (-) Dep = (2L) (8L)

 8L 17L

Tax liab @ 30% = 1.5 lakh

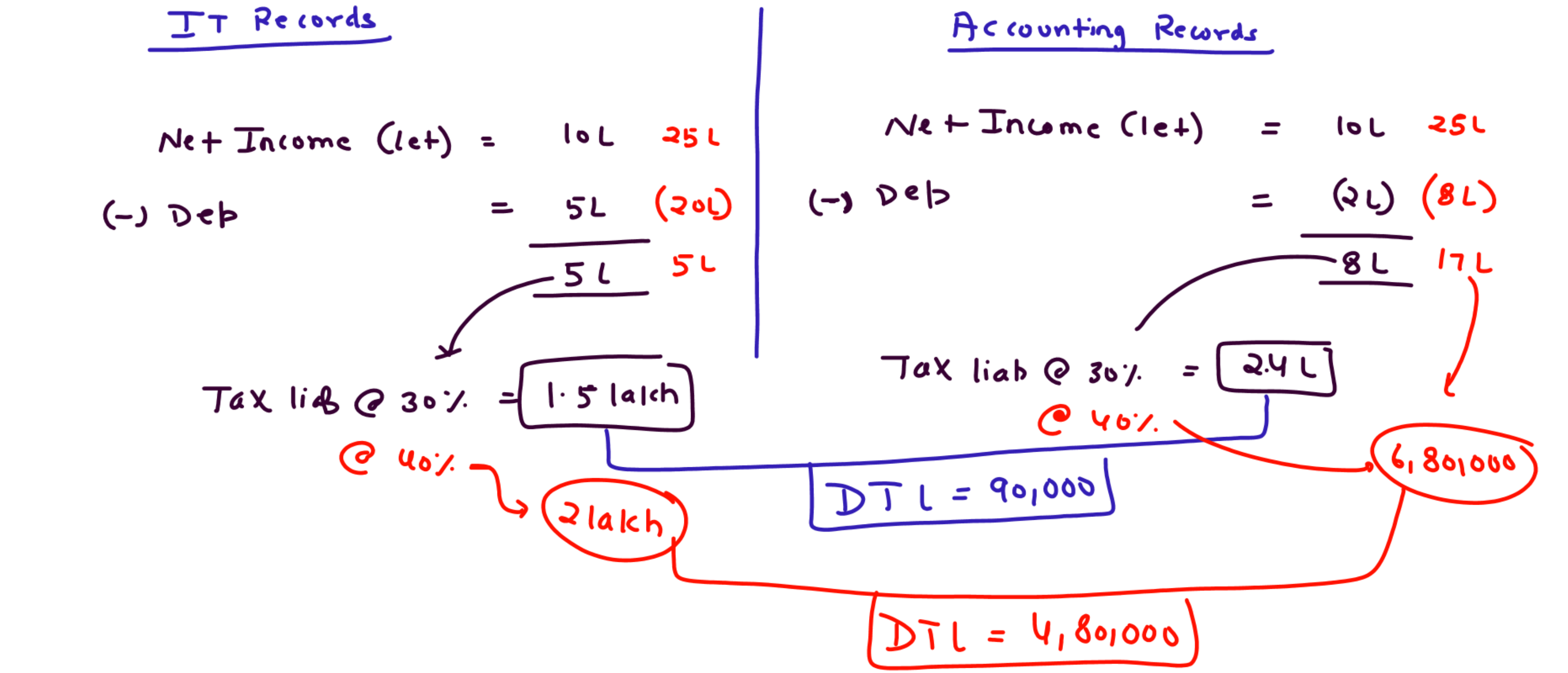
Tax liab @ 30% = 2.4L
 @ 40%

@ 40% → 2 lakh

DTL = 90,000

6,80,000

DTL = 4,80,000



Case 2

Preliminary Exp

IT Records

Net Income (let) = 100,000 2L
 (-) Preliminary Exp = - -
100,000 2L

Tax liab @ 30% = 30,000

@ 40% = 80,000

Accounting Records

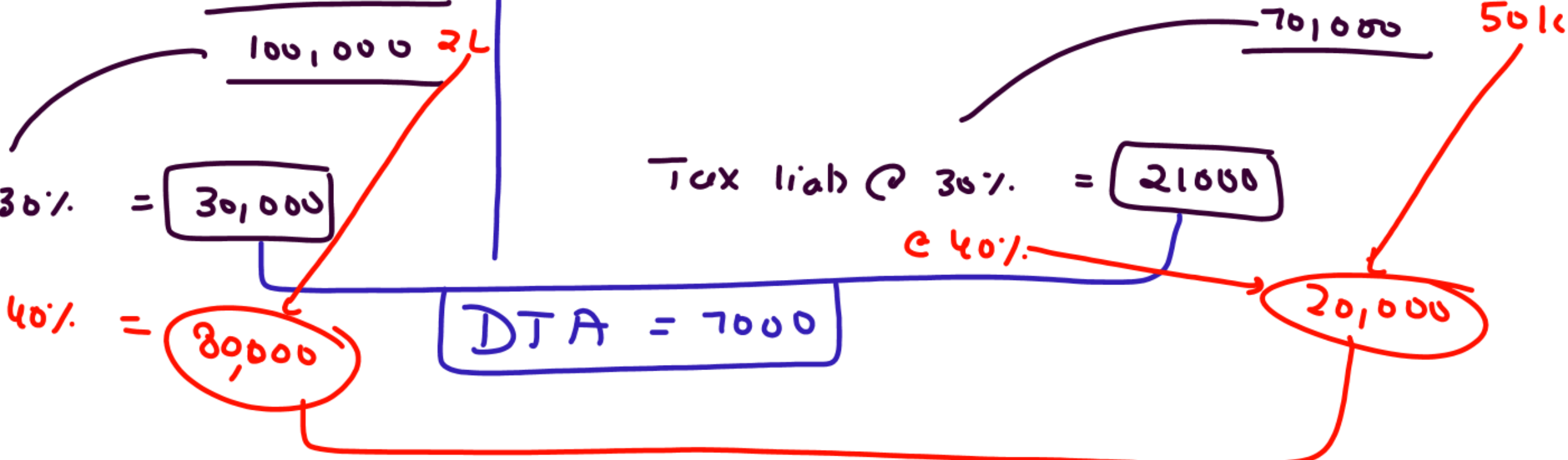
Net Income (let) = 100,000 2L
 (-) Preliminary Exp = 30,000 (1.5L)
70,000 50L

Tax liab @ 30% = 21,000

@ 40% = 20,000

DTA = 7000

DTA = 60,000



As per AS-22, Deferred Tax should be Recognised for timing difference

In case of Depreciation

DTL should be Recognised @ 90,000

In case of preliminary exp

DTA should be Recognised @ 7000

Setoff

<u>Dep</u>	<u>Premiliary</u>
<u>DTL = 4,80,000</u>	<u>DTA = 60,000</u>
DTL = 4,20,000 → (App of ill. 15)	

Ex = 5

XYZ Ltd is working on different projects which are likely to be completed within 3 year period.

Revenue from these contracts are on percentage of completion method for Financial statement of (As per A/c Records)

2016 : 11,00,000

2017 : 16,00,000

2018 : 21,00,000

However for Income tax purpose Company has adopted Completed

Contract method for recognition of Revenue and Amount Recognised was ₹7,00,000, ₹18,00,000 and ₹23,00,000 for 2016, 2017, 2018 respectively

IT Rate @ 35% & compute DTA/DTL

Year-1 (2016)

Revenue
as per

A/c - Rewards

1100,000

IT - Rewards

700,000

Tax liab
@ 35%

385,000

245,000

⇒ **DTL = 140,000** - Recognised

Year 2 (2017)

Revenue

A/c Rewards

16,00,000

IT Rewards

18,00,000

Tax liab
@ 35%

5,60,000

6,30,000

DTA = 70,000

Year 3 (2018)

Revenue

A/c Rewards

21,00,000

IT Rewards

23,00,000

Tax liab
@ 35%

7,35,000

8,05,000

DTA = 70,000

Illustration - 14

	2018-19	2019-20	2020-21	2021-22
Profit before tax	28,00,000	31,50,000	35,00,000	24,50,000
(+) Timing diff.	3,15,000	2,10,000	(70,000)	Nil
(+) Permanent Diff.	3,50,000	2,80,000	3,15,000	4,20,000
Taxable Income	34,65,000	36,40,000	37,45,000	28,70,000
Tax Rate	40%	38%	35%	30%
Current Tax	13,86,000	13,83,200	13,10,750	8,61,000