

# ADV. ACCOUNTS MARATHON 3.0

TRISHULA



CA RAHUL GARG  
GOLD MEDALIST, 5 TIMES AIR



*Tribute to*  
My Beloved Elder Brother

**Sachin Garg**

(Inspiration for me and all my students)  
who left for heavenly abode on **3<sup>rd</sup> May, 2015**

“ — Rahul Sir — ”  
Always Believes That

“ If You Want  
To Be A Lion,  
You Must Train  
With Lions. ”



# CA RAHUL GARG



## Know Your Mentor CA Rahul Garg



### **Cleared all the 3 Professional courses**

CA, CS, CMA  
at the age of  
22 years 7 months  
with Ranks



**5 times  
All India Rankholder**  
in Professional Exams  
(A Record).

**Scored  
SINGLE DIGIT  
RANK 3 times**  
(including  
All India Rank 1).

**Achieved exemption  
in 40+ papers  
out of total 50 papers**  
held by CA, CS, CMA  
institutes in his  
academic career.



**Awarded by  
Mr. Atal Bihari Vajpayee**  
in 2010 for exceptional  
performance in  
Academics.

**One of the best  
motivator in India**  
to push the students  
beyond their limits.



**Covered by the  
National Magazine  
'Career 360 - Outlook  
Group'** amongst 12  
National Toppers  
(across all streams)  
in 2010.

**Specialist in**  
Time management  
and  
Stress management  
skills.



# CA RAHUL GARG

## Love For the Subject Adv. Acc., Cost & FM Sm

**Only one in India  
to cover maximum  
Practical Questions in  
Cost, FM, Accounts.**

**Only one in India  
to give Homework  
for all Practical  
Subjects**  
(to instill discipline and  
confidence) and  
check the same even  
in online class.

**Tabular and  
Diagrammatic  
presentation of  
Theory to create  
interest.**

**Important points  
of theory Specially  
marked for  
last minute revision.**

**Simple and  
lucid language  
in theory for  
easy understanding.**

**Focus on 100%  
conceptual clarity  
Fully Exam Oriented  
Lectures.**

**Special Tips on  
Presentation and  
"How to Attempt"  
the paper to  
score wonderful marks.**

**Maximum students  
scoring Exemptions  
in each attempt.**

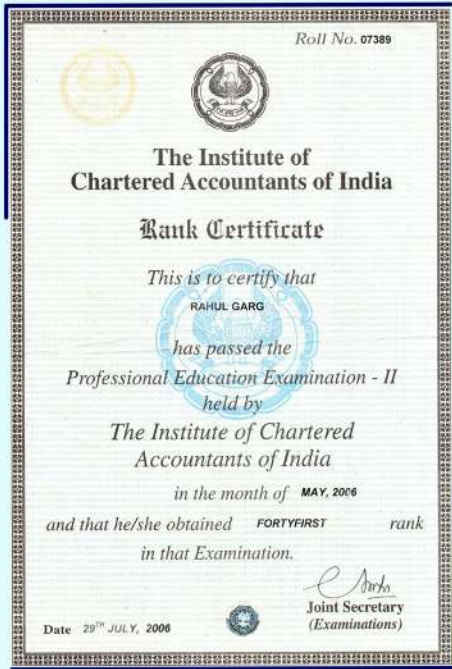
**Pioneer of  
MARATHON SESSIONS  
in country for the  
benefit of students.**

**Test Series,  
Doubt Sessions &  
Revision Support  
for all students of the  
profession.**

**Outstanding Reviews  
by the students  
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subjects.**

**Exhaustive Material  
covering all questions  
of module, RTP, MTP,  
and Past Exams.**

**RANK Certificate for All India Rank-41**  
(May 06) in CA PE II Exam (now CA Inter)



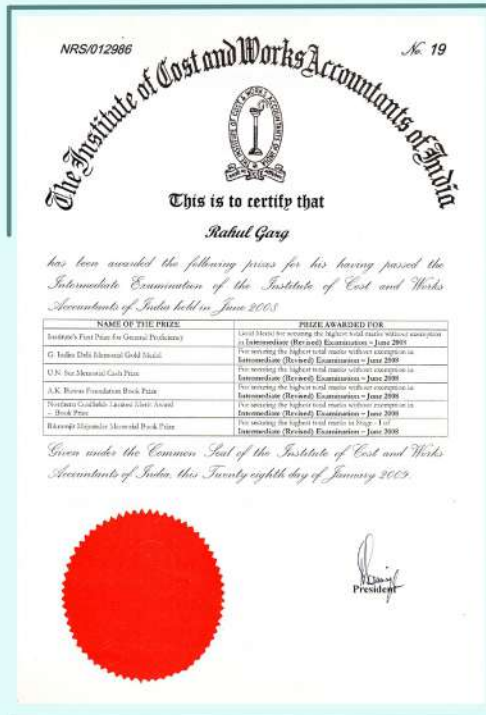
**RANK Certificate for All India Rank-4**  
(June 08) in CS Inter Exam



**RANK Certificate for All India Rank-13**  
(June 09) in CS Professional (Final) Exam



**Institute's Gold Medal for All India Rank-1**  
(June 08) in CMA Inter Exams



**RANK Certificate for All India Rank-1**  
(June 08) in CMA Inter Exams



**RANK Certificate for All India Rank-3**  
(June 09) in CMA Final Exams



**A SPECIAL THANKS TO MY BIGGEST STRENGTH,**

*My wife Shikha Garg*



Who Has always  
been my Side in  
all the Challenges.

This publication could  
**not have been possible without her.**

# INVESTMENT ACCOUNTS

## CONCEPT

## MEANING OF INVESTMENT

- ✓ Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise.

## CONCEPT

## FIXED INCOME BEARING SECURITIES

<b>Inclusions</b>		<ul style="list-style-type: none"> <li>✓ Debentures</li> <li>✓ Bonds</li> <li>✓ Government Securities</li> </ul>
<b>Purchase Transaction</b>	<b>Insights</b>	<ul style="list-style-type: none"> <li>✓ Buyer pays for               <ul style="list-style-type: none"> <li>❖ Cost of Investments</li> <li>❖ Interest</li> </ul> </li> </ul>
	<b>Journal Entry</b>	Investment in 12% Debentures of T Ltd. A/c
		Interest on Investments A/c
		To Bank A/c
<b>Interest Transaction</b>	<b>Insights</b>	<ul style="list-style-type: none"> <li>✓ Always computed on <b>Face Value</b>.</li> <li>✓ Investor receives the interest from last date of interest till current date of interest.</li> </ul>
	<b>Journal Entry</b>	Bank A/c
		To Interest on Investments A/c
<b>Sale Transaction</b>	<b>Insights</b>	<ul style="list-style-type: none"> <li>✓ Seller receives for               <ul style="list-style-type: none"> <li>❖ Sale value of investments</li> <li>❖ Interest</li> </ul> </li> </ul>
	<b>Journal Entry</b>	Bank A/c
		To Investment in 12% Debentures of T Ltd. A/c
		To Interest on Investments A/c
<b>Profit or loss</b>	✓ The profit or loss on sale shall be computed by comparing the	

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	on sale	cost of investment with the sales value. ✓ Generally, <b>FIFO method</b> is followed to compute the cost.	
	Journal Entry (Profit)	Investment A/c	
		To P/L A/c	
	Journal Entry (Loss)	P/L A/c	
To Investment A/c			
Transfer of Interest to P/L (year-end)	Insights	✓ The amount of interest is to be transferred to P/L A/c at the year end.	
	Journal Entry	Interest on Investments A/c	
		To P/L A/c	
Types of transactions	Ex-interest	✓ Price of transaction and interest are separate. ✓ <b>Price of transaction doesn't include interest.</b>	
	Cum-interest	✓ Price of transaction and interest are not separate. ✓ <b>Price of transaction includes interest.</b>	
Incidental Expenses	Types	Stamp Duty	✓ Usually computed on the face value
		Commission	✓ Usually computed on the transaction value
	Treatment	Purchase	✓ To be added
		Sale	✓ To be deducted
Comparison of Cost Price with Market Value	✓ If the question provides the market price, then compare it with the cost at the end. ✓ <b>The valuation rule "Lower of Cost and Market Price" shall be followed.</b> ✓ If the cost is more, then the difference shall be booked as "Loss on Valuation".		

Books of Investor  
Investment A/c  
from \_\_\_\_\_ to \_\_\_\_\_  
(Scrip : \_\_\_% Debentures of \_\_\_\_\_)

Date	Particulars	Nominal Value	Interest	Amount	Date	Particulars	Nominal Value	Interest	Amount
	To Balance b/d					By Bank - Receipt of Interest			
	To Bank - Purchase					By Bank - Sale			
	To P/L - Profit on Sale					By P/L - Loss on Sale			
	To P/L - Interest Transfer to P/L					By Balance c/d (balance investment in hand)			
		Total	Total	Total			Total	Total	Total

**CONCEPT**

**VARIABLE INCOME BEARING SECURITIES**

<b>Inclusions</b>	<ul style="list-style-type: none"> <li>✓ It includes the securities having variable return of income.</li> <li>✓ For example - investment in equity shares.</li> </ul>
<b>Other notable points</b>	<ul style="list-style-type: none"> <li>✓ Stamp duty is computed on transaction value.</li> <li>✓ Only weighted average method is applicable (not the FIFO).</li> <li>✓ No computation of dividend is made at the time of purchase or sale transaction.</li> </ul>
<b>Bonus Issue</b>	<ul style="list-style-type: none"> <li>✓ Issue of shares by company free of cost.</li> <li>✓ No amount is entered in Investment A/c.</li> </ul>

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		✓ Bonus shares are given in proportion to existing holding.	
Right Issue	Insights	<ul style="list-style-type: none"> <li>✓ Offer by the company to its existing equity shareholders to subscribe to its shares.</li> <li>✓ Generally offered at less than the market price.</li> <li>✓ Right shares are given in proportion to existing holding.</li> </ul>	
	Options with the shareholder	Subscribe	✓ In such case, an entry is passed for the purchase of shares.
		Renounce	<ul style="list-style-type: none"> <li>✓ Investor sells his "Right to receive the Shares".</li> <li>✓ Such profit is not recorded in Investment A/c but in the P/L A/c.</li> </ul>
Dividend	Post-Acquisition Dividend	Insights	<ul style="list-style-type: none"> <li>✓ Revenue Nature</li> <li>✓ Dividend Column</li> <li>✓ Income of investor</li> </ul>
		Journal Entry	Bank A/c
			To Dividend A/c
	Pre-Acquisition Dividend	Insights	<ul style="list-style-type: none"> <li>✓ Capital Nature</li> <li>✓ Amount Column</li> <li>✓ Not the income of investor, reduces the cost of investment.</li> </ul>
		Journal Entry	Bank A/c
			To Investment A/c
Profit or loss on sale	Insights	<ul style="list-style-type: none"> <li>✓ The profit or loss on sale shall be computed by comparing the cost of investment with the sales value.</li> <li>✓ To compute the relevant cost of investment sold, weighted average method shall be followed.</li> </ul>	
	Journal Entry (Profit)	Investment A/c	
		To P/L A/c	
	Journal Entry (Loss)	P/L A/c	
		To Investment A/c	
Transfer of Dividend to	Insights	✓ The amount of dividend is to be transferred to P/L A/c at the year end.	

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P/L (year-end)	Journal Entry	Dividend A/c
		To P/L A/c
Comparison of Cost Price with Market Value	<ul style="list-style-type: none"> <li>✓ If the question provides market price, then compare it with the cost at the end.</li> <li>✓ The valuation rule "Lower of Cost and Market Price" shall be followed.</li> <li>✓ If the cost is more, then the difference shall be booked as "Loss on Valuation".</li> </ul>	

Books of Investor  
 Investment A/c  
 from \_\_\_\_\_ to \_\_\_\_\_  
 (Scrip : Equity Shares in \_\_\_ Ltd.)

Date	Particulars	No. of Shares	Dividend	Amount	Date	Particulars	No. of Shares	Dividend	Amount
	To Balance b/d					By Bank - Dividend			
	To Bank : Purchase					By Bank - Sale			
	To Bonus Shares					By P/L - Loss on Sale			
	To Bank : Right Shares					By P/L - Loss on Revaluation			
	To P/L - Profit on Sale					By Balance c/d			
	To P/L - Transfer of D/D								
		Total	Total	Total			Total	Total	Total

**CONCEPT****CONVERTIBLE DEBENTURES**

<b>Meaning</b>	✓ The debentures which are convertible into equity shares.
<b>Other notable points</b>	<ul style="list-style-type: none"> <li>✓ At the time of conversion           <ul style="list-style-type: none"> <li>❖ Find the face value of debentures being converted</li> <li>❖ Find the cost of such debentures being converted (always follow weighted average method)</li> </ul> </li> <li>✓ As per SEBI Guidelines, interest due (if any) on such debentures is to be paid at the time of conversion itself.</li> </ul>
<b>Journal Entry</b>	Investment in Equity Shares A/c
	To Investment in ___% Debentures A/c

Investment A/c  
(Debentures)

Date	Particulars	Face Value	Interest	Amount	Date	Particulars	Face Value	Interest	Amount
						By Inv. in Equity Shares A/c		-	
						By Bank - Interest	-		-

Investment A/c  
(Equity Shares)

Date	Particulars	No. of shares	Dividend	Amount	Date	Particulars	No. of shares	Dividend	Amount
	To Inv. in ___% Debentures A/c		-						

# BRANCH ACCOUNTING

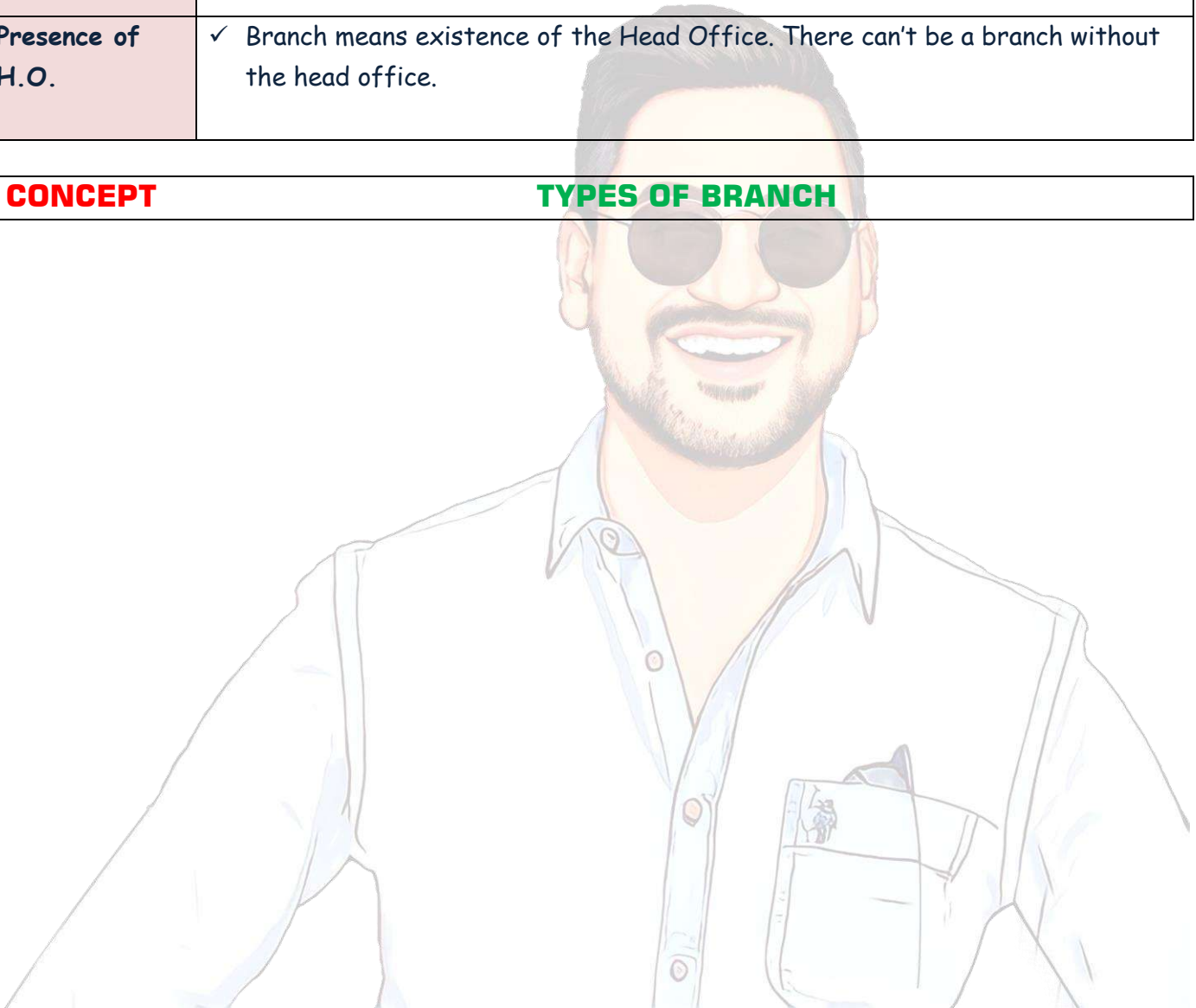
## CONCEPT

## BASICS

Nature	✓ A branch can be described as any establishment carrying on either the same or substantially same activity as that carried on by the head office.
Presence of H.O.	✓ Branch means existence of the Head Office. There can't be a branch without the head office.

## CONCEPT

## TYPES OF BRANCH



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**CONCEPT****INLAND DEPENDENT BRANCH : DEBTORS METHOD**

In the Books of Head Office

Branch A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Balance b/d	
: Stock		: O/s Expenses	
: Debtors		By Stock Reserve (L)	
: Petty Cash		By Goods sent to branch (L)	
: Fixed Assets		By Goods returned to HO	
To Goods sent to branch		By Bank : Remittance to HO	
To Goods returned to HO (L)		: Cash Sales	
To Bank : Amount sent by HO		: Received from Debtors	
: Expenses		By Balance c/d	
: Petty Cash		: Stock	
To Stock Reserve (L)		: Debtors	
To Balance c/d		: Petty Cash	
: O/s Expenses		: Fixed Assets	
To Net Profit		By Net Loss	
	Total		Total

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Memo Stock A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Goods returned to HO	
To Goods sent to Branch		By Sales	
To Sales Return		By Loss	
		By Balance c/d	
	Total		Total

Memo Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Cash	
To Credit Sales		By Bad Debts	
		By Sales Returns	
		By Discount	
		By Balance c/d	
	Total		Total

Petty Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Bank : Expense	
To Bank : Amount received from HO		By Balance c/d	
	Total		Total

**CONCEPT INLAND DEPENDENT BRANCH : FINAL ACCOUNTS METHOD**

In the Books of Head Office

Trading and Profit & Loss A/c of Branch for year ending \_\_\_\_\_

Particulars	Amount	Particulars	Amount
To Opening Stock		By Sales	
To Goods sent to Branch		: Cash	
(-) Goods returned by Branch		: Credit	
To Direct Expenses		(-) Sales Returns	
To Gross Profit		By Abnormal Loss	
		By Closing Stock	
	Total		Total
To Indirect Expenses		By Gross Profit	
: Discount to Customers			
: Bad Debts			
: Salaries & Wages			
: Petty Expenses			
To Abnormal Loss			
To Net Profit			
	Total		Total

**CONCEPT INLAND DEPENDENT BRANCH : STOCK & DEBTORS METHOD**

In the Books of Head Office

Branch Stock A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Goods returned to HO	
To Goods sent to Branch		By Bank : Cash Sales	
To Br. Debtors : Sales Return		By Br. Debtors : Credit Sales	
To Br. Adjustment : Surplus		By Abnormal Loss	
		By Normal Loss	
		By Balance c/d	
	Total		Total

Branch Adjustment A/c

Particulars	Amount	Particulars	Amount
To Goods Returned to HO (L)		By Stock Reserve (L)	
To Abnormal Loss		By Goods Sent to Branch (L)	
To Normal Loss		By Br. Stock : Surplus	
To Stock Reserve (L)			
To Br. P/L : Gross Profit			
	Total		Total

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### Branch Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Br. P/L	
To Br. Stock : Credit Sales		: Discount Allowed	
		: Bad Debts	
		By Br. Stock : Sales Return	
		By Bank : Collection	
		By Balance c/d	
	<b>Total</b>		<b>Total</b>

### Branch Expenses A/c

Particulars	Amount	Particulars	Amount
To Bank A/c		By Br. P/L	
: Salaries & Wages			
: Rent, Rates & Taxes			
: Sundry Expenses			
	<b>Total</b>		<b>Total</b>

### Branch Profit & Loss A/c

Particulars	Amount	Particulars	Amount
To Br. Debtors		By Br. Adj - Gross Profit	
: Discount to Customers			
: Bad Debts			
To Br. Expenses			
To Abnormal Loss			
To Net Profit			
	Total		Total

### Goods Sent to Branch A/c

Particulars	Amount	Particulars	Amount
To Br. Stock A/c		By Br. Stock A/c	
To Br. Adjustment		By Br. Adjustment	
To Purchases/ Trading A/c			
	Total		Total

**CONCEPT INLAND DEPENDENT BRANCH : WHOLESALE PRICE METHOD**

Trading and Profit & Loss A/c for year ending \_\_\_\_\_

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock			By Goods sent to Branch		
To Goods received from HO			By Sales		
To Purchases			By Closing Stock		
To Gross Profit (WN)					
	Total	Total		Total	Total
To Indirect Expenses			By Gross Profit		
To Stock Reserve (closing stock)			By Stock Reserve (opening stock)		
To Net Profit					
	Total	Total		Total	Total

**CONCEPT****INLAND INDEPENDENT BRANCH**

S. No.	Particulars	Books of Head Office	Books of Branch
1.	Goods dispatched by Head Office	Branch A/c	Goods Received from HO A/c
		To Goods Sent to Branch A/c	To HO A/c
2.	Remittance by Branch	Cash A/c	HO A/c
		To Branch A/c	To Cash A/c
3.	Collection from Debtors directly by HO	Cash A/c	HO A/c
		To Branch A/c	To Debtors A/c
4.	Return of goods by Debtors to HO	Sales Return A/c	HO A/c
		To Branch A/c	To Debtors A/c
5.	Expenses of branch paid by HO	Branch A/c	Expense A/c
		To Cash A/c	To HO A/c
6.	Allocation of expenses by HO to Branch	Branch A/c	Expense A/c
		To Expense A/c	To HO A/c
7. Fixed Asset A/c being maintained at HO			
a.	FA purchased by Branch	Branch Fixed Asset A/c	HO A/c
		To Branch A/c	To Cash/ Creditors A/c
b.	FA purchased by Branch but paid by HO	Branch Fixed Asset A/c	-
		To Cash/ Creditors A/c	
c.	Depreciation on such fixed asset	Branch A/c	Depreciation A/c
		To Branch Fixed Asset A/c	To HO A/c

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8.	Cash in Transit	Cash in Transit A/c	-
		To Branch A/c	
9.	Goods in Transit	-	Goods in Transit A/c
			To HO A/c

### PASSING SINGLE JOURNAL ENTRY BY HO FOR INTER BRANCH TRANSACTIONS

#### Statement Showing Inter Branch Transactions

Particulars	Delhi		Mumbai		Chennai		Kolkata	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>(A) Delhi Branch</b>								
1. Received Goods								
2. Sent Goods								
3. B/R Received								
4. Acceptances Sent								
<b>(B) Mumbai Branch</b>								
1. Received Goods								
2. Cash Sent								
<b>(C) Chennai Branch</b>								
1. Received Goods								
2. Cash Sent								
<b>(D) Kolkata Branch</b>								
1. Sent Goods								
2. Paid Cash								
<b>Total</b>	<b>340000</b>	<b>400000</b>	<b>240000</b>	<b>228000</b>	<b>480000</b>	<b>200000</b>	<b>268000</b>	<b>500000</b>
c/d	60000			12000		280000	232000	
b/d		60000	12000		280000			232000

Books of Head Office

Journal Entry

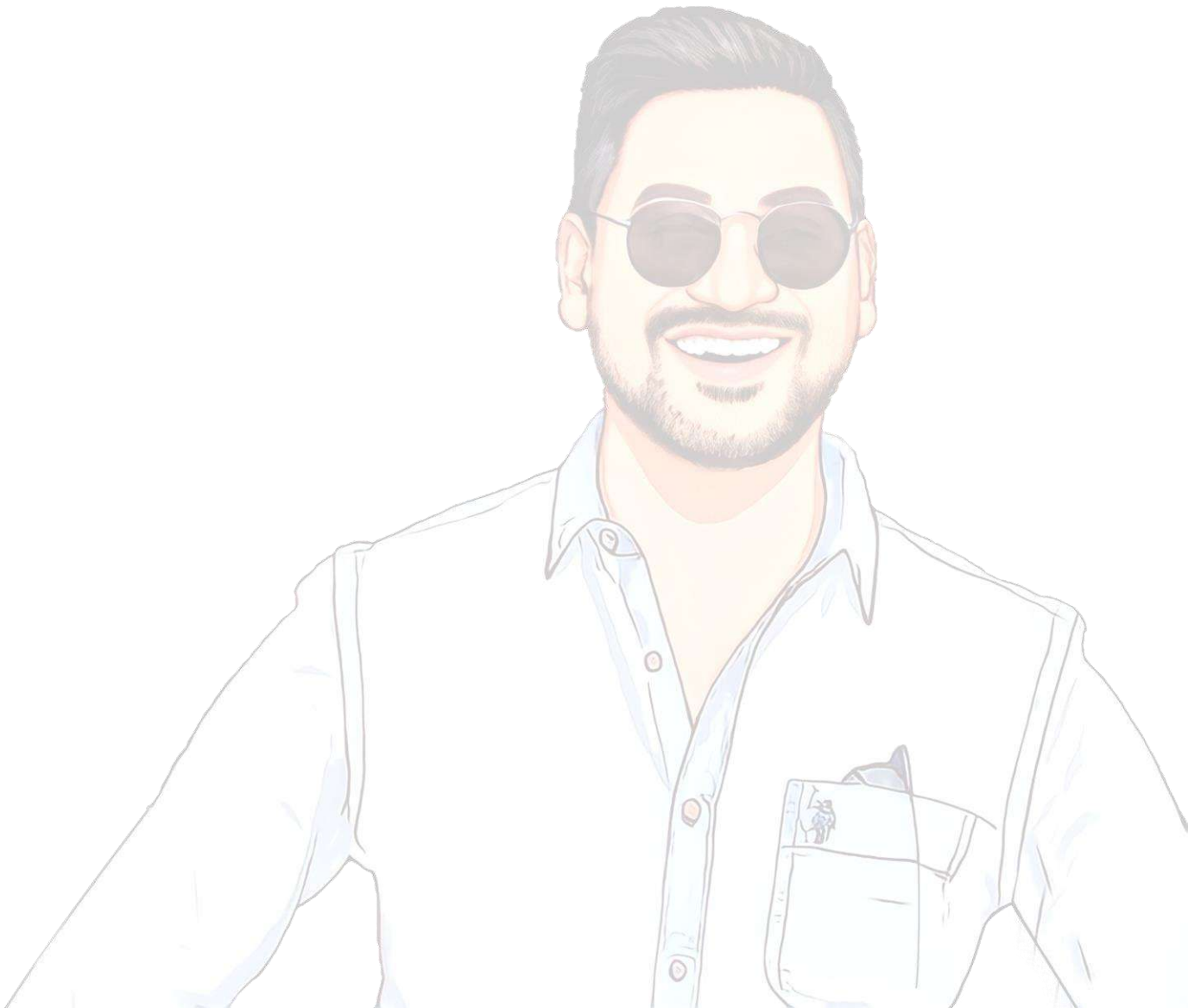
Date	Particulars	L.F.	Dr.	Cr.
-	Mumbai Branch A/c		12,000	
	Chennai Branch A/c		2,80,000	
	To Delhi Branch A/c			60,000
	To Kolkata Branch A/c			2,32,000

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## INTER UNIT A/C RECONCILIATION



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**CONCEPT****FOREIGN BRANCH****Exchange Rates Applicable for Conversion of Trial Balance**

S. No.	Particulars	IFO	NIFO
1.	Opening Stock		
2.	Expenses		
3.	Incomes		
4.	Closing Assets		
5.	Fixed Assets (including depreciation)		
6.	Closing Liabilities		
7.	Goods received from HO		
8.	Remittance to HO		
9.	Inter-Unit A/c		
10.	Exchange Difference		

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Trading and Profit & Loss A/c for year ending \_\_\_\_\_

Particulars	Amount	Particulars	Amount
To Opening Stock		By Sales	
To Purchases		By Closing Stock	
To Goods from H.O.			
To Direct Expenses			
To Gross Profit			
	Total		Total
To Indirect Expenses		By Gross Profit	
To Exchange Loss		By Exchange Gain	
To Net Profit			
	Total		Total

Balance Sheet as at \_\_\_\_\_

Liabilities	Amount	Assets	Amount
Net Profit		Fixed Assets	
Head Office A/c		Bills Receivable	
Trade creditors		Trade debtors	
Foreign Currency Trans. Reserve		Cash at bank	
		Closing Stock	
	Total		Total

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# CASH FLOW STATEMENT

## CONCEPT

## MEANING OF CASH FLOW STATEMENT

- ✓ Cash flow Statement (CFS) is an additional information provided to the users of accounts in the form of an statement, which reflects
  - ❖ the various sources from where cash was generated (inflow of cash) and
  - ❖ how these inflows were utilised (outflow of cash) by an enterprise during the relevant accounting year.

## CONCEPT

## MEANING OF CASH & CASH EQUIVALENTS

Cash	<ul style="list-style-type: none"><li>✓ It comprises<ul style="list-style-type: none"><li>❖ Cash in Hand and</li><li>❖ Demand Deposits with the bank (cash at bank)</li></ul></li></ul>
Cash Equivalents	<ul style="list-style-type: none"><li>✓ These are short term highly liquid investments, readily convertible into known amounts of cash and subject to insignificant risk of change in value.</li><li>✓ Any investment will qualify as cash equivalent only if it has short maturity of 3 months or less from the date of acquisition.</li><li>✓ Example - Treasury Bill, Marketable Securities etc.</li></ul>

## CONCEPT

## MEANING OF CASH FLOWS

Meaning	These are inflows and outflows of cash & cash equivalents.
How does it arise?	<ul style="list-style-type: none"><li>✓ Cash flow arises when the net effect of transaction is to<ul style="list-style-type: none"><li>❖ either increase</li><li>❖ or decrease</li></ul>the amount of cash and cash equivalents.</li></ul>

**CONCEPT****FORMAT OF CASH FLOW STATEMENT**

Name of Company  
Cash Flow Statement  
For year ending .....

S.No.	Particulars	Amount (₹)
A.	Cash Flow from Operating Activities	
B.	Cash Flow from Investing Activities	
C.	Cash Flow from Financing Activities	
	<b>Net Cash and Cash Equivalents Generated during the year</b>	
+	Opening balance of Cash and Cash Equivalents	
=	<b>Closing balance of Cash and Cash Equivalents</b>	

**CONCEPT****OPERATING ACTIVITIES**

These are the principle revenue producing activities of enterprise and other activities which are not investing or financing.

**Cash Flow from Operating Activities (Direct Method)**

Particulars	Amount (₹)
Cash Sales	
+ Cash received from Debtors	
- Cash Purchases	
- Cash made to Suppliers	

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- Payment made for operating expenses (Example : Wages & Salaries, Office & Administration expenses, Manufacturing Overheads, Selling & Distribution Expenses etc.)	
<b>= Cash Generated from Operations before Tax</b>	
- Income Tax Paid	
+ Extraordinary items (Example : Insurance Claim received w.r.t. stock lost by fire)	
<b>Cash Flow from Operating Activities (Indirect Method)</b>	
<b>Particulars</b>	<b>Amount (₹)</b>
Profit earned during the year	
+ Dividend	
+ Transfer to Reserve	
+ Provision for Tax	
- Refund of Tax	
- Extra-ordinary item credited to P/L A/c (Insurance proceeds w.r.t. loss due to earthquake)	
+ Extra-ordinary item debited to P/L A/c (Loss due to earthquake)	
<b>= Net Profit before Tax &amp; Extra-ordinary Item</b>	
: <u>Adjustment for non-cash and non-operating items</u>	
+ Depreciation	
+ Interest on Loan/ Debentures	

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+ Preliminary Expenses/ Intangible Assets etc. written off	
+ Loss on sale of Investments/ Fixed Assets	
- Profit on sale of Investments/ Fixed Assets	
- Rental/ Dividend/ Interest Income	
<b>= Operating Profit before Working Capital Changes</b>	
+ Decrease in Current Assets	
- Increase in Current Assets	
- Decrease in Current Liabilities	
+ Increase in Current Liabilities	
<b>= Cash Generated from Operations</b>	
- Income Tax Paid	
+ Extraordinary items (Insurance claim received w.r.t. stock lost by fire)	

## CONCEPT

## INVESTING ACTIVITIES

These are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

### Cash Flow from Investing Activities

Particulars	Amount (₹)
Sale of Fixed Assets/ Investment	

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- Purchase of Fixed Assets/ Investment	
+ Interest/ Dividend/ Rental Income Received	
- Loans and advances granted to others	
+ Repayment of Loans and advances received	
- Income Tax paid (Capital Gain tax on sale of asset)	
+ Extraordinary items (Example : Insurance Claim received w.r.t. destruction of fixed asset)	

## CONCEPT

## FINANCING ACTIVITIES

These are the activities that result in changes in the size and composition of the owners' capital (including preference share capital) and borrowings (including short term borrowings) of the enterprise.

### Cash Flow from Financing Activities

Particulars	Amount (₹)
Issue of share capital/ debentures for cash	
+ Loan raised	
- Buy back of equity shares	
- Redemption of preference shares/ debentures	
- Loan repaid	
- Interest/ Dividend paid	

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**CONCEPT****SOME IMPORTANT ASPECTS****Interest & Dividend**

Activity	Non-Financing Org.	Financing Org.
Interest Received		
Dividend Received		
Interest Paid		
Dividend Paid		

**CONCEPT****SOME IMPORTANT ACCOUNTS****Provision for Tax A/c**

Particulars	Amount	Particulars	Amount
To Advance Tax		By Balance b/d	
To Balance c/d		By P/L A/c	
	<b>Total</b>		<b>Total</b>

**Advance Tax A/c**

Particulars	Amount	Particulars	Amount
To Balance b/d		By Provision for Tax A/c	
To Bank A/c		By Balance c/d	
	<b>Total</b>		<b>Total</b>

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### Dividend Payable A/c

Particulars	Amount	Particulars	Amount
To Bank A/c		By Balance b/d	
To Balance c/d		By P/L A/c	
	<b>Total</b>		<b>Total</b>

### Investment A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Bank A/c	
To Bank A/c		By P/L A/c	
To P/L A/c		By Dividend	
		By Balance c/d	
	<b>Total</b>		<b>Total</b>

### Fixed Asset A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Depreciation	
To Bank A/c		By Bank A/c	
To P/L A/c		By P/L A/c	
		By Balance c/d	
	<b>Total</b>		<b>Total</b>

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### Fixed Asset A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Accumulated Depreciation	
To Bank A/c		By Bank A/c	
To P/L A/c		By P/L A/c	
		By Accumulated Depreciation	
		By Balance c/d	
	<b>Total</b>		<b>Total</b>

### Accumulated Depreciation A/c

Particulars	Amount	Particulars	Amount
To Fixed Asset A/c		By Balance b/d	
To Fixed Asset A/c		By Depreciation	
To Balance c/d			
	<b>Total</b>		<b>Total</b>



# Congratulates!

It's All India Rank Holders

THEY BELIEVED, THEY DID, SO CAN YOU



#Kunal



#Arpita



#Utkarsh



#Mauj Arif



#Abhinav



#Jatin



#Zainul



#Kali



#Shubham



#Pari



#Mohnish



#Rhythm



#Naman



#Satakshi



#Sohan



#Aryan



#Mayank



#Rohini



#Daksh



#Neerav

# FINAL ACCOUNTS OF COMPANIES

## CONCEPT

## PAYMENT OF DIVIDEND OUT OF RESERVES

<b>General Rule</b>	✓ Dividend can be declared and paid by a company only out of the profits or free reserves.	
<b>Exception</b>	✓ In the event of inadequacy or absence of profits in any year, a company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the reserves, subject to the fulfilment of the following conditions as per Companies (Declaration and Payment of Dividend) Rules, 2014.	
	Condition 1	
	Condition 2	
	Condition 3	

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**CONCEPT****PREPARATION OF FINAL ACCOUNTS****Companies Act, 2013****The Third Schedule****(Section 129)***Part 1***BALANCE SHEET**

Name of the Company \_\_\_\_\_

Balance Sheet as at \_\_\_\_\_

(₹ in \_\_\_\_\_)

S. No.	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
<b>A.</b>	<b>Equity &amp; Liabilities</b>			
<b>1.</b>	<b>Shareholders' funds</b>			
a	Share capital			
	<b>Special Disclosure</b>			
	✓ Shares issued for consideration other than cash			
	✓ Shares issued as fully paid bonus shares			
	✓ Shares bought back			
b	Reserves and Surplus			
	✓ Show all types of Reserves here			
	✓ Show all the appropriations here only (in Surplus A/c)			
	✓ Debit balance of statement of P/L shall be shown as a negative figure under the head 'Surplus'			
c	Money received against share warrants			
<b>2.</b>	<b>Share application money pending allotment</b>			
<b>3.</b>	<b>Non-current liabilities</b>			
a	Long-term borrowings			
	✓ To be classified as secured or unsecured			
	✓ If secured, nature of security to be specified			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			

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	✓ Includes provision for employee benefits usually			
4.	<b>Current liabilities</b>			
a	Short-term borrowings			
	<ul style="list-style-type: none"> <li>✓ Current maturities of long-term debt</li> <li>✓ Loan from bank repayable on demand</li> <li>✓ Loans and advances from related parties</li> <li>✓ To be classified as secured or unsecured</li> <li>✓ If secured, nature of security to be specified</li> </ul>			
b	Trade Payables			
c	Other current liabilities			
	<p><i>Current liabilities for which there is no specific head. It will generally include following:</i></p> <ul style="list-style-type: none"> <li>✓ Interest accrued but not due on borrowings</li> <li>✓ Interest accrued and due on borrowings</li> <li>✓ Unpaid dividends</li> <li>✓ Share application money pending refund</li> </ul>			
d	Short-term provisions			
	<b>Total</b>		_____	_____
<b>B.</b>	<b>Assets</b>			
1.	<b>Non-current assets</b>			
a	PPE and Intangible Assets			
i	Property, Plant and Equipment			
	<p><i>It will mainly include the following :</i></p> <ul style="list-style-type: none"> <li>✓ Land</li> <li>✓ Building</li> <li>✓ Plant &amp; Equipment etc.</li> </ul> <p><i>For each of these, disclose the following :</i></p> <ul style="list-style-type: none"> <li>✓ Original Cost - Accumulated Depreciation = WDV/ BV</li> <li>✓ Any addition or disposal</li> </ul>			
ii	Intangible assets			
	<p><i>It will mainly include the following :</i></p> <ul style="list-style-type: none"> <li>✓ Goodwill</li> <li>✓ Patents etc.</li> </ul> <p><i>For each of these, disclose the following :</i></p> <ul style="list-style-type: none"> <li>✓ Amount of amortization</li> </ul>			

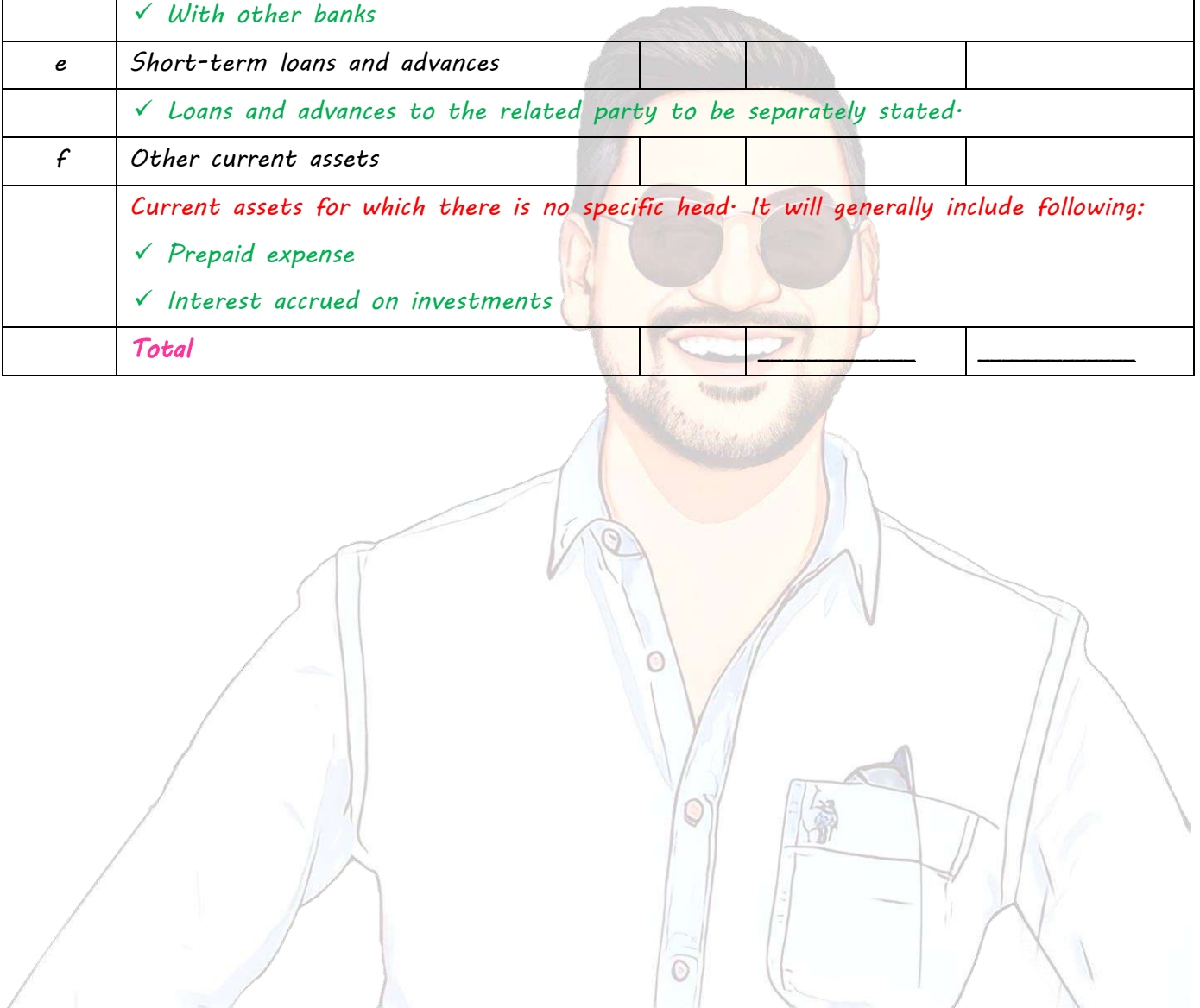
	<i>✓ Any addition or disposal</i>			
iii	Capital Work-in-progress			
iv	Intangible assets under development			
b	Non-current investments			
	<i>It denotes the investments done for long-term. Following shall be disclosed :</i>			
	<i>✓ Aggregate amount of quoted investments and its market value</i>			
	<i>✓ Aggregate amount of unquoted investments</i>			
	<i>✓ Aggregate provision for diminution</i>			
c	Deferred tax assets (Net)			
d	Long-term loans and advances			
	<i>✓ Amount due by others beyond 12 months.</i>			
	<i>✓ To be classified as secured, unsecured or doubtful.</i>			
	<i>✓ Amount due by directors should be separately stated.</i>			
	<i>✓ Loans and advances to the related party to be separately stated.</i>			
e	Other non-current assets			
2.	<b>Current assets</b>			
a	Current investments			
	<i>It denotes the investments done for short-term. Following shall be disclosed :</i>			
	<i>✓ Basis of valuation</i>			
	<i>✓ Aggregate amount of quoted investments and its market value</i>			
	<i>✓ Aggregate amount of unquoted investments</i>			
	<i>✓ Aggregate provision for diminution</i>			
b	Inventories			
	<i>Inventories are to be classified as :</i>			
	<i>✓ Raw Material</i>			
	<i>✓ WIP</i>			
	<i>✓ FG</i>			
	<i>✓ Stock in trade</i>			
	<i>✓ Stores and spares</i>			
	<i>✓ Loose Tools</i>			
	<i>Mode of valuation of inventories must also be stated.</i>			
c	Trade receivables			
	<i>✓ It includes debtors and B/R.</i>			
	<i>✓ Debts due for &gt; 6 months are to be separately stated.</i>			

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d	Cash and cash equivalents			
	<p><i>It is to be classified as :</i></p> <ul style="list-style-type: none"> <li>✓ Balance with banks</li> <li>✓ Cheques or drafts in hand</li> <li>✓ Cash in hand</li> </ul> <p><i>Balance with banks is to be stated as</i></p> <ul style="list-style-type: none"> <li>✓ With scheduled banks</li> <li>✓ With other banks</li> </ul>			
e	Short-term loans and advances			
	✓ Loans and advances to the related party to be separately stated.			
f	Other current assets			
	<p><i>Current assets for which there is no specific head. It will generally include following:</i></p> <ul style="list-style-type: none"> <li>✓ Prepaid expense</li> <li>✓ Interest accrued on investments</li> </ul>			
	<b>Total</b>		_____	_____



Part II

STATEMENT OF PROFIT AND LOSS

Name of the Company \_\_\_\_\_

Profit and loss statement for the year ended \_\_\_\_\_

(₹ in \_\_\_\_\_)

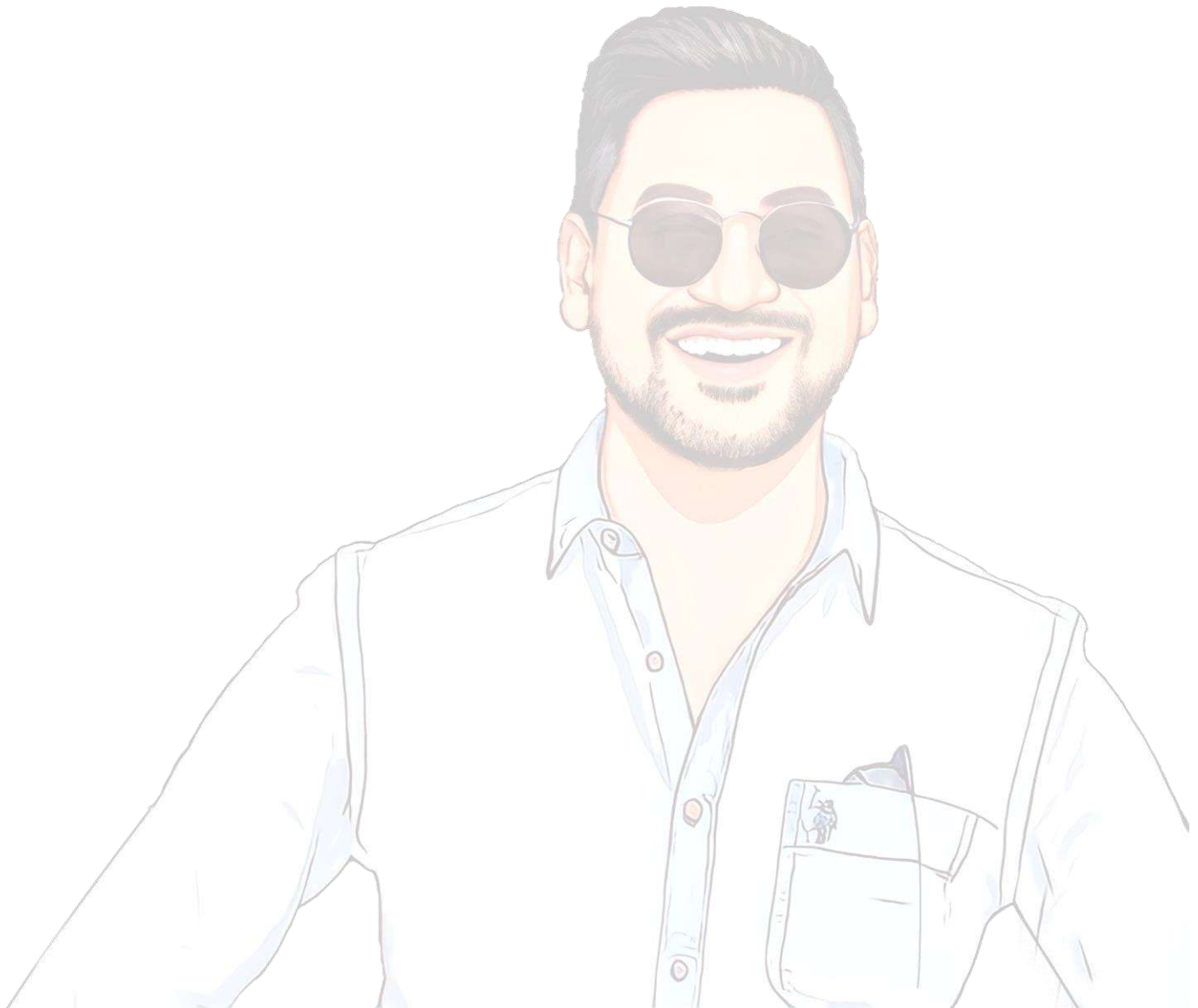
S. No.	Particulars	Note No.	Current reporting period	Previous reporting period
I	Revenue from operations			
II	Other income			
III	<b>Total Income (I + II)</b>			
IV	<b>Expenses:</b>			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	<b>Total expenses</b>			
V	<b>Profit before exceptional and extraordinary items and tax (III - IV)</b>			
VI	Exceptional items			
VII	<b>Profit before extraordinary items and tax (V - VI)</b>			
VIII	Extraordinary Items			
IX	<b>Profit before tax (VII - VIII)</b>			
X	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
XI	<b>Profit/ (Loss) for the period from continuing operations (IX - X)</b>			
XII	Profit/ (Loss) from discontinuing operations			

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<i>XIII</i>	<i>Tax expense of discontinuing operations</i>			
<i>XIV</i>	<i>Profit/ (Loss) from Discontinuing operations (after tax) (XII-XIII)</i>			
<i>XV</i>	<i>Profit (Loss) for the period (XI + XIV)</i>			
<i>XVI</i>	<i>Earnings per equity share:</i>			
	<i>(1) Basic</i>			
	<i>(2) Diluted</i>			



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# BUY BACK OF SECURITIES

## CONCEPT

## MEANING OF BUY BACK

1.	Buy back of shares means purchase of its own shares by a company.
2.	When shares are bought back by a company, they have to be cancelled by the company.
3.	Thus, shares buy back results in decrease in share capital of the company.

## CONCEPT

## JOURNAL ENTRIES

S.No.	Particulars	Journal Entry
1.	To make the party paid up shares, fully paid up	
a.	Making the final call due	Equity Share Final Call A/c To Equity Share Capital A/c
b.	Receiving the call money	Bank A/c To Equity Share Final Call A/c
2.	Making the amount due on buy back of equity shares	Equity Share Capital A/c Premium on Buyback A/c To Equity Shares Buy-back A/c
3.	Sale of investments to provide funds for buy back	Bank A/c P/L A/c To Investments A/c To P/L A/c
4.	Issue of fresh shares	Bank A/c To Equity Share Capital A/c/ ___% Preference Share Capital A/c To Securities Premium A/c

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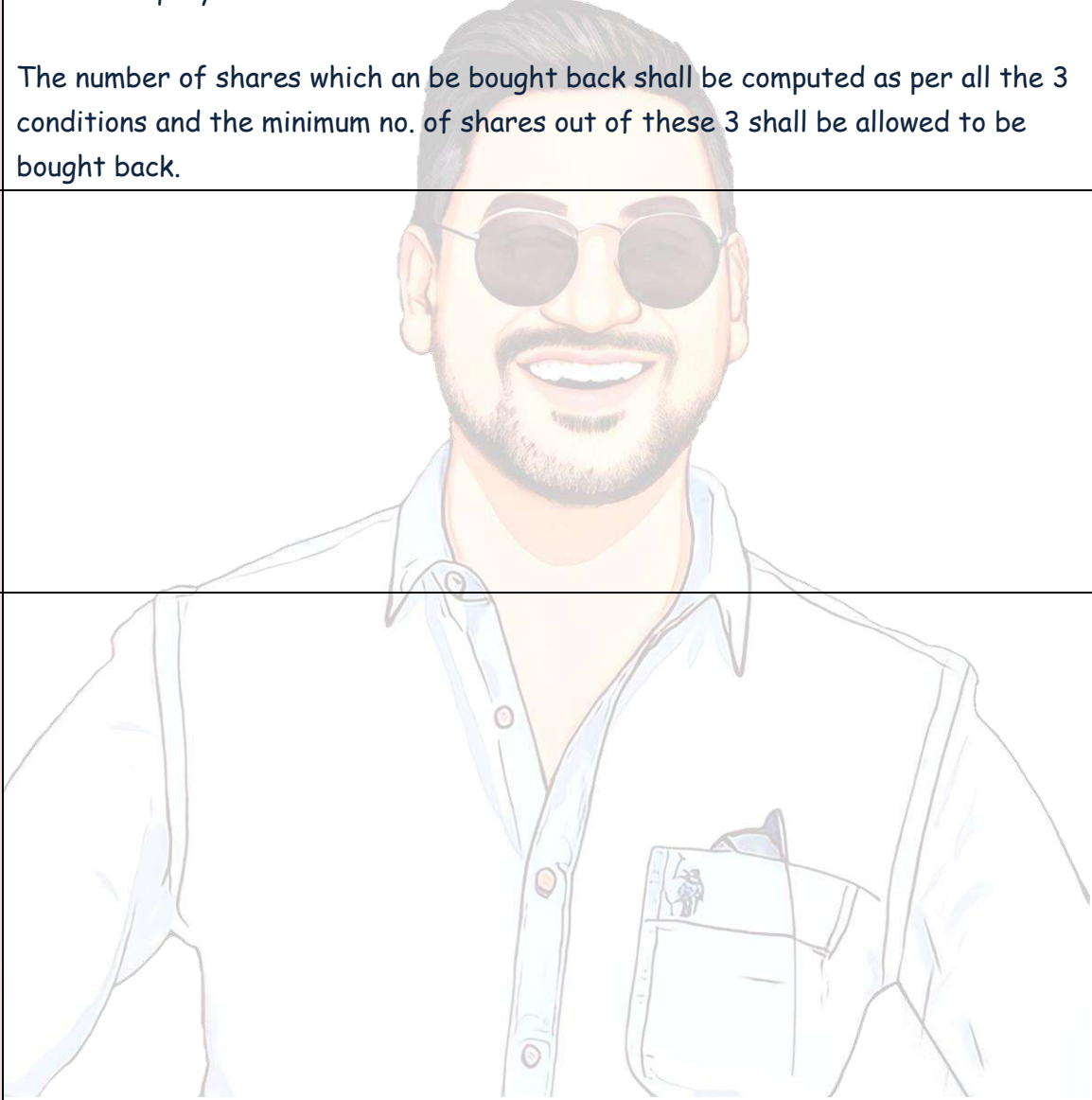
5.	Raising the bank loan for purpose of buy back	Bank A/c
		To Bank Loan A/c
6.	Transfer from Free Reserves to CRR	Free Reserves A/c
		To Capital Redemption Reserve A/c
7.	Closing the Premium on Buy Back A/c	Securities Premium A/c
		Free Reserves A/c
		To Premium on Buy Back A/c
8.	Making the payment for buy back	Equity Shares Buy-back A/c
		To Bank A/c
9.	Use of CRR to issue Fully Paid up Bonus Shares	
a.	Utilisation of CRR to issue bonus shares	Capital Redemption Reserve A/c
		To Bonus to Shareholders A/c
b.	Issue of bonus shares	Bonus to Shareholders A/c
		To Equity Shares Capital A/c

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## **CONCEPT** NUMBER OF SHARES TO BE BOUGHT BACK TO BE COMPUTED

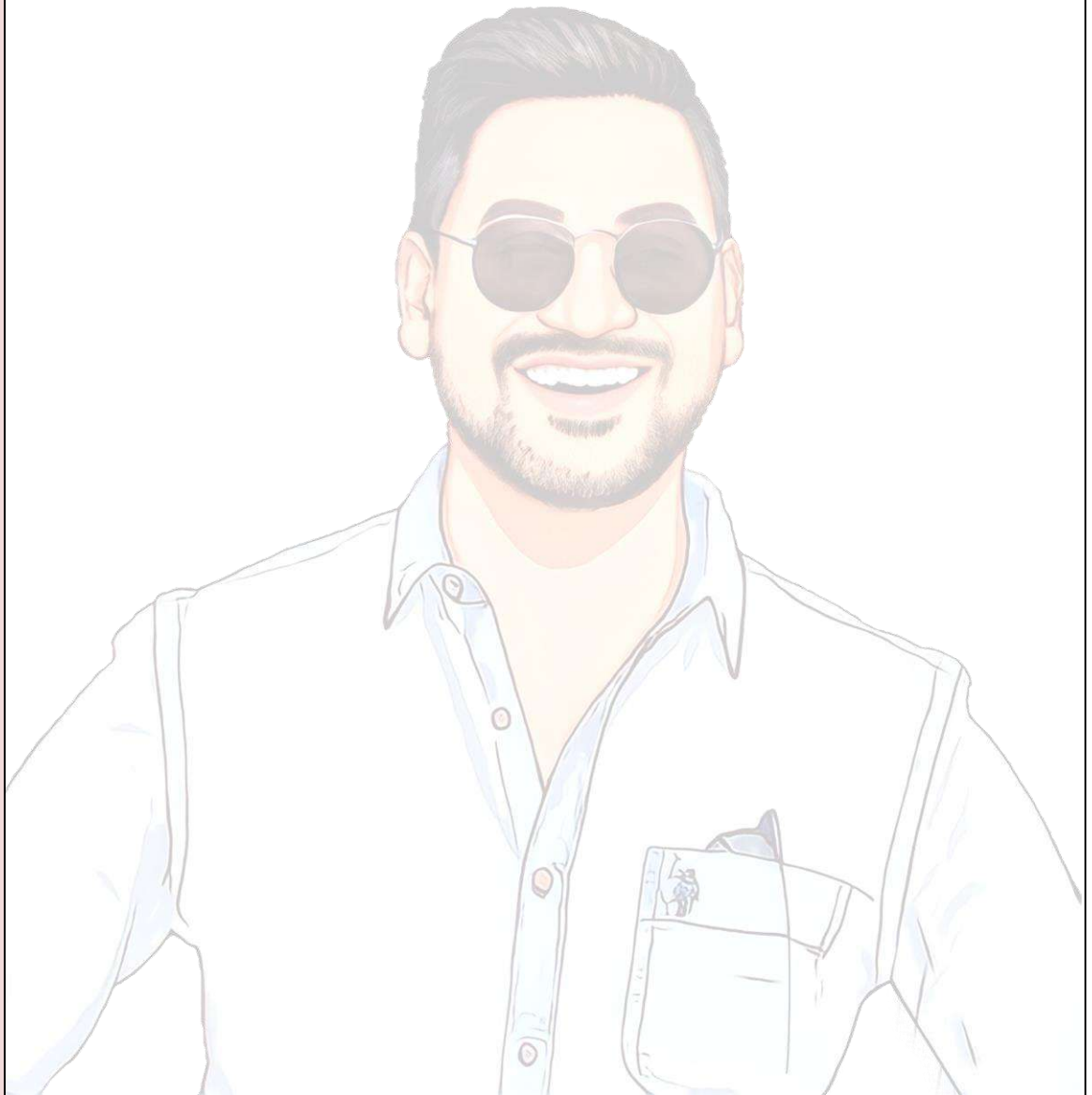
<b>Insights</b>	When the question doesn't provide the number of shares to be bought back, we need to compute the same keeping in mind the legal requirements i.e. Test Conditions.
<b>Test Conditions</b>	<ol style="list-style-type: none"><li>1. Shares Outstanding Test</li><li>2. Resource Test</li><li>3. Debt-Equity Ratio Test</li></ol> <p>The number of shares which can be bought back shall be computed as per all the 3 conditions and the minimum no. of shares out of these 3 shall be allowed to be bought back.</p>
<b>Test 1 - Shares Outstanding Test</b>	
<b>Test 2 - Resource Test</b>	

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**Test 3 - Debt  
Equity Ratio  
Test**



# INTERNAL RECONSTRUCTION

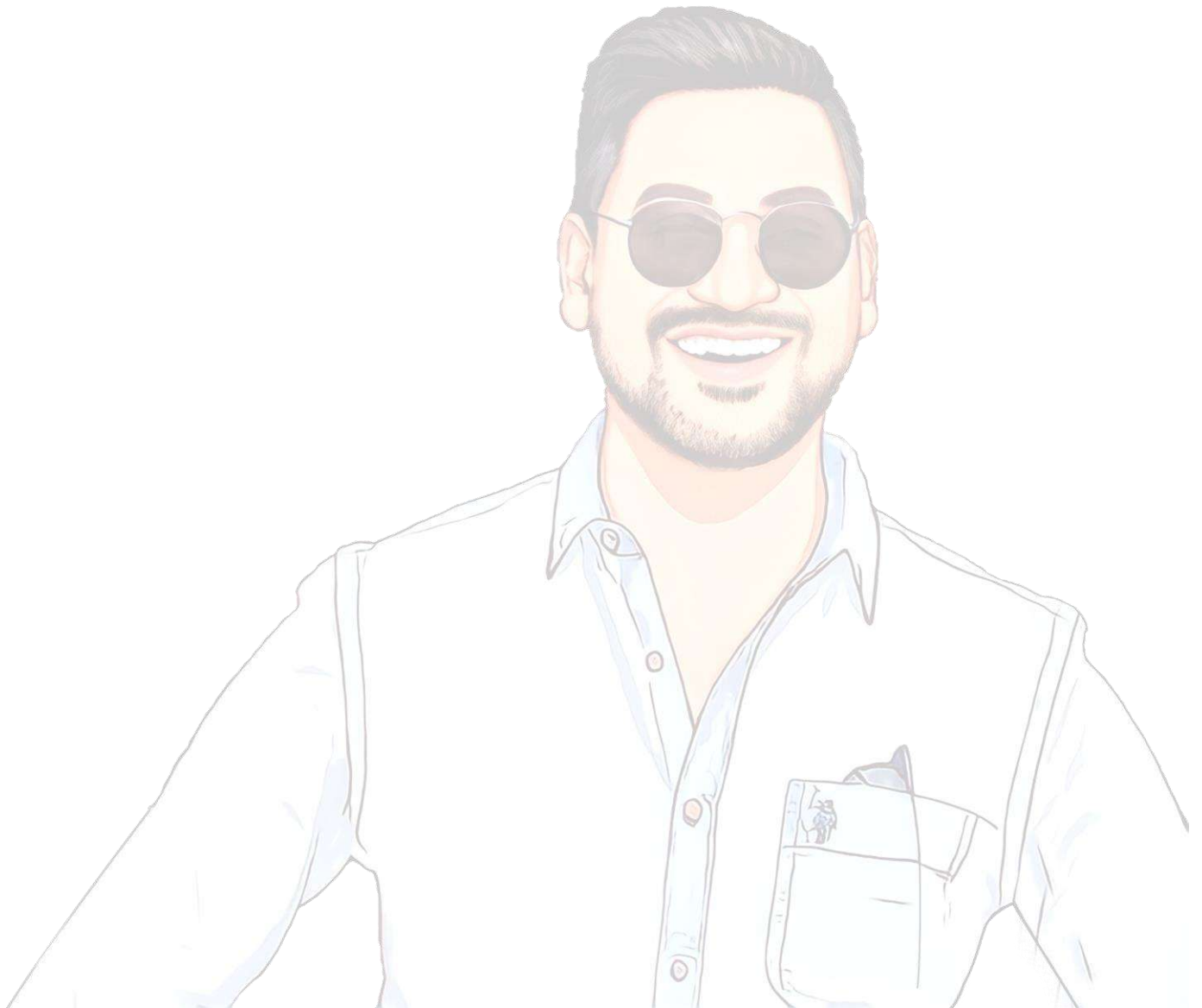
## CONCEPT

## BASICS

<b>Background</b>	<p>When a company has been making losses for a number of years, the financial position does not present a true and fair view of the state of the affairs of the company.</p> <p>In such a company</p> <ul style="list-style-type: none"><li>❖ the assets are overvalued,</li><li>❖ there are fictitious assets, useless intangible assets and debit balance in the profit and loss account.</li></ul> <p>Such a situation brings the need for reconstruction.</p>
<b>Meaning of Reconstruction</b>	<p>Reconstruction is a process by which affairs of a company are reorganized by</p> <ul style="list-style-type: none"><li>❖ revaluation of assets,</li><li>❖ reassessment of liabilities and</li><li>❖ by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.</li></ul>
<b>Process</b>	<p>Such a process is called internal reconstruction which is carried out without liquidating the company and forming a new one</p>

**CONCEPT**

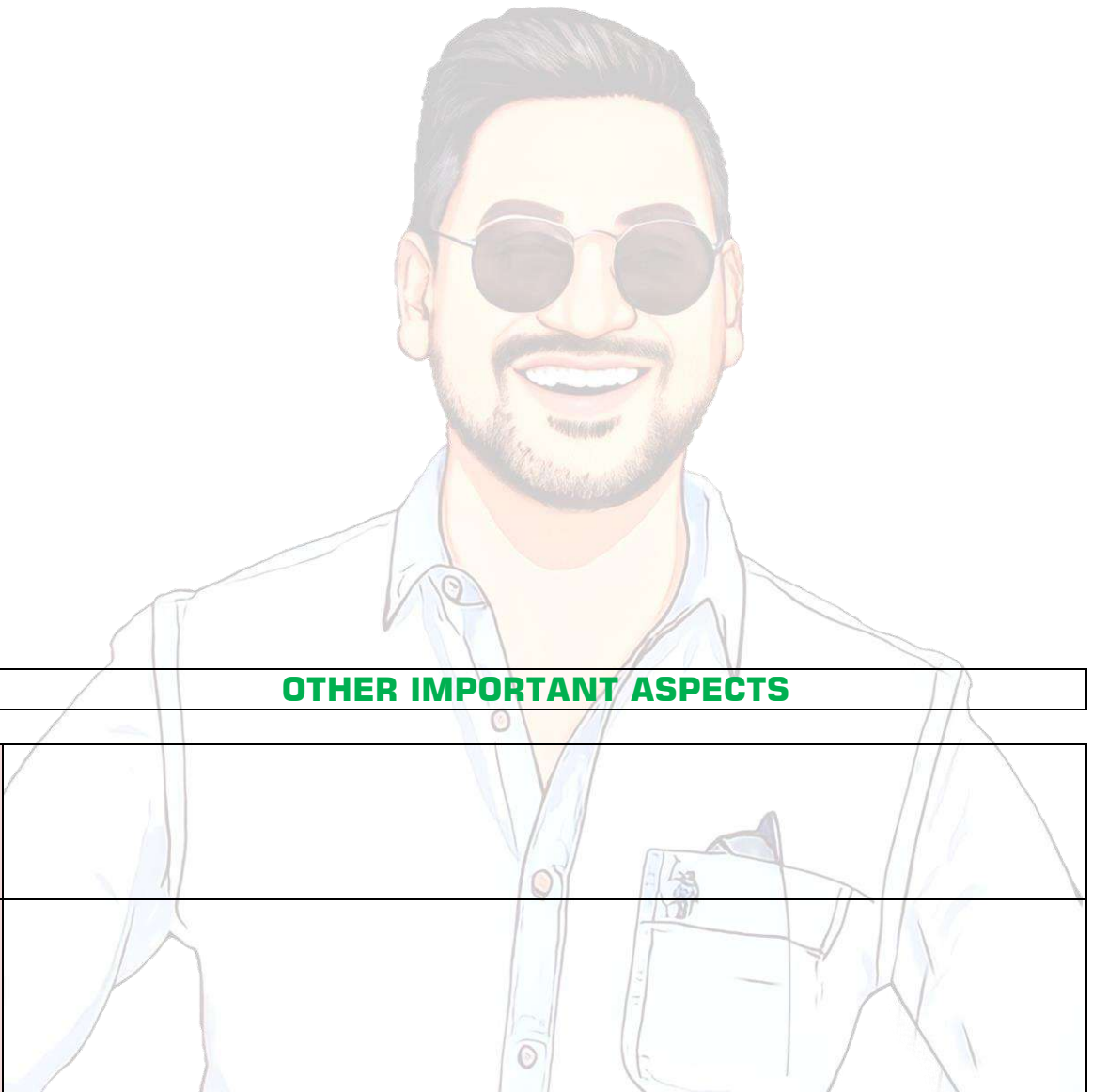
**ACCOUNTING ASPECTS OF INTERNAL RECONSTRUCTION –  
ASSETS**



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**CONCEPT****ACCOUNTING ASPECTS OF INTERNAL RECONSTRUCTION –  
LIABILITIES (OTHER THAN SHARE CAPITAL)****CONCEPT****OTHER IMPORTANT ASPECTS**

Consolidation of Shares/ Reverse Split	
Sub-Division of Shares/ Split up of shares	
Cancellation of unissued shares	
Variation of Shareholder Rights	

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Writing off the lost paid-up capital				
	Reduction in Face Value and Paid-up Value			
	Reduction in Paid up Value only			
Compromise/Arrangement				
Surrender of Shares	Mechanism	Under this, the shares are given by the existing shareholders to the company and the company in turn issues such shares to its existing liabilities like creditors, debentures etc.		
	Journal Entries	S. No.	Particulars	Journal Entry
		1.	Surrender of shares by the shareholders	Share Capital A/c To Shares Surrender A/c
		2.	Use of surrendered shares for discharge of an existing liability	Shares Surrender A/c To Share Capital A/c
		3.	Cancellation of shares	Shares Surrender A/c To Capital Reduction A/c

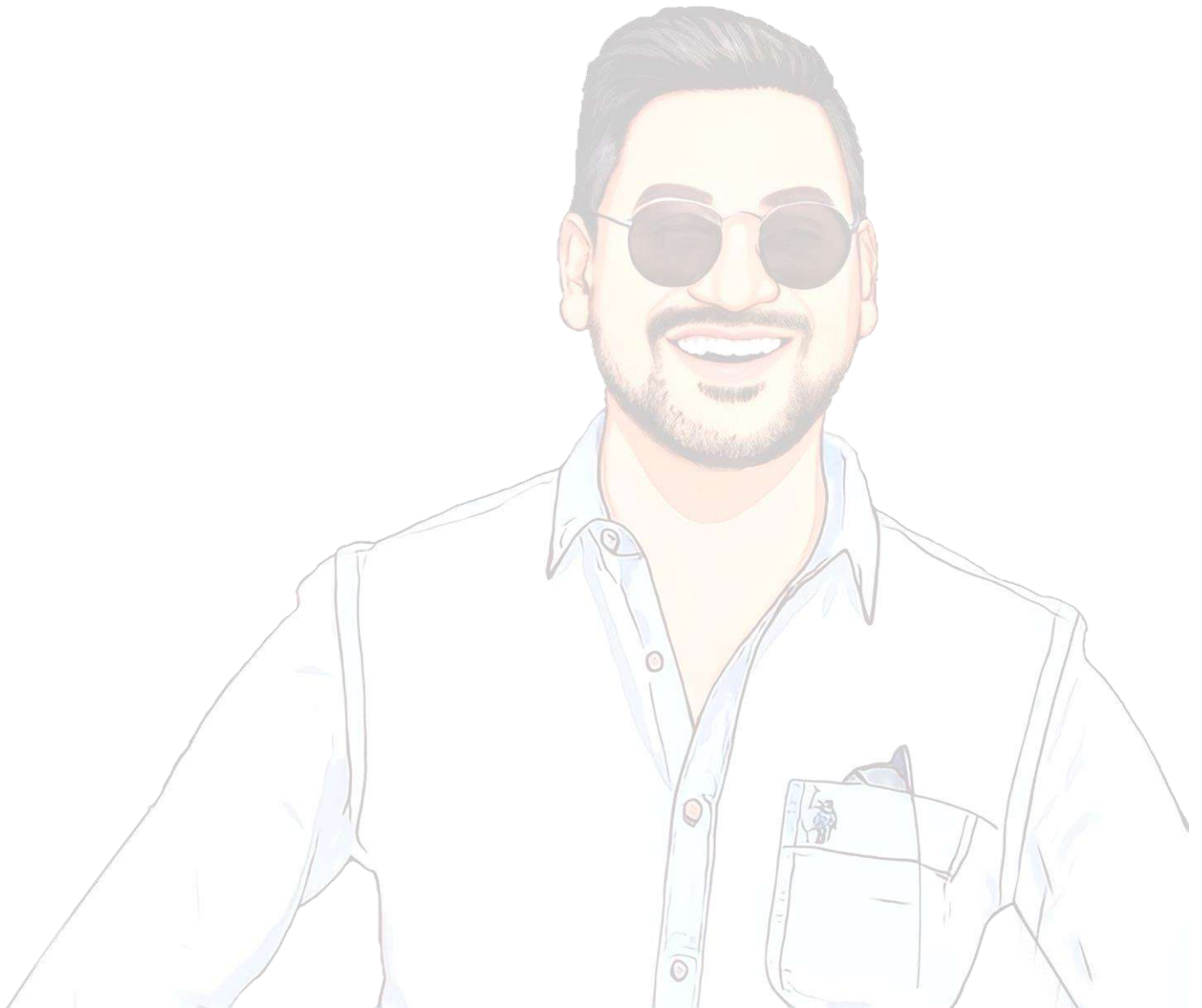
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**CONCEPT**

**CAPITAL REDUCTION OR RECONSTRUCTION A/C**



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# AMALGAMATION OF COMPANIES

## CONCEPT

## BASICS

<b>Meaning</b>	In an amalgamation, two or more companies are combined into one by merger or by one taking over the other.
<b>Objective</b>	<ul style="list-style-type: none"> <li>❖ Economies of large scale production</li> <li>❖ Avoiding competition</li> <li>❖ Increasing efficiency</li> <li>❖ Expansion</li> </ul>

## CONCEPT

## AMALGAMATION vs. ABSORPTION vs. EXTERNAL RECONSTRUCTION

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	An existing company takes over the business of one or more existing companies.	A newly formed company takes over the business of an existing company.
Example	X Ltd. and Y Ltd. amalgamate to form Z Ltd.	Y Ltd. takes over the business of another existing company X Ltd.	Y Ltd. is formed to take over the business of an existing company X Ltd.
Minimum No. of Companies Involved			
Effect on old company			
Formation of new company			

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**CONCEPT****TYPES OF AMALGAMATION**

<b>Amalgamation in nature of Merger</b>	Meaning	It is an amalgamation where there is a genuine pooling not merely of assets and liabilities of the transferor and transferee companies but also of the shareholders' interests and of the businesses of the companies.		
	Conditions	As per para 3(e) of AS- 14, if an amalgamation satisfies all the following conditions then it is Amalgamation in the nature of merger.		
		Condition 1	All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.	
		Condition 2	Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company.	
		Condition 3	The purchase consideration receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, <b>except that cash may be paid in respect of any fractional shares.</b>	
		Condition 4	The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.	
		Condition 5	No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company <b>except to ensure uniformity of accounting policies.</b>	
<b>Amalgamation in nature of Purchase</b>	If any of the above conditions is not satisfied, such amalgamation is called amalgamation in the nature of purchase.			

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**CONCEPT****PURCHASE CONSIDERATION**

<b>Meaning</b>	Purchase consideration is the <ul style="list-style-type: none"><li>❖ aggregate of the shares and other securities issued and the payment made in the form of cash or other assets</li><li>❖ by the transferee company</li><li>❖ to the shareholders of the transferor company".</li></ul>	
<b>Insights</b>	Purchase consideration does not include the sum which the transferee company will directly pay to the debenture holders or creditors of the transferor company.	
<b>Methods for Computation of PC</b>	Lump Sum Payment	
	Net Payment Method	
	Net Assets Method	

**CONCEPT****BOOKS OF PURCHASING COMPANY****1. Recording the acquisition of business from vendor company**

Business Purchase A/c

To Liquidator of Vendor Company A/c

**2. Incorporating the Assets & Liabilities of Vendor company****Amalgamation in nature of Purchase**

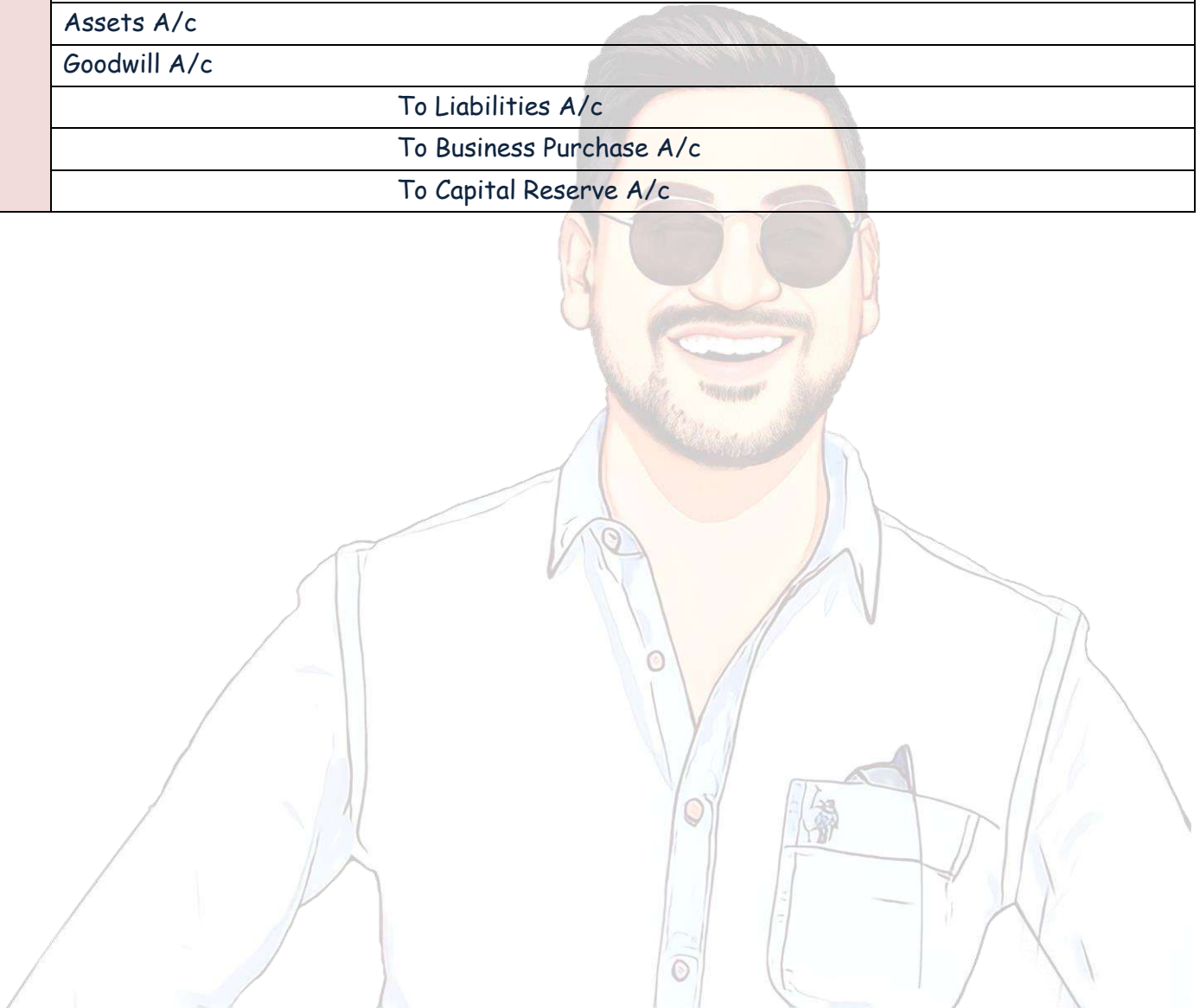
Assets A/c

Goodwill A/c

To Liabilities A/c

To Business Purchase A/c

To Capital Reserve A/c



**2. Incorporating the Assets & Liabilities of Vendor company**

*Amalgamation in nature of Merger*

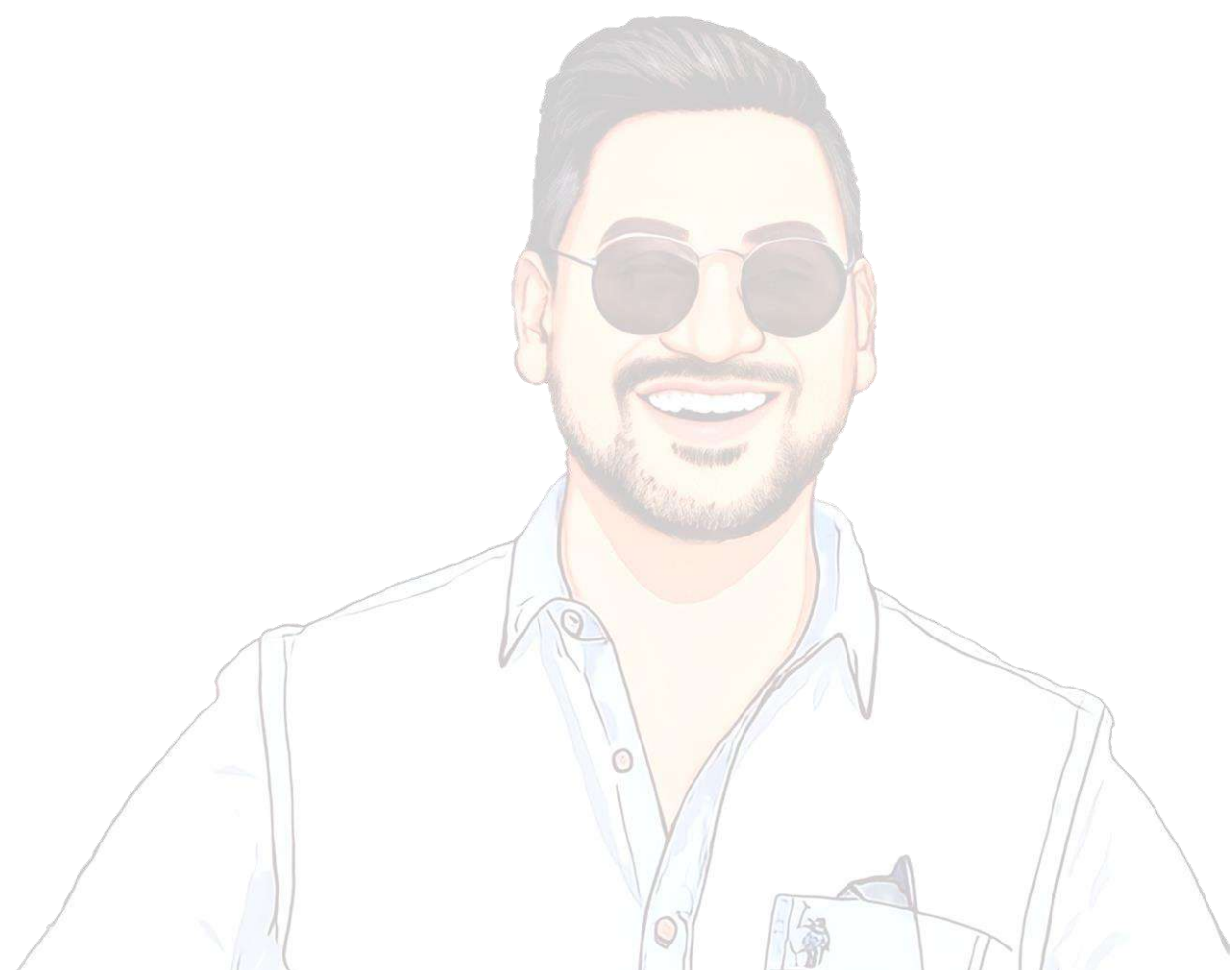
Assets A/c

Profit & Loss A/c

To Liabilities A/c

To Business Purchase A/c

To Reserves A/c



**3. Discharge of PC by Purchasing company**

Liquidator of Vendor Company A/c

Discount on Issue of Debentures A/c

To Equity Share Capital A/c

To Preference Share Capital A/c

To Debentures A/c

To Securities Premium A/c

To Cash/ Bank A/c

4.	<b>Discharge of Debenture holders of Vendor company</b>
	Debentures of Vendor Company A/c
	Discount on Issue of Debentures A/c
	To Debentures A/c
	To Securities Premium A/c

5.	<b>Reimbursement of Liquidation Expense of Vendor company by Purchasing company</b>
	<i>Amalgamation in nature of Purchase</i>
	Goodwill A/c or Capital Reserve A/c
	To Bank A/c
	<i>Amalgamation in nature of Merger</i>
	P/L or General Reserve A/c
To Bank A/c	

6.	<b>Elimination of Inter Company Owing</b>
	Liability A/c
	To Asset A/c

7.	<b>Elimination of Stock Reserve</b>
	<i>Amalgamation in nature of Purchase</i>
	Goodwill A/c or Capital Reserve A/c
	To Stock A/c
	<i>Amalgamation in nature of Merger</i>
	P/L or General Reserve A/c
To Stock A/c	

8.	<b>Recording the Statutory Reserves of Vendor company</b>
	<i>Amalgamation in nature of Purchase</i>
	Amalgamation Adjustment Reserve A/c
	To Statutory Reserves A/c
	<i>Amalgamation in nature of Merger</i>
	Already recorded in Entry No. 2

**CONCEPT****BOOKS OF VENDOR COMPANY****1. Transfer of Assets to Realisation A/c**

Realisation A/c

To Assets A/c

**2. Transfer of Liabilities to Realisation A/c**

Liabilities A/c

To Realisation A/c

**3. Making the PC due**

Purchasing Company A/c

To Realisation A/c

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4.	<b>Receiving the Purchase Consideration</b>
	Equity Shares of Purchasing Company A/c
	Preference Shares of Purchasing Company A/c
	Debentures of Purchasing Company A/c
	Cash A/c
	To Purchasing Company A/c

5.	<b>Realise the Assets not Taken Over</b>
	Bank A/c
	To Realisation A/c

6.	<b>Paying the Liabilities not Taken Over</b>
	Realisation A/c
	To Bank A/c

7.	<b>Liquidation Expenses/ Realisation Expenses</b>	
	<b>a. Expenses Paid by Vendor Company</b>	
	Realisation A/c	
		To Bank A/c
	<b>b. Expenses Reimbursed by Purchasing Company</b>	
	Bank A/c	
		To Realisation A/c

8.	<b>Discharging the claims of Preference Shareholders</b>	
	<b>a. Making the Claims Due</b>	
	Preference Share Capital A/c	
	Realisation A/c	
		To Preference Shareholders A/c
		To Realisation A/c
	<b>b. Making the Payment</b>	
	Preference Shareholders A/c	
		To Equity Shares of Purchasing Company A/c
		To Preference Shares of Purchasing Company A/c
		To Debentures of Purchasing Company A/c
	To Cash A/c	

9.	<b>Realisation Profit or Loss</b>
	<b>a. Profit</b>
	Realisation A/c
	To Equity Shareholders A/c
	<b>b. Loss</b>
Equity Shareholders A/c	
	To Realisation A/c

10.	<b>Transfer of Share Capital and Reserves &amp; Surplus to Equity Shareholders</b>
	<b>a. Transfer of Capital and Positive Reserves</b>
	Equity Share Capital A/c
	Reserves A/c
	To Equity Shareholders A/c
	<b>b. Transfer of Negative Reserves</b>
	Equity Shareholders A/c
	To Miscellaneous Expenditure A/c
	To P/L (Debit Balance) A/c

11.	<b>Making final payment to Equity Shareholders</b>
	Equity Shareholders A/c
	To Equity Shares of Purchasing Company A/c
	To Preference Shares of Purchasing Company A/c
	To Debentures of Purchasing Company A/c
	To Cash A/c

If Question asks to prepare Ledger Accounts, then prepare the following accounts :

Realisation A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To Assets A/c			By Liabilities A/c	
	To Bank A/c			By Purchasing Company A/c	
	To Bank A/c			By Bank A/c	
	To Preference Shareholders A/c			By Bank A/c	
	To Equity Shareholders A/c			By Preference Shareholders A/c	
				By Equity Shareholders A/c	
		Total			Total

Purchasing Company A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To Realisation A/c			By Equity Shares of Purchasing Company A/c	
				By Preference Shares of Purchasing Company A/c	
				By Debentures of Purchasing Company A/c	
				By Cash A/c	
		Total			Total

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### Preference Shareholders A/c

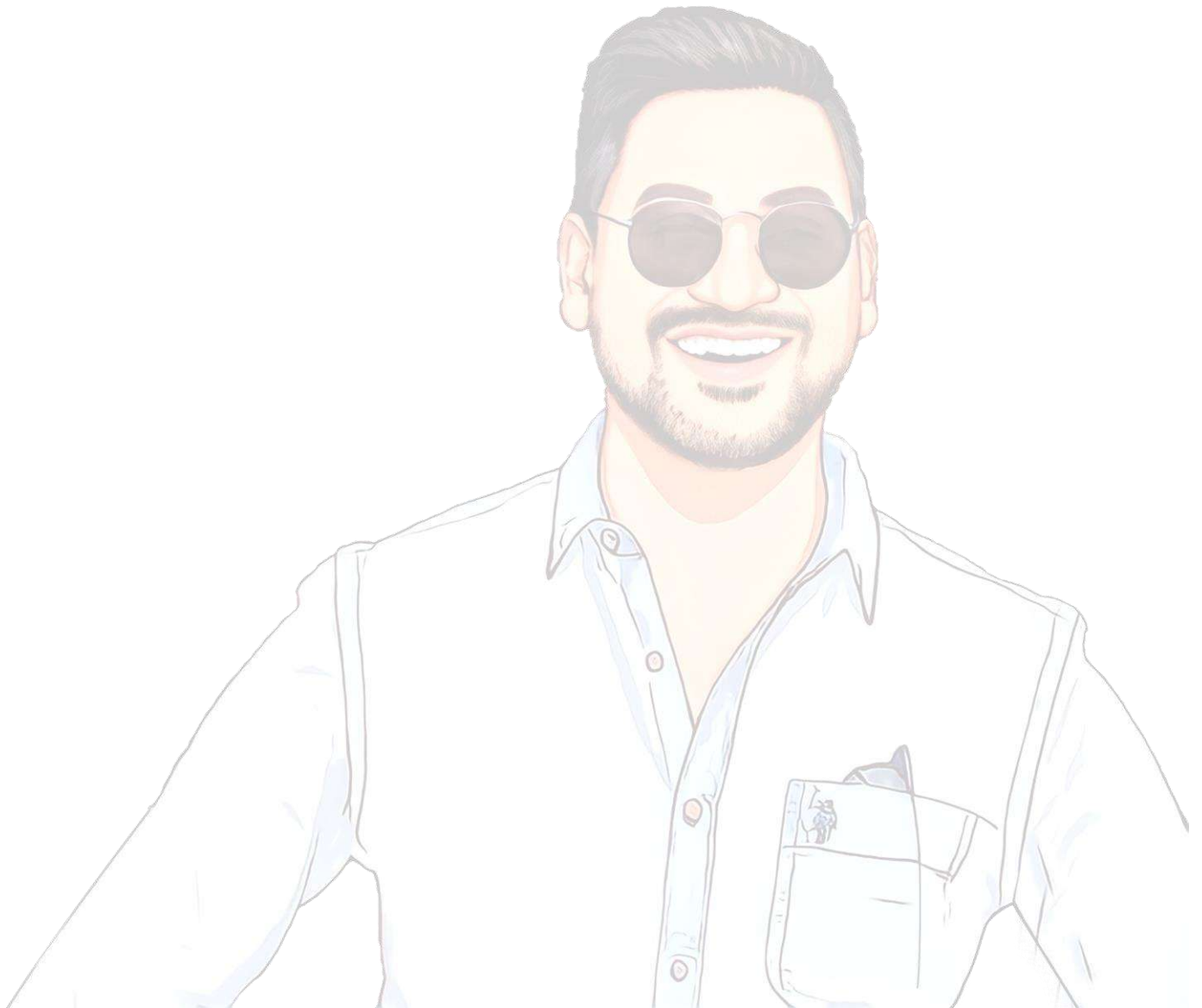
Date	Particulars	Amount	Date	Particulars	Amount
	To Realisation A/c			By ___% Preference Share Capital A/c	
	To Equity Shares of Purchasing Company A/c			By Realisation A/c	
	To Preference Shares of Purchasing Company A/c				
	To Debentures of Purchasing Company A/c				
	To Cash A/c				
	<b>Total</b>				<b>Total</b>

### Equity Shareholders A/c

Date	Particulars	Amount	Date	Particulars	Amount
	To Misc. Expenditure A/c			By Equity Share Capital A/c	
	To P/L (Debit Balance) A/c			By Reserves A/c	
	To Realisation A/c			By Realisation A/c	
	To Equity Shares of Purchasing Company A/c				
	To Preference Shares of Purchasing Company A/c				
	To Debentures of Purchasing Company A/c				
	To Cash A/c				
	<b>Total</b>				<b>Total</b>

**CONCEPT**

**INTRINSIC VALUE**



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# CONSOLIDATED FINANCIAL STATEMENTS

## CONCEPT

## CONSOLIDATED FINANCIAL STATEMENTS – BASICS

<b>Meaning</b>	Consolidated financial statements (CFS) are the financial statements of a 'group' presented as those of a single enterprise, where a 'group' refers to a parent and all its subsidiaries.
<b>Purpose</b>	CFS are intended to show the financial position of the group as a whole - <ul style="list-style-type: none"><li>❖ by showing the economic resources controlled by them,</li><li>❖ by presenting the obligations of the group and</li><li>❖ by presenting the results the group achieves with its resources.</li></ul>
<b>Contents</b>	<ul style="list-style-type: none"><li>❖ Consolidated Balance Sheet</li><li>❖ Consolidated Statement of Profit and Loss</li><li>❖ Consolidated Cash Flow Statement</li><li>❖ Consolidated Notes to Accounts, other statements and explanatory material</li></ul>
<b>Guiding Law &amp; Consolidation Procedure</b>	

## CONCEPT

## HOLDING & SUBSIDIARY COMPANY – BASICS

<b>Holding Company</b>	It's a company which has one or more subsidiary companies and enjoys control over them.
<b>Subsidiary Company</b>	It's a company in which the holding company - <ul style="list-style-type: none"><li>(i) controls the composition of the Board of Directors; or</li><li>(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:</li></ul>

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**CONCEPT****CONSOLIDATION OF BALANCE SHEET – BASICS****1. Analysis of Profits of S Ltd.**

	Particulars	Pre	Post	
			P/L	General Reserve
	P/L			
	General Reserve			
+	Adjustments			
=	Total			
+/-	Time Adjustment			
=	Balance			
+/-	Adjustments			
=	Balance			
	Share of H			
	Share of S			

***Treatment of Reserves & Surplus in Silent Cases***

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## 2. Computation of Cost of Control

	Particulars	Amount
	Cost of Investment	
-	Share of H in Net Assets of S	
	: Share of H in Share Capital of S	
	: Share of H in Pre-Profits of S	
=	<b>Goodwill/ (Capital Reserve)</b>	

## 3. Minority Interest

	Particulars	Amount
	Share of S in Share Capital	
+	Share of S in Pre-Profits	
+	Share of S in Post Profits	
+	Share of S in Post General Reserve	
=	<b>Total</b>	

## 4. Consolidated P/L

	Particulars	Amount
	H own P/L	
+	Share of H in Post Profits of S	
=	<b>Total</b>	

## 5. Consolidated General Reserve

	Particulars	Amount
	H own General Reserve	
+	Share of H in Post General Reserve of S	
=	<b>Total</b>	

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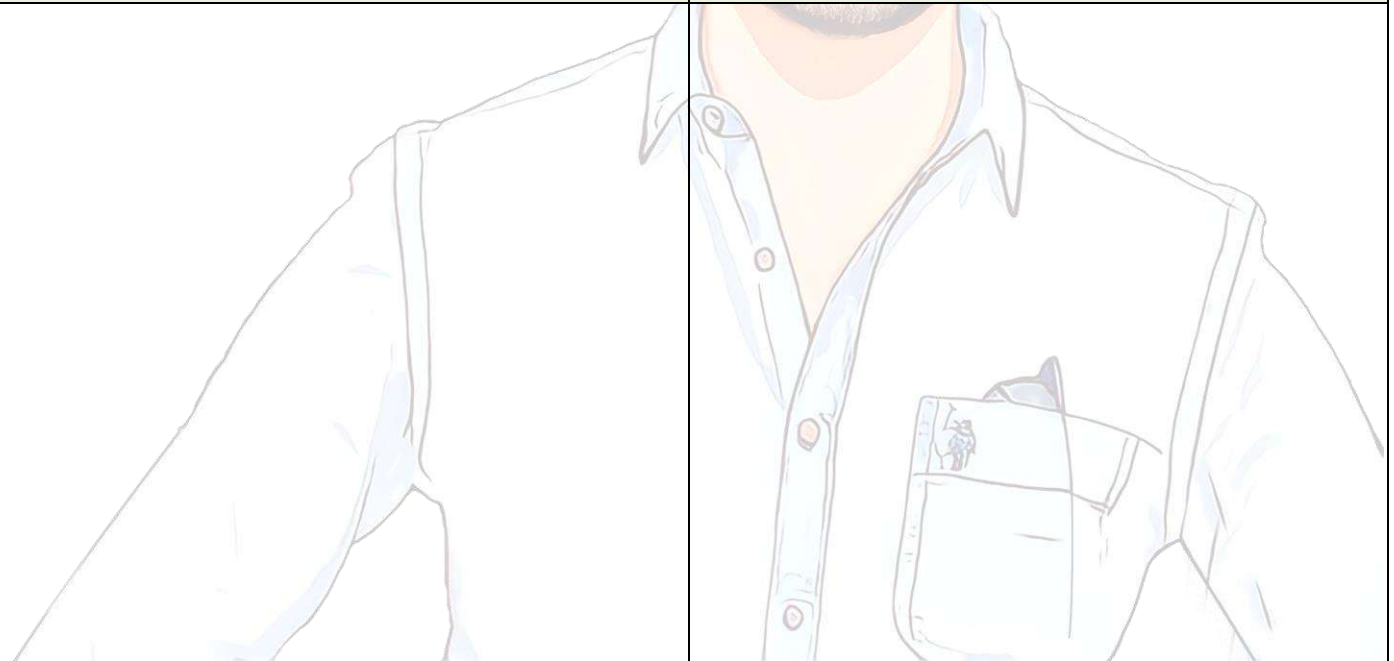
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**CONCEPT****ELIMINATION OF COMMON TRANSACTIONS****CONCEPT****BONUS ISSUE**

In the year end Balance Sheet

Bonus is already adjusted

Bonus is not yet adjusted



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**CONCEPT****REVALUATION OF ASSETS**

Immediate Impact	Later Impact	Disclosure

**CONCEPT****UNREALISED PROFITS**

Transaction of sale and purchase between H & S

Unrealised Profit means profit being included in the stock of receiver of goods. Eliminate such profit and reduce the value of stock

Downstream Transaction	Upstream Transaction

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<b>CONCEPT</b>	<b>DIVIDEND</b>
----------------	-----------------

<b>1.</b>	<b>Steps in Analysis of Profits</b>
-----------	-------------------------------------

- |           |   |
|-----------|---|
| <b>a.</b> | Add the amount of dividend paid in Post Profits before Time Adjustment. |
| <b>b.</b> | Apply time adjustment.  |
| <b>c.</b> | Deduct the amount of dividend from Pre or Post Profits.                 |

<b>2.</b>	<b>Deduction from Pre Profits or Post Profits</b>
-----------	---

<b>Final Dividend</b>

<b>3.</b>	<b>Nature of Dividend Received by Holding Company</b>
-----------	---

Pre Acquisition Dividend	Post Acquisition Dividend

4. Pre Acquisition dividend credited to P/L A/c

Cost of Control	Consolidated P/L

**CONCEPT COMPUTATION OF COST OF CONTROL & MINORITY INTEREST ON DIFFERENT DATES**

General Rule	Cost of Control	Cost of control can be computed only on the date of acquisition.
	Minority Interest	Minority Interest can be computed on each Balance Sheet Date.
Impact on Minority Interest	Increase	If company earns profits after the date of acquisition.
	Decrease	If company incurs losses after the date of acquisition.
	Nil	If Holding company owns 100% share capital of Subsidiary company.
Negative Minority Interest	<p><b>Provisions of AS 21</b></p> <p>If Minority Interest becomes negative, then such negative part is to be borne by i.e. adjusted against the majority i.e. Holding Company.</p> <p>When subsidiary company subsequently reports profits, these are to be allocated to majority i.e. Holding Company, to the extent of losses of Minority borne by the Majority earlier.</p>	

**CONCEPT****CONSOLIDATED PROFIT & LOSS A/C**

1.	All the revenue items are to be added on line by line basis.
2.	All inter-company transactions should be eliminated.  For example, a holding company may sell goods or services to its subsidiary, receive consultancy fees, commission, royalty etc. These items are included in sales and other income of the holding company and in the expense items of the subsidiary. Alternatively, the subsidiary may also sell goods or services to the holding company.
3.	If there remains any unrealised profit in the inventory of goods, of any of the Group Company, such unrealised profit should be eliminated from the value of inventory to arrive at the consolidated profit.

**CONCEPT****UNIFORM ACCOUNTING POLICIES**

1.	Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
2.	If any company in the same group uses accounting policies other than those adopted in consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.
3.	If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, the fact should be disclosed together with the proportions of items to which different accounting policies have been applied.

# FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

## CONCEPT

## COMPONENTS OF FINANCIAL STATEMENTS

1.	Balance Sheet
2.	Statement of Profit and Loss
3.	Cash Flow Statement
4.	Notes and other statements

## CONCEPT

## USERS OF FINANCIAL STATEMENTS

1.	Investors
2.	Employees
3.	Lenders
4.	Suppliers and other trade creditors
5.	Customers
6.	Governments and their agencies
7.	Public

## CONCEPT

## QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

1.	Under-standability
2.	Relevance
3.	Reliability
4.	Comparability

## CONCEPT

## ELEMENTS OF FINANCIAL STATEMENTS

1.	Asset
2.	Liability
3.	Equity
4.	Income/ Gain
5.	Expense/ Loss

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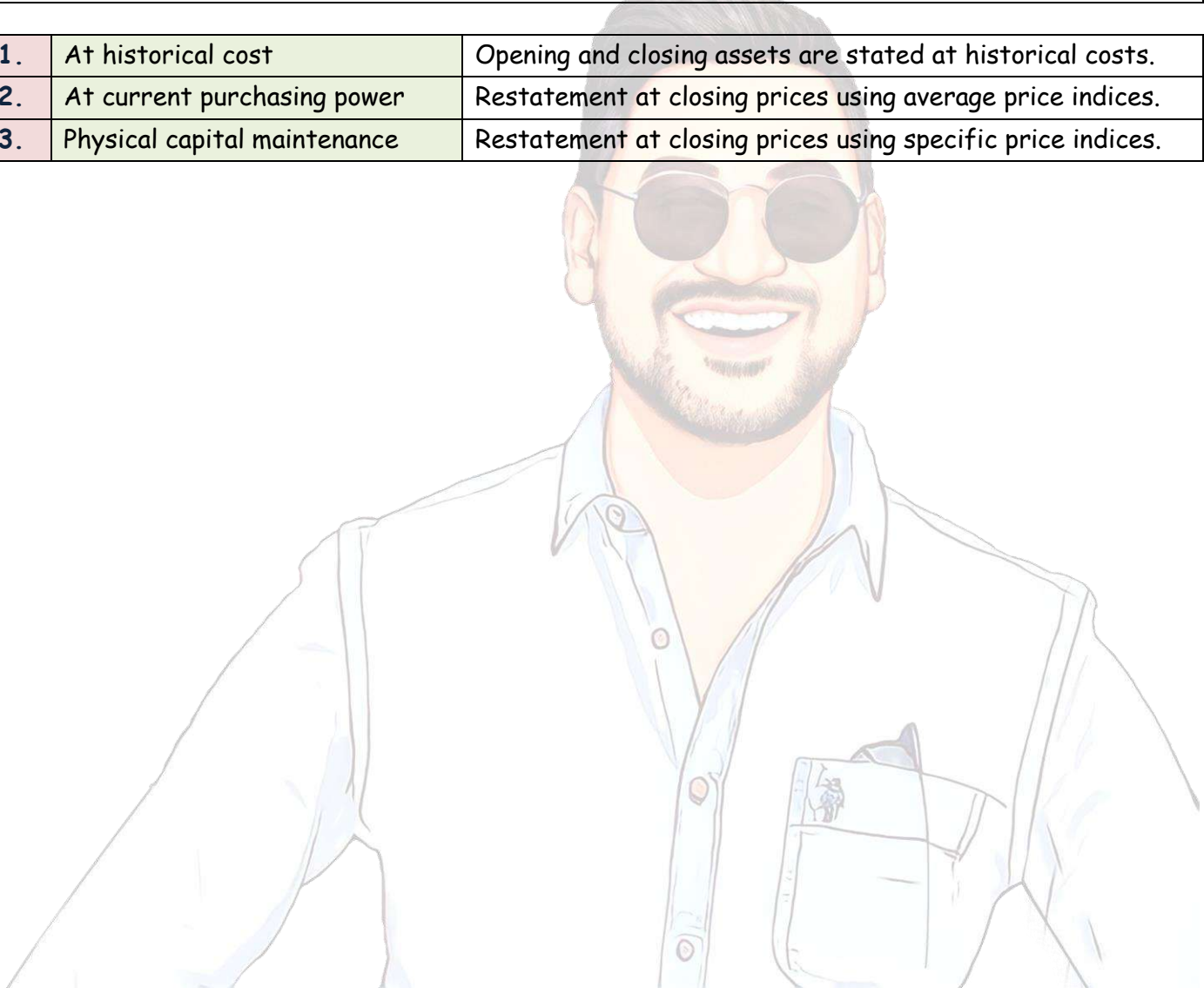
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## **CONCEPT** MEASUREMENT OF ELEMENTS OF FINANCIAL STATEMENTS

1.	Historical cost
2.	Current Cost
3.	Realisable (Settlement) Value
4.	Present Value

## **CONCEPT** FINANCIAL CAPITAL MAINTENANCE

1.	At historical cost	Opening and closing assets are stated at historical costs.
2.	At current purchasing power	Restatement at closing prices using average price indices.
3.	Physical capital maintenance	Restatement at closing prices using specific price indices.



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