



Revision of "Basics of Accounting"

Arumf



Revisions of 'Basics of Accounting'

11th & 12th Commerce
CA-Foundation

CA-Intermediate

- Basics of Accounting
 - Alc Concepts & Conventions
 - Books of Accounts
 - Cash Book
 - Subsidiary Books
 - Journal Proper
 - Trial Balance

- BRS
- ROE
- Depreciation
- Valuation of Inventories
- Bills of Exchange
- Final Accounts

- Non Man. Entity
- Man. Entity

- NPD
- Partnership Alc
 - Admission
 - Retirement
 - Death
 - Dissolution

- Single Entry System

- **Company Accounts**

(Introduction)

- Und. Corporate Entity
- Alc of Shares & Deb.
(Issue, Forfeiture, Reissue)
- Alc of Bonus & Right Issue
- Alc of Red. of PS & Deb.

ASSUMPTION: You know basics
of Accounting very well

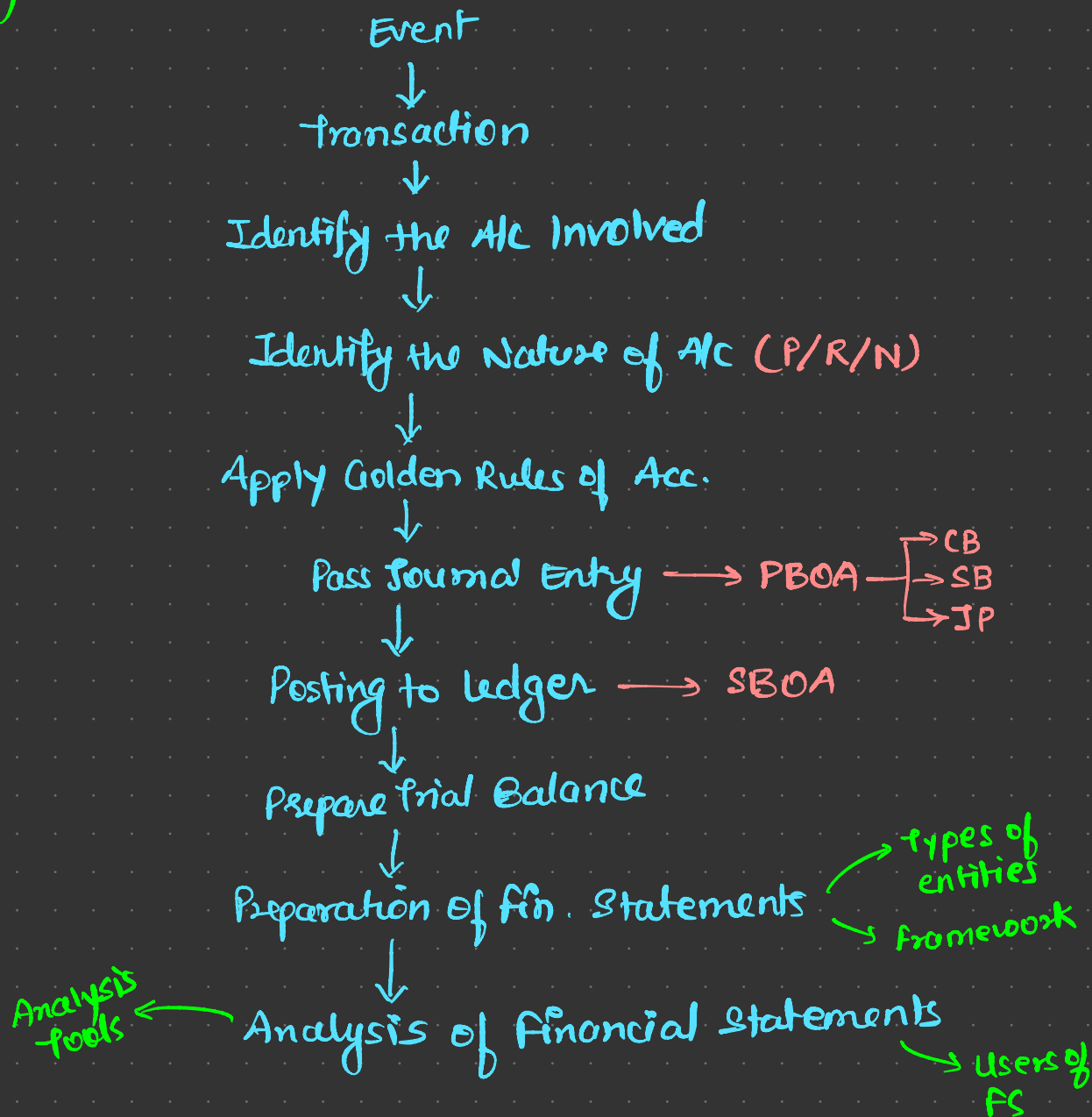
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Advanced Accounting Aspects
Focus on Corporate Accounting

- 1) Cash Flow Statement
- 2) Amalgamation of Cos.
- 3) Internal Reconstruction
- 4) Alc of Buy Back of Securities
- 5) FS of Co.
- 6) Branch Accounting
- 7) Cons. F.S.

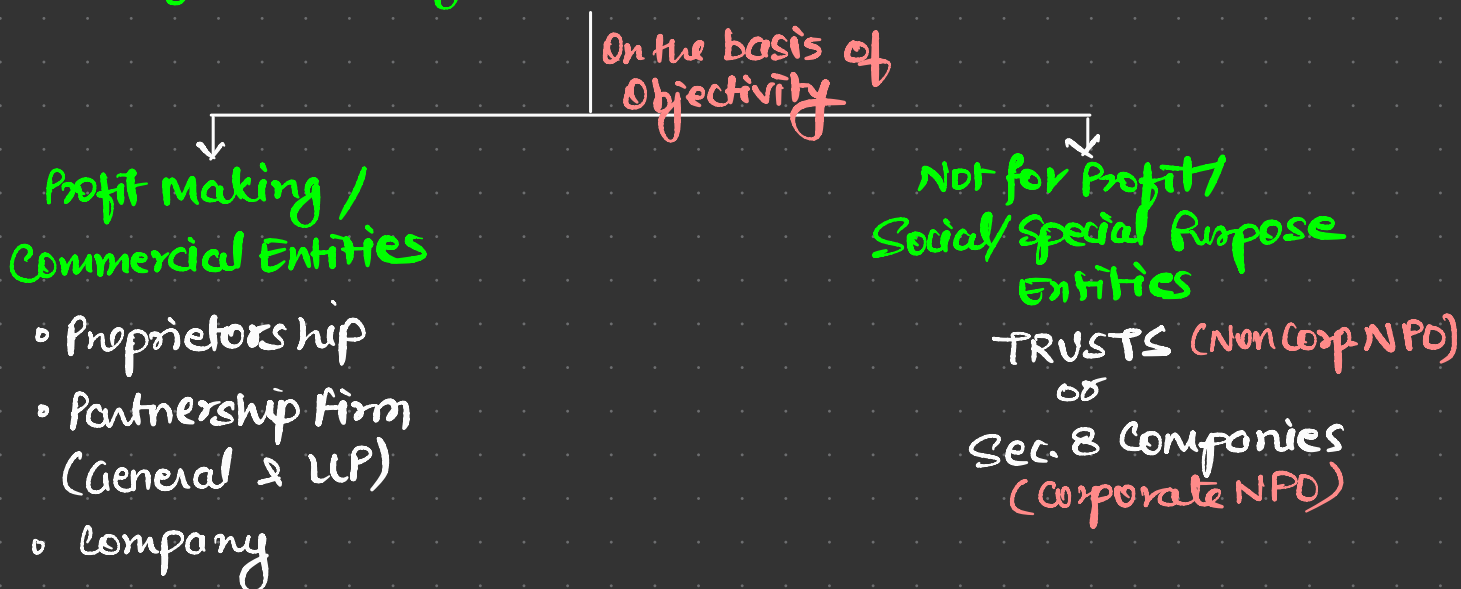
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Sows your seeds for
CA-Final FR
covering by all AS

AS → CA-Inter
Basis for
→ IndAS/IFRS → CA-Final

#1) Accounting Process



#2) Types of Entities/Organizations



#3) Users of Financial Statements

STAKEHOLDER

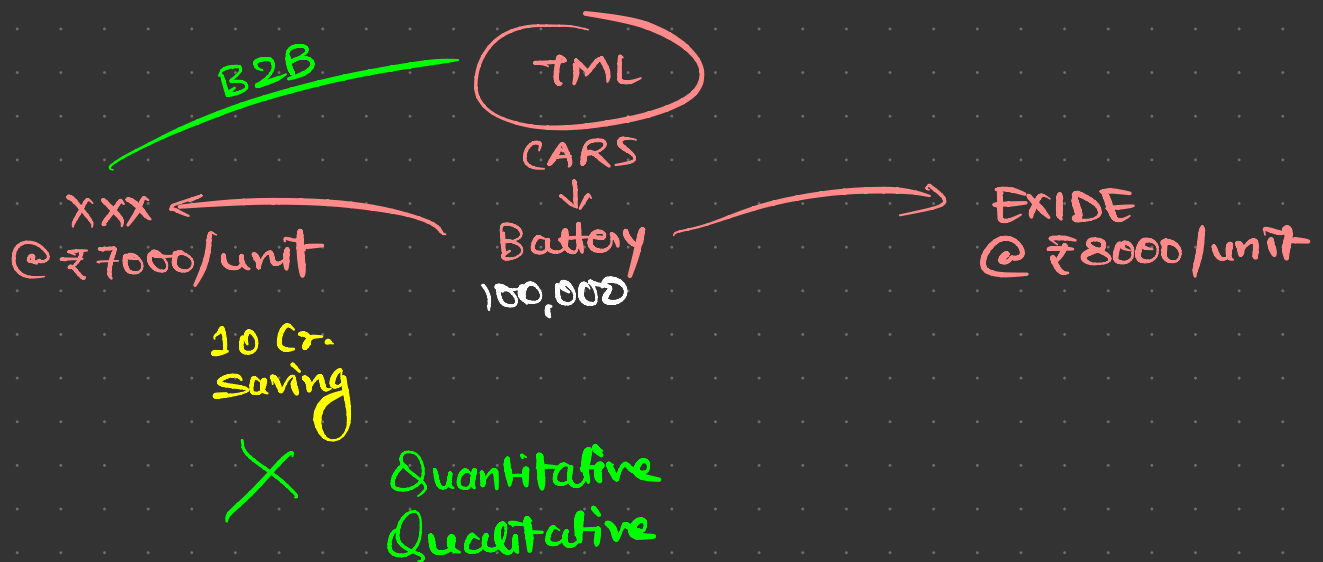
↳ Interest → Direct
↳ Indirect

INTERNAL USERS

- 1) Shareholders
- 2) Management of Co.
- 3) Investors
- 4) Employees
- 5) Tax Authorities
- 6) Govt. Authorities
- 7) Lenders & Bankers
- 8) Customers (B2B)

EXTERNAL USERS

- 1) Prospective Shareholders
- 2) Prospective Investors
- 3) Trade Experts
- 4) Brokers / Underwriters
- 5) Competitors



#4) Objectives of Preparation & Presentation of FS

Contents to be included in FS

How the content should be presented

Non Corporate Entities
Prop. Partnership

Corporate Entities
Sch-III of Cos. Act 2013

Special Entities
• Trusts
• Banking Co. (RBI)
• Insurance Co. (IRDA)

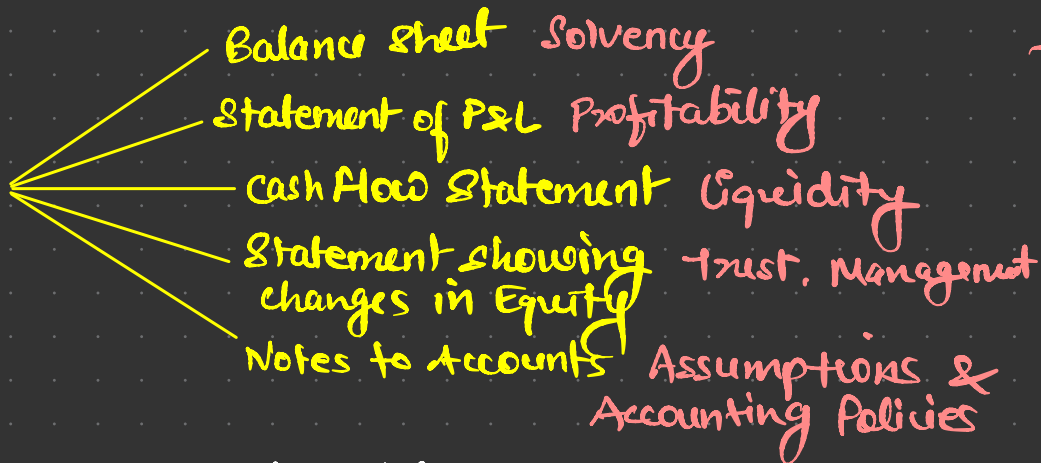
Objectives of FS

to ascertain
Financial Performance

to ascertain
Financial Position
(Solvency, Liquidity)

#5) Framework of Preparation & Presentation of FS

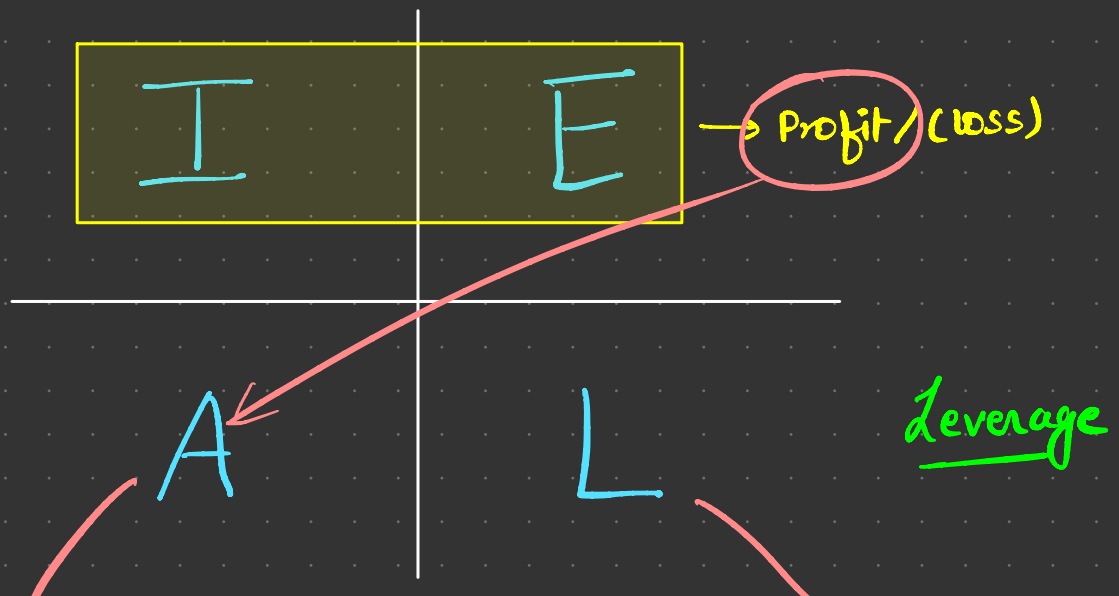
Sec. 2(40) of
Companies Act 2013
Financial Statements
of a Co.
(GPFS)



Companies Act 2013
↓
Schedule III Chp. 5



#6) Analysis Tools



- Tangible/Intangible
- Depreciable/Non-Depr.
- Non current (Fixed)/current
- Monetary/Non-Monetary

- Non-current (Long term)/current
- Internal/External

BALANCE SHEET

<p>Capital</p> <p>Reserves</p> <p>Capital Reserve</p> <ul style="list-style-type: none"> Capital Reserve Capital Red. Reserve Revaluation Reserve <p>Revenue Reserve</p> <ul style="list-style-type: none"> General Reserve P&L etc Revenue Reserve <p>Loans</p> <p>Trade Payables</p> <p>Outstanding Liabilities</p> <p>XXXXXX</p>	<p>Land & Building</p> <p>P&M</p> <p>F&F</p> <p>Long term Investments</p> <p>Trade Receivables</p> <p>Inventories</p> <p>Cash at Bank</p> <p>Cash in Hand</p> <p>XXXXXX</p>
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$$C + L = A \rightarrow \text{Accounting Equation}$$

↓

Shareholder's funds / Equity / Owner's Equity / Net Worth / Net Assets / Capital + Reserves & Surplus

Valuation of share of a Co. —

$$MP/ES = \frac{SC + RS}{\text{Net worth / Shareholder's funds}} \times \text{Total No. of ES}$$

MRF TYRES LTD.

1 ES = FV ₹10 = ₹135,000

P&L A/C → current Year's Profit

RESERVES

An amount set aside out of P&L A/c for creation of an asset in future or to safeguard the future.

PROVISIONS

An amount set aside out of P&L A/c to meet any future liability, the exact amount of which is presently unascertainable.

Revenue Reserves (RR) : RR are those reserves which are created out of Revenue profits i.e. the profits that arises due to day to day business operations i.e. by doing primary business activity or related activities.

E.g. P&L A/c, General Reserves, Free Reserves.

IMP: A Co. can distribute dividend out of RR only. Co. can distribute dividend without any limitations out of current year's profit & subject to restrictions out of accumulated profits. (Ch. 5)

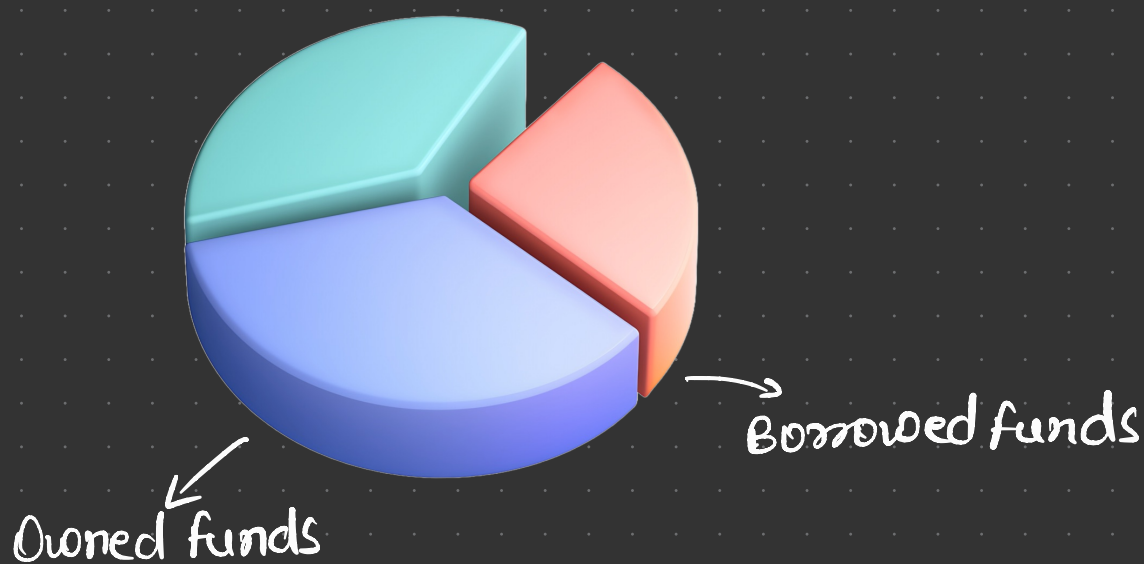
CAPITAL RESERVES (CR) : CR are those reserves which are created out of capital profits i.e. the profits that occur due to occasional transactions. E.g. sale of an asset, receipt of grant from government for any specific fixed asset.

E.g. Capital Redemption Reserve, Revaluation Reserve, Capital Reserve, etc.

IMP: Balance in CR cannot be used for distribution of dividend. CR comes with restrictions on its usage/disposal. E.g. as per section 55 of Companies Act 2013, Balance in CRR can be used only for issue of fully paid up Bonus shares to the existing shareholders.

- A/c of Bonus & Right Issue
- Redemption of Preference Shares
- Redemption of Debentures

#7) Capital Structure

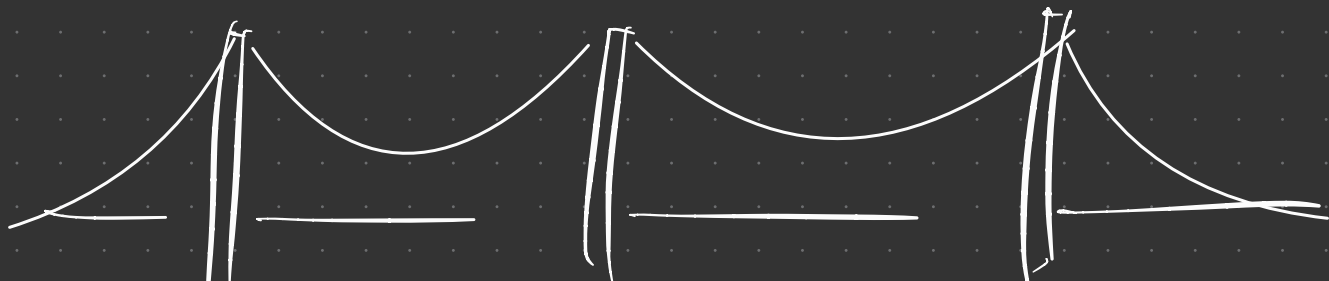


"EQUITY SHARES"

- Voting Rights
- No certainty about Div.
- Permanent Capital with no repayment obligation
- Provides Ownership of Co.
- Unlimited Returns

"DEBENTURES"

- No Voting Rights
- Fixed Rate of Interest
- Repayable / Redeemable (Max. RP 20 Yrs. / 30 Yrs)
- Creditors / Lenders of Co.
- Restricted Return

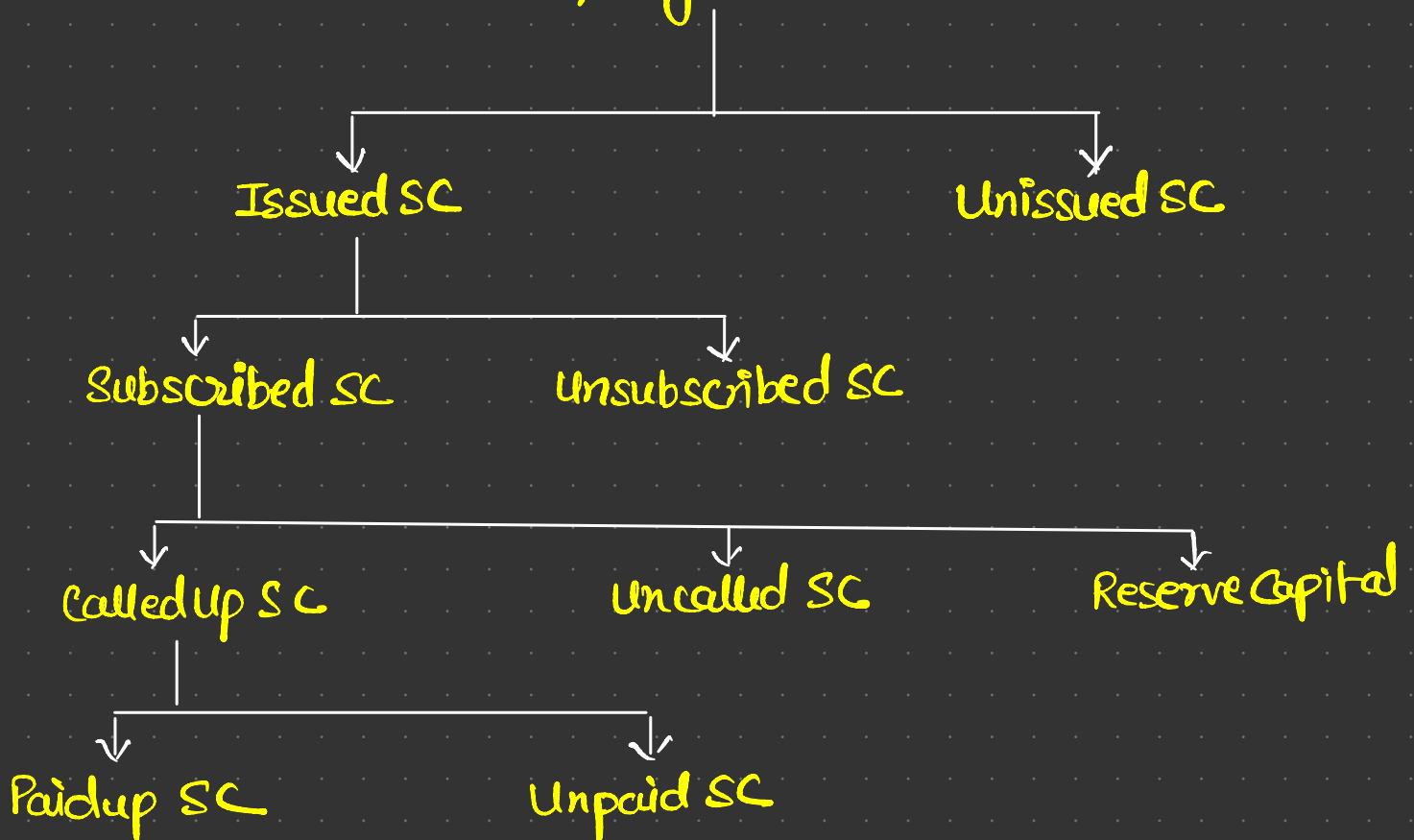


Evolution of " PREFERENCE SHARES" (ESC + Debentures)

- Restricted Voting Rights
- Fixed Rate of Dividend
- Redeemable PS (20-30 Yrs.)
- Ownership of Co with preference in Repayment of Capital & Payment of Div.
- Participating PS (Fixed Div. + Share surplus with ESH)

TYPES OF SHARE CAPITAL

Authorised / Registered / Nominal SC



Accounting & legal Aspects relating to Share Capital :-

EQUITY SHARE :

IP = FV Par

IP > FV Premium (Sec.52)

IP < FV Discount (Sec.53)

Sec.54 - Sweat
Equity
Shares

- #1) Accounting of Issue of ES
- #2) Accounting of Forfeiture of ES
- #3) Accounting of Re-issue of Forfeited shares
- #4) Accounting of Issue of Bonus shares (Sec.63)
- #5) Accounting of Issue of Right Shares (Sec.62)
- #6) Accounting of Buy Back of ES (Sec.68) → ch.4

PREFERENCE SHARE :

- #1) Accounting of Issue of PS
- #2) Accounting of Redemption of PS (Sec.55) → CRR

DEBENTURES :

- #1) Accounting of Issue of Debentures
- #2) Accounting of Redemption of Deb. (Sec.71) → DRR

Evolution of Relationship between Companies

A	→ 100%	B	Holding-Subs. Rel./ Absorption	Absorption (AS-14) Fully Owned Subs. (AS-21)
A	→ 50%+	B	Acquisition/ Subsidiary Co.	Partly Owned Subs. (AS-21)
A	→ 20% - 50%	B	Association	AS-23
A	→ less than 20%	B	Investment	AS-13
A	↔ No SH	B	Joint Venture (Partner Partnership)	AS-27

Financial Statements to be prepared by company

Standalone FS
FS of the Co. only
Only RIL

Consolidated FS ↗ ch. 7
Standalone FS
+ FS of Subsidiaries (AS-21)
+ FS of Associates (AS-23)
+ FS of JV (AS-27)

Reliance Industries Ltd. (RIL)

→ Jio Financial services
→ Reliance Retail

RIL
+ Jio
+ Reliance Retail

Particulars	Note Ref.	Current Year	Previous Year
<u>I. EQUITY & LIABILITIES</u>			
1. Shareholder's funds			
(A) Share capital			
(B) Reserves & Surplus			
2. Share Appl. Money pending Allotment			
3. Non-current liabilities			
4. current liabilities			
<u>II. ASSETS</u>			
1. Non-current Assets			
Property, Plant & Equipments			
Intangible Assets			
Non-current Investments			
2. current Assets			
Trade Receivables			
Inventories			
Cash & cash equivalents			
Other current Assets			

Statement of Profit and Loss:-

Particulars	Note Ref.	Current Year	Previous Year
I. Revenue from Operations			
II. Other Income			
III. TOTAL INCOME			
IV. Expenses Purchases / COGS changes in Inventories Employee Benefit Expenses Finance cost Depreciation & Amortis. Other Expenses			
V. Net Profit / (Loss) for the period		→ NPBT / PBT	
VI. Provision for Taxation			
VII. Net Profit / (Loss) After Tax		→ NPAT / PAT	

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Very few Buyers

÷ 10 ES
SPLIT



more Buyers

SC + R&S \rightarrow \uparrow MPEST \uparrow

Profit \rightarrow Distribute by Dividend Vedanta
 \rightarrow Retain MRF