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Chapter-1

F.R. Fundamentals.

Definition :- It is a subject dealing with Reporting of financial Transaction of Corporate entities as per standards prescribed in India through FIS.

#1 Corporate entities :- ownership of any Organisation through Share Capital

↓
Classified as per regulatory authorities

J.S.C.

Banking Co.

Ins.Co.

NBFC

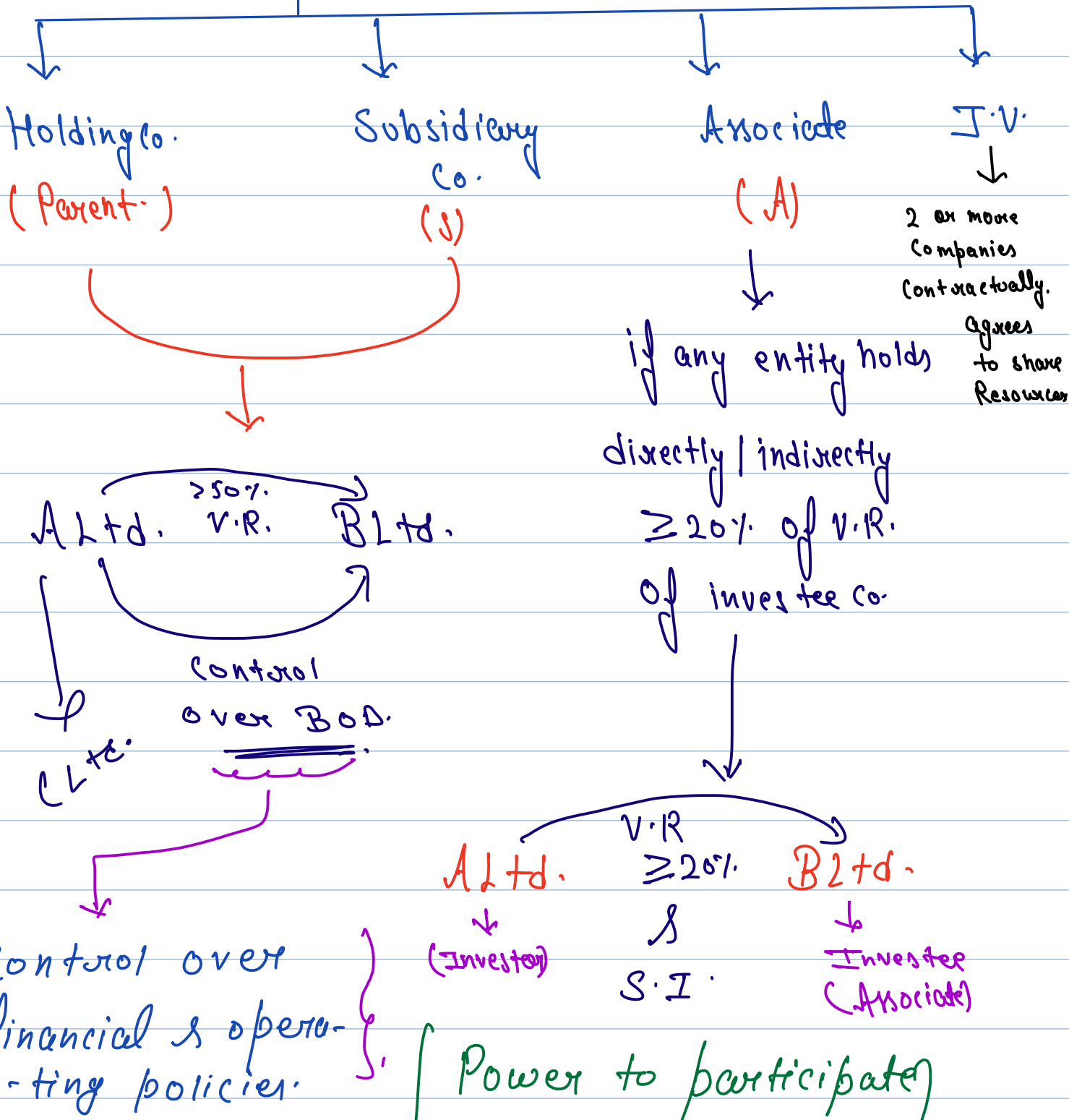


Ind AS N.A.



Refer below

further classified into





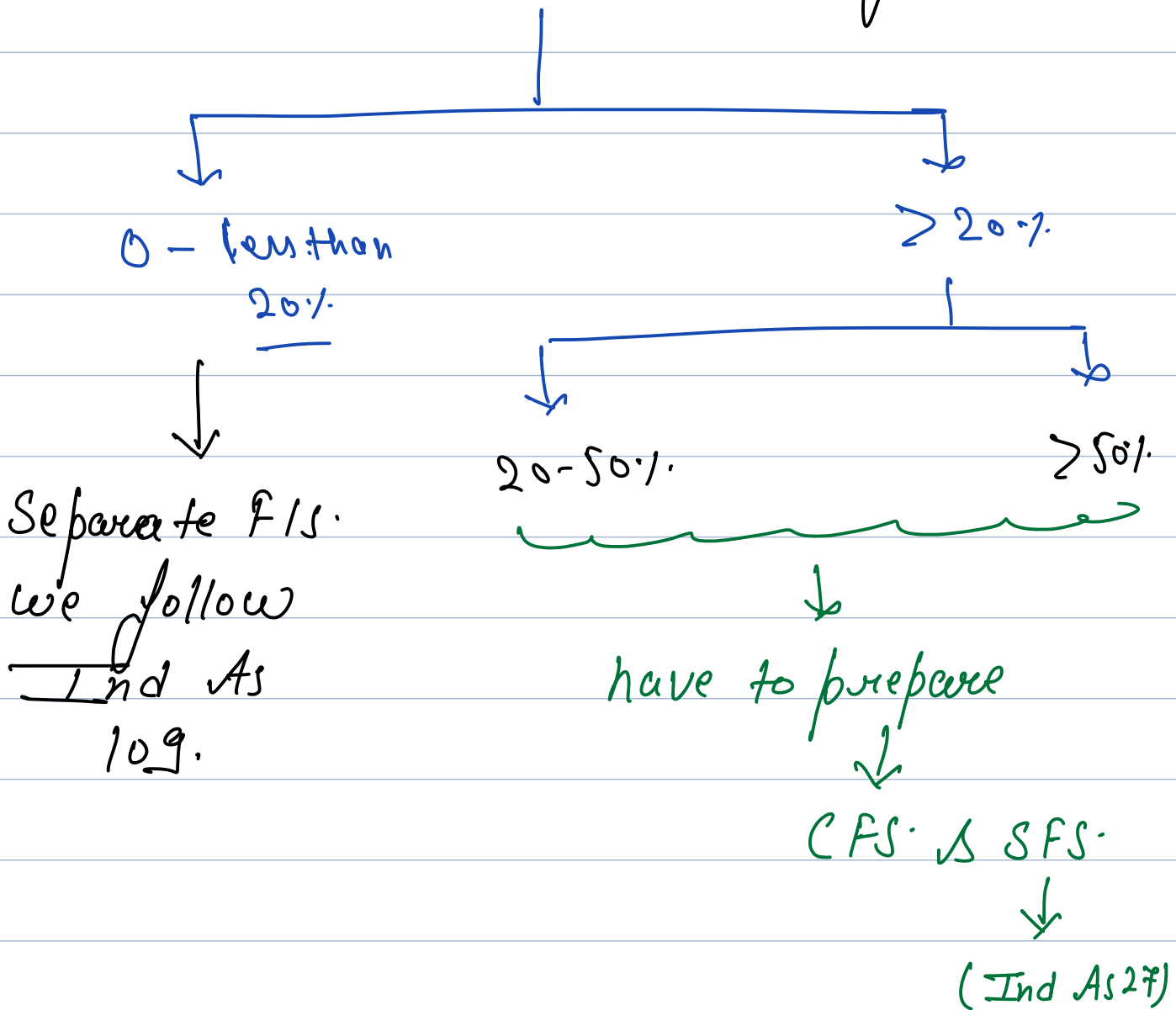
in financial & operating policies



eg →

HD Ltd.

Investment in E. Sh. of B Ltd.



NBFC :- a cash management & financing Co.

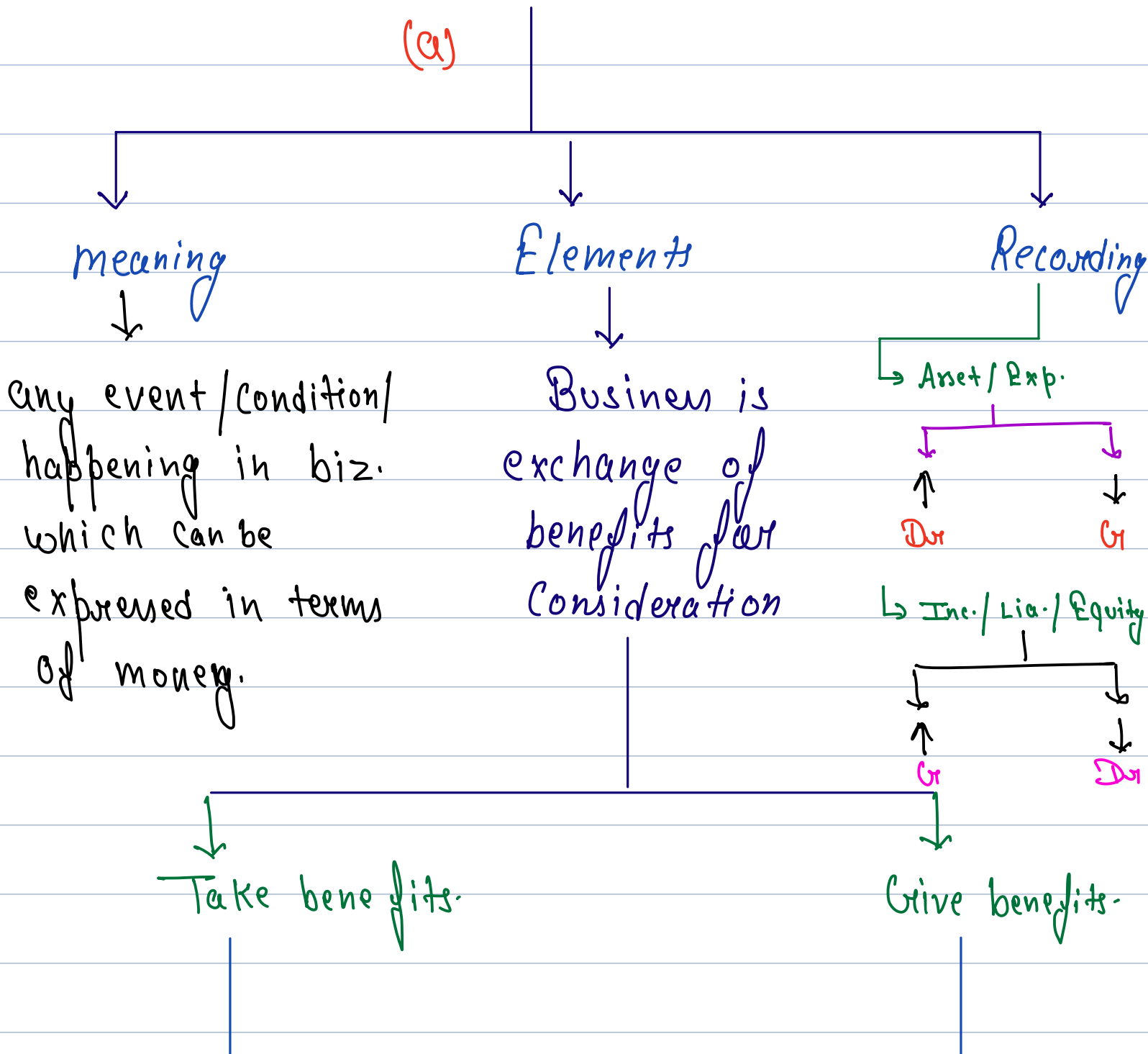


- ↳ Chit fund.
- ↳ Asset mgmt Co.
- ↳ Nidhi Co.
- ↳ mutual benefit Co.
- ↳ Core invt. Co.



#2 Financial Transaction

(a)



Dr

Resources

Cr

Obligation

benefits gets exhausted before R.D.

Expense

benefits gets exhausted beyond R.D.

Asset

benefit given before R.D.

income

benefit yet to be given till R.D.

Liability

→ Decrease in Economic benefit during the year

→ Outflow of cash

→ Depletion of Asset.

→ decrease in Equity

→ Resources

→ Controlled

by entity

→ life > 1 yr

→ increase

in Economic

benefit during

the year.

→ increase in asset

→ decrease in Liability.

→ present

Obligation

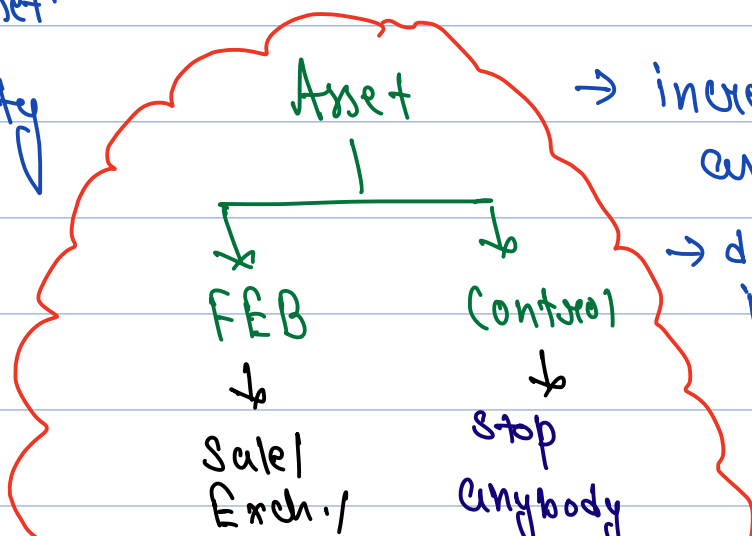
settle-ent

will result

in outflow

of Resour

cor





Leave. from using it.

Equity :- Residual interest.
Net Assets.
money left after all liabilities paid.

eg → Started Biz. with Cash ₹1000

Cash Dr 1000

To Capital

1000

↓
Biz.

→ if today liq. goes on we may pay more than/less than ₹1000 to Owner.

Ind AS pronouncements.

So.

insight :- Ind AS 32

Any Contract which is to be settled in future by issue of fixed no. of equity shares is treated as equity.



(b) Flow of every Transaction

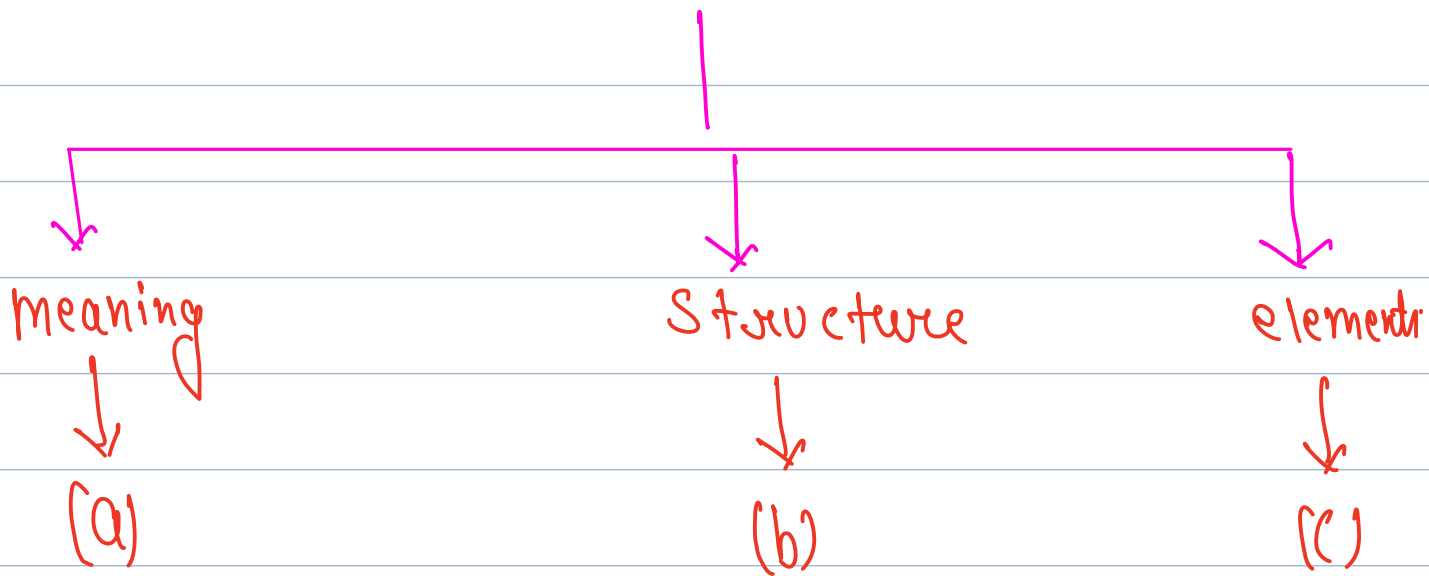
measurement \Rightarrow amount.

Recognition Criteria \Rightarrow I/E/A/L

Recognition \Rightarrow JIE

Presentation \Rightarrow FIS.

#3 Financial statements.



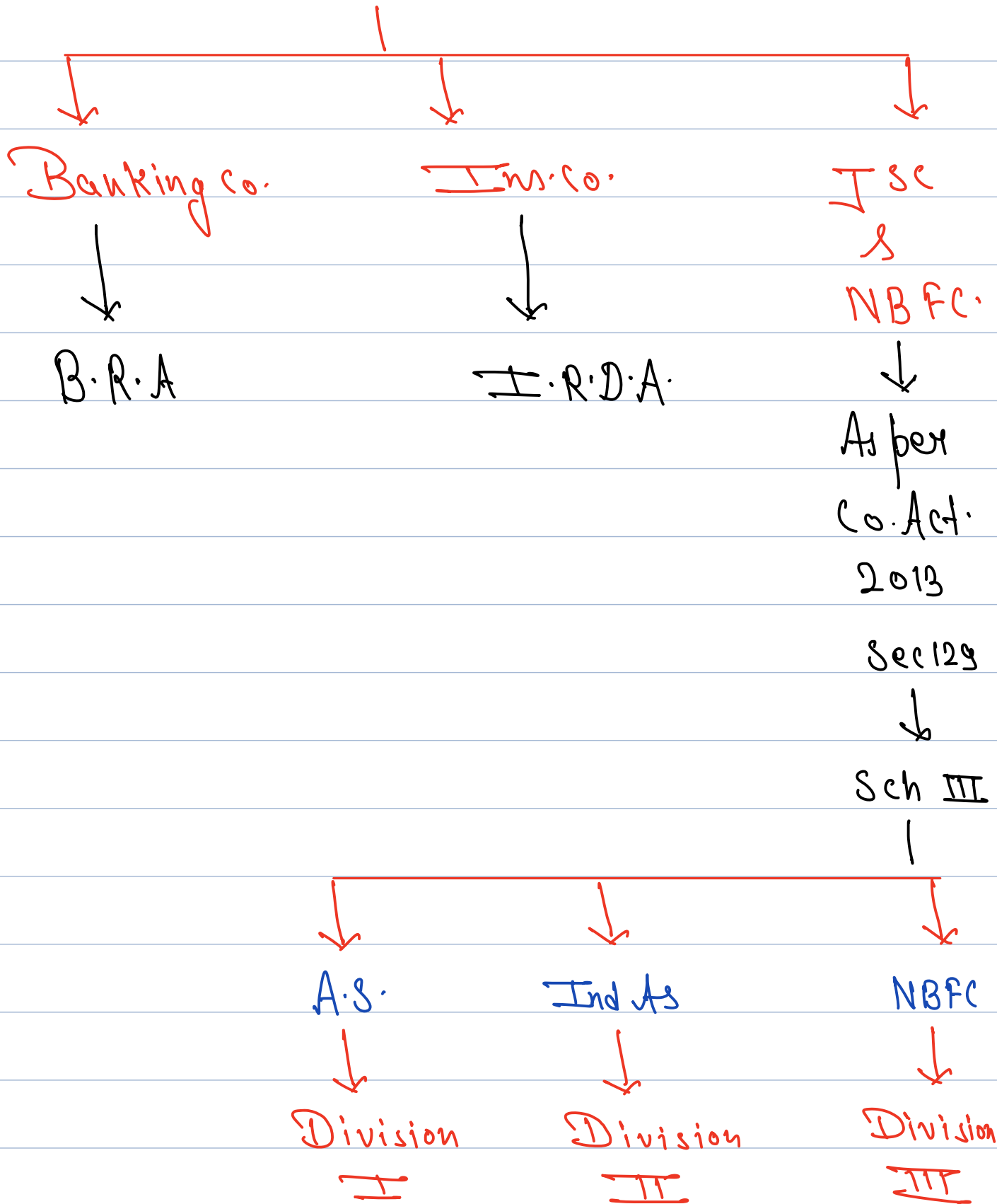
(a) FIS are formal format of financial activities & financial position of business transaction of an entity in structured systematic format.

(b)

Structure



In India, structure of firms are given by various authorities mentioned below:





↓
CA Inter

↓
Final CA.



👉 Note

i) Flow of authority

I Law

II Ind AS

III sch III

ii) Ind AS overrides sch III

iii) when Ind AS has option where one option is in line with sch III & other option contradicts with sch III then follow the former

c) Elements of FIS.

As per sch III, Div II

A) General information

B) Part I - BIS & SOE

Part II - S.O.PIL

c) Consolidated f/s.

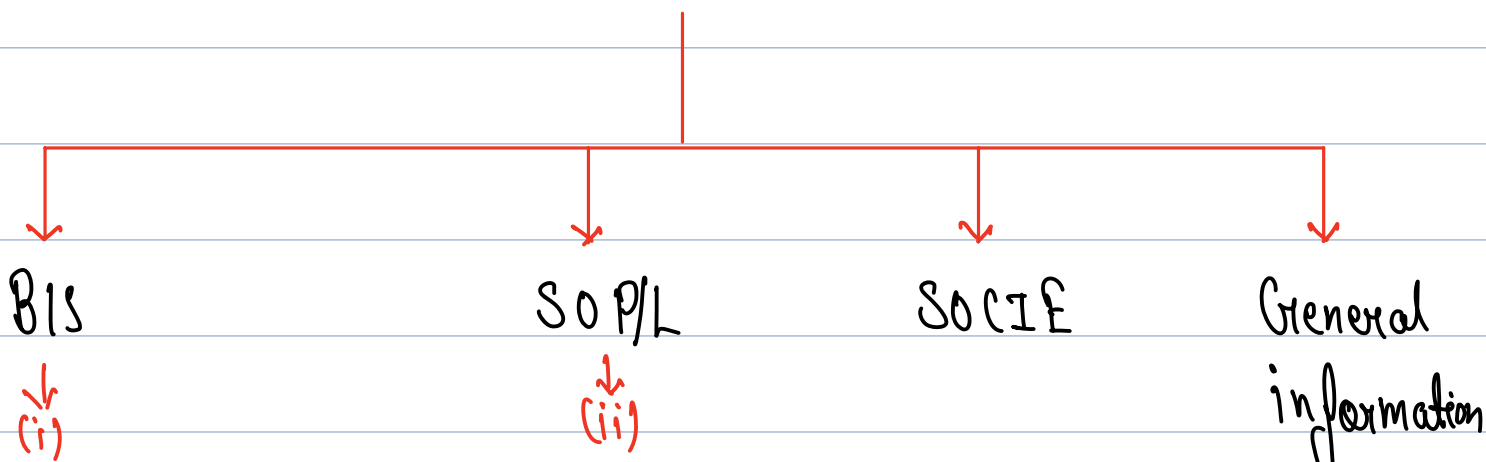


generally we say f/s consists of

- i) BIS. (C.Y. & P.Y.)
(sometimes op. BIS of P.Y. as per Ind As)
- ii) S.O.P12
- iii) SOCIE
- iv) Cash flow statement (Ind As 7)
- v) Notes to acc.

↳ Rounding off.

if $\text{H/O} \geq 100$ Cr then only rounding off in Crs else in thousands, lakhs or millions.

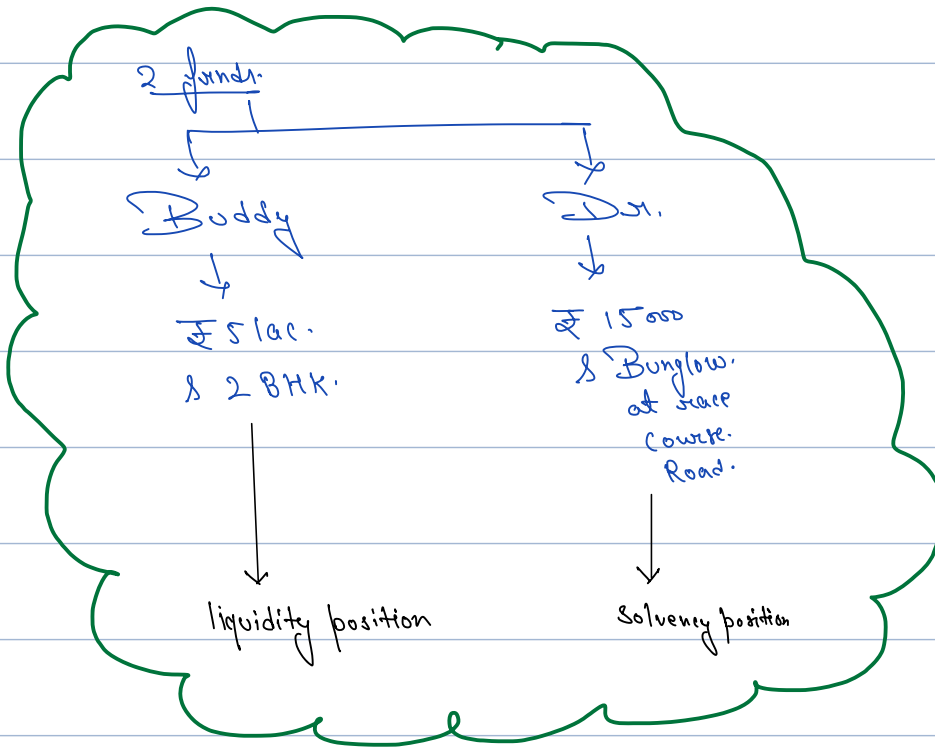




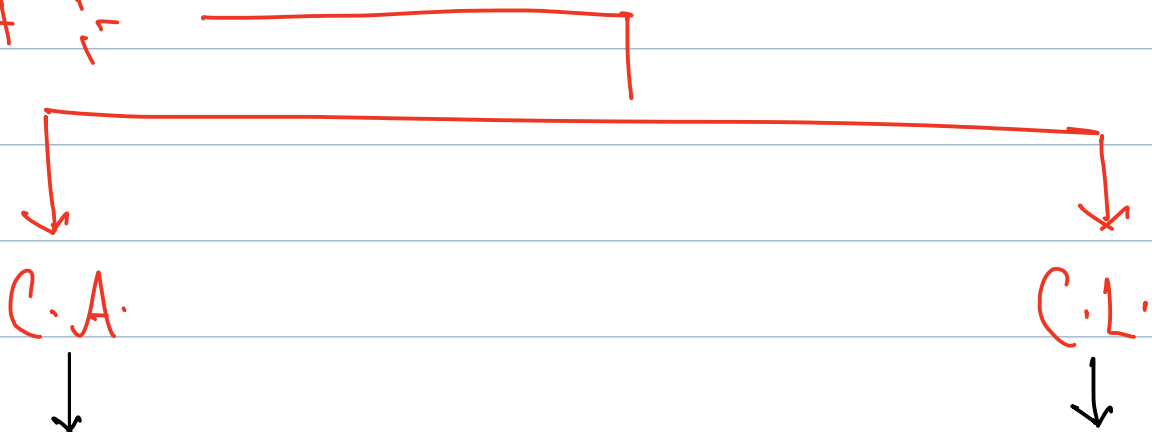
(i) BIS :- In BIS All are classified
as Current & Non Current



↓
Those which are not
Current.



Current :-



i) Expected to be realised in cash.
or intended to be sold or

i) Expected to be realised within

Consumed within entity
normal operating cycle or
12 m from Rep. date
whichever is later.

or

ii) Asset held for sale in
Ordinary Course of Business.

All inventories except
spare parts which are
to be consumed in >12m
↓
PPE

or

iii) Assets expected to be realized
within 12m from R.D. incl.
NCA. held for sale.

or

iv) Cash & cash equivalent.

(Realisable within 3m
unless it is used for
payments within 12m from
R.D.)

eg → Repatriation Restriction;

12m or entity
Op. cycle.

whichever is later

or

ii) Primary held for
Trading.

eg → Derivative F.I.

or

iii) Due to be settled
within 12m
from R.D.

↳ Due date is
certain

↳ Liability cannot
be deferred.
for settlement
beyond 12m
by entity itself.

Dividend.



Operating Cycle :-

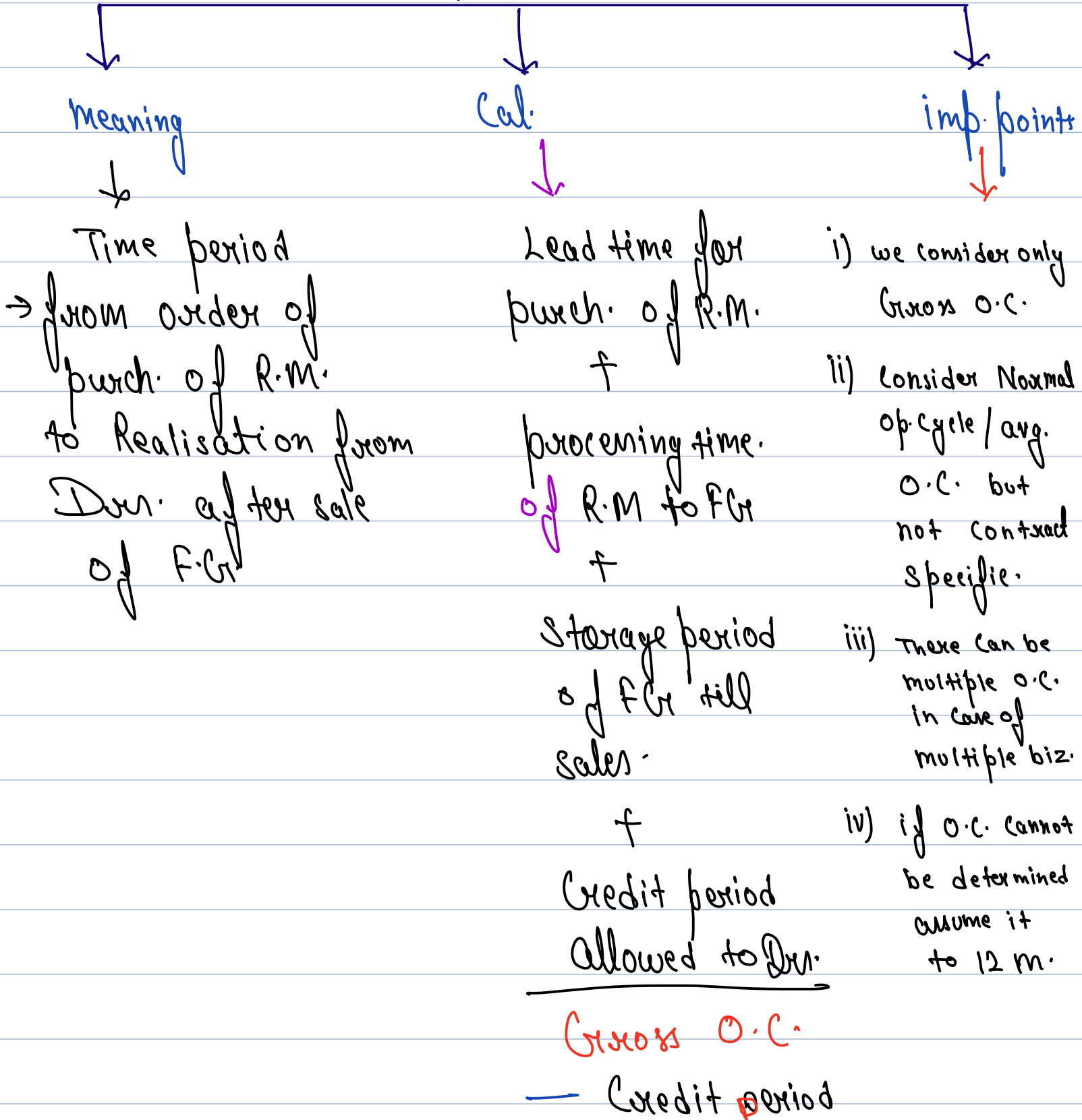


ILLUSTRATION # 2

1.

Date	Particulars	Case - I	Case - II
01.01.18	Credit sales – debtors	16 months ✓	16 months
	Operating cycle ✓	16 months ✓	15 months
31.03.2018	classification	C.A.	NCA

2.

Date	Particulars	Case - I	Case - II
01.01.18	Machine purchased ✓	Life 15 months ✓	Life 15 months
	Operating cycle ✓	12 months ✓	15 months
31.03.2018	classification	NCA	NCA

3.

Date	Particulars
01.01.2018	Advance given for Raw Material → Goods Delivery – after 6 months → Manufacturing – 3 months → Sale – 3 months ✓ → Amount realised – 3 months ✓ → Operating cycle = 12 months
31.03.2018	Classification

C.A. Since advance for R.M. will be converted into R.M. after 6 months.

4. Ordinary

Intention to sale in
 31.03.2018
 (sum of 1312)

Cases	Particulars	Classification
1.	OC = 12 months ✓	C.A.
2.	OC = 15 months	C.A.
3.	OC = 18 months	C.A.

5.

Loan given to a borrower of 50 lacs, repayable 10 lacs per annum
Classification
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>NCA</p> <p>40</p> </div> <div style="text-align: center;"> <p>C.A.</p> <p>10</p> </div> </div>

6.

Debtors on balance sheet date
As per contract – credit period remaining is 10 months, but as per practice, expected to be realised in 15 months, what will be the classification
i) Exp. O.C. > 12 M. (15m) > 12m

7.



need. from bus.

Net O.C.



Ind As.

#4 Emergence of global standards

History :- 1970s.

- UK, Germany,
- France, Canada
- Ireland, US,
- Australia
- Mexico, neth.
- exlands

Common financial language for Reporting.

IASC formed.

issue IAS 1, 2, 41

Recommendatory in nature

1977

ICAI

ASB

issues A.S.

Recommended.

1983

IOSCO

International organisation of Securities Commission

world primary forum for sec. Regulators

(Just like SEBI of world)

India is a member

goals like mandatory reporting of fis.

In 2000

IASB formed.

Started issuing

IFRS (IFRS 1, 2, 3)

it adapted IAS also.

till then they were till 41

{ IAS 1-...-41
IFRS 1-...-17 }

In 2002.

In 2006

↓
All European parliaments.
Council of ministers

Passed Reg. & adapted
IFRS.

↓

Till 2005 all
European countries
started following
IFRS

↓
G20 Summit.

India committed



that we will
adapt IFRS

but by
convergence.

→ MCA notified.

Co. Acting Rules 2006

As 1, 2, 3, 4, 5, 7, 9, 10 ... 29
↓
all mandatory.

→ In 2015

↓

MCA Notified.

Co. Ind. Acting std. Rules 2015

↓

Ind As.

Removed few
accing treatments
from IFRS.

Curve outs.

Added few
accing treatments
to IFRS.

Curve in.

Curve outs.

Liquidity
Based BIS

IAS allows
it but Ind AS
does not allowed
it.

DTA/DTL

IAS
Classifies
it as C/NC
But Ind AS
Classifies it
as Non

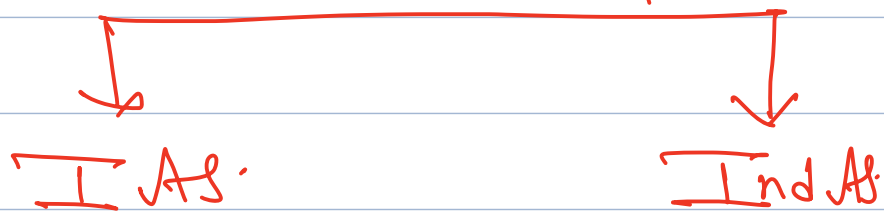
Breach
of loan

in case
of long
term loan
classified
it as
NCL.



C.A / Non CL
Only.

if there is
breach
of TSC
of loan
& loan
becomes
immediately
repayable.



↓
C.L.

if there is renegotiation
before date of approval
of f/s & it is not
repayable now. i.e.

< 12m then

↓
Consider it as
NCL.

else C.L.

ILLUSTRATION # 3

	Case – 1	Case – 2	Case – 3	Case – 4
LOAN	Jan	Jan	Jan	Jan
Conditions to be fulfilled	Feb	Feb	Feb	Feb
Material breach	Yes	yes	yes	No#
Balance sheet date	Repayable	Repayable	Not Repayable Immediately	Not Repayable Immediately
Renegotiations	April*	June*	March*	NO
FS approved on	May	May	May	May
Classification on BS date				
→ IND AS	NCL	C.L.	NCL	NCL.
→ IAS	C.L.	C.L.	NCL	NCL
* Loan renegotiated such that extension of 12 months from BS date is at least allowed				
# Because before the due date of loan covenant extension for compliance was not obtained				

 Classification of Asset



Non C.A.

C.A.

Non F.A.

F.A.

Other

inventory

F.A.

- P PPE
- C Cap-wIP
- I Inv-pr.
- G GIW
- O other I.T.A.
- B B.I.A.

- I Investm.
- T T.R.
- O Other.

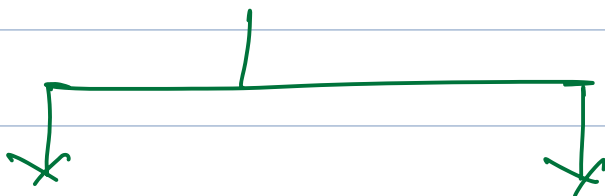
- D DTA
- O Other
- (Gold, Adv-for PPE.)

- I investment
- T T.R.
- C C.A.C.E.
- O Other bank Bal. (FD, Em, Escrow, marginar.)

Classification of Liability

NCL

C.L.



F.L.

Non FL

F.L.

Non FL



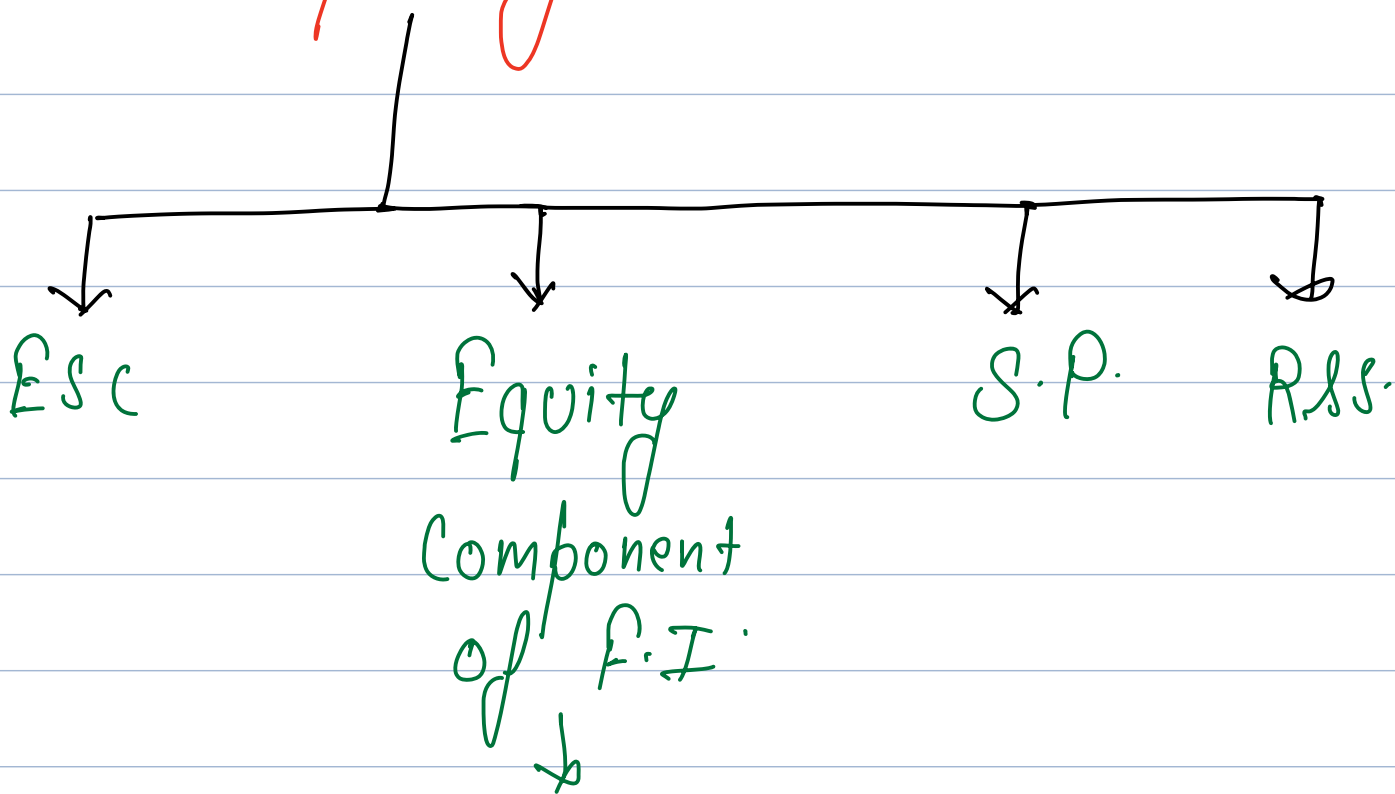
B Borrowing
 T TIP
 O Others

P Provision
 D DT2
 O Other Noncl.

B Borrowing
 T TIP
 O Other

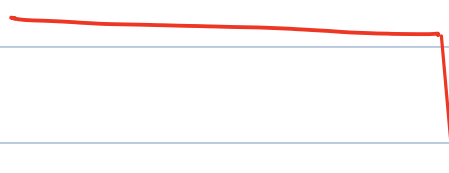
P Prov
 O Othercl.

III Equity & O.E.



(contracts to be settled by issue of own equity)

(ii) SPL





P/L (a)

O.C.I (b)

income

- i) R.F.O.
- ii) O.I.
- iii) gain from reclassification of O.C.I

Expense

- i) R.M.C.
- ii) purchase of S.I.T.
- iii) Δ in stock
- iv) E.B.E.
- v) Dep & Amor.
- vi) impairment.
- vii) finance cost.
- viii) other exps.

Exceptional

↓
{ we will cover it in Ind AS }

- ↓
- i) Decline in value of inventory
 - ii) Litigation & settlement exps.
 - iii) Reversal of prov
 - iv) profit from sale of invt (L.T.)
 - v) profit on sale of PPE

Refer notes below.

Other Comprehensive income



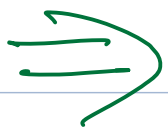
i) These are those gains/losses which does not form part of P/L.



ii) These are generally non operating & non cash.

iii) These gain/losses in OCI may be transferred to P/L if realised

iv) when these items are transferred to P/L on realisation than they are called **Reclassifiable** else **Non Reclassifiable**.



profit from P/L + profit from OCI



To find comprehensive income.

SOCIETY



Equity.

Equity
Component
of F.I.

O.E.



Sh. applⁿ
money
pending
allotment.

Share
warrants.

OCI

Total

eg →

$$MP = 120$$

if u give ₹ 5 today
Co. will give u ESh
after 3 years @ 120
N.V. = ₹ 10

→ Bank Dr 5
To SW 5

After 3 years.

MP > 120

MP ≤ 120



exercise.

S.W. Dr 5
Bank Dr 120

To P.S.C 10
To S.P. 115

↓
O.E.

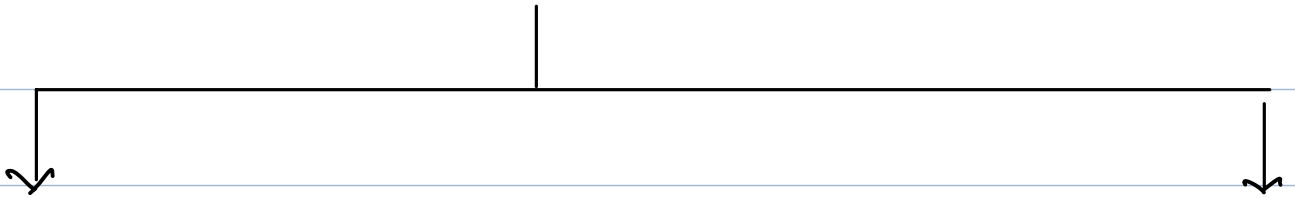


not exercise.
- cir.



S.W. Dr 5
To P.L 5

5 Standards.



Meanings



These are set of
↳ Rules
↳ principles
↳ procedures
that helps in a/cing
of a/cing policies &
practices.

Set of stds
in India.



India has 2 sets of
Standards as per.



Co. A.S.
Rules (2006)



Co. Ind.
A.S. Rules
(2015)



generally standard deals with

- a) scope
- b) measurement
- c) Recognition
- d) Presentation
- e) disclosure.

Co. not covered under Roadmap.

Co. will follow A.S.

Co. covered Under Roadmap

Co. will follow Ind AS

(A) Ind AS

Introduction

why

IS IND AS & IFRS Same

→ Ind AS are converged IFRS standards.

→ So that our FIs are in tune with IFRS

No, Ind AS are in tune with IFRS.

→ Ind AS are issued by C.G. of India under supervision & control of A.S.B. of ICAI in India & in consultation with NFRA.

→ So that our FIs can be analysed globally

eg →

IAS 1	INDAS 1
2	2
7	7

→ to attract foreign

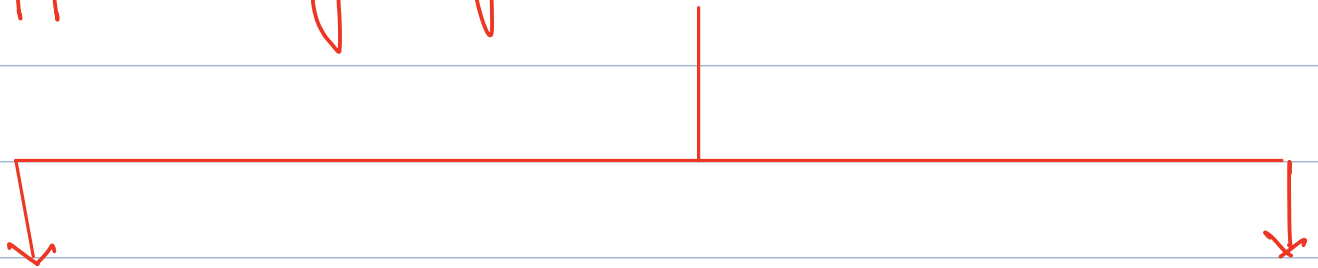


inventory

8	8
...	...
40	40
41	41
IFRS 1	101
2	102
3	103
...	...
...	...
17	116
...	...

Diff. b/w
Ind As & IFRS
↓
Curve ins &
Curve out.

(B) Applicability of Ind As & Roadmap.



Mandatory

- 1) banks
 - 2) ins. Co.
 - 3) NBFC
- It is deferred till further notice.

Voluntary

Voluntary adaption is allowed from 1-4-15 But only for J.S.C.

Phase I → 1-4-18 → N.W.



≥ 500 Cos. or listed.

N.W. to be checked for NBFC \rightarrow 31-3-16



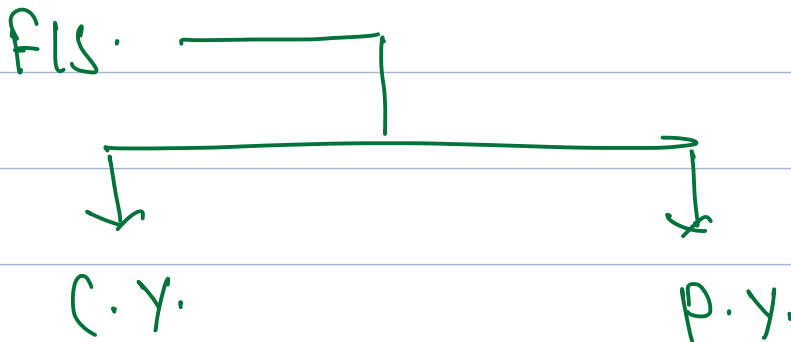
Phase II \Rightarrow 1-4-19 \rightarrow N.W. ≥ 250 Cos or listed.

A) J.S.C. \rightarrow

Phase I \rightarrow 1-4-16

N.W. ≥ 500 Cos

or H, S, A, JIV of above.



\rightarrow 1-4-16 to 31-3-17

Comparative.

\rightarrow 1-4-15 to 31-3-16

\rightarrow op. BIS as on 1-4-15

So Transition date \Rightarrow 1-4-15.

\Rightarrow N.W. would be checked on \Rightarrow 31-3-14.

Phase II 1-4-17.



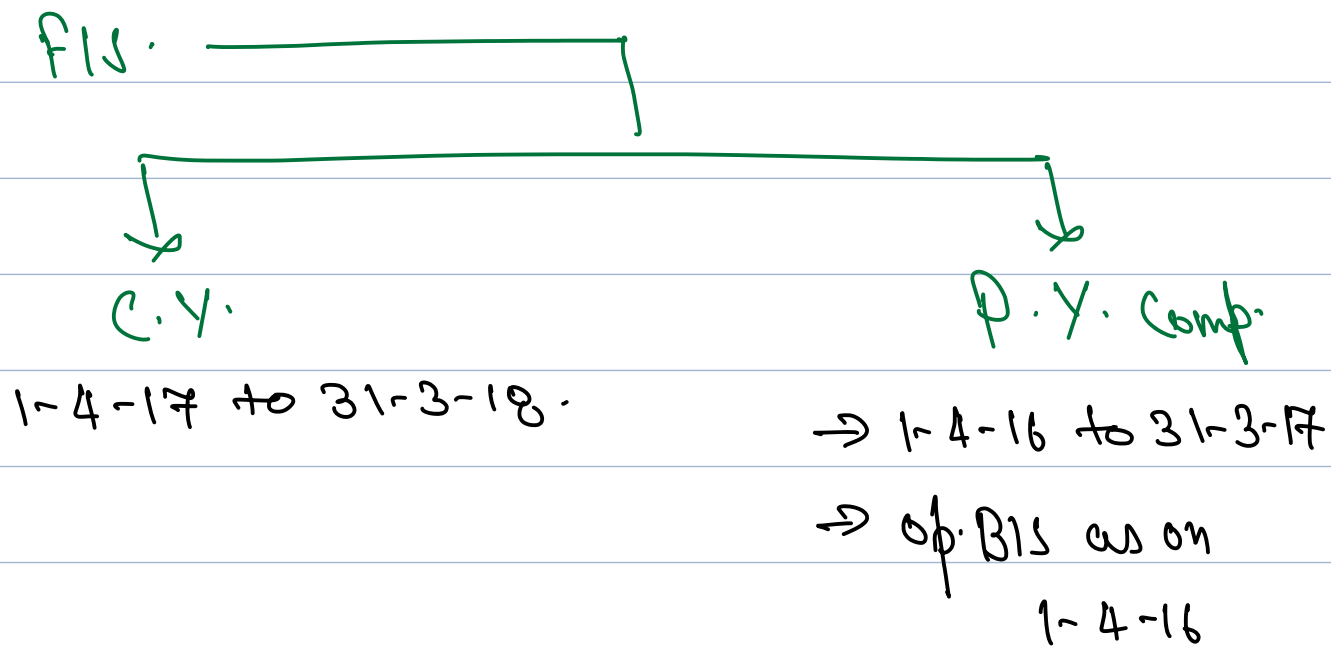
applicable if.



N.W. \geq 250 Cr or more &

listed. or

H/S/A/JV of above.



→ Transition date ⇒ 1-4-16

→ N.W. to be checked on 31-3-17

N.W. → Refer pg. 15 of textbook.

Listed / to be listed → process started during C.Y.

↓
at beg. of year.

Note-1 :- Suppose



i) Co. listed at the beginning of year & got delisted before year ends.

Applicable.

ii) Process of listing started during year but delisted before year ends.

N.A.

iii) Can pvt Co. be listed.

Yes, its debt can be listed.

iv) if Ind As is applicable to parent then by default it is applicable to its S/A/J.V. & vice versa.

Note-2 Situations.

i) a Co. adapted Ind As from 1-4-24 for its a/cing period 2024-25.



Hence.

1st Ind AS FIS \rightarrow 1-4-24 to 31-3-25

P.Y. Comp. \rightarrow 1-4-23 to 31-3-24 ✓

T.D. \rightarrow 1-4-23. ✓

Ind AS shall be effective \rightarrow 31-3-25

- ii) Co. N.W. threshold crossed 1st time on 31-3-17 as per FIS.

Hence.

1st Ind AS FIS \rightarrow 1-4-17 to 31-3-18

P.Y. Comp. \rightarrow 1-4-16 to 31-3-17

T.D. \rightarrow 1-4-16

- iii) N.W. of Co. Devi Unlisted \rightarrow 600 Crs on 31-3-14. However due to loss in F.Y. 14-15 N.W. of Co. was 400 Crs on 31-3-15.

\hookrightarrow Applicable from 1st phase \rightarrow F.Y. 16-17

if above case was reversed.

\hookrightarrow N.W. on 31-3-14 \rightarrow 400 Crs.

↳ N.W. on 31-3-15 → 600 cr.



↳ Applicable from 1st phase → F.Y. 16-17

iv) Co. A (unlisted) with N.W. 600 cr on 31-3-14.
Co. B (unlisted) (subsidiary of A) with
N.W. of 600 cr on 31-3-14.

Co. C (unlisted) (subs. of B) with
N.W. of 150 cr on 31-3-14.

Solⁿ

A App. since parent.

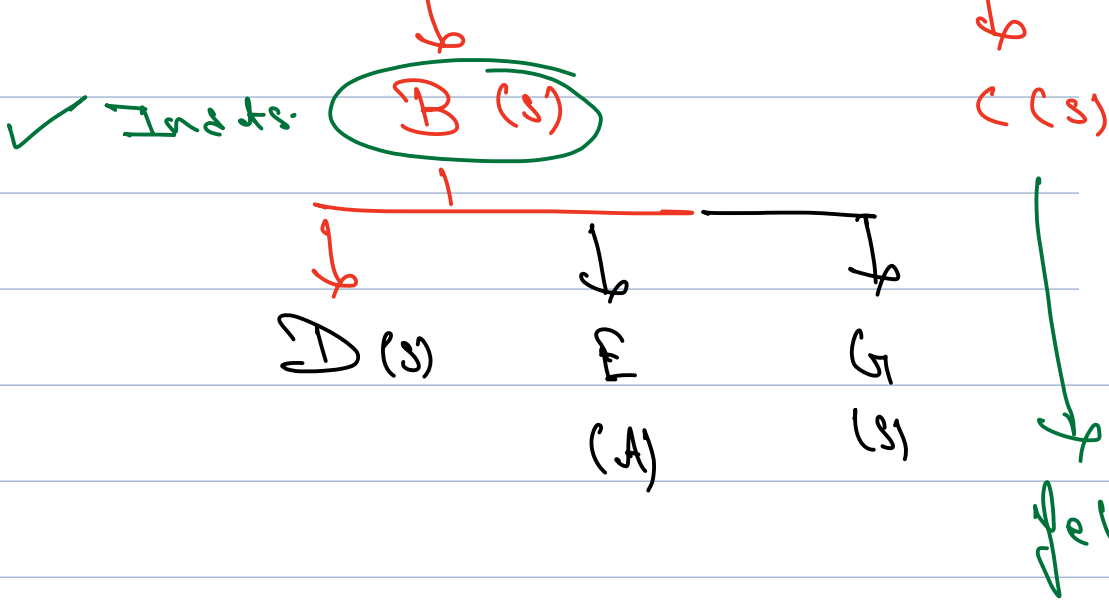
B → ∴ 600 cr N.W.

C App. since sub.

v)

A (H)

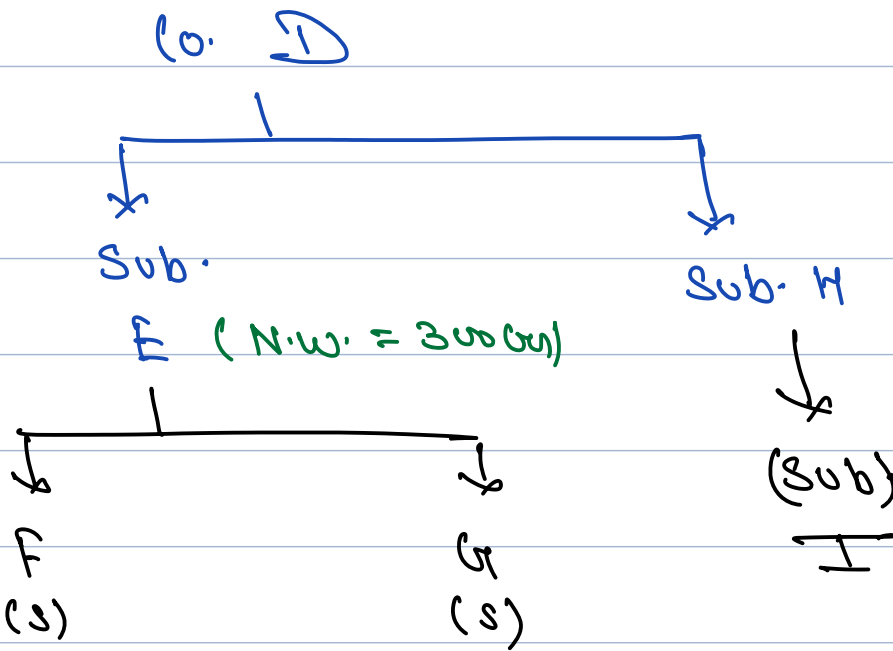




Ind As app \checkmark $\rightarrow B, D, E, G$ & A.

ii N.A \times $\rightarrow C$ due to yellow subsidiary.

vii)



N.W. of all Co. < 250 Cr. as on 1-4-23

Ind As applicable to

$E \Rightarrow \therefore$ threshold limit.

F & $G \Rightarrow \therefore$ S of E

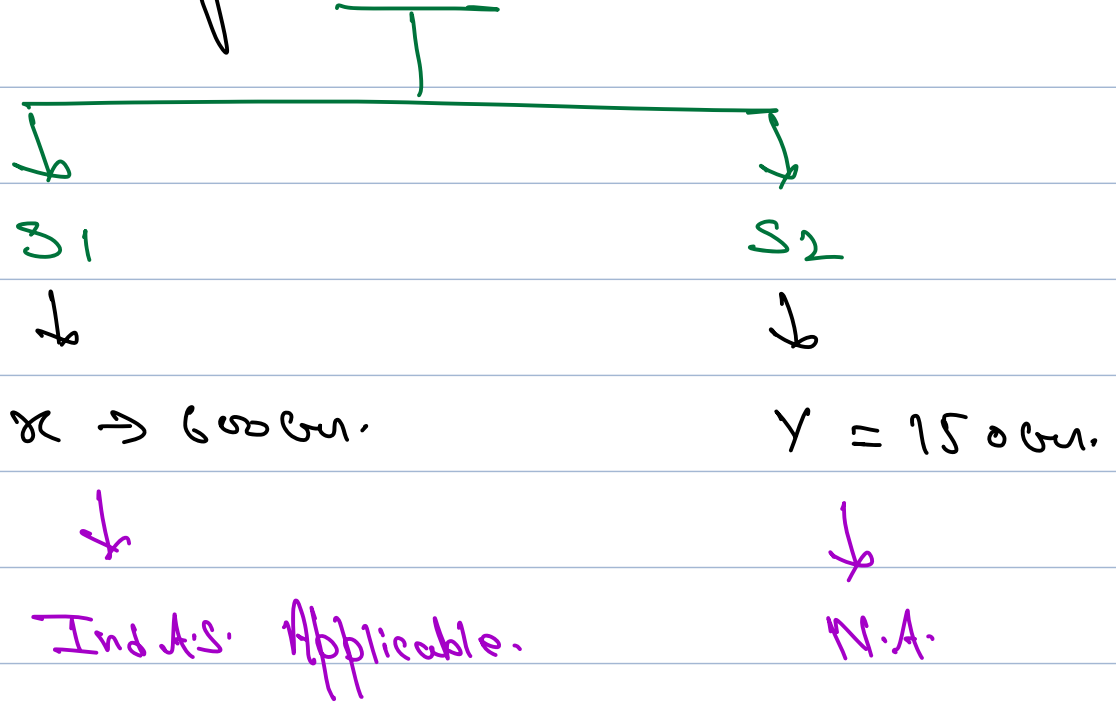
$D \Rightarrow \therefore$ H/P of E



H \Rightarrow N.A. \because it is fellow subsidiary.
 H \Rightarrow N.A. \because it is sub. of fellow subsidiary.



(vii) ABC incorporated in foreign country has N.W. of 700 Cr. on 31-3-14.



\rightarrow if ABC Ltd. was Indian Co.

then Ind AS will be applicable to all Co.

ILLUSTRATION # 4

A is an unlisted company

Net Worth - 31.3.2014 - ₹ 550 crore

31.3.2015 - ₹ 200 crore

31.3.2016 - ₹ 150 crore

Is Ind AS Applicable on A from 1.4.2016

Yes.
No

What if in above case company was NBFC?

ILLUSTRATION # 5

Will the following companies with negative net worth need to comply with Ind AS?

Company A (listed) having negative net worth of ₹ 600 crore.

Yes.

Company B (unlisted) having negative net worth of ₹ 300 crore

N.A.

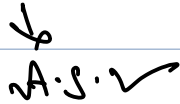
(viii)



Co. (Ind AS ✓)



Bank. (S)



for consolidation
↓

Bank will give its data to its P Co. as per Ind AS.



(ix)

Bank Co. (A.S. ✓)



S1

(Ind AS ✓)

S1 will give its data to its P Co. as per previous Igaap i.e. A.S. ✓

→ H.W.

ILLUSTRATION # 6

Company B is a listed entity covered is phase II of Ind AS roadmap. Company A is an unlisted entity having net worth less than INR 250 crores and holding Company of Company B. Company D is an unlisted entity and holds 25% in company B (i.e. company D is an investor company of Company B) and has net worth less than INR 250 crores. Company C is a fellow subsidiary of company B i.e. subsidiary of the holding company A. whether Ind AS is applicable to Company C and Company D?

ILLUSTRATION # 7

ICAI STUDY MAT ILLUSTRATION 1

Following is a snapshot of audited balance sheet of company A as on 31st march 2014. Company A's equity shares are listed on Bombay Stock Exchange since 2010

Liabilities	Amount	Assets	Amount
Equity share Capital	160 ✓	Fixed Assets	455
Securities Premium	200 ✓	Investments	200
General Reserves	150 ✓	Current Assets	50
Revaluation Reserve	40	Miscellaneous Expenditure not written off	80 ✓
Profit and Loss A/C	75 ✓		
Liabilities	160		
Total	785	Total	785

As per roadmap, which Phase company A fall into ?

Will your answer change if Company A is an unlisted company ?

Solⁿ:- Net worth = $160 + 200 + 150 + 75 - 80$
= 505

∴ N.W. Crossed three hold Limit

∴ ~~IND AS~~ will be applicable from phase II.

No our answer will remain same if Co. is unlisted Co.

ILLUSTRATION # 8

ICAI STUDY MAT ILLUSTRATION 2

Let's say in illustration 7 the balance of profit and loss account is negative Rs. 375 crores. When Ind AS should be applicable to Company A? Will you change if company A is an unlisted Company?

Solⁿ:- Net worth = $160 + 200 + 150 - 375 - 80$
= 55

if Co. mpany A is Listed → IND AS is

applicable



If Co. A. is unlisted \rightarrow IND is N.A.

ILLUSTRATION # 9

ICAI STUDY MAT ILLUSTRATION 3

The net worth of Company B (an unlisted company) was 600 crores as on 31st March 2014 However due to losses incurred in FY 14-15, the net worth of the company was 400 Crores as on 31 March 2015 From when company B shall apply Ind AS?

Solⁿ :-

31-3-14

31-3-15

31-3-16.

600 Crs

400 Crs.

1-4-2016 Ind As will be applicable. As Co. net worth was more than 500 Crs as on cut off date. So Ind As will be applicable from phase 1.

ILLUSTRATION # 10

ICAI STUDY MAT ILLUSTRATION 4

The net worth of Company C (an unlisted company) was 400 crores as on 31 March 2014 However, the net worth of the company was 600 Crores as on 31 March 2015. From when company B shall apply ind AS?

Solⁿ :-

31-3-14.

31-3-15

400 Crs

600 Crs.

Company C being unlisted company will have apply Ind As from phase I i.e. from 1-4-2016 onwards as it crossed the threshold limit of ₹ 500 Crs or more in



last day of preceding financial year of comparative of a.s.



ILLUSTRATION # 11

ICAI STUDY MAT ILLUSTRATION 5

Company A is the parent company of a group Company A is an unlisted company having net worth of 60 crores as on 31 March 2014 Following are the other companies of the group

Name of the company	Relationship	Net worth as on 31 March 2014
Company B (Unlisted)	Subsidiary of Company A	600 Crore
Company C (Unlisted)	Subsidiary of Company B	150 Crore

Whether Ind AS be applicable to companies A, B and C?

Solⁿ :-
A → 60 Cr. ✓
B → 600 Cr. ✓ ✓
C → 150 Cr. ✓

H/S/JV/A. to also follow Ind As.
but any banking / Ins / NBFC will not follow it until Ind As applies to them. and in this case Company B whose Net worth crossed 500 Cr, hence it will be covered under phase I.

Also Ind As will be applicable to other companies of group i.e. Co. A & Co. C. irrespective of Net worth criteria.

As per the roadmap, Ind AS is applicable to Company X from the financial year 2017-18. Company X (non-finance company) is a subsidiary of Company Y (NBFC). Company Y is an unlisted NBFC company having net worth of 400 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

Co. Y. (NBFC) (H) \Rightarrow 400 Cr.

↓

Co. X (IND AS)

if in any Co. Ind AS is applicable then its
t/S/IV/A. to also follow Ind AS.

but any banking/Ins/NBFC will not
follow it until Ind AS applies to them. and

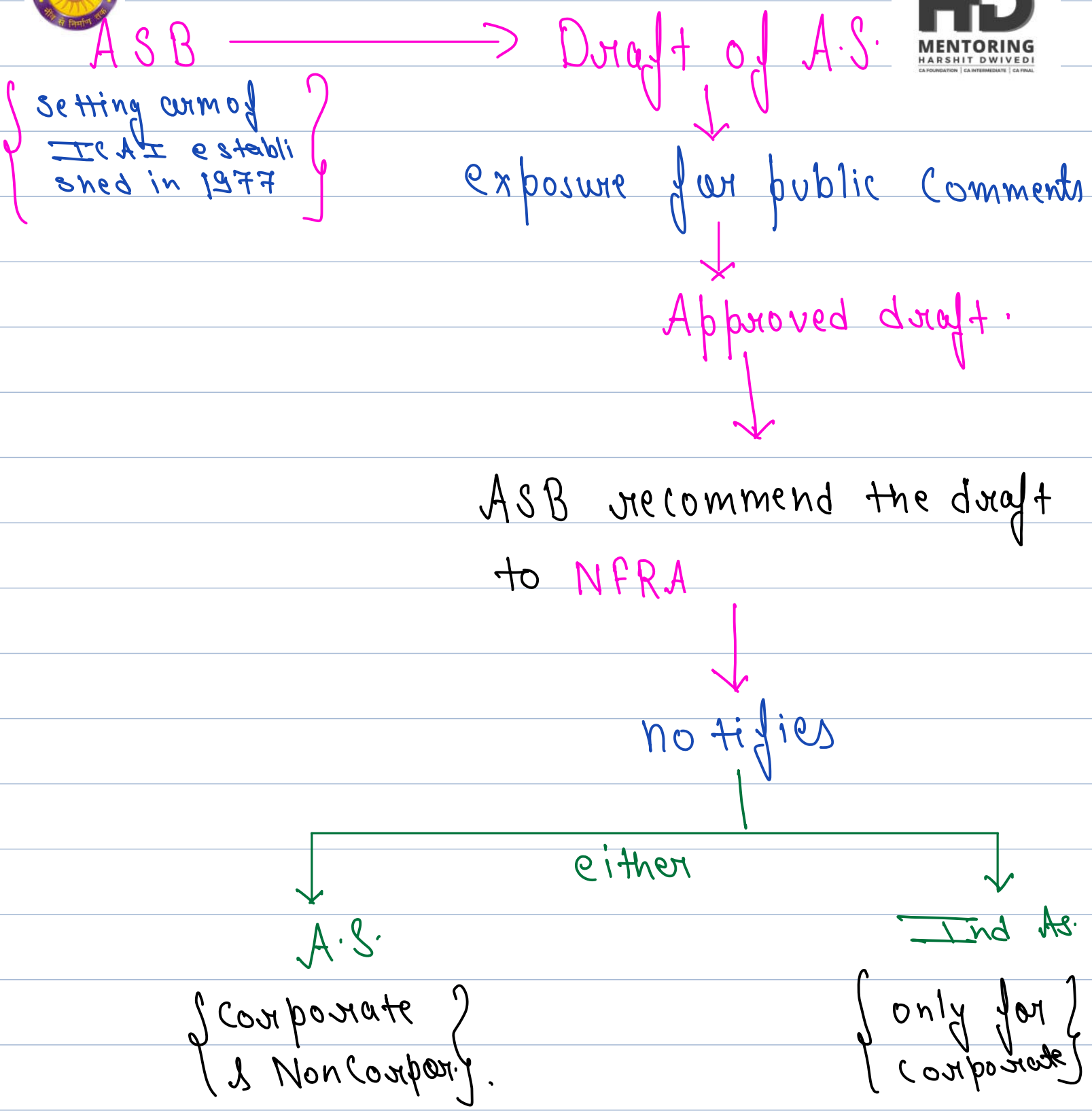
Ind AS gets applicable on NBFC under
phase I from 1-4-2019. hence in the

given Ind AS will be applied to Comp.
Y from 1-4-2019 as it is holding Co.
of Company X on which Ind AS
is applicable from 1-4-17.

For Consolidation purpose Co. Y will
prepare its individual f/s for
years 2017-18, 2018-19 as per
A.S. 21.



(X) How A.S. Drafted by ICAI



(xi) Indian Scenario prior to Ind AS.



A.S.



xii) Process of formulation of IND A.S.

a)

①

IASB issues new IFRS or updates the existing one

Issue of Exposure Draft for Public Comments

Consideration of comments received on the Exposure Draft and finalisation of final draft

②

Deliberation and consideration of draft Ind AS in line with IFRS by ASB

⑤

Incorporation of Comments from Council and outside bodies

Final draft submission to NFRA with recommendations

③

Circulation of Draft Ind AS to the Council members of ICAI and specified outside bodies

④

Meeting with the representative of the specified outside bodies to ascertain their views

NFRA (MCA) notifies Ind AS under Companies Act

- IASB issues updates on IFRS
- ASB considered & prepared Draft for Updates in IND AS.
- Circulate draft to council members.
- meeting with Rep. of bodies.
- incorp. comments of council & body
- Draft open for public comments.

→ incour. comm. of public.



→ Final Draft to NFRA.

→ NFRA notified

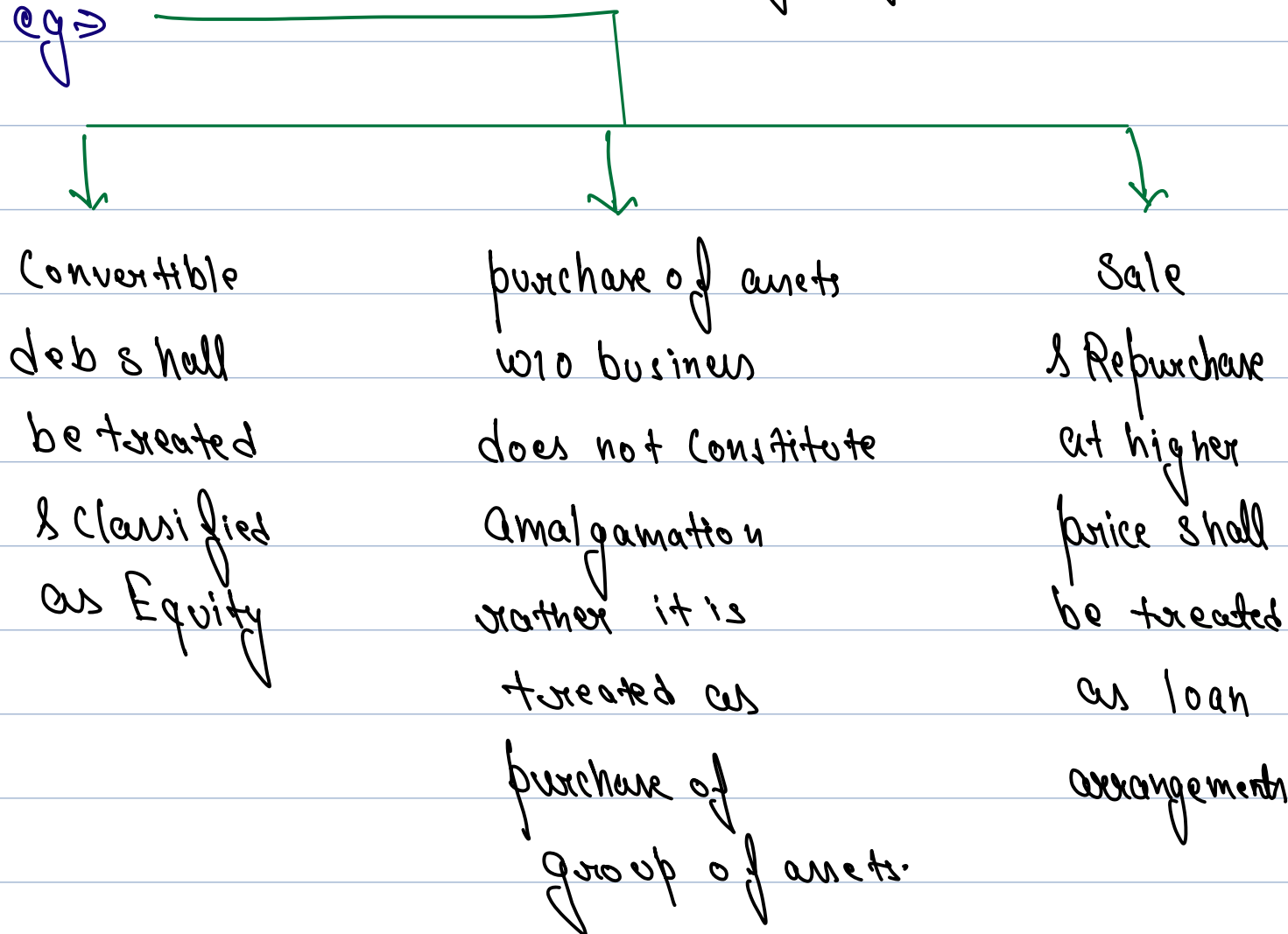


#6 Fundamentals of IND AS.

1) Substance over form

it means Substance (Reality) of transactions would prevail over its legal form.

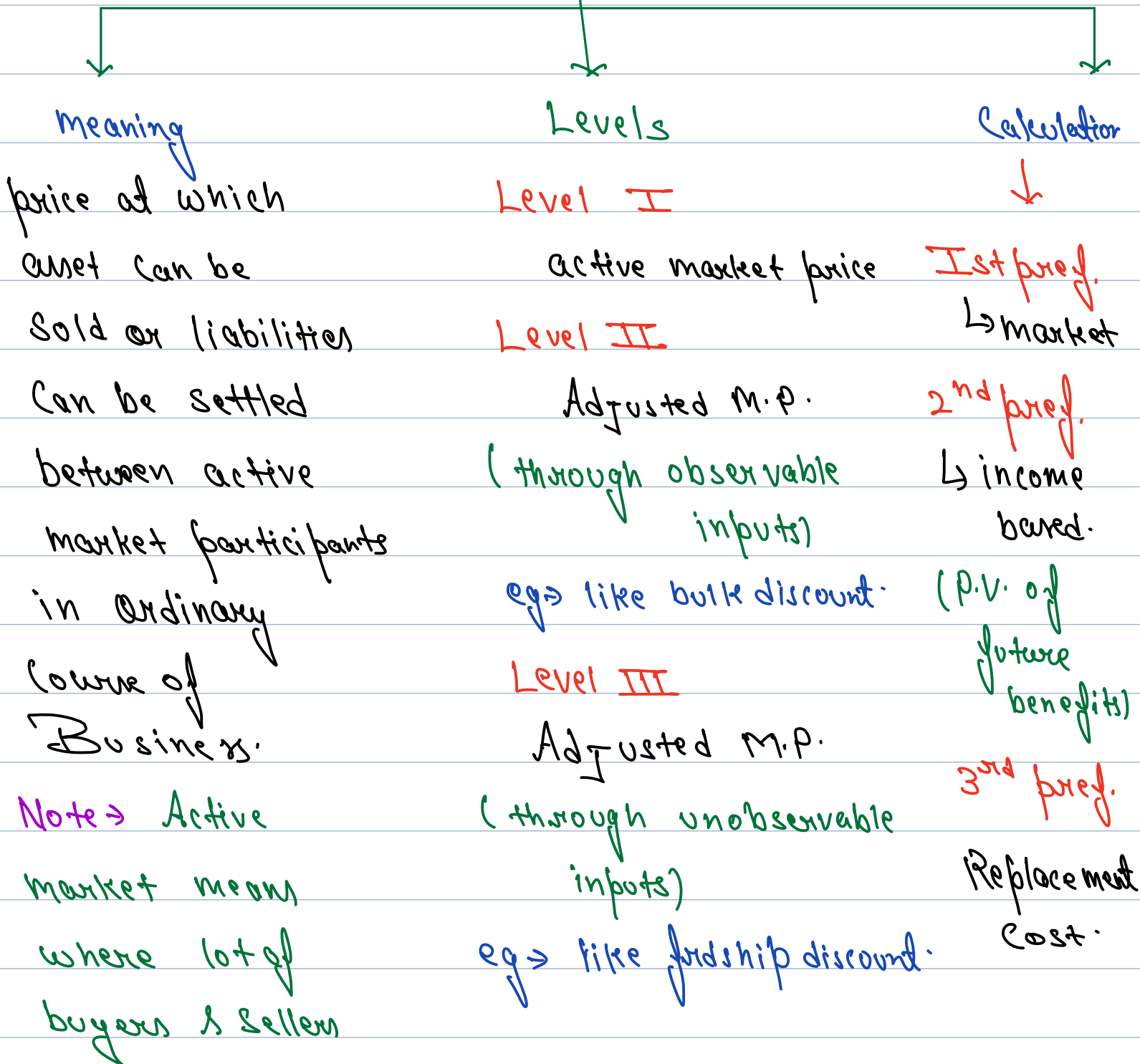
eg →



2) Fair Value Pricing



It is defined under Ind AS 113



Note → Active market means where lot of buyers & sellers

Note :- 1) All Assets are recorded @ F.V.



bearing few exceptions which are discussed in Respective Ind As.



I. AS PER IND AS

I.R.

S.R.

ASSET	INITIAL RECOGNITION	REPORTING DATE MEASUREMENT
PPE ✓	Cost ✓	Cost to FV
Investment property ✓	Cost ✓	Cost ✓
Investment in securities ✓	FV ✓	FV ✓
Goodwill ✓	Cost	Cost subject to impairment check
Other intangible assets ✓	Cost ✓	Cost to FV ✓
Bearer plants ✓	FV less cost to SELL	FV less cost to sell
Trade receivable ✓	FV ✓	FV ✓
Loans ✓	FV ✓	Cost to FV ✓
Deferred tax ✓ (12)	Accounting value	Accounting value

2) $FV \neq FV - T.P.$

3) Sometimes FV is calculated as per respective Ind As.

4) FV of liability = Exit price.

3) Concept of PV & Unwinding.

if any liability is settled or if any asset is to be realised in future after a fixed determinable manner

B/S



Deb

P.V.



5 years.

10%.

Rate of Int. = 10%

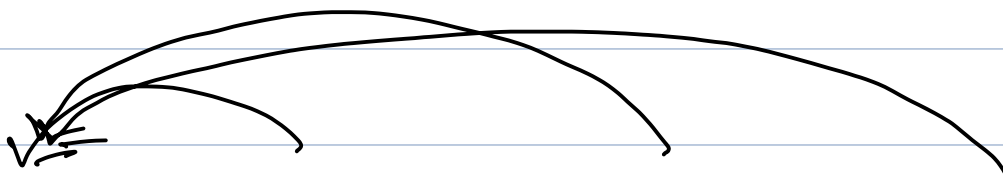
$$A = P \left(1 + \frac{R}{100} \right)^n$$

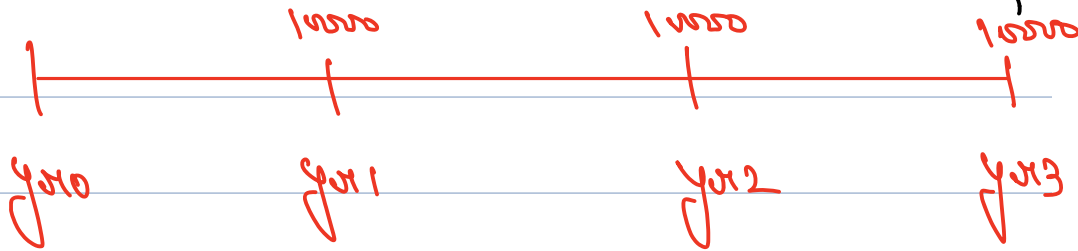
P.V.
↓
PVA

→ if $R = 10\%$ then $i = \frac{10}{100}$

Suppose.

A loan is repaid in 3 equal annual installments of ₹10000 each, R.O.I. = 10%.





Amount of loan = PV of all installments.
 Cash of loan method



Yr.	Inst.	PVf.	PV
1	10000	0.9091	9091
2	10000	0.8264	8264
3	10000	0.7513	7513
loan =			<u>24868</u>

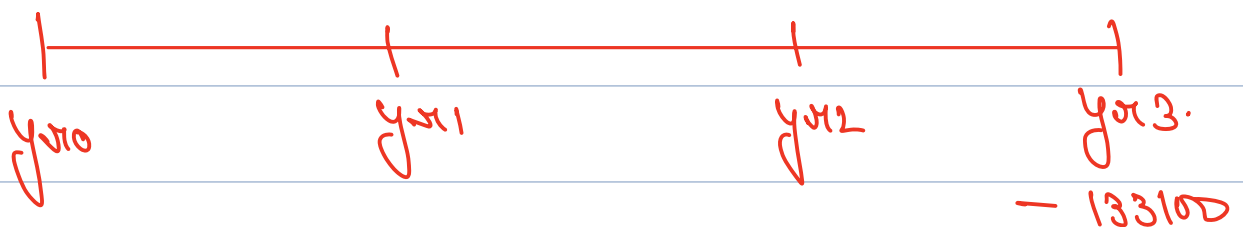
$$\begin{aligned} \text{loan} &= \text{Inst} \times \text{PVAf.} \\ &= 10000 \times 2.4869 \\ &= \underline{\underline{24869}} \end{aligned}$$

ILLUSTRATION # 14

Company is settle a financial liability after 3 years at ₹ 1,33,100. Effective Rate of Interest is 10%. Show accounting for 3 years.

Solⁿ

Step 1 loan amount



loan amount.



$$\begin{aligned}
 &= 133100 \times PVF (10\% \text{ for } 3 \text{ yrs}) \\
 &= 133100 \times 0.7513 \\
 &= 100000
 \end{aligned}$$



Step 2 L A T

year (a)	Op. bal. (b)	+ Int @ 10% (c)	- Int. (d)	= cl. bal. (b+c-d)
1	100000	10000	0	110000
2	110000	11000	0	121000
3	121000	12100	133100	0

Step 3 Pricing

Year Bank Dr 100000
To F.L. 100000

Year 1 Int (PIL) Dr 10000
To FL 10000

Year 2 Int (PIL) Dr 11000
To FL 11000

Year 3 Int (PIL) Dr 12100
To FL 12100

FL Dr 133100

To Bank 133100

Unwinding of Int.

BIS → FIL = 110000

BIS → FIL → 121000

BIS → 0



$$115000 = 12000 \times PVA_f (x\%, 3 \text{ years}) + 100000 \times PV_f (x\%, 3^{\text{rd}} \text{ year})$$



Using T & E method.

$$\text{Let } x = 10\%$$

$$\Rightarrow 12000 \times (10\%, 3 \text{ years}) + 1L \times (10\%, 3^{\text{rd}})$$

$$\Rightarrow 12000 \times 2.4868 + 100000 \times 0.7513$$

$$\Rightarrow 104972$$

We want PV to be 115000

but it is 104972

\therefore We need to \uparrow PV \therefore \downarrow in ROI

$$\text{Let } x = 6\%$$

$$= 12000 \times 2.6730 + 100000 \times 0.8396$$

$$= 116038$$

Using Interpolation method

$$\Rightarrow \text{L.R.} + \frac{HV - RV}{HV - LV} \times \Delta \text{ in ROI} \quad (\text{H.R.} - \text{L.R.})$$

$$\Rightarrow 6\% + \frac{116038 - 115000}{116038 - 104972} \times 4$$



⇒ 6.38%



Step 3 L.A.T.

yr.	op. bal.	Int @ 6.38%	Install.	cl. bal.
1	115000	7337	12000	110337
2	110337	7040	12000	105377
3	105377	6623	112000	0

Bif.

Step 4 a/cing.

yr 0	Inv in Deb Dr	115000	
	To Bank		115000

	yr 1	yr 2	yr 3
Inv in Deb	7337	7040	6623
To Int (PIL)	7337	7040	6623

Bank Dr	12000	12000	12000
To invt.	12000	12000	12000

Bank Dr	—	—	100000
---------	---	---	--------

To invt in Deb.

105500



B/S \Rightarrow Invt in Deb 110337



~~105500~~
105377



0

(A) OCI

\hookrightarrow already covered in SOP12

\downarrow
Refer page 21 of textbook.

c) Other comprehensive Income (OCI)	
i) Items that <u>cannot be reclassified in P/L in subsequent years</u>	NR
\rightarrow Revaluation reserve	
\rightarrow Measurement <u>loss/gain on Actuary</u>	
\rightarrow Fair value <u>changes on investment in equity</u>	
\rightarrow Share of <u>profit or loss in associates and subsidiaries</u>	
(ii) items which can be reclassified (when revenue is realised it will be <u>shown in P/L as Net gain from recycling</u>) R.	
\rightarrow Fair value <u>changes in Investment in debts</u>	
\rightarrow Cash <u>flow hedge reserve</u>	
\rightarrow Exchange <u>difference in foreign operation</u>	
\rightarrow Share of <u>profits in JV</u>	
\rightarrow Others ✓	
Tax effects on OCI	
Total comprehensive Income	

Accounting for changes in F.V. through P/L OR OCI.

ILLUSTRATION # 16

Investment purchased for ₹ 100 on 1.3.2018. its FV as on 31.3.2018 is ₹ 106. On 30.4.2018 these investments are sold for ₹ 110.
Show Accounting

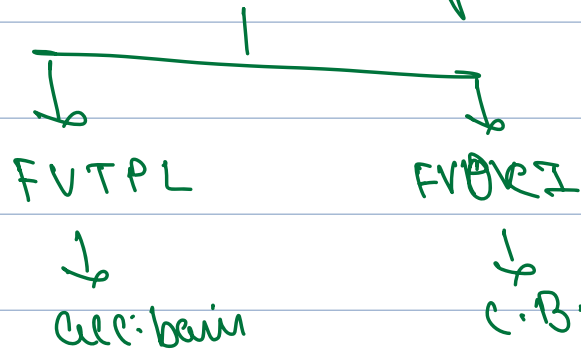
Date	Particulars	FVTPL	FVOCI(R)	FVOCI(NR)
1-3-18	purch.	Invnt Dr 100 To CIB 100	Invnt 100 To CIB 100	Invnt 100 To CIB 100
31-3-18	F.V. change	Invnt Dr 6 To P/L 6	Invnt 6 To OCI 6	Invnt 6 To OCI 6
30-4-18	Sold	CIB Dr 110 To P/L 4 To invnt 106	CIB Dr 110 To Invnt 106 To P/L 4 OCI Dr 6 To P/L 6	CIB Dr 110 To invnt 106 To P/L 4 ₹ 6 OCI bal. will be trsf. to <u>SOCI</u>

OCI (R) is nothing but
Cash basis of accounting as we



transfer profit to P/L only when it is realised.

its not written anywhere.



HD Logic.

ILLUSTRATION # 17

PPE purchased ₹ 10,000 with life 10 years was revalued at ₹ 12,000 at end of Y2. Sold in year Y4 end for ₹ 7,000
Show Accounting

Solⁿ :-

Yr0 PPE Dr 10000
To CIB 10000

Yr-3 PPE Dr 4000
To OCI (NR) 4000

Yr1 Dep. Dr 1000
To PPE 1000

Yr3 Dep Dr 1500
To PPE 1500

($\frac{12000}{8}$)

Yr2 Dep. Dr 1000
To PPE 1000

Yr4 Dep. Dr 1500
To PPE 1500



Now C.A. = 8000

F.V. = 12000

Rev. Res. 4000

Yr 4 CIB Dr 7000

PIZ Dr 2000 (B1)

To PPE 9000

∴ OCI (NR) ⇒ ₹ 4000
will be transf.
to OCI.

5) Reclassification → always prospective effect.

blw equity &
Liability

blw Cost &
FV

L to E

E to L

FV to Cost

Cost to FV

C.A. of Liability will
become C.A. of equity

L. Dr
To Equity.

then C.A. will remain
same & FV becomes
new cost.

then C.A. should
be F.V. on
the date of
Reclassification
& diff is transf.
to OCI/PIZ.



then convert equity to Liability
@ F.V. of liability &
diff. shall be adj. in
Res. (O.E.) or P/L.



Equity Dr
O/E/P/L Dr.
To L.

6) Retrospective Restatement.

As per IND AS, if there is R.O.E. or Δ in
accounting policy then, IND AS requires Co.
to restate (Revise) previous years Op. bal.
of A/L/E. instead of accounting for diff. due
to Retrospective Δ in C.Y.

ILLUSTRATION # 19

An Entity made an FD with SBI on 01.04.2015 for ₹ 1,00,000. Interest is ₹ 10,000 per annum simple interest. In 2018-2019 the company realised that it has not recognised interest income on above FD at all.

Show Accounting ✓

Error is 3 years int. income on F.D. was
not acted i.e. ₹ 10,000 x 3 years = 30,000 of



years 15-16, 16-17, 17-18.

∴ 30000 acc. int. income should be
deleted in C.Y. 2018-19. apart from
recurring C.Y. income.



As per AS-5

a) Journal.

Acc. int. Dr 40000
 To Int. 40000

b) SPL.

Particulars	18-19	17-18
-------------	-------	-------

Incomes

O.I.	10000	
------	-------	--

Exps.

PBT	xxx	
-----	-----	--

+ PPI (AS-5)	30000	
--------------	-------	--

c) BIS.

Assets.	18-19	17-18
---------	-------	-------

Acc. int.	40000	
-----------	-------	--

113 As per IND AS.



a) Journal.

Acc. Int. Dr	30000	
To Int. (17-18)		10000
To R. E. (15-16, 16-17)		20000

b) SPL

Particulars	18-19	17-18
Interest Inc.	10000	10000

c) BIS.

Asset	31-3-19	31-3-18	1-4-17
Acc. int.	4000	3000	2000

Liabilities.

O.E.

R. Earnin.	xxx	↑ 3000	↑ 2000
------------	-----	--------	--------

d) SOCI E.

Op. Bal.	↑ 3000	18-19	17-18
		xxx	xxx



+ Restated.

Rev.
+ C.Y. profit.

—
30000
+10000
40000 ✓

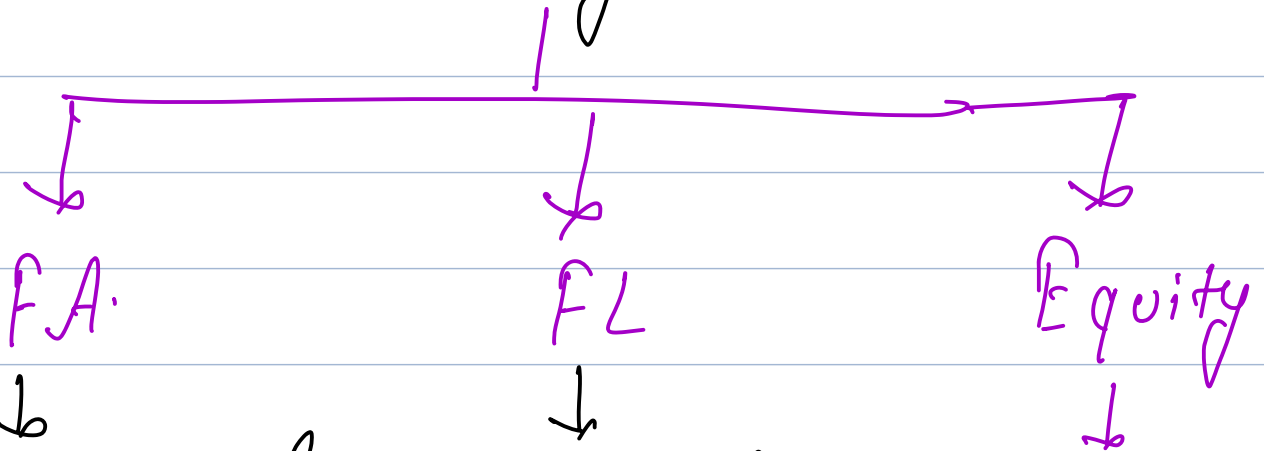
+20000
20000
+10000
30000



7) Financial Instrument



is a contract which gives rise to F/A for one entity & F/L / Equity to other entity.



any contractual asset which gives right to receive cash. or Equity sh.

eg → Cash, inv. in eq. sh. etc.

Contractual obligation to pay cash or other F.A.

Residual int.

will discuss later in detail under Ind AS 32, 109.



8) Impairment

↳ decrease in value of asset.
(Other than dep. & Rev.)

↓
defined in Ind AS 36

if $R.A. < C.A.$

then $C.A. - R.A. = I.L.$

R.A. is higher of.

a) FV LCD

or

b) VIU

Journal.

R.R.

Dr.

P/L

Dr

} imp. loss

To Asset.

113 will discuss in details under Ind As 36

ILLUSTRATION # 20

Cost of asset is ₹ 56 lacs with useful life of 10 years. Upward Revaluation done last year of ₹14 lacs. Carrying amount at the beginning of the year is ₹27.3 lacs and recoverable amount was ₹12 lacs with life remaining 3 years.

Calculate IL and depreciation for Current year

Solⁿ :-

C.A. 27.3

(₹ in lacs)

R.A. 12

I.L. 15.3

RR. Dr 14

PIL Dr 1.3

To Anet 15.3

Revised c.A. = 12 lacs

$$\text{Dep.} = \frac{12}{3} = ₹ 4 \text{ lacs.}$$

g) Deferored Tax { in detail we will discuss under }
IND As 12 Income taxer.

→ Tax on diff. b/w.

Carrying profit

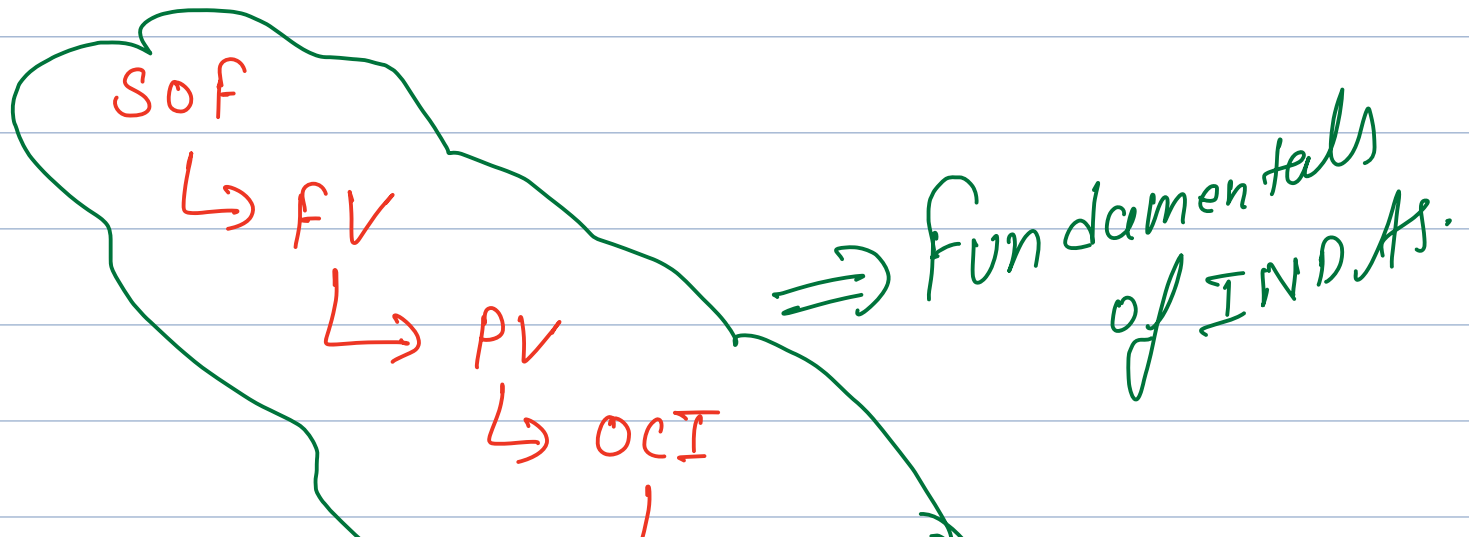
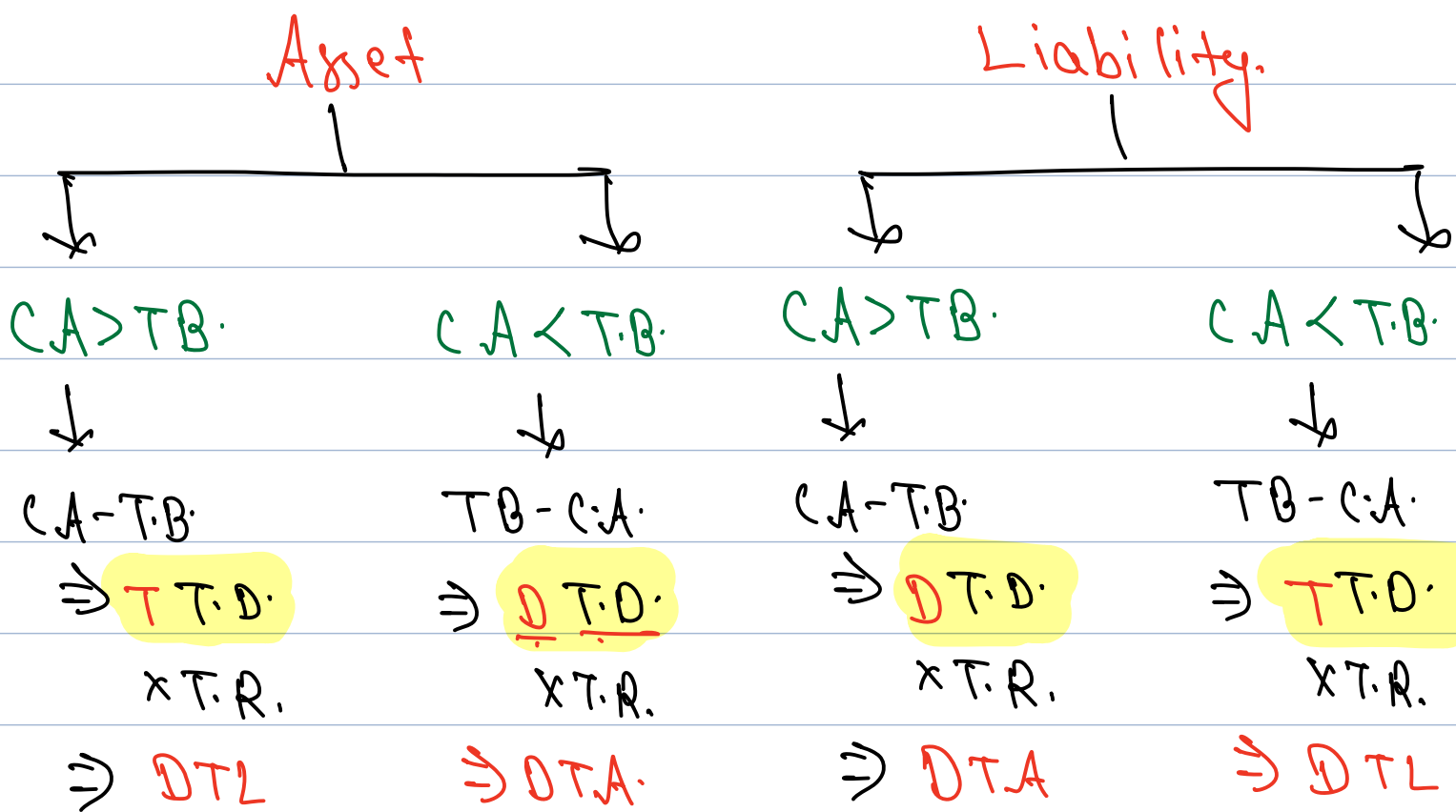
Profit as per
tax laws.

→ IND As follows BIS approach to calculate

D.T.



- C.A. — Tax base = Temp. diff. (T.D.)
- T.D. x Tax rate = DTA/DTL
- C.A. means value of A/L as per B.O.A.
- T.B. means value of A/L as per tax laws





↳ Recl.

↳ RR.

↳ F.I.

↳ Imp

↳ D.T.



#7 Framework for presentation of FIS.



Concept of Capital



Here our objective is to calculate growth under 3 possibilities.



at

historical
cost



at

Current
cost



at

physical
product cost.

$$\text{Growth} = \text{Cl. Cap} - \text{op. cap.}$$

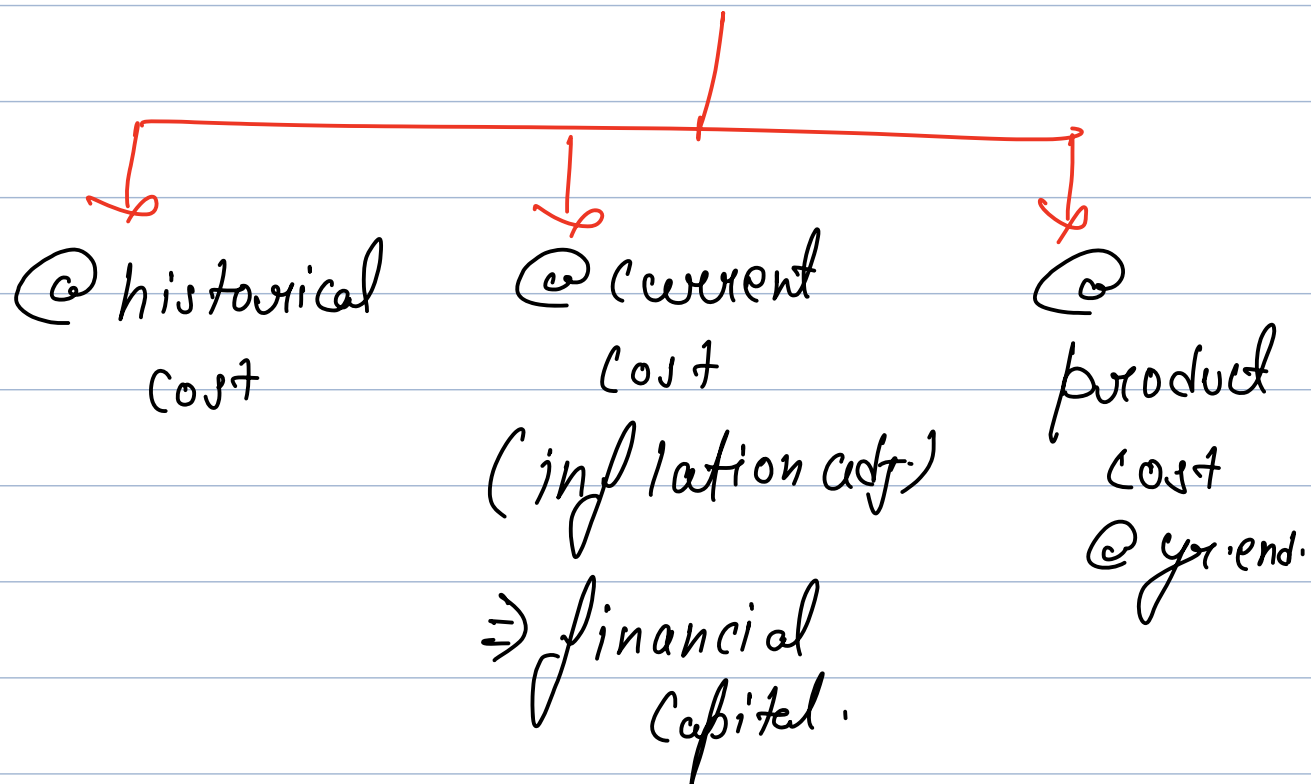
Steps to calculate growth.



Step 1 \rightarrow Calculate growth (profit)
 $(S.p.v. - C.p.v.) \times \text{units produced.}$

Step 2 \rightarrow Calculate C.I. Capital.
Op. Capital.
@ historical cost + profit - Drawings

Step 3 \rightarrow Cal. of Op. Capital.



Step 4 growth / R.E.



Step 2 → Step 3.



eg → Op. Capital = 12000 (6000 units @ ₹2)
Sold all units @ ₹3.

Drawings = ₹6000

Δ in price level = 100 to 120

avg. cost p.u. @ yr. end = 2.5

Solⁿ

Step 1 Cal. of profit.

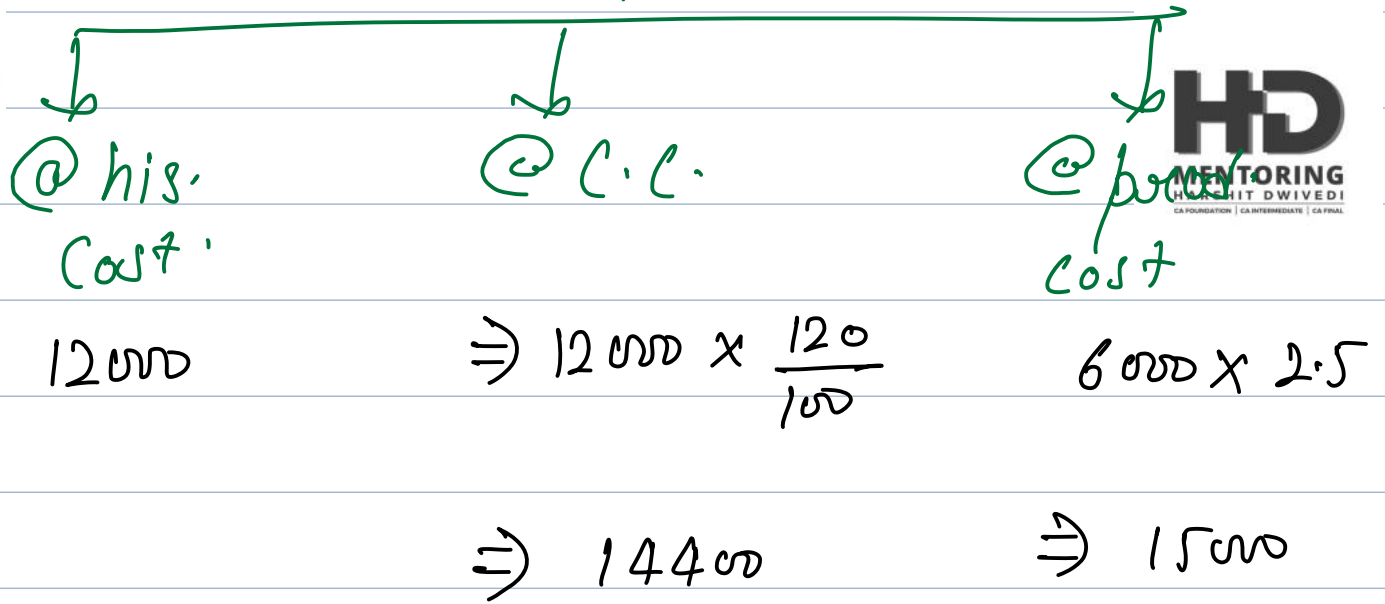
$$= (\text{₹}3 - \text{₹}2) \times 6000$$
$$= \text{₹}6000$$

Step 2 Cl. Cap. @ historical cost

Op. Cap. + profit - Drawings.

$$= 12000 + 6000 - 6000$$
$$= 12000$$

Step 3 Calⁿ of op. Capital



Step 4. growth.

	1	2	3.
C1.	12000	12000	12000
Op.	<u>12000</u>	<u>14400</u>	<u>15000</u>
	<u>0</u>	<u>(2400)</u>	<u>(3000)</u>
		↓ Nominal growth.	↓ Real growth.
		↓ inflation	↓ in reality

Mr. Unique commenced business on 1/04/17 with ₹ 20,000 represented by 5,000 units of the product @ ₹4 per unit. During the year 2017-18, he sold 5,000 units @ ₹5 per unit. During 2017-18, he withdraw ₹4,000.

- 31/03/18 : Price of the product @ ₹4.60 per unit
- Average price indices : 1/4/17 : 100
& 31/3/18 : 120

Find out:

Solⁿ :-

Step 1 Calⁿ of profit

$$(\text{₹}5 - \text{₹}4) \times 5000 = \text{₹}5000$$

Step 2 Cl. Capital

$$= 20000 + 5000 - 4000$$

$$= 21000$$

Step 3 Op. Capital

$$\begin{array}{ccc} \downarrow & & \downarrow \\ 20000 & & 20000 \times \frac{120}{100} \\ & & \downarrow \\ & & 5000 \times 4.6 \end{array}$$

$$\Rightarrow 24000$$

$$\Rightarrow 23000$$

Step 4.

Cl.	21000	21000	21000
Op.	20000	24000	23000
	<u>1000</u>	<u>(3000)</u>	<u>(2000)</u>

#8

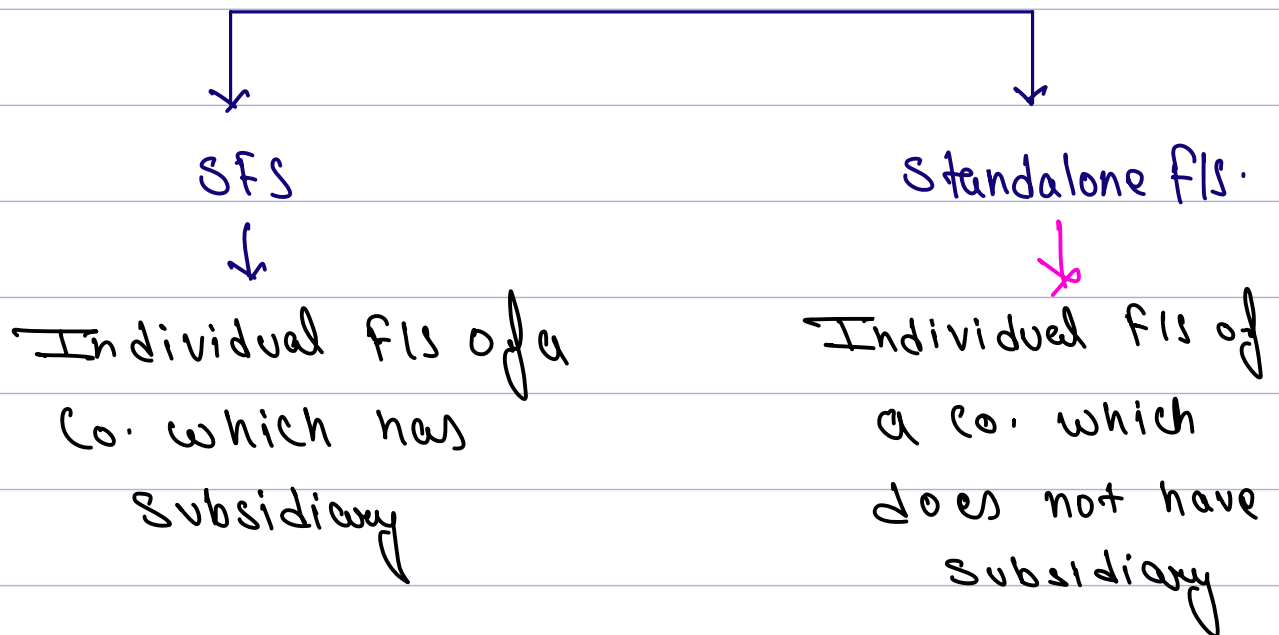
IND AS 1

Presentation of FIs.



i) Applicability.

It is applicable on



It is not applicable on interim FIs
(IND AS 34)

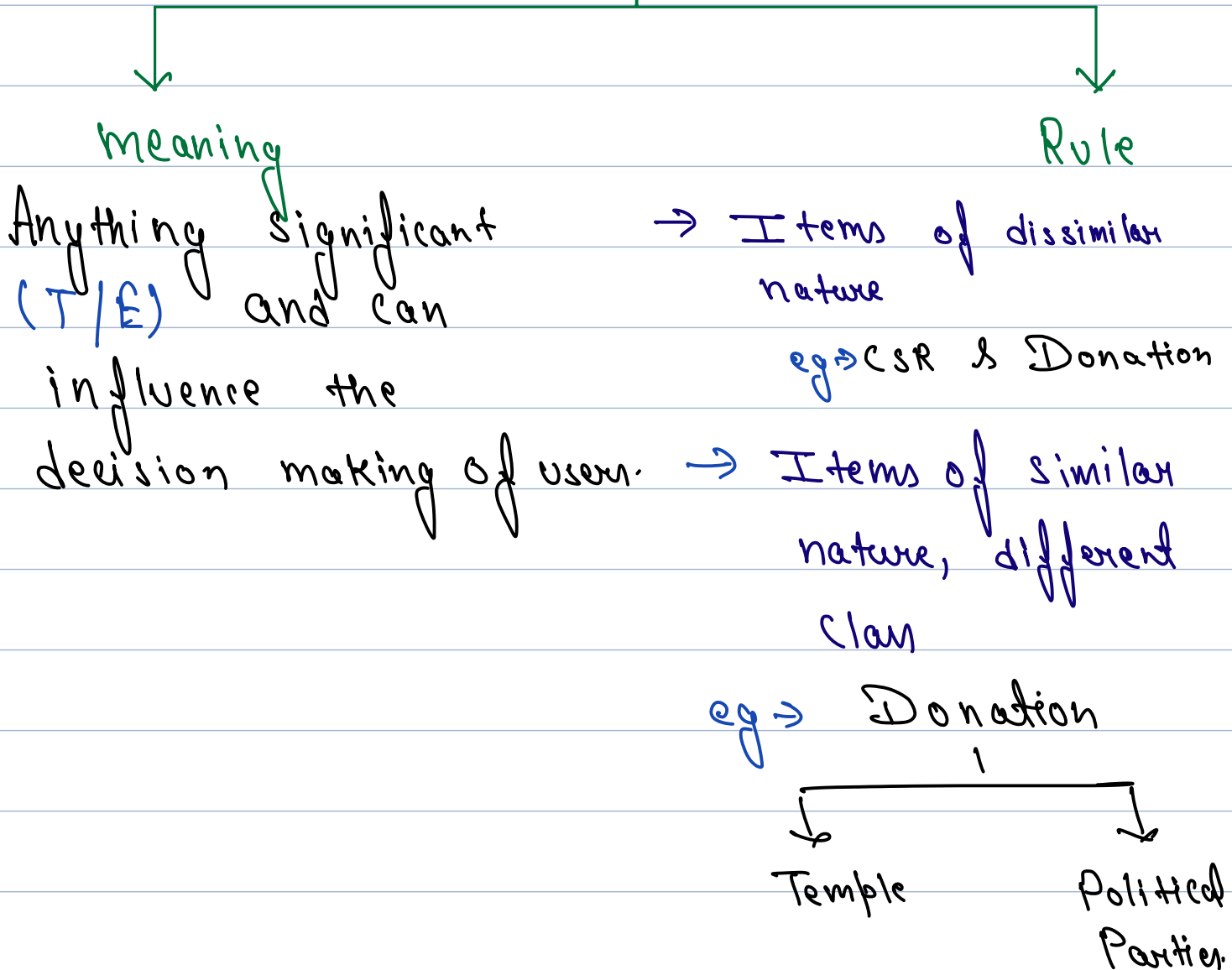
It is applicable to sec-8 Co. which can change names
like → Surplus for profit,
Statement of ISE
instead of SPL.



2) General Instruction: i- To be followed in preparation of f/s.



a) materiality



Should not be clubbed.

→ Do not mix/club material inf. with immaterial inf.



b) off-setting

Rules

AS 2 can be net off only if permitted by IND AS.

Provision on Assets should be subtracted from C.A. of Assets.

eg. T.R. → PFD
PPE → PFD

Substance of trans. required

eg → Ins. claim with loss; C.A. with C.L.

Practice

egs → Jaxen
GIL
or
GIL on PPE

c) Explicit unreserved statement.

All IND AS are followed (Not selective)

ILLUSTRATION # 22

SIMILAR TO ICAI STUDY MATERIAL ILL 1

Company makes a statement in FS that it has complied with all Ind AS except Ind AS 7 Cash Flow Statement. Comment. An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. There may be disagreement of the Company with the auditor on applicability of any Ind AS or particular requirement of any Ind AS and accordingly auditor may qualify the audit report. Even in such a situation, the financial statements will be assumed to be Ind AS compliant.

In instant case the company cannot issue EUS because of selective application



1) Disclosure req. for A in
acing policy along with
its financial effect.

g) FIs should be atleast reported annually.
h) Follow accrual basis

i) GIC

↳ if uncertain then disclose the facts.

↳ if certain that No more GIC then
follow IND AS 105

↳ if GIC is not followed, all AS2
should be shown at Realisable value.

J) Disclose Restatement and Reclassification

3) Disclosures → Refer textbook.



A. Disclose significant Accounting Policies regarding

- 1. Basis of Measurement (Cost/FV) ✓
- 2. Other Accounting Policies ✓
- Changes in Accounting Policies {See Consistency} ✓
- Deviation from Ind AS {See EUS} ✓
- Significant judgements of Managements {Materiality, Impracticability; Going Concern etc} ✓

Dis.

B. Disclose any material uncertainty/Estimates involving significant uncertainty to be disclosed providing information on

Management Policies

- 1. Qualitative Aspects of Capital ✓
- 2. Quantitative Aspects of Capital
- 3. External imposed restriction on capital and violation of it.

C. Puttable FI {Refer Ind AS – 32} →

D. Other Disclosures

- 1. Proposed Dividend
- 2. Arrears of Preference Dividend
- 3. Other
Legal Form + Domicile (Registered at) + Registered Address
Holding and Ultimate holding company name
Nature of Operation
If it has any specified life, then disclose it.

✓

ILLUSTRATION # 24

particulars	₹
Assets	
Non-Current Asset – PPE	65,000
Current Asset	
– Inventories	30,000
– Financial Assets	
(a) Trade Receivables	20,000
(b) Other Assets	10,000
(c) Cash and Cash Equivalent	5,000
	1,30,000
Equity and Liabilities	
Equity	
– Share Capital	60,000
– Other Equity – P/L Account 25,000	25,000
Non-Current Liability	
– 10% loan 35,000	35,000
Current Liabilities	

- Financial Liabilities		
(a) Trade Payables	10,000	
	1,30,000	

Additional Information

- The remaining life of PPE is 5 years. The pattern of use is even. The NRV of PPE as on 31.03.2012 is ₹ 60,000
- The traders purchase and sales in 2011-2012 amounted ₹ 4,00,000 and ₹ 4,50,000 respectively
- The cost and NRV of Inventories as on 31.3.2012 were ₹ 32,000 and ₹ 40,000 respectively
- Employee benefit expense for the year amounted to ₹ 14,900
- Other asset is written off equally over 4 years
- Trade receivables on 31.03.2012 is ₹ 25,000, of which ₹ 2000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer
- Cash balance on 31.3.2012 is ₹ 37,100 before deduction of interest paid on loan
- There is an early repayment penalty for loan of ₹ 2,500
- Trade payables 12,000

Show SPL and BS of the trader in 2 cases

- Assuming going concern is followed
- Assuming going concern is not followed

Solⁿ :- B/S.

Particulars	Gr	Not Gr.	WN-1 PPE.	
			Gr	NGr
<u>Assets.</u>				
NCA - PPE. (WN-1)	52000	60000	PPE	65000 65000
C.A.			- Dep ($\frac{65000}{5}$)	<u>(13000)</u> <u>(5000)</u>
<u>Inventory</u>	32000	40000		<u>32000</u> <u>6000</u>
F.A.			WN-2 TIR.	
TIR. (WN-2)	23000	19000	Gr	NGr
O. Assets.	7500	—	TIR.	25000 25000
C.S.C.F. { $\frac{37100}{-3500}$ }	33600	33600	PFD.D.	<u>(2000)</u> <u>(6000)</u>
<u>Total</u>	<u>148100</u>	<u>152600</u>	<u>23000</u>	<u>19000</u>

Equity & Liability.



Share Capital
O.E.

60000	60000
41100	43100

(PIL + N.P.)

NCL.

WN-3. Δ in SIT

10% loan.

35000	37500
-------	-------

Gr. NGr.

C.L.

op. st.	30000	30000
---------	-------	-------

F.L.

Cl. stock.	32000	40000
------------	-------	-------

T.P.

12000	12000
-------	-------

inc.	(2000)	(1000)
------	--------	--------

Total

148100	152600
--------	--------

SPL.

WN-4. Dep. & Am.

Particulars.

Gr.	No. Gr.
-----	---------

Gr. NGr.

Incomes

PPE	13000	5000
-----	-------	------

Revenue

450000	450000
--------	--------

O.A.	2500	10000
------	------	-------

Total (A)

450000	450000
--------	--------

15500	16000
-------	-------

Expenses

WN-5 Finance Cost

Purchase.

400000	400000
--------	--------

Gr. NGr.

Δ in S.I.T. (WN-3)

(2000)	(1000)
--------	--------

Int. on loan	3500	3500
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PBE

14900	14900
-------	-------

prep. p.	—	2500
----------	---	------

Dep. & Am. (WN-4)

15500	15000
-------	-------

3500	6000
------	------

Finance Cost (WN-5)

3500	6000
------	------

Other expy. (PFOD)

2000	6000
------	------



Total (B)	433400	431900
Profit (A-B)	16100	18100

**ILLUSTRATION # 25****ICAI STUDY MAT (OLD SYLLABUS)**

Entity A is having inventory amounting ₹ 1,00,000 in total with the details as below

NAME	₹
Spare parts	30,000 ✓
Finished goods 25,000 ✓	25,000
Work in progress 40,000	40,000 ✓
<u>Tools</u>	5,000
	1,00,000

Materiality limit has been assessed ₹ 30,000 based on the management's estimation pertaining to annual profit basis.

What should be the presentation requirement under the Materiality Criteria ?

Solⁿ:-

- a) entity has a materiality of ₹ 30000, so
∴ any thing beyond or above should disclosed separately.
- b) entity needs to show inventory as below in notes to ac.

Spare parts.	30000
WIP.	40000
F.G. (incl. Tools)	30000
	<u>100000</u>