

USEFUL FOR CA, CS, CMA

A PUBLICATION BY RAHUL SHIKHA ACADEMY (RSA)

ADVANCE ACCOUNT MARATHON

CA RAHUL GARG
(TRG)

GOLD MEDALIST

ALL INDIA RANKHOLDER in CA CS CMA



“Rahul sir always believes that”



**“IF YOU WANT TO BE A LION,
YOU MUST TRAIN WITH LIONS”**

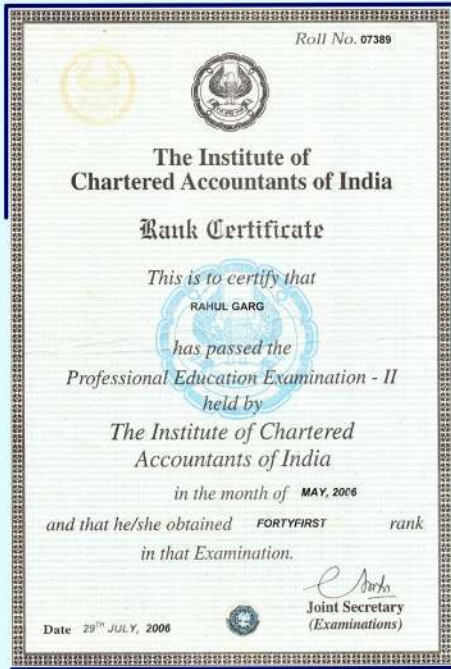
A Brief About Rahul Garg

- ▶ 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.
- ▶ 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.

Love for the subject **ACCOUNTING, COST and FM ECO**

- ▶ 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.
- ▶ Special Tips on Presentation and "How to Attempt" the paper to score wonderful marks.
- ▶ Fully Exam Oriented Lectures.
- ▶ Maximum students scoring Exemptions in each attempt.
- ▶ Started MARATHON Sessions in country for benefit of students.
- ▶ Free Test Series, Doubt Sessions & Revision Support for all students of profession.
- ▶ Outstanding Reviews by students regarding all the subjects.
- ▶ Exhaustive Material covering all questions of Module, RTPs, MTPs, Past Exams.

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



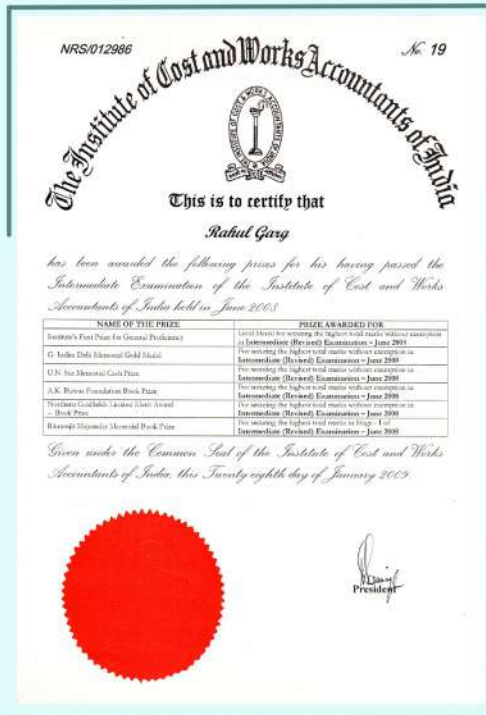
RANK Certificate for All India Rank-4
(June 08) in CS Inter Exam



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



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

| | | |
|-----------------------------|---|---|
| Inclusions | | <ul style="list-style-type: none"> ✓ Debentures ✓ Bonds ✓ Government Securities |
| Purchase Transaction | Insights | <ul style="list-style-type: none"> ✓ Buyer pays for <ul style="list-style-type: none"> ❖ Cost of Investments ❖ Interest |
| | Journal Entry | Investment in 12% Debentures of T Ltd. A/c |
| | | Interest on Investments A/c To Bank A/c |
| Interest Transaction | Insights | <ul style="list-style-type: none"> ✓ Always computed on Face Value. ✓ Investor receives the interest from last date of interest till current date of interest. |
| | Journal Entry | Bank A/c |
| | | To Interest on Investments A/c |
| Sale Transaction | Insights | <ul style="list-style-type: none"> ✓ Seller receives for <ul style="list-style-type: none"> ❖ Sale value of investments ❖ Interest |
| | Journal Entry | Bank A/c |
| | | To Investment in 12% Debentures of T Ltd. A/c |
| | | To Interest on Investments A/c |
| Profit or loss | ✓ 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, FIFO method 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. ✓ Price of transaction doesn't include interest. | |
| | Cum-interest | ✓ Price of transaction and interest are not separate. ✓ Price of transaction includes interest. | |
| Incidental Expenses | Types | <u>Stamp Duty</u> | ✓ Usually computed on the face value |
| | | <u>Commission</u> | ✓ Usually computed on the transaction value |
| | Treatment | <u>Purchase</u> | ✓ To be added |
| | | <u>Sale</u> | ✓ 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. ✓ The valuation rule "Lower of Cost and Market Price" shall be followed. ✓ 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

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

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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"> ✓ If the question provides market price, then compare it with the cost at the end. ✓ The valuation rule "Lower of Cost and Market Price" shall be followed. ✓ If the cost is more, then the difference shall be booked as "Loss on Valuation". | |

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 |

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 |

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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 | |
| | Total | | Total |

Branch Expenses A/c

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

Branch Profit & Loss A/c

| Particulars | Amount | Particulars | Amount |
|-------------------------|--------|---------------------------|--------|
| To Br. Debtors | | By Br. Adj - Gross Profit | |
| : Discount to Customers | | | |
| : Bad Debts | | | |

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| | | | |
|------------------|-------|--|-------|
| 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 | | |

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| | | | | | |
|----------------------------------|-------|-------|----------------------------------|-------|-------|
| 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 |

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| | | | |
|---|--|---------------------------|------------------------|
| 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. | Fixed Asset purchased by Branch | Branch Fixed Asset A/c | HO A/c |
| | | To Branch A/c | To Cash/ Creditors A/c |
| b. | Fixed Asset 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 |
| 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. |
| (A) Delhi Branch | | | | | | | | |
| 1. Received Goods | | | | | | | | |
| 2. Sent Goods | | | | | | | | |
| 3. B/R Received | | | | | | | | |

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| | | | | | | | | | |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------|
| 4. Acceptances Sent | | | | | | | | | |
| (B) Mumbai Branch | | | | | | | | | |
| 1. Received Goods | | | | | | | | | |
| 2. Cash Sent | | | | | | | | | |
| (C) Chennai Branch | | | | | | | | | |
| 1. Received Goods | | | | | | | | | |
| 2. Cash Sent | | | | | | | | | |
| (D) Kolkata Branch | | | | | | | | | |
| 1. Sent Goods | | | | | | | | | |
| 2. Paid Cash | | | | | | | | | |
| Total | 340000 | 400000 | 240000 | 228000 | 480000 | 200000 | 268000 | 500000 | |
| 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 |

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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FINAL ACCOUNTS OF COMPANIES

CONCEPT

MANAGERIAL REMUNERATION — ADEQUATE PROFITS

| | | |
|------------------------|---------------------------------|--|
| WTD/ MD/ Manager | Only 1 | |
| | More than 1 | |
| Part Time Directors | In presence of WTD/ MD/ Manager | |
| | In absence of WTD/ MD/ Manager | |

Company in general meeting may authorize the payment of remuneration exceeding 11% of net profits.

CONCEPT

COMPUTATION OF NET PROFITS

| Forward Approach | Backward Approach |
|--------------------|-----------------------|
| Gross Profit | Net Profit |
| + Allowed Incomes | + Disallowed Expenses |
| – Allowed Expenses | – Disallowed Incomes |

| | |
|---------------------|--|
| Allowed Expenses | ✓ All normal business expenses like rent, salaries etc. |
| | ✓ Interest on debentures/ Loan |
| | ✓ Repairs |
| | ✓ Loss on sale of fixed asset |
| | ✓ Director's fees |
| | ✓ Depreciation |
| | ✓ Bonus |

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| | |
|----------------------------|---|
| Disallowed Expenses | ✓ Any type of provision |
| | ✓ Any appropriation |
| | ✓ Capital expenditure |
| | ✓ Commission to manager/ director |
| | ✓ Salary to manager/ director |
| Allowed Incomes | ✓ Subsidies received from government |
| | ✓ Interest on investment |
| | ✓ Transfer fees |
| | ✓ Profit on sale of fixed asset (Revenue Nature) |
| Disallowed Incomes | ✓ Profit on sale of fixed asset (Capital Nature) |
| | ✓ Premium on issue of shares/ debentures |
| | ✓ Any other capital income |

CONCEPT ~~MANAGERIAL REMUNERATION — INADEQUATE or NO PROFITS~~

~~Where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are inadequate, it may, pay remuneration to the managerial person as follows :~~

| Effective Capital of Company | Maximum yearly Remuneration |
|--|--|
| Negative or less than 5 crores | |
| 5 crores and above but less than 100 crores | |
| 100 crores and above but less than 250 crores | |
| 250 crores and above | |

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- ✓ Remuneration in excess of above limits may be paid if shareholders pass a special resolution.
- ✓ For a period less than one year, the limits should be pro-rated.

CONCEPT

EFFECTIVE CAPITAL

| S. No. | Particulars | Amt. (₹) |
|--------|--------------------------------------|----------|
| 1. | Paid up Capital | |
| 2. | Reserves & Surplus | |
| 3. | Long term borrowings | |
| 4. | Accumulated Losses | |
| 5. | Preliminary Expenses not written off | |
| 6. | Investment | |

CONCEPT

PAYMENT OF DIVIDEND OUT OF RESERVES

| | |
|---------------------|---|
| General Rule | ✓ Dividend can be declared and paid by a company only out of the profits or free reserves. |
| Exception | ✓ 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. |

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| | | |
|--|-------------|--|
| | Condition 1 | |
| | Condition 2 | |
| | Condition 3 | |

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 |
|-----------|---|----------|---|--|
| A. | Equity & Liabilities | | | |
| 1. | Shareholders' funds | | | |
| a | Share capital | | | |
| | Special Disclosure | | | |
| | ✓ 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 | | | |

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| | | | | |
|-----------|--|--|-------|-------|
| | <ul style="list-style-type: none"> ✓ 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 | | | |
| 2. | Share application money pending allotment | | | |
| 3. | Non-current liabilities | | | |
| a | Long-term borrowings | | | |
| | <ul style="list-style-type: none"> ✓ 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 | | | |
| | ✓ Includes provision for employee benefits usually | | | |
| 4. | Current liabilities | | | |
| a | Short-term borrowings | | | |
| | <ul style="list-style-type: none"> ✓ Current maturities of long-term debt ✓ Loan from bank repayable on demand ✓ Loans and advances from related parties ✓ To be classified as secured or unsecured ✓ If secured, nature of security to be specified | | | |
| b | Trade Payables | | | |
| c | Other current liabilities | | | |
| | <p>Current liabilities for which there is no specific head. It will generally include following:</p> <ul style="list-style-type: none"> ✓ Interest accrued but not due on borrowings ✓ Interest accrued and due on borrowings ✗ Current maturities of long-term debt ✓ Unpaid dividends ✓ Share application money pending refund | | | |
| d | Short-term provisions | | | |
| | Total | | _____ | _____ |
| B. | Assets | | | |
| 1. | Non-current assets | | | |
| a | PPE & Intangible Assets | | | |

| | | | | |
|-----|--|--|--|--|
| i | Property, Plant and Equipment | | | |
| | <p><i>It will mainly include the following :</i></p> <ul style="list-style-type: none"> ✓ Land ✓ Building ✓ Plant & Equipment etc. <p><i>For each of these, disclose the following :</i></p> <ul style="list-style-type: none"> ✓ Original Cost - Accumulated Depreciation = WDV/ BV ✓ Any addition or disposal | | | |
| ii | Intangible assets | | | |
| | <p><i>It will mainly include the following :</i></p> <ul style="list-style-type: none"> ✓ Goodwill ✓ Patents etc. <p><i>For each of these, disclose the following :</i></p> <ul style="list-style-type: none"> ✓ Amount of amortization ✓ Any addition or disposal | | | |
| iii | Capital Work-in-progress | | | |
| iv | Intangible assets under development | | | |
| b | Non-current investments | | | |
| | <p><i>It denotes the investments done for long-term. Following shall be disclosed :</i></p> <ul style="list-style-type: none"> ✓ Aggregate amount of quoted investments and its market value ✓ Aggregate amount of unquoted investments ✓ Aggregate provision for diminution | | | |
| c | Deferred tax assets (Net) | | | |
| d | Long-term loans and advances | | | |
| | <ul style="list-style-type: none"> ✓ Amount due by others beyond 12 months. ✓ To be classified as secured, unsecured or doubtful. ✓ Amount due by directors should be separately stated. ✓ Loans and advances to the related party to be separately stated. | | | |
| e | Other non-current assets | | | |
| 2. | Current assets | | | |
| a | Current investments | | | |
| | <p><i>It denotes the investments done for short-term. Following shall be disclosed :</i></p> <ul style="list-style-type: none"> ✓ Basis of valuation ✓ Aggregate amount of quoted investments and its market value | | | |

| | | | | |
|---|--|--|-------|-------|
| | <ul style="list-style-type: none"> ✓ Aggregate amount of unquoted investments ✓ Aggregate provision for diminution | | | |
| b | Inventories | | | |
| | <p><i>Inventories are to be classified as :</i></p> <ul style="list-style-type: none"> ✓ Raw Material ✓ WIP ✓ FG ✓ Stock in trade ✓ Stores and spares ✓ Loose Tools <p><i>Mode of valuation of inventories must also be stated.</i></p> | | | |
| c | Trade receivables | | | |
| | <ul style="list-style-type: none"> ✓ It includes debtors and B/R. ✓ Debts due for > 6 months are to be separately stated. | | | |
| d | Cash and cash equivalents | | | |
| | <p><i>It is to be classified as :</i></p> <ul style="list-style-type: none"> ✓ Balance with banks ✓ Cheques or drafts in hand ✓ Cash in hand <p><i>Balance with banks is to be stated as</i></p> <ul style="list-style-type: none"> ✓ With scheduled banks ✓ With other banks | | | |
| e | Short-term loans and advances | | | |
| | <ul style="list-style-type: none"> ✓ 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"> ✓ Prepaid expense ✓ Interest accrued on investments | | | |
| | Total | | _____ | _____ |

Form 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 | Total Revenue (I + II) | | | |
| IV | Expenses: | | | |
| | 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 | | | |
| | Total expenses | | | |
| V | Profit before tax (III - IV) | | | |
| VI | Provision for Tax | | | |
| VII | Profit after tax (V - VI) | | | |

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

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">✓ Cash flow arises when the net effect of transaction is to<ul style="list-style-type: none">❖ either increase❖ or decreasethe amount of cash and cash equivalents. |

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 | |
| | Net Cash and Cash Equivalents Generated during the year | |
| + | Opening balance of Cash and Cash Equivalents | |
| = | Closing balance of Cash and Cash Equivalents | |
| | | |

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.) | |
| = Cash Generated from Operations before Tax | |
| - Income Tax Paid | |
| + Extraordinary items (Example : Insurance Claim received w.r.t. stock lost by fire) | |
| | |
| Cash Flow from Operating Activities (Indirect Method) | |
| Particulars | Amount (₹) |
| 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) | |
| = Net Profit before Tax & Extra-ordinary Item | |
| : <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 | |
| = Operating Profit before Working Capital Changes | |
| + Decrease in Current Assets | |
| - Increase in Current Assets | |
| - Decrease in Current Liabilities | |
| + Increase in Current Liabilities | |
| = Cash Generated from Operations | |
| - 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 | |
| | Total | | Total |

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 | |
| | Total | | Total |

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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 | |
| | Total | | Total |

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 | |
| | Total | | Total |

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 | |
| | Total | | Total |

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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 | |
| | Total | | Total |

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 | | | |
| | Total | | Total |

BUY BACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS

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

CONDITIONS FOR BUY BACK

Provisions of Companies Act, 2013 (Section 68 & 69) and SEBI Regulations

| | | |
|----|-----------------------------------|---|
| 1. | <p>Sources of Buy Back</p> | <p>The company can buy back shares & securities out of</p> <ul style="list-style-type: none"> ❖ its free reserves; or ❖ the securities premium account; or ❖ the proceeds of the issue of any shares or other specified securities. <p>Where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.</p> <p>CRR can be used only for issue of fully paid up bonus shares.</p> |
|----|-----------------------------------|---|

| | | |
|-----|--|--|
| 2. | Buy Back from | The buy-back may be— <ul style="list-style-type: none"> ❖ from the existing security holders on a proportionate basis; or ❖ from the open market; or ❖ by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity. |
| 3. | Authorisation in AOA | The buy-back must be authorised by its articles. |
| 4. | Special Resolution | A special resolution is to be passed in general meeting of the company authorising the buy-back. However, if the buy back is 10% or less of the paid up equity capital + free reserves then the same may be done with the authorization of the Board Resolution passed at a duly convened meeting of the directors. |
| 5. | Fully Paid Up | All the shares or other specified securities for buy-back must be fully paid-up. |
| 6. | Shares Outstanding Test | The buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves. |
| 7. | Resource Test | Amount involved in the buy-back must be equal or less than 25% of the total paid-up capital and free reserves of the company. |
| 8. | Debt-Equity Ratio Test | Debt-Equity ratio must not exceed 2:1 after the buy-back. |
| 9. | Completion of Buy Back | Every buy-back must be completed within 12 months from the date of passing the special resolution, or the board resolution. |
| 10. | Minimum gap between 2 Buy-Backs | There shall be a minimum gap of 1 year in buyback offer from the date of closure of previous buy back. |
| 11. | Premium on Buy Back | The premium paid on buy back of shares should be adjusted against <ul style="list-style-type: none"> ❖ Securities premium ❖ Free Reserves |

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| | | |
|-----|---|--|
| 12. | Extinguish the bought back securities | Where a company buys-back its own securities, it shall extinguish and physically destroy the securities bought-back within 7 days. |
| 13. | Bar on further issue of same kind of securities | The company shall not make further issue of same kind of shares or other specified securities bought back within 6 months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares. |
| 14. | Maintaining the register of relevant particulars | Where a company buy-back its securities, it shall maintain a register of <ul style="list-style-type: none"> ❖ the securities so bought, ❖ the consideration paid for the securities bought-back, ❖ the date of cancellation of securities, ❖ the date of extinguishing and physically destroying of securities |
| 15. | Filing the return with ROC & SEBI | After the completion of buy-back, the company shall file a return containing particulars relating to the buy-back, with the Registrar and the SEBI, within 30 days of completion of buy back. |

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 |

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| | | |
|----|---|-----------------------------------|
| 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 |
| 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

| | |
|---|---|
| Insights | 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. |
| Test Conditions | <ol style="list-style-type: none">1. Shares Outstanding Test2. Resource Test3. Debt-Equity Ratio Test <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> |
| Test 1 - Shares Outstanding Test | |
| Test 2 - Resource Test | |

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**Test 3 - Debt
Equity Ratio
Test**





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INTERNAL RECONSTRUCTION

CONCEPT

BASICS

| | |
|----------------------------------|---|
| Background | <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">❖ the assets are overvalued,❖ there are fictitious assets, useless intangible assets and debit balance in the profit and loss account. <p>Such a situation brings the need for reconstruction.</p> |
| Meaning of Reconstruction | <p>Reconstruction is a process by which affairs of a company are reorganized by</p> <ul style="list-style-type: none">❖ revaluation of assets,❖ reassessment of liabilities and❖ 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. |
| Process | <p>Such a process is called internal reconstruction which is carried out without liquidating the company and forming a new one</p> |

CONCEPT

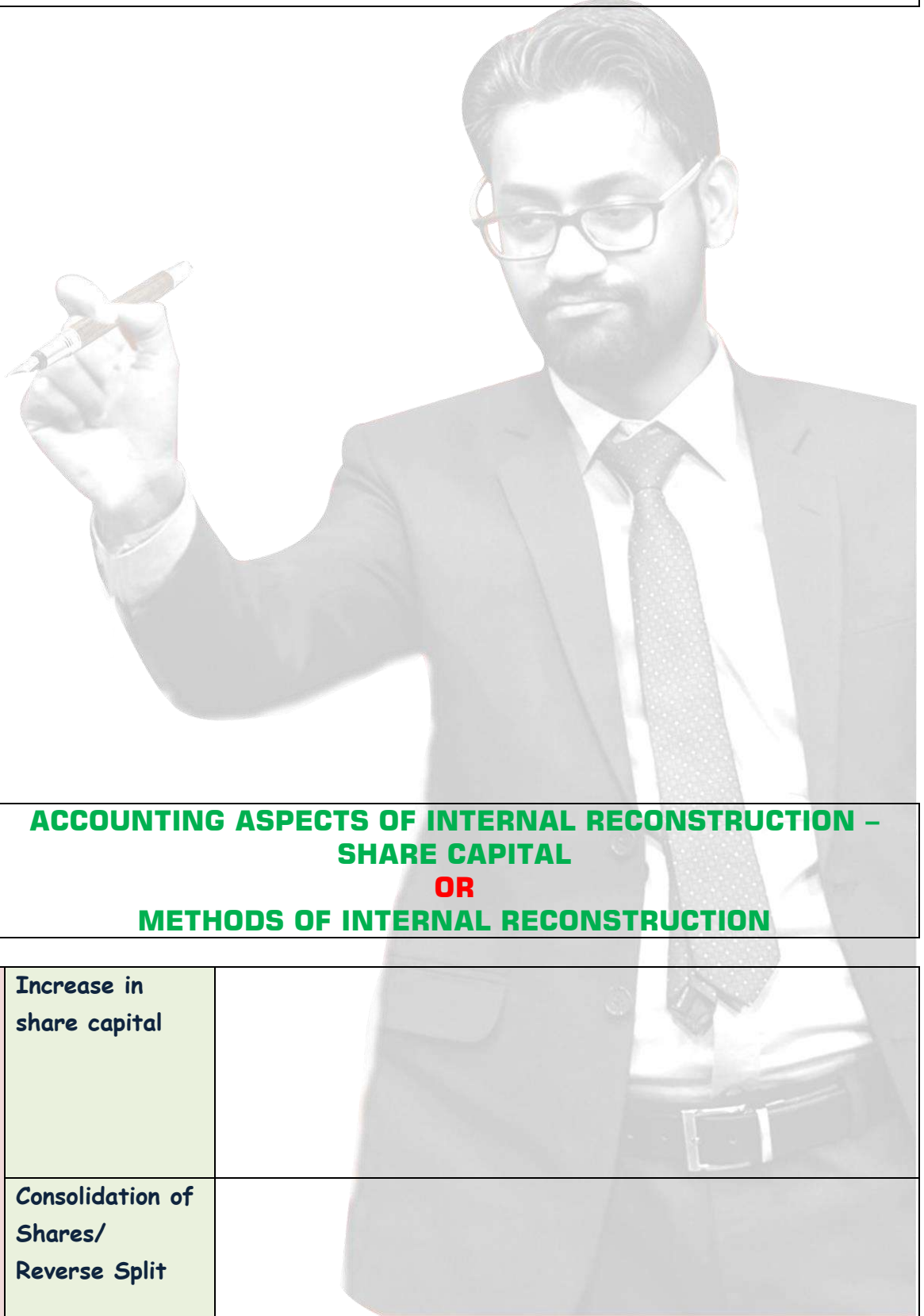
**ACCOUNTING ASPECTS OF INTERNAL RECONSTRUCTION –
ASSETS**



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

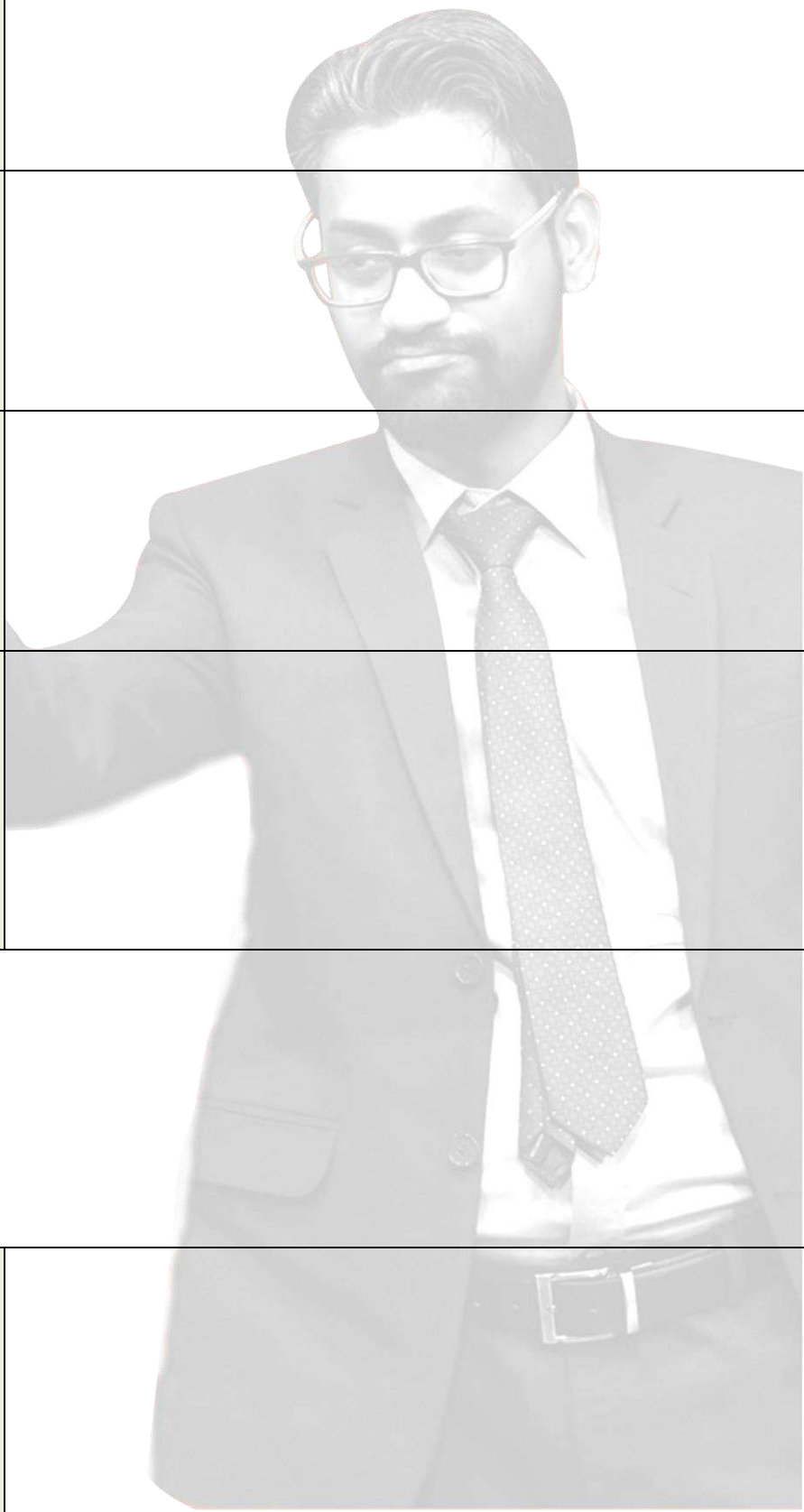
| | | |
|--------------------------------|--|--|
| Alteration of Share Capital | Increase in share capital | |
| | Consolidation of Shares/ Reverse Split | |

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| | | |
|---------------------------------|---|--|
| | Sub-Division of Shares/ Split up of shares | |
| | Conversion of shares into stock | |
| | Conversion of stock into shares | |
| | Cancellation of unissued shares | |
| Variation of Shareholder Rights | | |
| Reduction of Share Capital | Extinguish or reducing the liability of shareholders in respect of unpaid amount on shares held by them | |



| | | | | |
|------------------------|---------------------------------------|---|---|--|
| | Paying off the excess paid up capital | | | |
| | 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 |

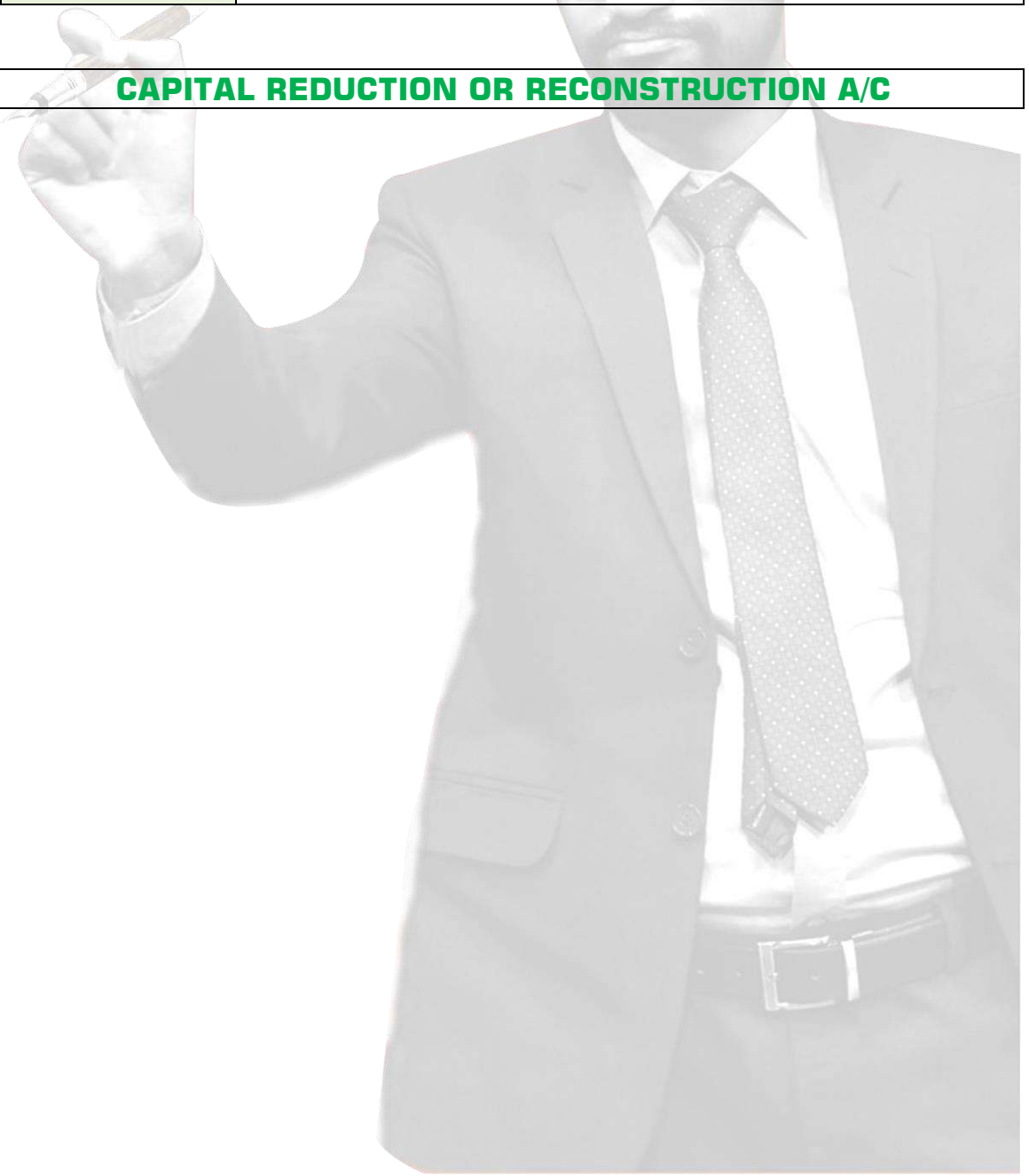
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| | | | | |
|--|--|----|--|--|
| | | 2. | Use of surrendered shares for discharge of an existing liability | Shares Surrender A/c To Share Capital A/c |
| | | 3. | Cancellation of shares | Shares Surrender A/c To Capital Reduction A/c |

CONCEPT CAPITAL REDUCTION OR RECONSTRUCTION A/C



AMALGAMATION OF COMPANIES

CONCEPT

BASICS

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

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 | | | |

CONCEPT**TYPES OF AMALGAMATION**

| | | |
|---|--------------------|---|
| Amalgamation in nature of Merger | 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, except that cash may be paid in respect of any fractional shares. |
| | 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 except to ensure uniformity of accounting policies. |

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| | |
|---|--|
| Amalgamation in nature of Purchase | If any of the above conditions is not satisfied, such amalgamation is called amalgamation in the nature of purchase. |
|---|--|

| | |
|----------------|-------------------------------|
| CONCEPT | PURCHASE CONSIDERATION |
|----------------|-------------------------------|

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

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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. Discharge of Debenture holders of Vendor company

Debentures of Vendor Company A/c

Discount on Issue of Debentures A/c

To Debentures A/c

To Securities Premium A/c

| | | |
|----|---|--|
| 5. | Reimbursement of Liquidation Expense of Vendor company by Purchasing company | |
| | <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. | Elimination of Inter Company Owing |
| | Liability A/c |
| | To Asset A/c |

| | | |
|----|---|--|
| 7. | Elimination of Stock Reserve | |
| | <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. | Recording the Statutory Reserves of Vendor company | |
| | <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**

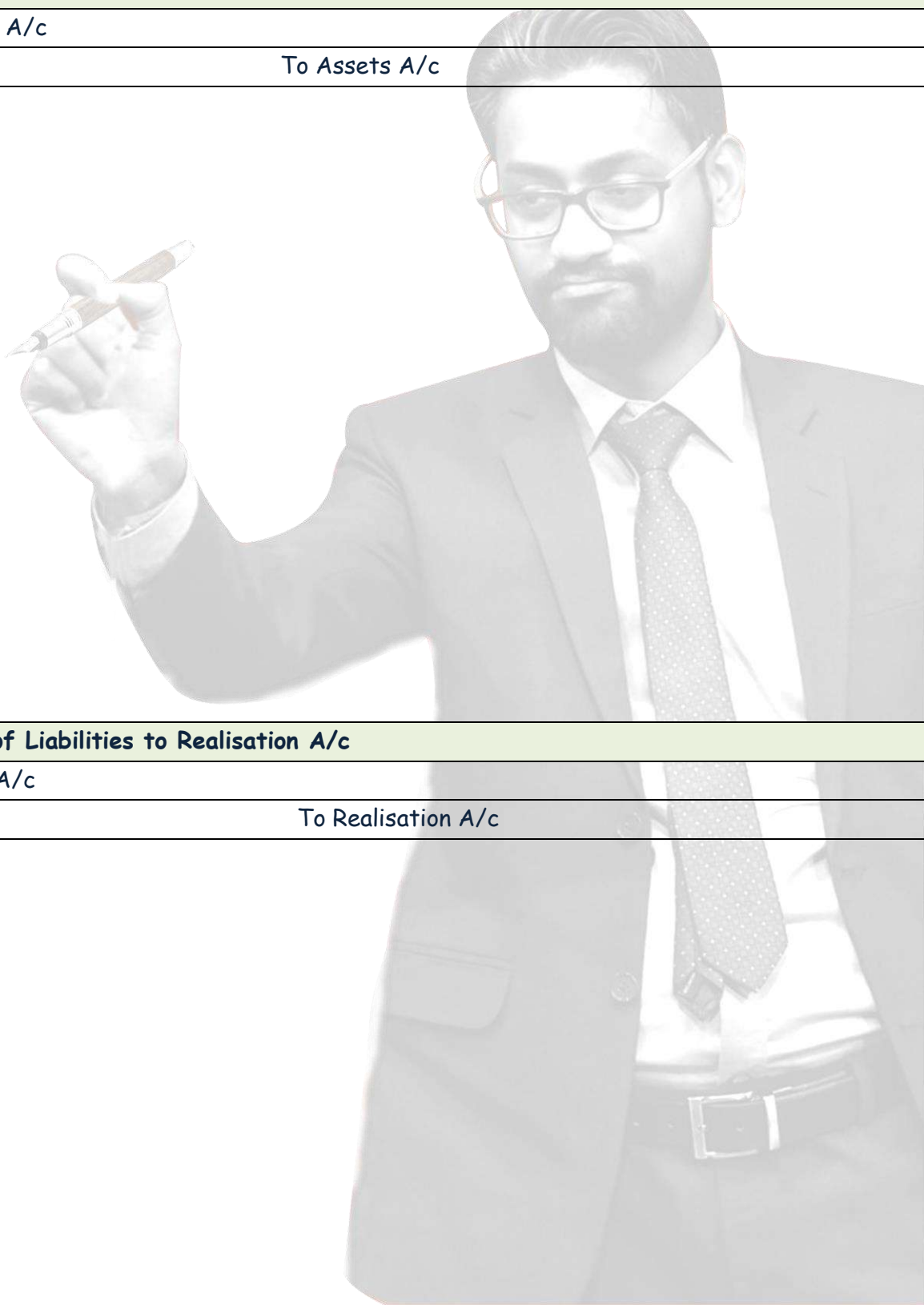
Realisation A/c

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 |

| | |
|----|---|
| 4. | Receiving the Purchase Consideration |
| | 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. | Realise the Assets not Taken Over |
| | Bank A/c |
| | To Realisation A/c |

| | |
|----|--|
| 6. | Paying the Liabilities not Taken Over |
| | Realisation A/c |
| | To Bank A/c |

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

| | |
|----|--|
| 8. | Discharging the claims of Preference Shareholders |
| | a. Making the Claims Due |
| | Preference Share Capital A/c |
| | Realisation A/c |
| | To Preference Shareholders A/c |
| | To Realisation A/c |
| | |
| | b. Making the Payment |

| | | |
|--|-----------------------------|--|
| | 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. | Realisation Profit or Loss | |
| | a. Profit | |
| | Realisation A/c | |
| | | To Equity Shareholders A/c |
| | b. Loss | |
| | Equity Shareholders A/c | To Realisation A/c |

| | | |
|-----|--|----------------------------|
| 10. | Transfer of Share Capital and Reserves & Surplus to Equity Shareholders | |
| | a. Transfer of Capital and Positive Reserves | |
| | Equity Share Capital A/c | |
| | Reserves A/c | |
| | | To Equity Shareholders A/c |
| | b. Transfer of Negative Reserves | |
| | Equity Shareholders A/c | |
| | | To P/L (Debit Balance) A/c |

| | | |
|-----|--|--|
| 11. | Making final payment to Equity Shareholders | |
| | Equity Shareholders A/c | |
| | | To Equity Shares of Purchasing Company A/c |
| | | To Preference Shares 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 | | | | |
| | | Total | | | Total |

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 | | | | |

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| | | | | | |
|--|-------------|-------|--|--|-------|
| | | | | | |
| | To Cash A/c | | | | |
| | | Total | | | Total |

CONCEPT

INTRINSIC VALUE



CONSOLIDATED FINANCIAL STATEMENTS

CONCEPT CONSOLIDATED FINANCIAL STATEMENTS – BASICS

| | |
|--|---|
| Meaning | 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. |
| Purpose | CFS are intended to show the financial position of the group as a whole - <ul style="list-style-type: none"> ❖ by showing the economic resources controlled by them, ❖ by presenting the obligations of the group and ❖ by presenting the results the group achieves with its resources. |
| Contents | <ul style="list-style-type: none"> ❖ Consolidated Balance Sheet ❖ Consolidated Statement of Profit and Loss ❖ Consolidated Cash Flow Statement ❖ Consolidated Notes to Accounts, other statements and explanatory material |
| Guiding Law & Consolidation Procedure | |

CONCEPT HOLDING & SUBSIDIARY COMPANY – BASICS

| | |
|---------------------------|--|
| Holding Company | It's a company which has one or more subsidiary companies and enjoys control over them. |
| Subsidiary Company | It's a company in which the holding company - <ol style="list-style-type: none"> (i) controls the composition of the Board of Directors; or (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: |



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 | |
| = | Goodwill/ (Capital Reserve) | |

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 | |
| = | Total | |

4. Consolidated P/L

| | Particulars | Amount |
|---|---------------------------------|--------|
| | H own P/L | |
| + | Share of H in Post Profits of S | |
| = | Total | |

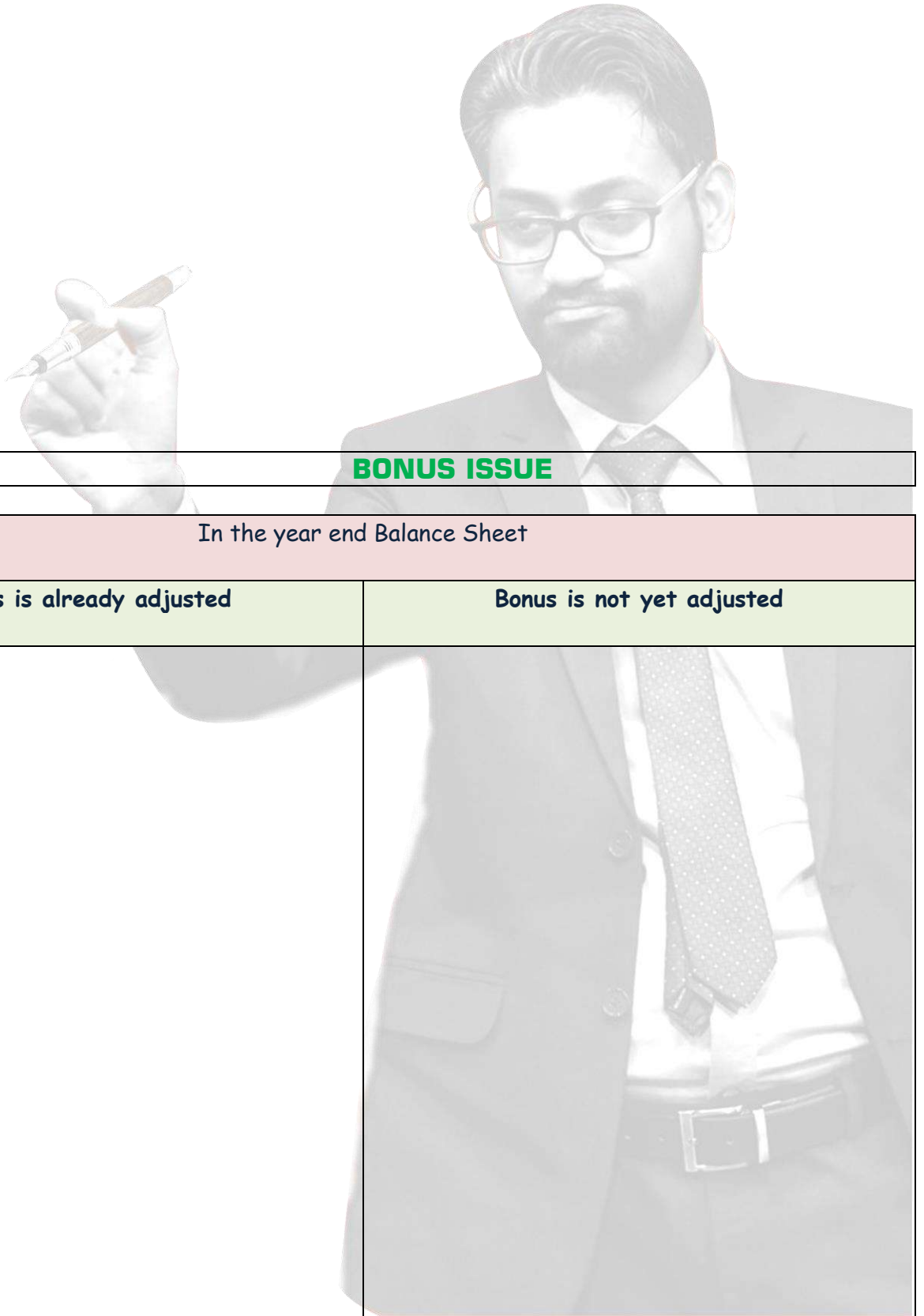
5. Consolidated General Reserve

| | Particulars | Amount |
|---|---|--------|
| | H own General Reserve | |
| + | Share of H in Post General Reserve of S | |
| = | Total | |

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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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| | |
|--|--|
| | |
|--|--|

| | |
|----------------|-----------------|
| CONCEPT | DIVIDEND |
|----------------|-----------------|

| | |
|-----------|-------------------------------------|
| 1. | Steps in Analysis of Profits |
|-----------|-------------------------------------|

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

| | |
|-----------|---|
| 2. | Deduction from Pre Profits or Post Profits |
|-----------|---|

| |
|-----------------------|
| Final Dividend |
| |

| | |
|-----------|---|
| 3. | Nature of Dividend Received by Holding Company |
|-----------|---|

| | |
|---------------------------------|----------------------------------|
| 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>Provisions of AS 21</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. |

INTRODUCTION TO ACCOUNTING STANDARDS

CONCEPT

BASICS OF ACCOUNTING STANDARDS

| | |
|-----------------------|---|
| Meaning of AS | Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. |
| Benefits of AS | <ul style="list-style-type: none"> ❖ Standardization of alternate accounting treatments ❖ Requirement for additional disclosures ❖ Enhances comparability of financial statements, intra as well as inter ❖ Reduction of scope for creative accounting (Creative accounting refers to twisting of accounting policies to produce financial statements favourable to a particular interest group) ❖ Improvement in the quality of financial reporting by promoting comparability, consistency and transparency. |

CONCEPT

CRITERIA FOR CLASSIFICATION OF NON-CORPORATE ENTITIES AS DECIDED BY ICAI

| Level I | Level II | Level III | Level IV |
|---|--|--|---|
| Large Size Entities | Medium Size Entities | Small Size Entities | Micro Entities |
| Any one of the following : a. Listed b. Banks, FIs or Insurance business c. P/y T/o d. Borrowings at any time in P/y e. Holding & Subsidiary of any of above | Not Level I entities but fall in any one or more of the following : a. P/y T/o b. Borrowings at any time in P/y c. Holding & Subsidiary of any of above | Not covered under Level I or II entities but fall in any one or more of the following : a. P/y T/o b. Borrowings at any time in P/y c. Holding & Subsidiary of any of above | Not covered under a. Level I or b. Level II or c. Level III entities |

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CONCEPT**CRITERIA FOR CLASSIFICATION OF COMPANIES UNDER THE COMPANIES (ACCOUNTING STANDARDS) RULES, 2021**

| SMCs | Non-SMCs |
|---|--|
| <p>It's a company which satisfies all of the following :</p> <p>a. Not Listed</p> <p>b. Not a Bank, FI or Insurance company</p> <p>c. P/y T/o</p> <p>d. Borrowings at any time in P/y</p> <p>e. Not a Holding & Subsidiary of a company which is not SMC.</p> | <p>A company not falling within the definition of SMC.</p> |

Additional Requirements

- ✓ Where an entity has been covered in Level I and subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level I for two consecutive years.
- ✓ Exemptions and relaxations are optional i.e. an entity may decide not to avail the exemption or relaxation of any standard.

CONCEPT**IFRS and IND AS**

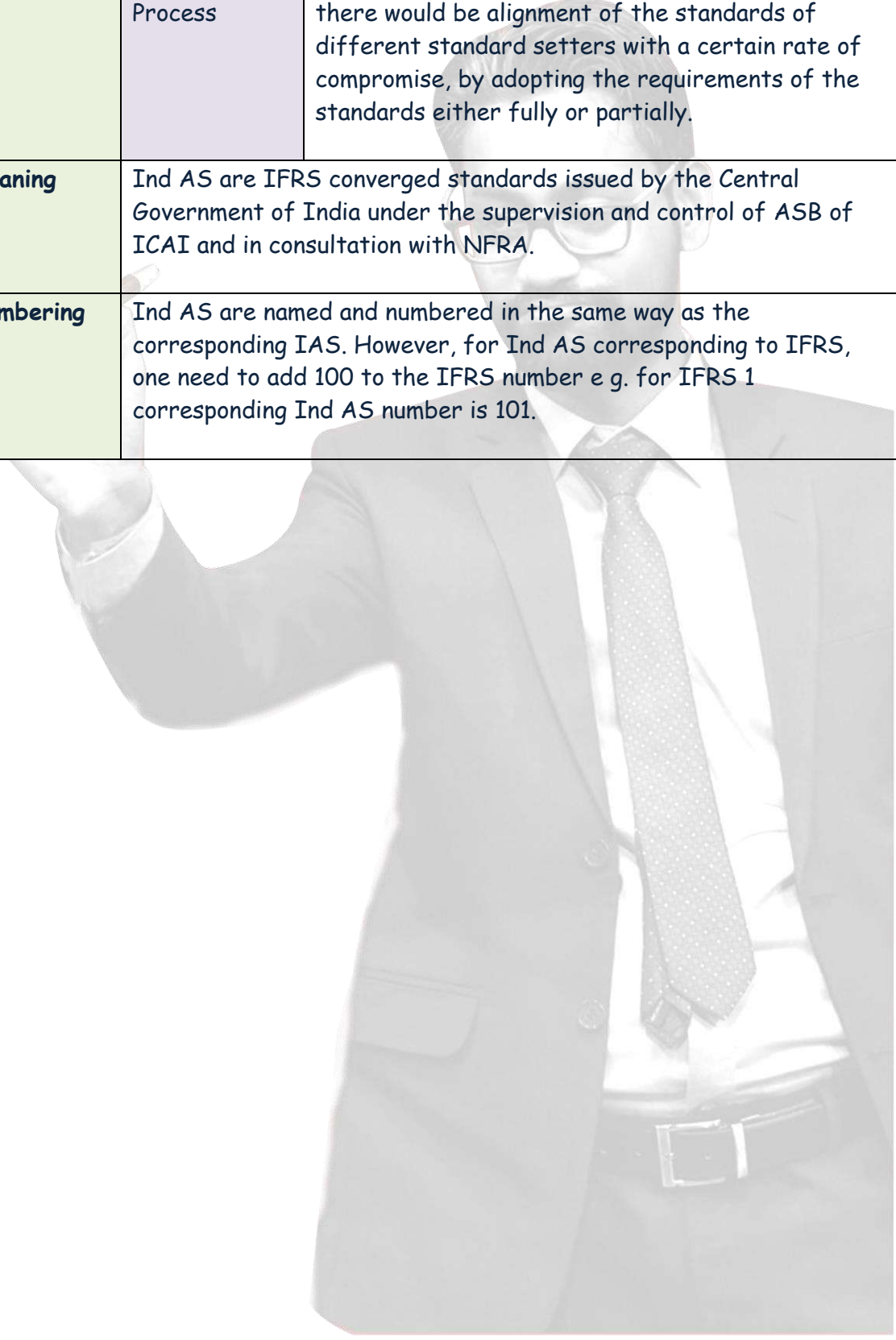
| | | | |
|------|-------------------------|---|---|
| IFRS | Nature | IFRSs are considered as a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. | |
| | Becoming IFRS Compliant | Technique I - Adoption Process | Adoption means that country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB. |

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| | | | |
|--------|-----------|---|---|
| | | Technique II - Convergence Process | Convergence means that the country will develop high quality, compatible accounting standards and there would be alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. |
| IND AS | Meaning | Ind AS are IFRS converged standards issued by the Central Government of India under the supervision and control of ASB of ICAI and in consultation with NFRA. | |
| | Numbering | Ind AS are named and numbered in the same way as the corresponding IAS. However, for Ind AS corresponding to IFRS, one need to add 100 to the IFRS number e.g. for IFRS 1 corresponding Ind AS number is 101. | |



CONCEPT**MEANING OF ACCOUNTING POLICY**

Accounting Policies are

1. Specific accounting principles, and
2. Methods of applying those principles

which are adopted by an enterprise in the preparation and presentation of financial statements.

CONCEPT**FUNDAMENTAL ACCOUNTING ASSUMPTIONS****CONCEPT****CONSIDERATIONS IN SELECTION OF ACCOUNTING POLICIES**

CONCEPT**DISCLOSURE OF ACCOUNTING POLICIES**

| | |
|----|---|
| 1. | Disclose at one place. |
| 2. | Usually disclosed in Notes to Accounts. |
| 3. | Should form an Integral Part of Financial Statements. |

CONCEPT**AREAS IN WHICH DIFFERENT ACCOUNTING POLICIES MAY BE ADOPTED**

| | |
|----|--------------------------------------|
| 1. | Valuation of Inventory |
| 2. | Valuation of Investment |
| 3. | Treatment of Retirement Benefits |
| 4. | Valuation of Fixed Assets |
| 5. | Conversion of Foreign Currency Items |

CONCEPT**CHANGE IN ACCOUNTING POLICY**

| | |
|--------------------------------|--|
| When Change is Allowed? | <ul style="list-style-type: none"> ✓ Required by statute ✓ Compliance with AS ✓ For better presentation of True & Fair view of Financial Statements |
| Disclosure Requirement | <ul style="list-style-type: none"> ✓ Old Policy ✓ New Policy ✓ Reason for Change in Policy ✓ Impact of such Change |

CONCEPT**MEANING AND CLASSIFICATION**

Inventories are the assets held

1. for sale in the ordinary course of business, or
2. in the process of production for such sale, or
3. for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares, servicing equipment and standby equipment meeting the definition of Property, plant and equipment.

CONCEPT**MEASUREMENT OF INVENTORIES**

1. Inventory is to be valued at Cost or NRV, whichever is lower.
2. Net Realisable Value
3. NRV is to be seen on each Balance Sheet Date.
4. Apply the rule on "Item by Item Basis" and not on "Global Basis".

CONCEPT**NRV IN CASE OF FIRM/ COMMITTED CONTRACT**

CONCEPT**COMPUTATION OF COST OF INVENTORIES**

| | | | |
|-------------------------------------|---|---------------------------|--|
| Cost of Purchase of Material | Basic Purchase Price - Trade Discount + Taxes & Duties - Recoverable Taxes & Duties + Freight Inwards + Other Expenses directly attributable to purchase | | |
| Conversion Cost | Labour | | |
| | Overheads | Fixed Overheads | |
| | | Variable Overheads | |
| Other Cost | Incurred in bringing the inventory to their present location and conditions | | |

CONCEPT**EXCLUSIONS FROM COST OF INVENTORIES**

| | |
|----|-----------------------------|
| 1. | Storage Costs |
| 2. | Abnormal Loss |
| 3. | Administration Overheads |
| 4. | Selling & Distribution Cost |
| 5. | Interest & Borrowing Cost |

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CONCEPT

BASICS

| | |
|-------------------------|---|
| Meaning of CFS | <ul style="list-style-type: none"> ❖ It's a statement of change in cash and cash equivalents of an enterprise. ❖ Cash flow Statement (CFS) is an additional information provided to the users of accounts in the form of a statement, which reflects <ul style="list-style-type: none"> • the various sources from where cash was generated (inflow of cash) by an enterprise during the relevant accounting year and • how these inflows were utilised (outflow of cash) by the enterprise. |
| Cash | <ul style="list-style-type: none"> ❖ It comprises Cash in Hand and Demand Deposits with the bank. |
| Cash Equivalents | <ul style="list-style-type: none"> ❖ These are short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value. ❖ Any investment will qualify as cash equivalent only if it has short maturity of 3 months or less from the date of acquisition. |
| Cash Flows | <ul style="list-style-type: none"> ❖ These are inflows and outflows of cash & cash equivalents. ❖ Cash flow arises when the net effect of transaction is to either increase or decrease the amount of cash and cash equivalents. ❖ Any transaction, which does not result in cash flow, should not be reported in the cash flow statement. |

CONCEPT**DIVISION INTO ACTIVITIES**

| | | |
|---------------------------|----------------|--|
| Operating Activity | Meaning | <ul style="list-style-type: none">❖ These are the principle revenue producing activities of enterprise and other activities which are not investing or financing. |
| | Example | <ul style="list-style-type: none">❖ Cash purchase and sale of goods❖ Collection from customers for goods❖ Payment to suppliers of goods❖ Payment of salaries, wages etc. |
| Investing Activity | Meaning | <ul style="list-style-type: none">❖ The investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. |
| | Example | <ul style="list-style-type: none">❖ Receipts from disposals of fixed assets.❖ Loan given to/ recovered from other entities (other than loans by financial enterprises).❖ Payments to acquire fixed assets.❖ Interests and dividends earned (other than interests and dividends earned by financial institutions). |
| Financing Activity | Meaning | <ul style="list-style-type: none">❖ Financing activities are activities that result in changes in the size and composition of the owners' capital (including preferences share capital in the case of company) and borrowings of the enterprise. |
| | Example | <ul style="list-style-type: none">❖ Issue of shares/ debentures❖ Redemption of debentures/ preference shares❖ Payment of dividends and payment of interests (other than interests paid by financial institutions). |

CONCEPT**CASH FLOW STATEMENT (INDIRECT METHOD)**

| S.No. | Particulars | Amount |
|----------|--|--------|
| A | Cash Flow from Operating Activity | |
| | Surplus during the year | |
| | + Non cash expenses | |
| | + Non operating expenses | |
| | - Non cash income | |
| | - Non operating income | |
| | = Cash from Operations (Before Working Capital Changes) | |
| | + Decrease in Current Assets | |
| | - Increase in Current Assets | |
| | - Decrease in Current Liabilities | |
| | + Increase in Current Liabilities | |
| | = Cash from Operations (Before Tax) | |
| | - Tax Paid | |
| | +/- Extraordinary items | |
| | Total (A) | |
| B | Cash Flow from Investing Activity | |
| | + Sale of Fixed Assets/ Investment | |
| | - Purchase of Fixed Assets/ Investment | |
| | + Interest/ Dividend Received | |
| | Total (B) | |
| C | Cash Flow from Financing Activity | |
| | + Issue of Share Capital/ Debenture | |
| | - Redemption of Share Capital/ Debenture | |
| | - Interest/ Dividend Paid | |
| | Total (C) | |
| D | Net Cash and Cash Equivalents Generated during the year | |
| E | Opening balance of Cash and Cash Equivalents | |
| F | Closing balance of Cash and Cash Equivalents | |

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CONCEPT**CASH FLOW STATEMENT (DIRECT METHOD)**

| S.No. | Particulars | Amount |
|-------|---------------------------------------|--------|
| A | Cash Flow from Operating Activity | |
| | Cash Sales | |
| | + Payment received from Debtors | |
| | - Cash Purchases | |
| | - Payment made to creditors | |
| | - Payment made for operating expenses | |
| | = Cash Generated from Operations | |
| | - Tax Paid | |
| | +/- Extraordinary items | |
| | Total (A) | |

CONCEPT**LEDGER ACCOUNTS TO BE PREPARED**

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AS 4

CONTINGENCIES AND EVENTS OCCURRING AFTER BALANCE SHEET DATE

CONCEPT**EVENTS OCCURRING AFTER BALANCE SHEET DATE**

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

CONCEPT**ADJUSTING EVENTS**

| | |
|----------------|---|
| Meaning | These are the events which provide further evidence of conditions that existed at the balance sheet date. |
| Effect | Adjustments to assets and liabilities are required as at balance sheet date for such events. |

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CONCEPT**NON-ADJUSTING EVENTS**

| | |
|----------------|---|
| Meaning | These are the events which are indicative of conditions that arose subsequent to the balance sheet date or events which do not relate to conditions existing at the balance sheet date. |
| Effect | Adjustments to assets and liabilities are not required for such events. |

CONCEPT**SIGNIFICANT NON-ADJUSTING EVENTS**

These events don't require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions like Material changes and commitments affecting the financial position of the enterprise.

CONCEPT**EXCEPTION TO THE GENERAL RULE OF NON-ADJUSTING EVENT**

| | |
|----------------------|--|
| Applicability | If the going concern assumption is not valid (based on events occurring after the balance sheet date). |
| Example | Destruction of a major production plant by a fire after the balance sheet date. |
| General Rule | Don't adjust Assets & Liabilities. |
| Exception | The financial statements are prepared on a liquidation basis i.e. assets and liabilities are adjusted. |

CONCEPT**PROPOSED DIVIDEND**

No more adjusting event.

Proposed dividend shall fall in the financial statements of the year in which it is actually proposed and not in Previous Financial Year to which it belongs.

AS 5**NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES****CONCEPT****NET PROFIT OR LOSS FOR THE PERIOD – ORDINARY ACTIVITIES**

| | | |
|---------------------|------------|--|
| Ordinary Activities | Meaning | These are the activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities. |
| | Example | Profit on sale of Stock |
| Exceptional Items | Disclosure | When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. |
| | Example | <ul style="list-style-type: none"> ❖ Write-down of inventories to net realisable value ❖ Reversal of such write-downs ❖ Disposals of items of fixed assets ❖ Disposals of long-term investments |

CONCEPT**NET PROFIT OR LOSS FOR THE PERIOD - EXTRA ORDINARY ACTIVITIES**

| | |
|------------|---|
| Meaning | These comprise of the Income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. |
| Disclosure | The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived. |
| Example | <ul style="list-style-type: none"> ❖ Loss by earthquake ❖ Refund of Government Grant |

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CONCEPT**PRIOR PERIOD ITEMS**

| | |
|-------------------|--|
| Meaning | Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. |
| Reason | <ul style="list-style-type: none"> ❖ Mathematical mistakes ❖ Oversight |
| Disclosure | The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived. |
| Example | <ul style="list-style-type: none"> ❖ Revenue Expenditure treated as Capital Expenditure ❖ Wrong totaling of stock |

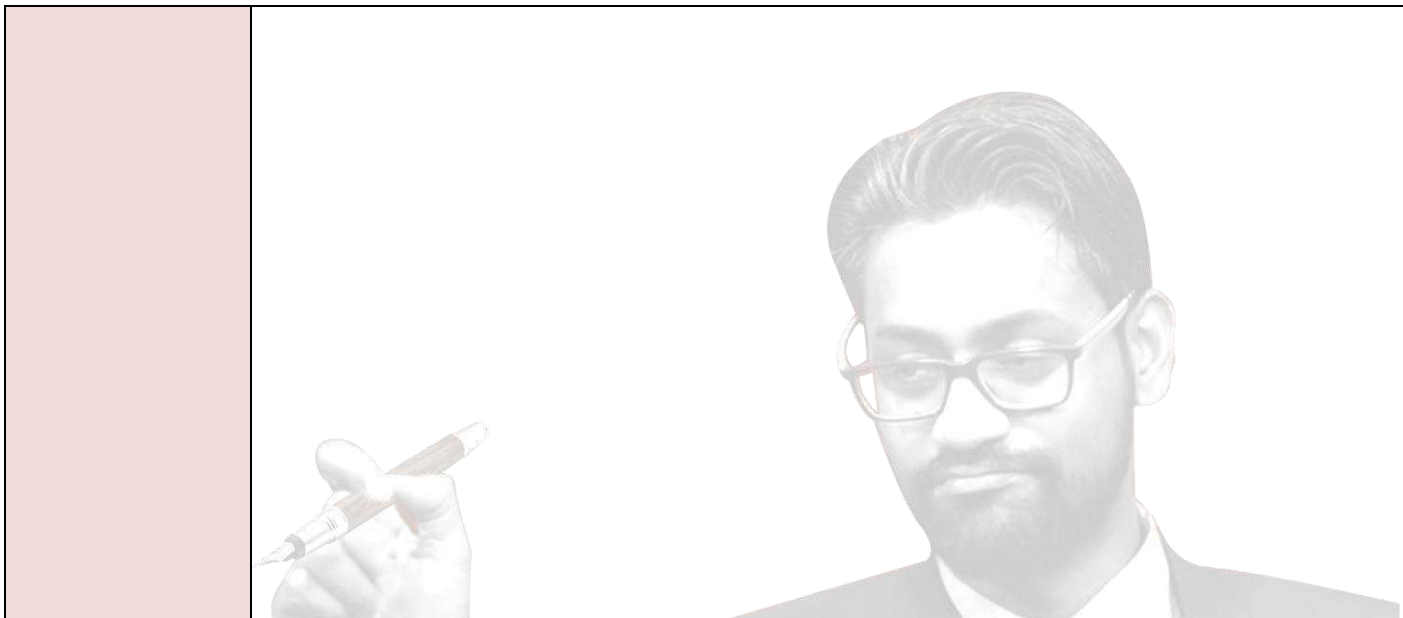
CONCEPT**CHANGE IN ACCOUNTING ESTIMATES**

| | |
|--|---|
| Meaning and Nature of Accounting Estimate | <p>Due to uncertainties inherent in business, many financial statement items can't be measured with precision but can only be estimated.</p> <p>The use of estimates is an important inherent part of preparing financial statements and does not undermine their reliability.</p> |
| Example | <ul style="list-style-type: none"> ❖ Estimate of Bad Debts ❖ Estimate of Scrap Value of Fixed Assets ❖ Estimate of Useful Life of Fixed Assets |
| Need of Change in Estimate | <p>An estimate may have to be revised</p> <ul style="list-style-type: none"> ❖ if changes occur in the circumstances based on which the estimate was made, or ❖ due to new information, ❖ due to more experience or ❖ due to subsequent developments. |
| No fixed category | The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item. |
| Same Classification as earlier | The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate. |
| Disclosure | |

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**CONCEPT****CHANGE IN ACCOUNTING POLICIES**

| | |
|---|---|
| Meaning of Accounting Policy | Refer AS 1 |
| General Rule | Accounting policies once adopted should be applied consistently (Fundamental Accounting Assumption). |
| Reason for change in Accounting Policy | Accounting Policies can be changed only : <ul style="list-style-type: none">❖ when the adoption of a different accounting policy is required by statute; or❖ for compliance with an Accounting Standard; or❖ when it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise. |
| Disclosure | |



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CONCEPT**MEANING OF CONSTRUCTION CONTRACT**

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

CONCEPT**TYPES OF CONSTRUCTION CONTRACT**

| | |
|-----------------------------|---|
| Fixed Price Contract | The price is agreed as fixed sum or a fixed rate per unit of output. In some cases, the contract may require the customer to pay additional sums to compensate the contractor against cost escalations. |
| Cost Plus Contract | The contractor is reimbursed for defined costs, plus percentage of these costs or a fixed fee. |

CONCEPT**COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS**

| | |
|---------------------------------|---|
| Segmenting or Separating | When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when : <ul style="list-style-type: none"> ❖ separate proposals have been submitted for each asset; ❖ separate negotiations have been carried out ❖ costs and revenues of each asset can be identified. |
| Combining | A group of contracts should be treated as a single construction contract when : <ul style="list-style-type: none"> ❖ the group of contracts is negotiated as a single package; ❖ the contracts are so closely interrelated that they are part of a single project with an overall profit margin; and ❖ the contracts are performed concurrently or in a continuous sequence. |

CONCEPT**CONTRACT REVENUE**

It means the revenue as agreed upon between the contractor and the contractee.

| S.No. | Particulars | Amount | Remarks |
|-------|---------------------------------|--------|---------|
| 1. | Initial Contract Revenue Agreed | | |
| 2. | +/- Variations in contract work | | |
| 3. | + Incentive Payments | | |
| 4. | + Price Escalation | | |
| 5. | + Claims | | |
| 6. | Any Penalty | | |
| 7. | Final Contract Revenue | | |

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CONCEPT**CONTRACT COSTS****CONCEPT****RECOGNITION OF CONTRACT REVENUE & CONTRACT COSTS**

| | |
|-----------------------------|---|
| Conditions | <ul style="list-style-type: none">❖ Contract Revenue can be measured reliably.❖ Contract Costs can be identified & measured reliably.❖ Probability of economic benefits. |
| Basis of Recognition | <p>On the basis of Stage of Completion Percentage</p> <ul style="list-style-type: none">❖ Percentage Completion Method <ul style="list-style-type: none">❖ Survey of work performed❖ Completion of a physical proportion of the contract work |

CONCEPT**COMPUTATION OF WIP**

CONCEPT

COMPUTATION OF PROFIT



CONCEPT

RECOGNITION OF EXPECTED LOSSES

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CONCEPT**MEANING OF REVENUE**

| | |
|----|--|
| 1. | Revenue is the <ul style="list-style-type: none">❖ gross inflow❖ of cash, receivables or other consideration❖ arising in the course of the ordinary activities of an enterprise❖ from the sale of goods,❖ from the rendering of services, and❖ from the use by others of enterprise resources yielding interest, royalties and dividends. |
| 2. | In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration. |
| 3. | |

CONCEPT**REVENUE FROM SALE OF GOODS****CONCEPT****REVENUE FROM RENDERING OF SERVICES**

CONCEPT

USE OF ENTERPRISE RESOURCES BY OTHERS



CONCEPT

UNCERTAINTY REGARDING COLLECTION

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AS 10

PROPERTY, PLANT AND EQUIPMENT

CONCEPT

MEANING OF PPE

PPE are the tangible items

1. Held for
 - ❖ Use in Production or Supply of Goods or Services
 - ❖ For Rental to others
 - ❖ For Administrative purposes

2. Expected to be used for more than 12 months.

CONCEPT

NON-APPLICABILITY OF AS 10

AS 10 doesn't apply to

1. Biological Assets (other than Bearer Plants) related to agricultural activity.

Bearer Plant is a plant that
 - ❖ Is used in the production or supply of Agricultural produce, &
 - ❖ Is expected to bear produce for more than a period of 12 months, &
 - ❖ Has a remote likelihood of being sold as Agricultural produce, except for incidental scrap sales.
2. Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar nonregenerative resources.

CONCEPT

RECOGNITION CRITERIA FOR PPE

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CONCEPT**SUBSEQUENT COSTS****CONCEPT****MEASUREMENT OF PPE**

| | |
|--------------------------------------|---------------------------------|
| Measurement at Recognition | Cost Model |
| Measurement after Recognition | Cost Model Revaluation Model |

| | |
|-----------------------------|---|
| Inclusions in Cost | Purchase Price - Trade Discount + Import Duty + Non-Refundable Duties or Taxes + Directly Attributable Cost to bring asset in its working condition + Decommissioning, Restoration and similar Liabilities |
| Exclusions from Cost | <ul style="list-style-type: none"> ❖ Costs of opening a new facility or business (Such as, Inauguration costs) ❖ Costs of introducing a new product or service (including costs of advertising and promotional activities) ❖ Costs of conducting business in a new location or with a new class of customer (including costs of staff training) ❖ Administration and other general overhead costs ❖ Initial Operating Losses ❖ Costs of relocating or reorganising part or all of the operations of an enterprise ❖ Costs incurred when the asset is operated at less than full capacity |

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CONCEPT

MEASUREMENT OF PPE AFTER RECOGNITION

CONCEPT

ACCOUNTING TREATMENT OF REVALUATION

CONCEPT

TECHNIQUES OF REVALUATION



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CONCEPT**DEPRECIATION**

| | |
|---|---|
| Depreciable Amount | Cost of an asset (or revalued amount) - Residual value |
| Depreciation Amount | The depreciable amount of an asset should be allocated on a systematic basis over its useful life. |
| Depreciation Method | <p>The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.</p> <ul style="list-style-type: none">❖ Straight Line Method❖ Diminishing Balance Method❖ Units of Production Method |
| Commencement of period for charging Depreciation | Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. |
| Review of Residual Value | <ul style="list-style-type: none">❖ Should be reviewed at least at each financial year-end.❖ If expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5. |
| Review of Useful Life | |
| Review of Depreciation Method | <ul style="list-style-type: none">❖ Should be reviewed at least at each financial year-end.❖ If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied, the method should be changed to reflect the changed pattern.❖ Such change should be accounted for as a change in an accounting estimate in accordance with AS 5. |
| Component Method | Each part of an item of PPE with a cost, that is significant in relation to the total cost of the item should be depreciated separately. |

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CONCEPT**LAND & BUILDINGS****CONCEPT****RETIREMENT**

| | |
|-----------------------------|---|
| Valuation | Items of PPE retired from active use and held for disposal should be stated at the lower of : <ul style="list-style-type: none">❖ Carrying Amount, and❖ Net Realisable Value |
| Accounting Treatment | Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss. |

CONCEPT**DE-RECOGNITION**

| | |
|-----------------------------|--|
| Timing | The carrying amount of an item of PPE should be derecognised: <ul style="list-style-type: none">❖ On disposal<ul style="list-style-type: none">• By sale• By entering into a finance lease, or• By donation, Or❖ When no future economic benefits are expected from its use or disposal |
| Accounting Treatment | Gain or loss arising from de-recognition of an item of PPE should be included in the Statement of Profit and Loss. |

CONCEPT**FOREIGN CURRENCY TRANSACTIONS**

| | |
|--|---|
| Meaning | A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency. |
| Example | <ul style="list-style-type: none">❖ Purchase or sale of goods or services whose price is denominated in a foreign currency.❖ Borrowing or lending of funds when the amounts payable or receivable are denominated in a foreign currency. |
| Recognition and Exchange Difference | |

CONCEPT**APPLICATION OF PARA 46 & 46A**

| | |
|-------------------------|---|
| Applicability to | Company Only |
| Nature | Optional |
| Applicable on | Long Term Foreign Currency Monetary Item (LTFCMI) |

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Treatment of Exchange Difference



CONCEPT

FORWARD EXCHANGE CONTRACT

Meaning of Forward Exchange Contract

Forward exchange contract means an agreement to exchange different currencies at a forward rate.

Meaning of Forward Rate

Forward rate is the specified exchange rate for exchange of two currencies at a specified future date.

Treatment of Exchange Difference

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CONCEPT**FOREIGN CURRENCY OPERATION**

| | | | |
|---------------------------------------|---|------------|-------------|
| Foreign operation | Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise. | | |
| Integral foreign operation | Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations. | | |
| Non-integral foreign operation | Non-integral foreign operation is a foreign operation that is not an integral foreign operation. | | |
| Translation | Item | IFO | NIFO |
| | Opening Stock | | |
| | Expenses/ Incomes | | |
| | Closing Assets & Liabilities | | |
| | Fixed Assets (including Depreciation) | | |
| | Goods Received from HO/ Remittance to HO/ Inter Units A/c | | |
| | Exchange Difference | | |

CONCEPT**GOVERNMENT GRANT**

| | |
|--------------------|--|
| Meaning | Government grants are <ul style="list-style-type: none">❖ assistance by government❖ in cash or kind to an enterprise❖ for past or future compliance with certain conditions. |
| Recognition | A government grant is not recognised until there is reasonable assurance that: <ul style="list-style-type: none">❖ the enterprise will comply with the conditions attaching to it; and❖ the grant will be received. |

CONCEPT**GOVERNMENT GRANT RELATING TO SPECIFIC FIXED ASSET**



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CONCEPT

GOVERNMENT GRANT RELATING TO REVENUE



CONCEPT

GOVERNMENT GRANT RELATING TO PROMOTER'S CONTRIBUTION

CONCEPT

NON-MONETARY GOVERNMENT GRANT

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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**CLASSIFICATION OF INVESTMENT****CONCEPT****COST OF INVESTMENT**

| | |
|---|--|
| Direct Purchase | The cost of an investment includes acquisition charges such as brokerage, fees and duties etc. along with the purchase price. |
| Acquisition by issue of shares or securities | If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is <ul style="list-style-type: none"> ❖ the fair value of securities issued or ❖ the fair value of asset given up. whichever is more clearly evident. |
| Acquisition in exchange of another asset | If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to <ul style="list-style-type: none"> ❖ the fair value of asset given up or ❖ the fair value of investment acquired, whichever is more clearly evident. |
| Interest, Dividend etc. | Interest, dividends and rentals receivables in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income (for example, when dividends on equity are declared from pre- |

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| | | |
|----------------------|--|---|
| | acquisition profits). | |
| Rights Shares | Portion Subscribed | When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. |
| | Portion not Subscribed but sold | If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement. |

CONCEPT

CARRYING AMOUNT OF INVESTMENTS

| | |
|-----------------------------|--|
| Current Investment | |
| Long Term Investment | |

CONCEPT

INVESTMENT PROPERTY

| | |
|-------------------|--|
| Meaning | An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. |
| Accounting | An investment property is accounted for in accordance with cost model as prescribed in AS 10 (Revised), 'Property, Plant and Equipment'. |

CONCEPT

DISPOSAL OF INVESTMENT

Profit or Loss i.e. the difference between the carrying amount and the disposal proceeds, is recognised in the profit and loss statement.

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CONCEPT

RECLASSIFICATION OF INVESTMENT



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CONCEPT**BASICS**

| | |
|---------------------------|---|
| Amalgamation | Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'. |
| Transferor company | Transferor company means the company which is amalgamated into another company. |
| Transferee company | Transferee company means the company into which a transferor company is amalgamated. |

CONCEPT**TYPES OF AMALGAMATION**

| | |
|---|---|
| Amalgamation in the Nature of Merger | <ul style="list-style-type: none"> ❖ There is a genuine pooling not merely of the assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of these companies. ❖ Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions : <ul style="list-style-type: none"> • All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company. • Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation. • The consideration for the amalgamation 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, except that cash may be paid in respect of any fractional shares. • The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company. • 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 except to ensure uniformity of accounting policies. |
|---|---|

**Amalgamation
in the Nature
of Purchase**

- ❖ These are amalgamations which are in effect a mode by which one company acquires another company.
- ❖ Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified above.

CONCEPT

METHODS OF ACCOUNTING FOR AMALGAMATION



CONCEPT

TREATMENT OF RESERVES OF TRANSFEROR COMPANY

**Amalgamation
in the Nature
of Merger**

- ❖ If the amalgamation is an 'amalgamation in the nature of merger', the identity of the reserves is preserved and they appear in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company.

However, the reserves of transferee company are adjusted to give effect to the following :

- ❖ *Conflicting accounting policies of the transferor and the transferee.*
- ❖ *Difference between the amount of Purchase Consideration and the amount of share capital of the transferor company.*

**Amalgamation
in the Nature
of Purchase**

- ❖ If the amalgamation is an 'amalgamation in the nature of purchase', the identity of the reserves, other than the statutory reserves is not preserved.
- ❖ Difference between the amount of Purchase Consideration and the Net Assets of the transferor company results in Goodwill or Capital Reserve.

CONCEPT**EMPLOYEE BENEFITS – INCLUSIONS**

| | |
|------------------------------|--|
| Short Term Employee Benefits | |
| Long Term Employee Benefits | |
| Post Employment Benefits | |
| Termination Benefits | |

CONCEPT**SHORT TERM EMPLOYEE BENEFITS**

| | |
|-----------------------|---|
| Meaning | Short-term employee benefits are payable within twelve months after the end of the period in which the service is rendered. |
| Classification | Short-term employee benefits are broadly classified into four categories: <ul style="list-style-type: none"> (i) regular period benefits (e.g., wages, salaries); (ii) short-term compensated absences (e.g., paid annual leave, maternity leave, sick leave etc.); (iii) profit sharing and bonuses payable within twelve months after the end of the period in which employee render the related services and (iv) non-monetary benefits (e.g., medical care, housing, cars etc.) |
| Accounting | An enterprise should recognize as expense the undiscounted amount of all short-term employee benefits attributable to services that been already rendered in the period. Any difference between the amount of expenses so recognized and cash payments made during the period should be treated as a liability or prepayment (asset) as appropriate. |

SHORT-TERM COMPENSATED ABSENCES

| | | |
|---------------------|----------------|---|
| Accumulating | Meaning | Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. |
|---------------------|----------------|---|

| | | |
|-------------------------|-------------------|---|
| | Accounting | The expected cost of accumulating compensated absences should be recognized when employees render the service that increase their entitlement to future compensated absences. |
| | Types | <p><u>Vesting</u> - It implies that employees are entitled to a cash payment for unused entitlement on leaving the enterprise.</p> <p><u>Non-Vesting</u> - It implies that when employees are not entitled to a cash payment for unused entitlement on leaving.</p> |
| Non-Accumulating | Meaning | Non-accumulating compensated absences (e.g., maternity leave) do not carry forward and are not directly linked to the services rendered by employees in the past. |
| | Accounting | An enterprise recognizes no liability or expense until the time of the absence. Thus, the cost of non-accumulating absences should be recognized as and when they arise. |

CONCEPT

POST EMPLOYMENT BENEFITS

| | |
|---|---|
| Defined Contribution plans (DCP) | These are post-employment benefit plans under which an enterprise pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Under defined contribution plans, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. |
| Defined Benefit plans (DBP) | These are post-employment benefit plans other than defined contribution plans. In defined benefits plans, the actuarial and investment risk fall on the employer. |

Question 1

Omega Limited belongs to the engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

Answer

According to AS 15 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus amount of ₹ 6 lakhs is required to be credited to the profit and loss statement of the current year.

Question 2

As on 1st April, 20X1 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of Zealous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹ 19,000 and received inward contributions of ₹ 49,000. On 31st March, 20X2 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,47,920. Actuarial losses on the obligations for the year 20X1-20X2 were ₹ 600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices:

| | ₹ |
|---|--------|
| Interest & dividend income, after tax payable by the fund | 9.25 |
| Realised and unrealised gains on plan assets (after tax) | 2.00 |
| Fund administrative costs | (1.00) |
| Expected Rate of Return | 10.25 |

You are required to find the expected and actual returns on plan assets.

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ANSWER

Given Rate = 10.25%

Expected Return: simple rate of return

$$\text{First 6M} : 100000 \times 10.25\% \times \frac{6}{12} = 5125$$

$$\text{Next 6M} : 130000 \times 10.25\% \times \frac{6}{12} = 6662.50$$

$$11787.50$$

: compounded rate of return

$$\begin{aligned} & (1+r)^n - 1 \\ & (1 + 0.1025)^{6/12} - 1 \\ & \sqrt{1.1025} - 1 \\ & = 5\% \end{aligned}$$

$$\text{First 6M} : 100000 \times 5\% = 5000$$

$$\text{Next 6M} : (130000 + 5000) \times 5\% = 6750$$

$$11750$$

| | |
|--|------------|
| Actual Return: FV of Plan Assets on 1/4/01 | 100000 |
| + I/W contribution on 30/09/01 | 49000 |
| - Benefits paid on 30/09/01 | (19000) |
| = FV of Plan Assets on 30/09/01 | 130000 (a) |
| FV of Plan Assets on 31/03/02 | 150000 (b) |
| Actual Return (b) - (a) | 20000 |

CONCEPT**BORROWING COST**

| | |
|-----------------------|---|
| Meaning | Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. |
| Interpretation | <ul style="list-style-type: none"> ❖ Interest ❖ Related Charges ❖ Amortisation of Discount ❖ Finance Charges in case of Finance Lease ❖ Amortisation of Ancillary Costs ❖ Exchange Difference in case of Foreign Borrowings |

CONCEPT**QUALIFYING ASSET**

| | |
|-----------------------------------|--|
| Meaning | A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. |
| Interpretation | Assets that are ready for their intended use or sale when acquired also are not qualifying assets. |
| Substantial period of time | It primarily depends on the facts and circumstances of each case, but ordinarily a period of twelve months is considered as substantial period of time. |
| Example | <ul style="list-style-type: none"> ❖ Manufacturing Plants ❖ Power Generation Facilities ❖ Inventories that require a substantial period of time to bring them to a saleable condition |

CONCEPT**COMMENCEMENT OF CAPITALISATION****CONCEPT****SPECIFIC BORROWING**

| | |
|------------------------------------|--|
| Meaning | When an enterprise borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified. |
| Income Earned on Idle Funds | In determining the amount of borrowing costs eligible for capitalisation during a period, any income earned on the temporary investment of those borrowings is deducted from the borrowing costs incurred. |
| Rate Computation | Use Different Rate for all Specific Borrowings. |

CONCEPT**GENERAL BORROWING**

| | |
|-------------------------|--|
| Meaning | When an enterprise borrows funds generally, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. |
| Rate Computation | Use Single Rate for all General Borrowings. |
| Insights | |

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CONCEPT**SUSPENSION OF CAPITALISATION**

| | |
|------------------|--|
| Timing | Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted. |
| Exception | <ul style="list-style-type: none">❖ When substantial technical and administrative work is being carried out.❖ When a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. |

CONCEPT**CESSATION OF CAPITALISATION**

| | |
|-----------------|--|
| Timing | Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. |
| Insights | An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. |

CONCEPT**FOREIGN CURRENCY BORROWINGS**

| | |
|-----------|--|
| 1. | Interest on Foreign Borrowings is capitalised. |
| 2. | Exchange Differences which arise on the amount of principal of the foreign currency borrowings can be capitalised to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings. |
| 3. | The remaining exchange difference, if any, is accounted for under AS 11, 'The Effect of Changes in Foreign Exchange Rates'. |

CONCEPT**TYPES OF SEGMENTS****CONCEPT****IDENTIFYING PRIMARY & SECONDARY SEGMENTS**

| Dominant Risk | Primary Segment | Secondary Segment |
|---------------|-----------------|-------------------|
| Product | | |
| Area | | |
| Both | | |
| None | | |

CONCEPT**IDENTIFYING REPORTABLE SEGMENTS**

CONCEPT**SEGMENT REPORT**

| Primary | Secondary |
|---|---|
| Segment Revenue | Segment Revenue |
| Segment Result | Segment Assets |
| Segment Assets | Segment Fixed Assets Acquired during the period |
| Segment Liabilities | |
| Segment Fixed Assets Acquired during the period | |
| Depreciation | |
| Non-Cash Expenses other than Depreciation | |

CONCEPT**SEGMENT REVENUE**

Segment Revenue is the aggregate of :

1. Portion of enterprise revenue that is directly attributable to a segment.
2. Portion of enterprise revenue that can be allocated on a reasonable basis to a segment.
3. Revenue from transactions with other segments of the enterprise.

CONCEPT**SEGMENT EXPENSES**

Segment Expenses is the aggregate of :

1. Expense resulting from the operating activities of a segment that is directly attributable to the segment.
2. Portion of enterprise expense that can be allocated on a reasonable basis to a segment.
3. Expense relating to transactions with other segments of the enterprise.

CONCEPT**RELATED PARTY ISSUE**

| | |
|----------------------------|---|
| Normal Feature | Related party relationships are a normal feature of commerce and business. |
| General Presumption | Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's-length basis between independent parties. |

CONCEPT**RELATED PARTY RELATIONSHIP**

Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

CONCEPT**RELATED PARTY RELATIONSHIP – INCLUSIONS**

AS 18 deals only with related party relationships described in (a) to (e) below :

| | |
|----------|---|
| a | Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries) |
| b | Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture. |
| c | Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual. |
| d | Key management personnel and relatives of such personnel |
| e | Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise. |

CONCEPT**RELATED PARTY RELATIONSHIP – EXCLUSIONS**

| | |
|----|--|
| 1. | Two companies simply because they have a director in common (unless the director is able to affect the policies of both companies in their mutual dealings). |
| 2. | A single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence. |
| 3. | Providers of finance, Government Departments etc. |

CONCEPT**DISCLOSURE REQUIREMENT**

| No Transaction with RP | Transaction with RP |
|---------------------------|---|
| Name of RP | Name of RP |
| Nature of RP Relationship | Nature of RP Relationship |
| | Nature of Transaction |
| | Volume |
| | Any other elements of such transaction |
| | Outstanding Balance as at Balance Sheet Date & Provision for Doubtful Debts |
| | Amount written off or written back |

CONCEPT**TRANSACTIONS DURING THE PERIOD WHEN RELATED PARTY RELATIONSHIP DOES NOT EXIST**

CONCEPT**BASICS OF LEASE**

| | | |
|-----------------------|--|--|
| Meaning | A Lease is an agreement whereby the Lessor (legal owner of an asset) conveys to the Lessee (another party) in return for a payment or series of periodic payments (Lease rents), the right to use an asset for an agreed period of time. | |
| Parties | Lessor | The party who transfers the asset is called 'Lessor'. |
| | Lessee | The party to whom the asset is transferred is called 'Lessee'. |
| Types of Lease | <ul style="list-style-type: none"> ❖ Finance Lease ❖ Operating Lease | |

CONCEPT**FINANCE LEASE – MEANING & IDENTIFICATION**

| | | |
|-----------------------|---|--|
| Meaning | A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. <i>Title may or may not eventually be transferred.</i> | |
| Identification | Atleast one of the following conditions must be satisfied to recognize the lease as Finance Lease : | |
| | Condition 1 | Transfer of ownership of the asset to the lessee by the end of the lease term. |
| | Condition 2 | Where lessee has purchase option at very reduced rate & lessee is certain to opt for purchase at inception. |
| | Condition 3 | Where lease period covers substantial period of economic life of asset. |
| | Condition 4 | At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. |
| | Condition 5 | The leased asset is of a specialised nature such that only the lessee can use it without major modifications being made. |

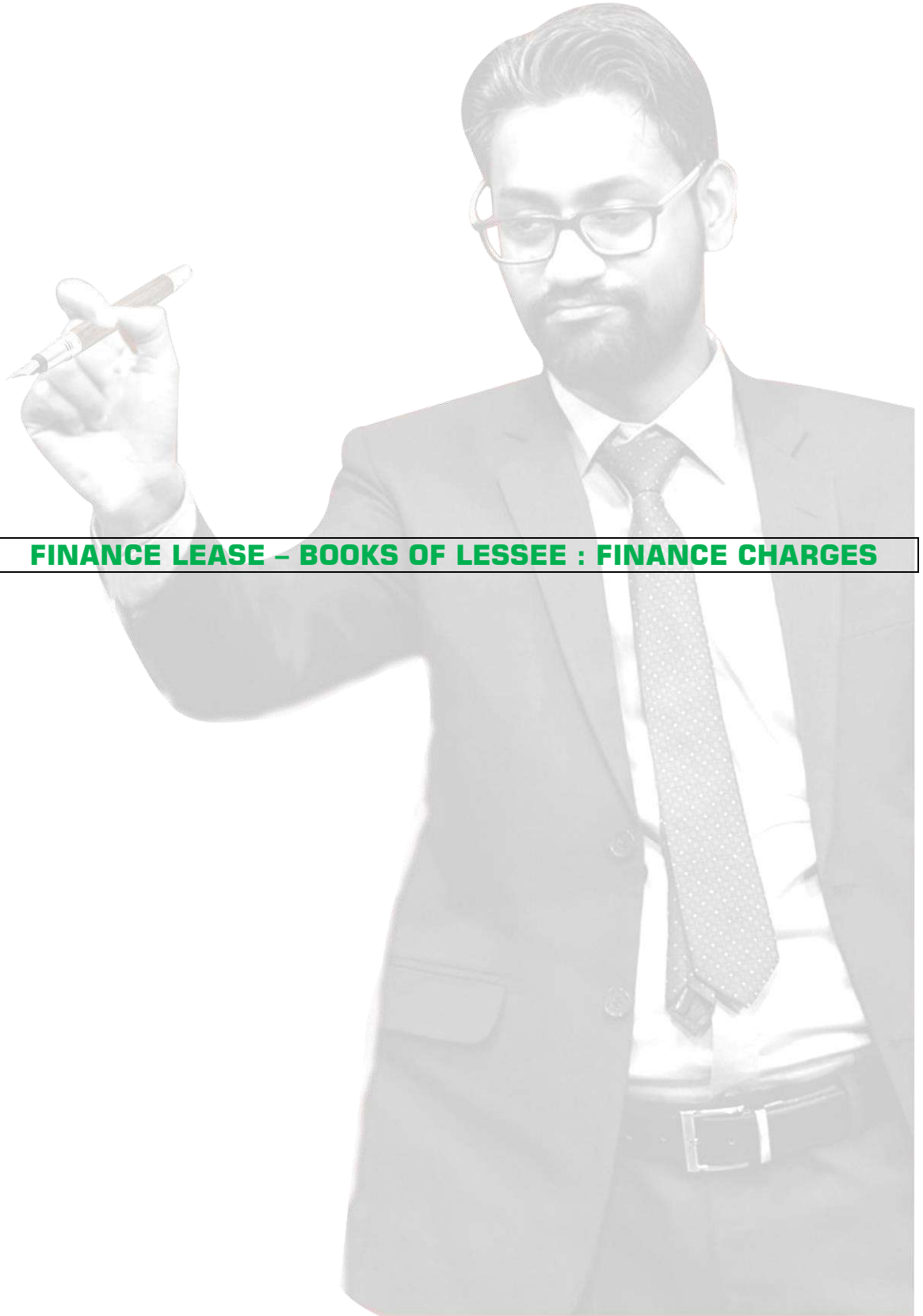
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CONCEPT

FINANCE LEASE – BOOKS OF LESSEE : LEASE LIABILITY



CONCEPT

FINANCE LEASE – BOOKS OF LESSEE : FINANCE CHARGES

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CONCEPT FINANCE LEASE – BOOKS OF LESSEE : IRR RECOMPUTATION



CONCEPT FINANCE LEASE – BOOKS OF LESSOR : RECORDING OF ASSET

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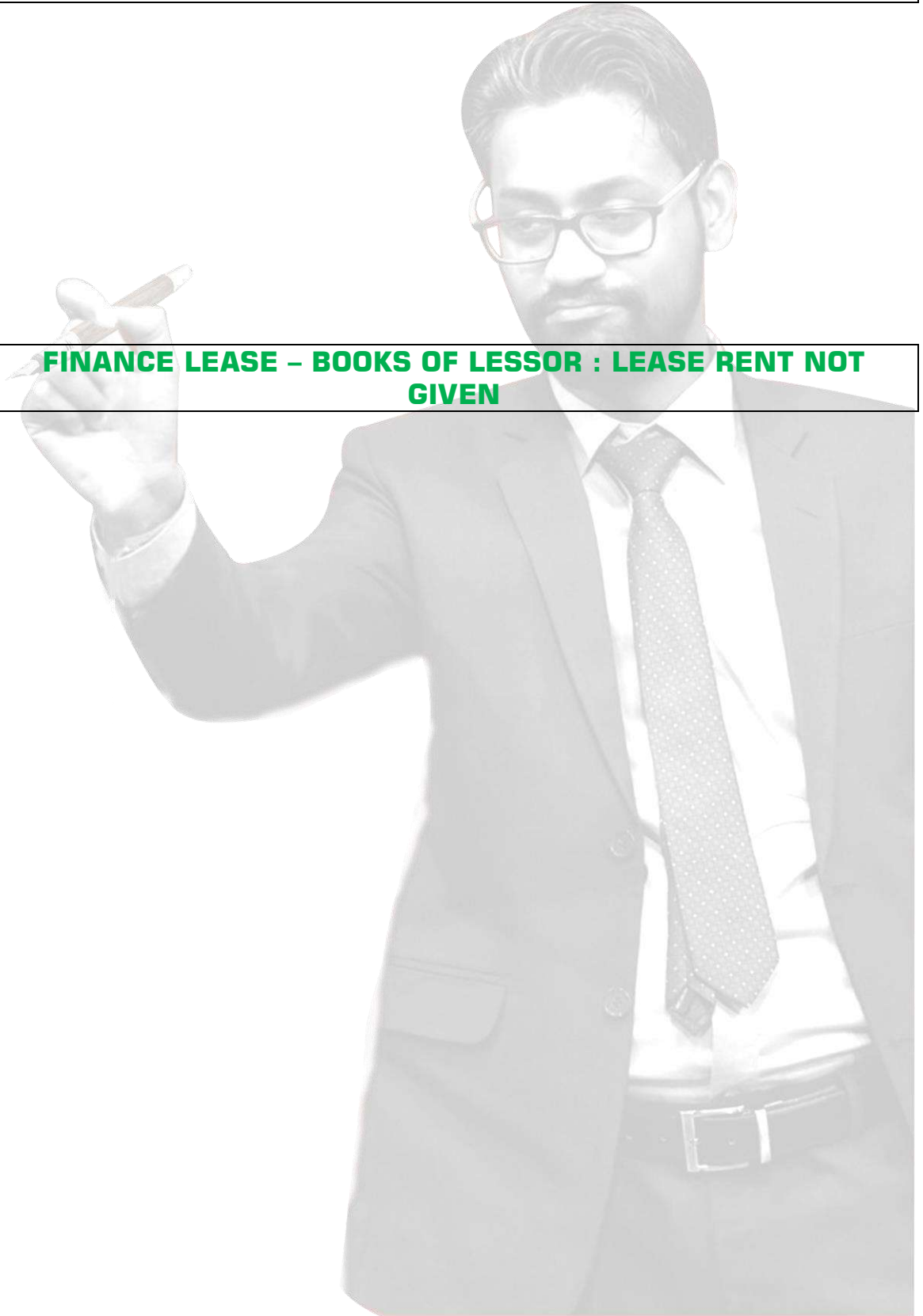
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CONCEPT

FINANCE LEASE – BOOKS OF LESSOR : UNEARNED FINANCE INCOME

CONCEPT

FINANCE LEASE – BOOKS OF LESSOR : LEASE RENT NOT GIVEN



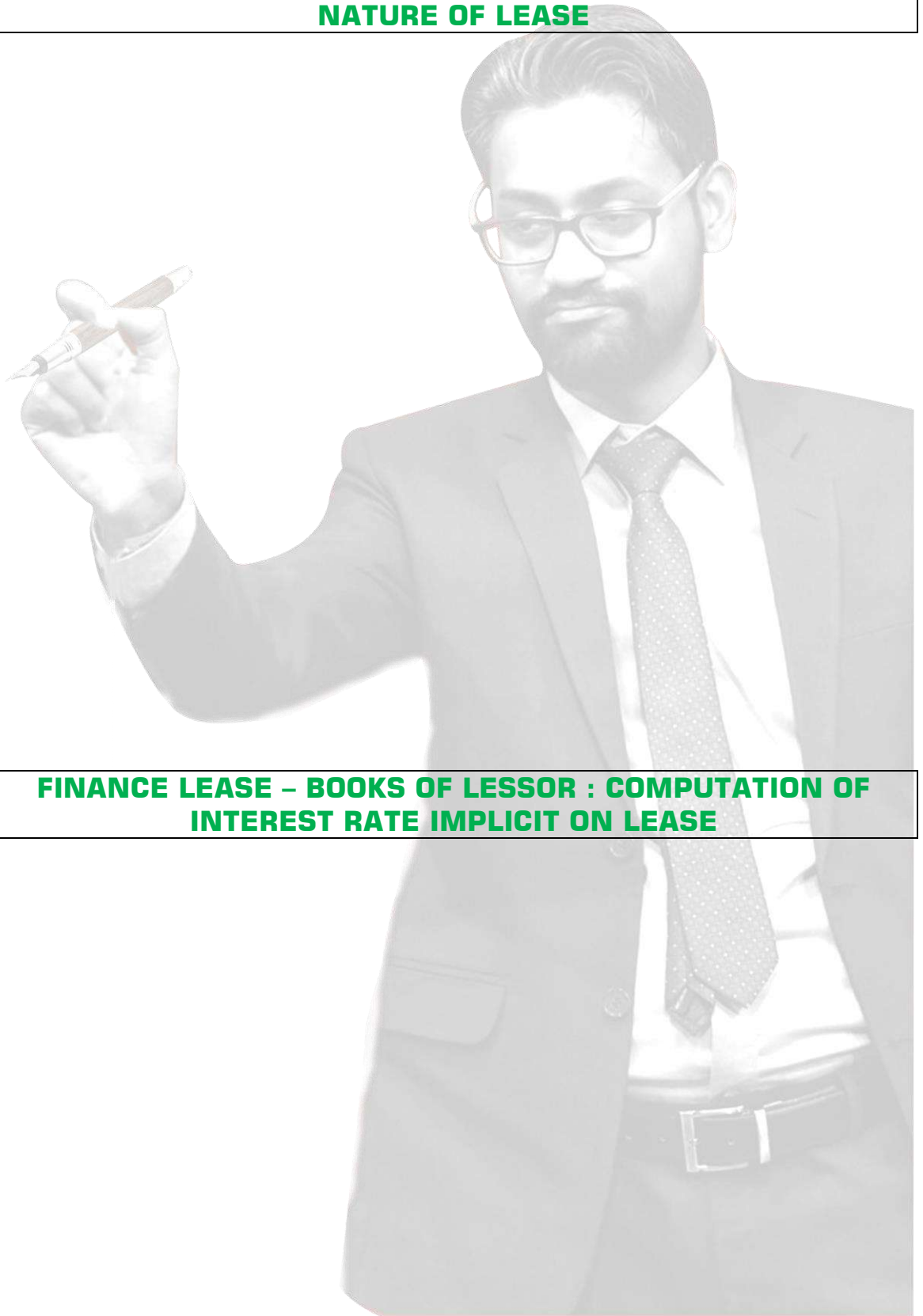
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CONCEPT

FINANCE LEASE – BOOKS OF LESSOR : DETERMINATION OF NATURE OF LEASE



CONCEPT

FINANCE LEASE – BOOKS OF LESSOR : COMPUTATION OF INTEREST RATE IMPLICIT ON LEASE

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CONCEPT

OPERATING LEASE



CONCEPT

SALE & LEASE BACK – OPERATING LEASE

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CONCEPT**EPS – BASICS**

| | |
|---------|---|
| Meaning | Earnings per share (EPS) is a financial ratio indicating the amount of profit or loss for the period attributable to each equity share. |
| Types | <ul style="list-style-type: none"> ❖ Basic EPS ❖ Diluted EPS |

CONCEPT**EPS- PRESENTATION ASPECTS**

| | |
|----|---|
| 1. | To be shown on the face of statement of P/L. |
| 2. | Basic & Diluted EPS, both to be presented. |
| 3. | To be disclosed even if the amounts are negative. |

CONCEPT**BASIC EPS**

| | | |
|--|---|-------------------|
| Formula | | |
| Earnings Available for Equity Shareholders | Particulars | Amount (₹) |
| | EBIT | |
| | Less : Interest | |
| | EBT | |
| | Less : Tax | |
| | EAT | |
| | Less: Preference Dividend : Cumulative - : Non-cumulative - | |
| | Earnings available for Equity Shareholders | |

Weighted
Average
Number of
Shares

CONCEPT

BASIC EPS – PARTLY PAID UP SHARES

The partly paid up shares should be equated with fully paid up shares.

CONCEPT

BASIC EPS – BONUS ISSUE

Implication 1

Implication 2

CONCEPT

BASIC EPS – RIGHT ISSUE

Paid Part

Free Part

Computation of MP Ex-Right or Fair Value Ex-Right or Average Price of Share

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Computation of Paid Part

Computation of Free Part

CONCEPT

DILUTED EPS – BASICS

| | |
|--|--|
| Meaning of Diluted EPS | When Basic EPS is adjusted for the effect of Potential Equity Shares, it is called Diluted EPS. |
| Meaning of Potential Equity Share | A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares. |
| Example | <ul style="list-style-type: none">❖ Convertible Preference Shares❖ Convertible Debentures |

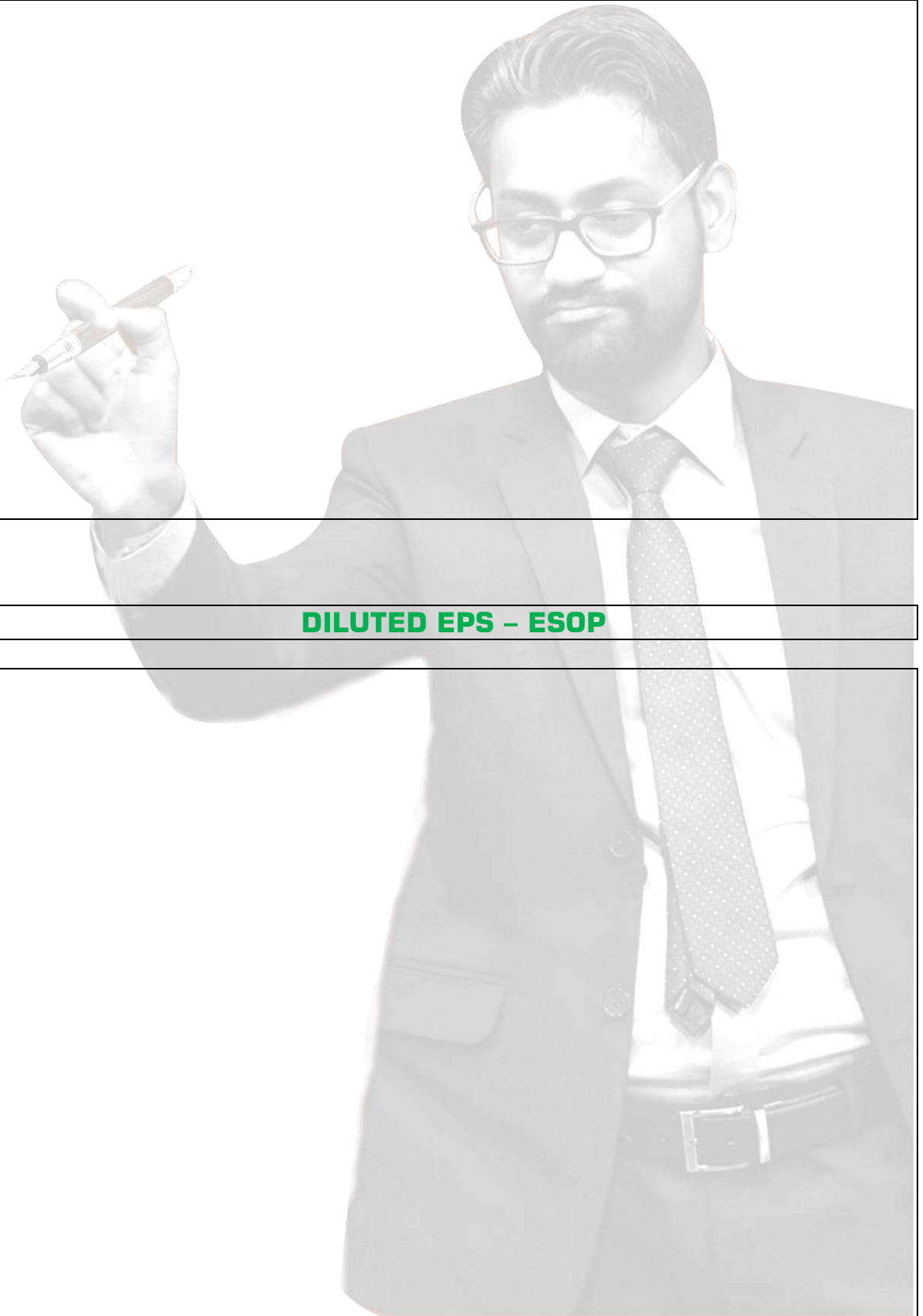
CONCEPT

DILUTED EPS – FORMULA & INSIGHTS

| | |
|----------------------------------|--|
| Formula | |
| Comparison with Basic EPS | |

CONCEPT

DILUTED EPS – CONVERTIBLE DEBENTURES



CONCEPT

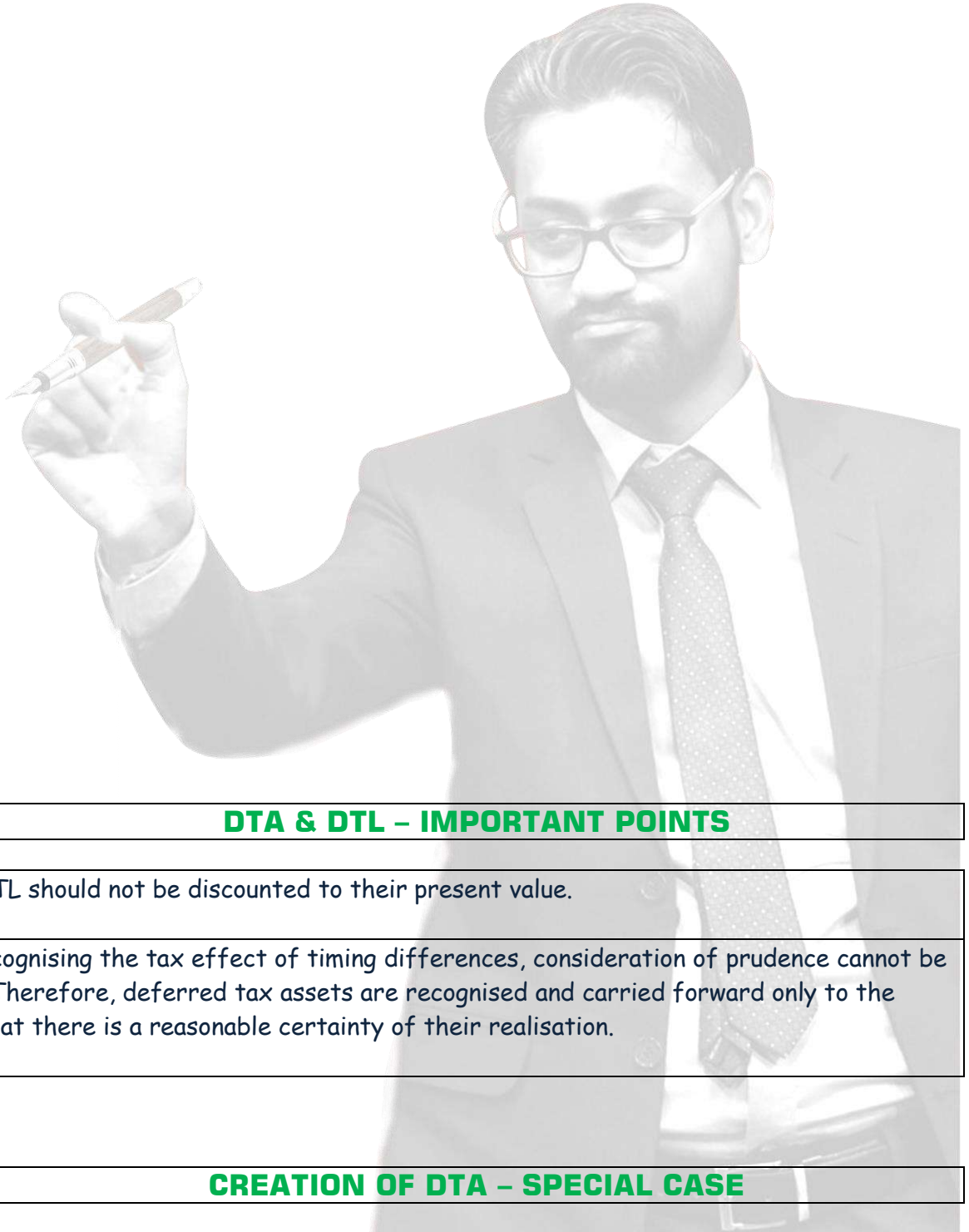
DILUTED EPS – ESOP

CONCEPT**BASIC TERMS**

| | |
|---------------------------|--|
| Accounting income (loss) | |
| Taxable income (tax loss) | |
| Tax expense (tax saving) | |
| Current tax | |
| Deferred tax | |

CONCEPT**TIMING VS PERMANENT DIFFERENCES**

| Timing Difference | Permanent Difference |
|--|---|
| Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods. | Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently. |
| Create DTA/ DTL. | Don't Create DTA/ DTL. |
| | |

CONCEPT**DTA & DTL****CONCEPT****DTA & DTL – IMPORTANT POINTS**

1. DTA & DTL should not be discounted to their present value.
2. While recognising the tax effect of timing differences, consideration of prudence cannot be ignored. Therefore, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty of their realisation.

CONCEPT**CREATION OF DTA – SPECIAL CASE**

Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

CONCEPT**SPECIAL PROVISION IN CASE OF ENTITIES HAVING TAX HOLIDAY**

| | |
|----|--|
| 1. | Deferred Tax in respect of Timing Differences which <ul style="list-style-type: none">- Originate during Tax Holiday Period, and- Reverse during Tax Holiday Period Should not be recognized. |
| 2. | Deferred Tax in respect of Timing Differences which <ul style="list-style-type: none">- Originate during Tax Holiday Period, and- Reverse after Tax Holiday Period Should be recognized. |
| 3. | Use FIFO Method for Reversal of Timing Differences. |

CONCEPT**APPLICABILITY OF MAT**

| | |
|--------------|--|
| Current Tax | |
| Deferred Tax | |

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AS 23

ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

CONCEPT

BASICS OF AS 23

AS 23 describes the principles and procedures for recognizing investments in associates (in which the investor has significant influence, but not a subsidiary or joint venture of investor) in the consolidated financial statements of the investor.

CONCEPT

IMPORTANT DEFINITIONS

| | |
|------------------------------|---|
| Associate | An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. |
| Significant Influence | Significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies. Any enterprise having 20% or more of the voting power or any interest directly or indirectly in any other enterprise will be assumed to have significantly influence the other enterprise unless proved otherwise. |

CONCEPT

EQUITY METHOD

Equity method of accounting is to be followed by all the enterprises having significant influence on their associates.

1. The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition.
2. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee.
3. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.
4. Goodwill/ capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

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Question

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000.

Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1:

| | |
|------------------------------|-------------|
| Paid up Equity Share Capital | ₹ 10,00,000 |
| Securities Premium | ₹ 1,00,000 |
| Reserve & Surplus | ₹ 5,00,000 |

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2.

Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Answer

Calculation of Goodwill/ Capital Reserve under Equity Method

| Particulars | ₹ | ₹ |
|--------------------------|-----------------|-----------------|
| Investment in B Ltd. (A) | | 15,00,000 |
| Equity Shares | 10,00,000 | |
| Security Premium | 1,00,000 | |
| Reserves & Surplus | <u>5,00,000</u> | |
| Net Assets | 16,00,000 | |
| 45% of Net Asset (B) | | <u>7,20,000</u> |
| Goodwill (A-B) | | 7,80,000 |

Calculation of Carrying Amount of Investment in the year ended on 31st March, 20X2

| Particulars | ₹ |
|-------------------------------------|-----------------|
| Share of Net Assets on 1 April 20X1 | 7,20,000 |
| Add: Goodwill | <u>7,80,000</u> |
| Cost of Investment | 15,00,000 |

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| | |
|--|-----------------|
| Add: Profit during the year $(3,00,000 \times 45\%)$ | 1,35,000 |
| Less: Dividend paid $(1,00,000 \times 45\%)$ | <u>(45,000)</u> |
| Carrying Amount of Investment | 15,90,000 |



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CONCEPT**MEANING OF DISCONTINUING OPERATION**

It is that component of an enterprise, which

1. the enterprise, pursuant to a single plan is
 - ❖ Disposing of substantially in its entirety, or
 - ❖ Disposing of piecemeal, or
 - ❖ Terminating through abandonment
2. represents a separate major line of business or geographical area of operations.
3. can be distinguished operationally and for financial reporting purposes.

CONCEPT**ACTIVITIES NOT LEADING TO DISCONTINUING OPERATION**

1. Gradual phasing out of a product line or class of service.
2. Discontinuing several products within an ongoing line of business.
3. Shifting of some production or marketing activities for a particular line of business from one location to another.
4. Closing of a facility to achieve productivity improvements or other cost savings.

CONCEPT**INITIAL DISCLOSURE EVENT**

Occurrence of earlier of the following :

1. Binding Sale Agreement for substantially all of the assets attributable to the discontinuing operation, or
2. Approval of a detailed, formal plan for the discontinuance by BOD & Announcement of same.

CONCEPT**BASICS OF AS 25**

Timely and reliable interim financial reporting improves the ability of investors, creditors, lenders and others to understand an enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity.

If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard.

CONCEPT**IMPORTANT DEFINITIONS**

| | |
|---------------------------------|--|
| Interim Period | Interim period is a financial reporting period shorter than a full financial year. |
| Interim Financial Report | Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. |

CONCEPT**FORM AND CONTENT OF INTERIM FINANCIAL STATEMENTS**

| | |
|--|--|
| Complete Set of Financial Statements | If an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. |
| Set of Condensed Financial Statements | If an enterprise prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements should include, at a minimum, each of the headings and sub-headings that were included in its most recent annual financial statements and the selected explanatory notes as required by this Statement. |

CONCEPT**PERIODS FOR WHICH INTERIM FINANCIAL STATEMENTS ARE REQUIRED TO BE PRESENTED**

Interim reports should include interim financial statements (whether condensed or complete) for the periods listed in the following table:

| Statement | Current Period | Comparative Period |
|------------------|-----------------------|---------------------------|
|------------------|-----------------------|---------------------------|

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| | | |
|------------------------------|--|--|
| Balance Sheet | End of current interim period | End of immediately preceding financial year |
| Statement of profit and Loss | Current interim period and cumulatively for the year-to-date | Comparable interim period and year-to-date of immediately preceding financial year |
| Cash flow statement | Cumulatively for the current financial year-to-date | Comparable year-to-date of immediately preceding financial year |

CONCEPT

OTHER IMPORTANT POINTS

| | |
|----|---|
| 1. | An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. |
| 2. | Income earned or expense incurred in the interim period should be recognized completely in same interim period in which it is earned or incurred. |
| 3. | Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. |

CONCEPT**MEANING OF INTANGIBLE ASSET**

An intangible asset is

- ❖ an identifiable
- ❖ non-monetary asset
- ❖ without physical substance
- ❖ held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
- ❖ under the control of entity.

CONCEPT**RECOGNITION OF INTANGIBLE ASSET****CONCEPT****MEASUREMENT OF INTANGIBLE ASSET**

| | |
|---|--|
| Separate Acquisition | Purchase Price - Trade Discount + Import Duty + Non-Refundable Duties or Taxes + Directly Attributable Expenditure |
| Acquisition in exchange for shares or other securities | Record the asset at <ul style="list-style-type: none"> ❖ Fair Market Value of Securities issued, or ❖ Fair Market Value of Asset Acquired whichever is more clearly evident. |
| Acquisition in exchange for assets | Record the asset at <ul style="list-style-type: none"> ❖ Fair Market Value of Asset given, or ❖ Fair Market Value of Asset Acquired whichever is more clearly evident. |

Acquisition by
way of
Government
Grant

Record the asset at

- ❖ Nominal Value
- ❖ Acquisition Cost

CONCEPT INTERNALLY GENERATED INTANGIBLE ASSET – TREATMENT OF COST INCURRED



CONCEPT INTERNALLY GENERATED INTANGIBLE ASSET – RECOGNITION VALUE

Record the Intangible Asset at lower of the following :

1. Cost Incurred
2. Recoverable Amount

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CONCEPT

AMORTISATION PERIOD

CONCEPT

AMORTISATION METHOD

CONCEPT

REVIEW OF AMORTISATION PERIOD & AMORTISATION METHOD



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AS 27**FINANCIAL REPORTING OF INTERESTS
IN JOINT VENTURES****CONCEPT****BASICS OF AS 27**

This Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place.

The provisions of this AS need to be referred to for consolidated financial statement only when CFS is prepared and presented by the venturer.

CONCEPT**IMPORTANT DEFINITIONS**

| | |
|----------------------|---|
| Joint Venture | A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. |
| Control | Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it. |
| Venturer | A venturer is a party to a joint venture and has joint control over that joint venture. |
| Investor | An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture. |

CONCEPT**FORMS OF JOINT VENTURE**

| | |
|----|-------------------------------------|
| 1. | Jointly Controlled Operations (JCO) |
| 2. | Jointly Controlled Assets (JCA) |
| 3. | Jointly Controlled Entities (JCE) |

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CONCEPT**JOINTLY CONTROLLED OPERATIONS (JCO)**

| | |
|-----------------------------|---|
| Key Features | <ol style="list-style-type: none">Each venturer has his own separate business.There is no separate entity for joint venture business.All venturers are creating their own assets and maintain them.Each venturer records only his own transactions without any separate set of books maintained for the joint venture business.There is a common agreement between all of them.Venturers use their assets for the joint venture business.Venturers meet the liabilities created by them for the joint venture business.Venturers meet the expenses of the joint venture business from their funds.Any revenue generated or income earned from the joint venture is shared by the venturers as per the contract. |
| Other Notable Points | Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare accounts for internal management reporting purposes so that they may assess the performance of the joint venture. |

CONCEPT**JOINTLY CONTROLLED ASSETS (JCA)**

| | |
|-----------------------------|---|
| Key Features | <ol style="list-style-type: none">There is no separate legal identity.There is a common control over the joint assets.Venturers use this asset to derive some economic benefit to themselves.Each venturer incurs separate expenses for their transactions.Expenses on jointly held assets are shared by the venturers as per the contract.In their financial statements, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them. |
| Other Notable Points | Financial statements may not be prepared for the joint venture, although the venturers may prepare accounts for internal management reporting purposes so that they may assess the performance of the joint venture. |

CONCEPT**JOINTLY CONTROLLED ENTITIES (JCE)**

| | |
|-----------------------------|--|
| Key Features | <p>a. This is the format where venturer creates a new entity for their joint venture business.</p> <p>b. A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.</p> <p>c. The entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.</p> <p>d. All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity. The net result of the entity is shared by the venturers in the ratio agreed upon in the contractual agreement.</p> <p>e. This contractual agreement also determines the joint control of the venturer.</p> <p>f. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and are recognised in its separate financial statements as an investment in the jointly controlled entity.</p> |
| Other Notable Points | A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other enterprises in conformity with the requirements applicable to that jointly controlled entity. |

CONCEPT**CONSOLIDATED FINANCIAL STATEMENTS OF A VENTURER**

| | |
|---|---|
| Proportionate Consolidation Method | Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements. |
| Exceptions to follow | Proportionate consolidation method of accounting is to be followed except in the following cases : <p>a. Investment is intended to be temporary because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.</p> <p>b. Joint venture operates under severe long-term restrictions, which</p> |

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significantly impair its ability to transfer funds to the venturers.

In both the above cases, investment of venturer in the share of the investee is treated as investment according to AS 13.



AS 28

IMPAIRMENT OF ASSETS

CONCEPT

BASICS OF AS 28

This standard prescribes the procedures to be applied to ensure that the assets of an enterprise are carried at an amount not exceeding their recoverable amount (amount to be recovered through use or sale of the asset).

CONCEPT

ASSESSMENT

| | |
|-------------------|---|
| Timing | An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. |
| Indicators | <u>External Sources</u> <ol style="list-style-type: none">Asset's market value has declined significantly.Significant changes w.r.t. technological, market, economic or legal environment with adverse effect on the enterprise <u>Internal Sources</u> <ol style="list-style-type: none">Obsolescence or physical damage of an asset.Economic performance of an asset is, or will be, worse than expected. |

CONCEPT

IMPORTANT DEFINITIONS

| | |
|---------------------------|---|
| Impairment Loss | An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. |
| Carrying amount | Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon. |
| Recoverable amount | Recoverable amount is the higher of an asset's net selling price and its value in use. |
| Net selling price | It is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. |

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| | |
|---------------------|---|
| Value in Use | Value in Use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. |
|---------------------|---|

CONCEPT RECOGNITION AND MEASUREMENT OF IMPAIRMENT LOSS

| | |
|----|--|
| 1. | If recoverable amount of asset is more than carrying amount, we ignore the difference and asset is carried on at the same book value. |
| 2. | <p>When this recoverable amount is less than the carrying amount, this difference is termed as Impairment Loss.</p> <p><u>Accounting Treatment</u></p> <ul style="list-style-type: none"> ✓ It should be written off immediately as expenses to Profit & Loss Account. ✓ If asset is carried out at revalued figures, then the impairment loss equivalent to revalued surplus is adjusted with it and the balance (if any) is charged to Profit & Loss Account. ✓ Depreciation for the coming years on the asset is recalculated. |

CONCEPT REVERSAL OF IMPAIRMENT LOSS

| | |
|----|--|
| 1. | If recoverable amount of asset becomes more than carrying amount, the earlier recorded impairment loss will be reversed. Reversal can be maximum to the extent of earlier impairment loss. |
| 2. | If impairment loss was written off to profit and loss account, then the reversal of impairment loss should be recognized as income in the financial statement immediately. |
| 3. | If impairment loss was adjusted with the Revaluation Reserve; then reversal of impairment loss will be written back to the reserve account to the extent it was adjusted, any surplus will be recognised as revenue. |
| 4. | Depreciation for the coming years on the asset is recalculated. |

Question

X Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs on 31.3.20X1. Its balance useful life is 5 years and residual value at the end of 5 years is ₹ 5 lakhs. Estimated future cash flow from using the plant in next 5 years are :

| For the year ended on | Estimated cash flow (₹ in lakhs) |
|-----------------------|----------------------------------|
| 31.3.20X2 | 50 |
| 31.3.20X3 | 30 |
| 31.3.20X4 | 30 |
| 31.3.20X5 | 20 |
| 31.3.20X6 | 20 |

Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.20X1 is ₹ 60 lakhs.

Answer

Present value of future cash flow

| Year ended | Future Cash Flow | Discount @ 10% Rate | Discounted cash flow |
|---|------------------|---------------------|----------------------|
| 31.3.20X2 | 50 | 0.909 | 45.45 |
| 31.3.20X3 | 30 | 0.826 | 24.78 |
| 31.3.20X4 | 30 | 0.751 | 22.53 |
| 31.3.20X5 | 20 | 0.683 | 13.66 |
| 31.3.20X6 | 20 | 0.620 | 12.40 |
| 31.3.20X6 | 5 | 0.620 | 3.10 |
| Present value of estimated cash flow by use of an asset and residual value, which is called "value in use". | | | 121.92 |

If net selling price of plant on 31.3.20X1 is ₹ 60 lakhs, the recoverable amount will be higher of ₹ 121.92 lakhs (value in use) and ₹ 60 lakhs (net selling price), hence recoverable amount is ₹ 121.92 lakhs.

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AS 29**PROVISIONS, CONTINGENT LIABILITIES AND
CONTINGENT ASSETS****CONCEPT****PROVISION – MEANING**

A Provision is a liability which can be measured only by using a substantial degree of estimation.

CONCEPT**PROVISION – RECOGNITION CRITERIA****CONCEPT****PROVISION – MEASUREMENT**

- | | |
|----|--|
| 1. | The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. |
| 2. | Provision should be measured before tax. |
| 3. | Provision should not be recognised for future operating losses. |
| 4. | Provision should not be discounted to its present value. |

CONCEPT**PROVISION – CHANGE AND USAGE**

- | | |
|----|---|
| 1. | Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. |
| 2. | A provision should be used only for expenditures for which the provision was originally recognised. |

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CONCEPT**REIMBURSEMENT**

| | |
|-------------|---|
| Meaning | Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party. |
| Recognition | Reimbursement should be recognised only when it is virtually certain that it will be received consequent upon the settlement of the obligation. |
| Disclosure | |

CONCEPT**CONTINGENT LIABILITY – MEANING****CONCEPT****CONTINGENT LIABILITY – RECOGNITION**

| | |
|--------------|--|
| General Rule | |
| Exception | |

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CONCEPT**CONTINGENT ASSET**

| | | |
|--------------------|---|---|
| Meaning | A Contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. | |
| Recognition | General Rule | An enterprise should not recognise a contingent asset, since this may result in the recognition of income that may never be realised. |
| | Exception | When the realisation of income is virtually certain, then its recognition is appropriate. |
| Disclosure | | |

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