Learn to become CA, Not to pass CA Exams

FLOW CHART PRESENTATION

ACCOUNTING STANDARD

Applicable for

CA FINAL (OLD SYLLABUS)/CA INTER (OLD & NEW SYLLABUS)
CA Chiranjeev Jain has qualified Chartered Accountancy Course in 2005 and has completed all the levels of this course in his very first attempt. He is among the top rank holders Delhi University having done his graduation from Sri Ram College of Commerce. He scored more than 90% in accounts at all levels of CA and university examinations. He has done Diploma in Information System Audit conducted by the ICAI. He has also done Masters in Business Administration (MBA) with specialization in Finance.

After completing Academic & Professional Education, he has worked with Deloitte Haskin & Sells as a chartered accountant and developed immense skills in the practical application of various accounting standards. Finally he exposed himself to the practice as chartered accountant and adapted to teaching accounts (the subject he loves the most) as his career.

He possesses a vast experience in teaching accountancy to students of CA CPT, IPCC & Final. He is also into Corporate Training in the industry and has addressed a number of courses and seminars organized by Professional Institutions. He has served as an examiner of accounts at CA IPCC and Final level. He is an expert in both Indian Accounting Standards and IFRS.

He has conducted face to face classes at Hyderabad, Bangalore, Kolkata and Ahmadabad apart from VSAT classes in the Southern region with ETEN CA. His easy way of teaching Accountancy from the very basic and his motivational lectures are very famous among CA students' fraternity.
Think Beyond 90+ IN Accounts/Financial Reporting
STOP Memorizing Without Understanding the CONCEPTS
Its Time To Learn Accounts Conceptually

For Upcoming batches and Fee details
Visit: http://www.cachiranjeevjain.com

SPECIAL ATTRACTIONS OF UPCOMING BATCH

- Free Last time revision CLASS WILL BE provided before Exams (ON SPECIAL DEMAND OF STUDENTS)
- 100% CONCEPTS TOPICS WILL BE COVERED
- 100% PRACTICAL QUESTION WILL BE COVERED from ICAI study material/RTP/Past Year exams
- 100% AS/IND AS will be covered as PER NEW SYLLABUS
- SPECIAL BOOKLET COVERING Summary of ALL IND AS will be issued FOR LAST TIME REVISION

FOR CA IPCC/FINAL CLASSES/EXAMS/AMENDMENTS/NOTES

a) Must Join This Group in Telegram:
   CA Final: https://t.me/FRdiscussionGroup
   CA Inter: https://t.me/CA_INTER_ACCOUNTS
b) WhatsApp: WhatsApp “Updates” in 7731007722 number & save this number in your phonebook;
c) Website: http://www.cachiranjeevjain.com/
d) Instagram: https://www.instagram.com/cj_classes
e) Facebook page for IPCC: https://www.facebook.com/cachiranjeevjain/
f) Facebook page for Final: https://www.facebook.com/ChiranjeevJainCA/
g) Youtube Subscribe: https://www.youtube.com/channel/UC3nJTVd-3Tw64gCpbrnxITIA?view_as=subscriber
h) Twitter: https://twitter.com/ChiranjeevCa
i) LinkedIn: https://www.linkedin.com/in/chiranjeev-jain-b72660149/

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STUDENTS WHO WANTS LAST TIME SUGGESTION PLEASE MAIL YOUR FOLLOWING DETAILS AT

info@cachiranjeevjain.com

Name:
Course:
Mobile No:
Email ID:
Attempt Due on:
City:
**BEST FR CLASSES**

**POSITIVE FEEDBACK ABOUT SIR’S CLASSES**

<table>
<thead>
<tr>
<th>Name</th>
<th>City</th>
<th>Feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naveen Pspk, Hyderabad</td>
<td></td>
<td>Scored 75 in Accounts...It's just because of Mr.CA chiranjeev jain sir....initially I was bothered about DAT subject as I was from science background... But then I met with sir classes it changed whole scenario ....&amp;d result is dis....tq sir tq so much....</td>
</tr>
<tr>
<td>Amit Jain, Kolkata</td>
<td></td>
<td>Hi Students, I am CA Amit Kumar Jain, practicing in Gurgaon. I am one of the old students of CA Chiranjeev Sir, and belong to his first CA Final batch in kolkata. Today, on Teacher's Day, I would love to convey my gratitude to him for his wonderful coaching classes. The learnings shared by him both related to course and related to practical life after CA, has been very useful in my journey. He is one of the best CA Final teacher in India and I recommend all students to join him.</td>
</tr>
<tr>
<td>Navneet Singh, Hyderabad</td>
<td></td>
<td>When I started my journey to become a Chartered accountant, the only fear I had was will I be able to have that conceptual knowledge which is needed the most in a profession like ours!! Now after completing my CA I can tell you that starting from Accounts in CPT then with Accounts in IPCC and to end with Financial reporting in CA Final, the conceptual understanding of the subject which I gained from you helped me become what I am now.. Thank you Sir once again to be available whenever asked for and help me achieve my dream of becoming a CA.</td>
</tr>
<tr>
<td>Obaid Khan, Hyderabad</td>
<td></td>
<td>To begin with a quote &quot;It takes a big heart to help shape little minds.&quot; Thank You Sir, for being an Amazing faculty throughout CA journey. Now that I completed my journey, I feel immensely honoured for being your student and learning the concepts precisely in a manner that helps in application too. Words might fall short to express the gratitude, for you have been an Amazing teacher, mentor and a friend. Just a small appreciation post from a student, moreover from a Fan of your ideas and teaching.</td>
</tr>
<tr>
<td>Isan Singh, Kolkata</td>
<td></td>
<td>I have taken FR classes from CA Chiranjeev Jain Sir....He is best in this subject..... It’s because of Sir I get to know so much about accounts especially IND AS, I have also taken accounts from him in CA IPCC and I scored very good marks in IPCC even though I was average in accounts subject. He teach from base which makes easy for average students to score high in exams. He gives through conceptual knowledge do that students will able to write worst paper in exams with ease. Thanks sir for ur valuable teaching.</td>
</tr>
<tr>
<td>Arihant Kothari, Hyderabad</td>
<td></td>
<td>Thanks to the man with great caps ,a perfect guide who has really helped us at every point and gave his helpful hands without any complaints .. You be the best sir 😊😊😊 It is to thankyou for those priceless teachings 😊😊😊 I am really thankfull for all you good words that kept me motivated and focussed towards my goal . I feel lucky to get a place under your umbrella .. Whatever be the results your imprints will always be there sir .Thanks a lot sir ! 😊😊</td>
</tr>
<tr>
<td>Ashutosh Lahoti, Hyderabad</td>
<td></td>
<td>Thank you sir for providing us the best lectures with an ease. It was an amazing time spending with you. I'm very lucky to learn the subject of Accountancy that too of IPCC level under your guidance. You made this subject very easy with your experience and teaching quality. Actually your friendly nature towards the students made it more easier to understand the subject. Even your scoldings were like roses without thornes. Thank you so much sir for helping us get through our targets. Will be missing those class fun but hope to see you soon in CA final classes. 😊Proud to be CHIRANJEEVIAN 😊</td>
</tr>
<tr>
<td>Niharika Phalod, Hyderabad</td>
<td></td>
<td>&quot;A good teacher can inspire hope, ignite the imagination and instill a love of learning&quot; I would truly like to appreciate the great effort you have put into tutoring and enlightening my way. Because of your guidance and patience, I've come this far in my CA journey. Thankyou for always being there in all my confusions and helping me deal with all the stress during ipcc days! Accounts couldn't be more easier and all the credit goes to your easy techniques. Thankyou for being my mentor. I'm truly blessed to be your student! Wish you a very happy teachers day Sir. 😊</td>
</tr>
<tr>
<td>Nikita Simran, Hyderabad</td>
<td></td>
<td>I'm so grateful to be your student. Thank you for instilling in me the passion for learning. You've put in selfless efforts in shaping our career! We're truly blessed to have a mentor like you 😊 Lastly I would like to say.. Now I see the world in a different light I can discriminate between wrong and right. I perceive things in a different style, I have learnt to go the extra mile, I have a deeper understanding of things Dear teacher you have truly given me wings 😊 Thank you for everything sir 😊</td>
</tr>
<tr>
<td>Shalaka Tiwari - Shastri, Hyderabad</td>
<td></td>
<td>I have taken the classes for CA Final FR from Chiranjeev Jain sir and i believe he is an great teacher and a amazing mentor. His methodolgy of teaching is unique, while in class there's no concept untaught. He teaches whole heartedly and makes sure that you get your basics right. I have no other words to express this better. I will say,just join him and u will see the results !! CJ sir ROCKS !!!!!</td>
</tr>
</tbody>
</table>

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**WhatsApp ur feedback at 7731007722**
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<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>IPCC (new)</th>
<th>IPCC (old)</th>
<th>FINAL (old)</th>
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<tr>
<td>AS-1</td>
<td>Disclosure of Accounting Policies</td>
<td>G I</td>
<td>G I</td>
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<td>AS-2</td>
<td>Valuation of Inventories</td>
<td>G I</td>
<td>G I</td>
<td>YES</td>
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<td>AS-3</td>
<td>Cash Flow Statements</td>
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<td>AS-4</td>
<td>Contingencies and Events Occurring after Balance Sheet Date</td>
<td>G I</td>
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<td>AS-5</td>
<td>Net Profit or Loss for the period, Prior Period Items and changes in Accounting Policies</td>
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<td>AS-7</td>
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<td>Accounting for Fixed Assets</td>
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<td>YES</td>
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<td>AS-11</td>
<td>The Effects of Changes in Foreign Exchange rates</td>
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<tr>
<td>AS-12</td>
<td>Accounting for Government Grants</td>
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<td>AS-13</td>
<td>Accounting for Investments</td>
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<td>AS-14</td>
<td>Accounting for Amalgamations</td>
<td>G II</td>
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<td>YES</td>
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<td>AS-15</td>
<td>Employee Benefits</td>
<td>NA</td>
<td>NA</td>
<td>YES</td>
</tr>
<tr>
<td>AS-16</td>
<td>Borrowing Costs</td>
<td>G I</td>
<td>G II</td>
<td>YES</td>
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<tr>
<td>AS-17</td>
<td>Segment Reporting</td>
<td>G I</td>
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<td>YES</td>
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<td>AS-18</td>
<td>Related Party Disclosures</td>
<td>G II</td>
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<td>YES</td>
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<td>AS-19</td>
<td>Leases</td>
<td>G II</td>
<td>G II</td>
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<td>AS-20</td>
<td>Earnings per Share</td>
<td>G II</td>
<td>G II</td>
<td>YES</td>
</tr>
<tr>
<td>AS-21</td>
<td>Consolidated Financial Statements</td>
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<td>NA</td>
<td>YES</td>
</tr>
<tr>
<td>AS-22</td>
<td>Accounting for Taxes on Income</td>
<td>G I</td>
<td>NA</td>
<td>YES</td>
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<tr>
<td>AS-23</td>
<td>Accounting for Investments in Associates in Consolidated in Financial Statements</td>
<td>NA</td>
<td>NA</td>
<td>YES</td>
</tr>
<tr>
<td>AS-24</td>
<td>Discontinuing Operations</td>
<td>G II</td>
<td>NA</td>
<td>YES</td>
</tr>
</tbody>
</table>
### AS-25: Interim Financial Reporting
- SMC’s & Level II entities: NA
- Level III Entities: NA
- Applicability: YES

### AS-26: Intangible Assets
- SMC’s & Level II entities: G II
- Level III Entities: G II
- Applicability: YES

### AS-27: Financial Reporting of Interests in Joint Ventures
- SMC’s & Level II entities: NA
- Level III Entities: NA
- Applicability: YES

### AS-28: Impairment of Assets
- SMC’s & Level II entities: NA
- Level III Entities: NA
- Applicability: YES

### AS-29: Provisions, Contingent Liabilities and Contingent Assets
- SMC’s & Level II entities: G II
- Level III Entities: G II
- Applicability: YES

### Applicability of AS

<table>
<thead>
<tr>
<th>AS</th>
<th>SMC’s &amp; Level II entities</th>
<th>Level III Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>3, 17</td>
<td>Not Applicable</td>
<td>Same as SMC’s &amp; Level II entities</td>
</tr>
<tr>
<td>18, 24</td>
<td>Applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>19</td>
<td>Certain disclosures relating to reconciliation and break up of minimum lease payments, minimum sublease payments and general descriptions are not applicable</td>
<td>Same as SMC’s &amp; Level II entities. Further disclosures of accounting policy of initial direct costs is not applicable.</td>
</tr>
<tr>
<td>20</td>
<td>Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed.</td>
<td>Same as SMC’s &amp; Level II entities. Further information required by paragraph 48(ii) is not required to be disclosed.</td>
</tr>
<tr>
<td>28</td>
<td>SMCs have an option to measure ‘value in use’ on the basis of reasonable estimate thereof instead of using present value technique. Consequently, if they exercise that option, the relevant provision of AS 28, such as discount rate etc and the disclosure requirements of paragraph 121(g) will not be applicable.</td>
<td>Same as SMC’s &amp; Level II entities.</td>
</tr>
<tr>
<td>29</td>
<td>Paragraphs 66 and 67 relating to certain disclosures not applicable</td>
<td>Same as SMC’s &amp; Level II entities.</td>
</tr>
</tbody>
</table>
AS – 1

**DISCLOSURE OF ACCOUNTING POLICIES**

**Accounting Policies**
Principles are methods adopted in applying such principles

Disclosure needs arise because the methods of applying the principles can vary

**Three Fundamental Accounting Assumptions**
Going Concern, Consistency and Accrual

**Overriding Factor for selection of Accounting Policies:**
"True and Fair View"

**Major Consideration for selection and application:**
- Prudence
- Materiality
- Substance over form

- Disclose all significant accounting policies in one place
- Disclose changes in accounting policies if material effects thereof either in current year, or in later years
- Disclose Fundamental accounting assumption if not followed.
AS – 2 (REVISED)

VALUATION OF INVENTORIES

**Inventory valuation**
(Lower of)

- **Cost**
- **Net Realizable Value (NRV)**

**COMPONENTS OF COST**
- Cost Of Purchase
- Cost of Conversion
- Other Attributable Cost

**EXCLUSIONS**
- Storage, abnormal wastage
- Selling & Distribution Cost

**ASCERTAINING NRV**
- Estimated Selling Price

**LESS**
- Estimated Cost of Completion &
  Estimated other Cost necessary to effect the sale

**Allocation of production overhead**

- **If Variable Production Overhead**
  - Allocated to each unit on the basis of actual production

- **If Fixed Production Overhead**
  - Actual production<=Normal Capacity: on the basis of normal production
  - Actual production > Normal Capacity: on the basis of actual production
**COST ASPECTS**

Cost of Purchase:
- Purchase Price
- Duties and taxes on purchases (net of refund if any)
- Freight inward
- Other acquisition cost in simple, the landed cost
- ED net of cenvat credit available

Conversion Costs:
- Direct Labour
- Variable production overhead
- Fixed Costs (relatively constant for Normal capacity)

Other Costs:
- Direct attributable to bring items to their present location and condition

Joint costs to be allocated on a consistent and rational basis

By product: Ascertain and reduce NRV of small value by-products etc. from cost of main product

**NRV ASPECTS**

Estimating NRV:
- Reliable evidence
- Price Fluctuations
- Events occurring after balance sheet date

Estimating NRV:
- Firm sales - Contract price
- Sales price of sales before approval of accounts
- Excess inventory beyond contract requirement - general selling price

Provide for - Contingent losses as per AS 29

For Materials and other supplies used in production (WIP)
Examine and relate the sale value of FG
Consider replacement cost for decline in price of materials

Select and apply appropriate Cost Formula
FIFO, Weighted Average, Specific identification method
Techniques: Standard Cost or Retail Inventory Method
Review Annually

Valuation can be made individual basis or item by item basis.
In select areas, valuation can be Group (or Global) method

Disclose:
- Inventory valuation Policy
- Charges of policy, if any
- Impact of such changes
Cash flow means Cash & Cash equivalents
Information to be given in three segments

Operating Activity
Principal revenue producing activity

Investing Activity
Acquisition and disposal of long term assets

Financial Activity
Results in changes in composition or size in owner's capital

Direct Method
Gross Basis

Indirect Method
Reported NP adjusted from non-cash items, deferrals etc

Net Basis reporting:
- Cash flow from customers, and
- Items of quick turnover, short maturity & large amounts
- Certain transactions of enterprises engaged primarily in financial activities

Special Attention:
Foreign Currency Transaction, Extra-ordinary items, Tax on income, Non-tax transaction, Transaction in the nature of hedging operations

Disclosure include:
- Management commentary on special areas
- Reconciliation of opening and closing cash items
AS – 4
CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Post Balance Sheet Events

After the Balance Sheet Date but Before approval of accounts by the Governing Body

Two Possibilities
- Adjusting events – requiring adjustment of assets or liabilities
- Non adjusting events

Adjusting Events
- That provides additional evidence and
- Assists in estimation of amount
- Going concern assumption rendered invalid

Non Adjusting Events
- Events that do not affect the B/S Figures
- Disclose in report of approving authority (say Director’s Report)

Disclosure
- Nature of event
- An estimate of financial effect, or a statement that such an estimate cannot be made
Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

Net Profit or Loss for the period

Include all items of income and expense recognized for the period.

Disclosure separately
- Ordinary and exceptional items - size, nature and incidence are relevant to understand the performance.
- Extraordinary items - so that impact on current year result can be perceived.

Prior Period items

Results of errors or omission in the preparation or presentation of FS of one or more prior periods.

Disclosure separately
- Nature and amount of such items so that impact on CY result can be perceived.
- Can be either above or below the line.

Change in Accounting Policies

Make changes only if
- Required by statute or standard
- Leads to better presentation to enhance relevance and reliability.

Disclosure separately
- Material effect of change
  - Current period
  - Later period
- Also state if impact of change is not ascertainable.

Change in Accounting Estimates - CAE

- Neither a prior period item, nor an extraordinary item.
- Determine impact on CAE, include in the determination of P & L of relevant period (s).
- Use the same classification as earlier adopted.
- Consider materiality disclose separately.
- Also state clearly if the impact of CAE cannot be quantified in monetary terms.
AS – 7 (REVISED)
CONSTRUCTION CONTRACTS

Accounting in the books of “Contractors”
- Construction of assets or combination of assets
- Rendering of service directly related to construction

- Specially negotiated
- Construction of assets or combination of assets
- If combination of assets
  - Inter-related, interdependent in terms of design, technology, function or ultimate purpose.

Construction  Destruction  Restoration  Restoration demolition  Following

Fixed Price Contracts  Cost plus Contracts

Careful evaluation – Determine Single Contract
“Substance over form”

Combination of Assets?  Many Agreements  Modification?

Look at “Assets”  Look at “Contract”  Look at “Asset”
Components – Contract Cost
- Direct Cost – DM, DL & DE
- Allocable Costs
- Costs as per contract terms

Components – Contract Revenue
- Basic Price
- Variation
- Escalation
- Claims
- Incentives

Recognition of Contract Revenue and Contract Cost

Exclusions
- Costs related to future activity
- Payment made to subcontractor in advance of work performed

Apply certainty of
- Measurability
- Collectability

Outcome of contract can be reliably estimated
- Apply "Percentage of completion method"
- Recognize Revenue in the periods in which the work is “performed”
- Expected Losses to be recognized immediately
- Applying matching cost
- Reliance on contracts terms of conditions, right and obligations

Outcome of contract cannot be reliably estimated
- "Percentage of completion method" cannot be applied
- Recognise Revenue to the extent of Recovered contract costs.
- Recognise Contract costs in the period in which they are incurred.
- Expected Losses to be recognized immediately.

Determine Percentage of Work Performed
- Costs to total cost method
- Survey Method
- Physical evaluation method

Consider the uncertainties in recognizing revenue

Disclosure
- Method used to determine the contract revenue
- Method used to determine the stage of completion of contract in progress
- Contract revenue recognised as revenue in the period
- Aggregate costs incurred and recognised profits/losses up to the reporting date;
- Advances received up to the reporting date and
- Amount of retentions up to the reporting date
- Gross Amount due to/from customers
Revenue Recognition

Revenue
Gross inflow of cash, receivables and other consideration

- Sale of goods
- Rendering of services
- Use of enterprises resources by others

- Transfer of “Property” in goods
- Transfer of Significant “risks and rewards”

- Proportionate completion of services method
- Completed services contract method

- **Interest** – Time proportion basis
- **Royalties** – Accrual basis, subject to terms
- **Dividends** – Right to receive is established

Measurability & Collectability

- Yes
  - Recognize at the time of sale or rendering of services

- No
  - Postpone and recognize when ultimate collection becomes certain

Disclose
- Accounting Policy – AS 1
- Postponement of revenue recognition
- Gross Turnover, Excise duty and Net turnover is to be disclosed separately
AS – 10
ACCOUNTING FOR FIXED ASSET

Property, plant and equipment are tangible items that:
- are held for
  - use in the production or
  - supply of goods or services,
  - for rental to others, or
  - for administrative purposes; and
- are expected to be used during more than one period.

Recognition of cost of an item of PPE as an asset
- future economic benefits is probable
- cost of the item can be measured reliably

Initial Recognition- measured at its cost

The cost PPE is the *cash price equivalent* at the recognition date.
If payment is deferred beyond normal credit terms, the total payment - cash price equivalent is recognised as interest expense or capitalised as per AS 16

Purchase for Monetary Consideration
Components of HC
- Purchase Price less trade discount
- Import duty and non-refundable duties & taxes
- Directly attributable costs to bring it to present location & condition
- initial estimate of the costs of dismantling and removing the item and restoring the site
- Borrowing Cost (AS 16)
- Reduced by government grants, if any (AS 12)

Subsequent Recognition
An enterprise should choose either the Cost Model or the Revaluation Model
Apply that policy to an entire class of PPE.

Self-construction:
- Same principles as for an acquired asset.
- Include costs directly related to the asset and allocated cost
- any internal profits are eliminated
- Abnormal loss in self-constructing an asset is not included

Purchase for Non-monetary Consideration:
- Measured at the fair value of the asset(s) received or the asset(s) given up
- If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.
Key Points:
- If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.
- The revaluation surplus of an item of PPE may be transferred to the revenue reserves when the asset is derecognised.
- Additional depreciation on revalued amount may be transferred from revaluation surplus to the revenue reserves and such transfer are not made through the statement of profit and loss.
**Basic Principle**: The depreciable amount of an asset should be allocated on a systematic basis over its *useful life*.

Depreciation of an asset begins when it is available for use.

Depreciation of an asset ceases either at the date that the asset is retired from active use and is held for disposal or the date that the asset is derecognised whichever is earlier.

**Three Basic elements of measuring depreciation**

- **Historical Cost or Revalued amount**
- **Estimated useful life**
- **Estimated Residual Value**

Factors considered in determining the useful life:
- expected usage of the asset
- expected physical wear and tear
- technical or commercial obsolescence
- legal or similar limits on the use of the asset

Depreciable Amount = \[\text{Historical Cost or Revalued amount} - \text{Residual Value}\]

- If residual value is insignificant – ignore
- If residual value >= Carrying amount – Depreciation charge will be Zero
- Companies Act presume 5% of the value of assets as their residual value

**Depreciation Method**: should reflect pattern in which future economic benefits pattern of the asset are expected to be consumed by the enterprise.

Examples:
- Straight-line method,
- Diminishing balance method
- Units of production method

**Periodic Review**: Requires estimates of useful lives, depreciation method and residual values to be reviewed at least at the end of each financial year.

Such change is treated as a change in accounting estimate and applied prospectively.

**Land and Building**: Land has an unlimited useful life and therefore is not depreciated.

Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

However where land cannot be separated from the building, the land and building can be recognised as a single asset.
On account of
- changes in liabilities,
- price adjustments,
- changes in duties,
- changes in initial estimates for dismantling, removing, restoration.

**Accounting Treatment**

If the related asset is measured using the **Cost model**
- Increase in liability - added to cost of the related asset
- Decrease in liability - deducted from the cost of the related asset
- If a decrease in the liability > carrying amount of the asset - excess should be credited to profit and loss.
- If added to cost - Test for impairment loss (AS 28)

If the related asset is measured using the **Revaluation model**

If Decrease in Liability
- If Previously upward revaluation
  - Credited directly to Revaluation surplus
  - If a decrease in the liability > carrying amount of the asset under cost model- excess should be charge to profit and loss as an expense

If Increase in Liability
- If Previously downward revaluation
  - Credit statement of Profit and Loss to the extent of previous decrease and credit the reminder, if any to Revaluation Reserve
- If Previously upward revaluation
  - Charge Revaluation Reserve to the extent of previous increase and the charge the reminder, if any to statement of Profit and Loss.

The adjusted depreciable amount of the asset is depreciated over its useful life.
Retirement and derecognition

Retirement from active use and held for disposal
- stated at the lower of their carrying amount and net realisable value
- Any writedown in this regard should be recognised immediately in the statement of profit and loss

Derecognition
- The carrying amount of PPE should be derecognised (a) on disposal; or (b) when no future economic benefits are expected
- The gain or loss arising from the derecognition should be included in statement of profit and loss

Compensation for Impairment
Compensation from third parties for items of PPE that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.

Gain or loss on Derecognition:
Sale proceeds
Less: Cost of Disposal (If any)
Net sales proceeds
Less: carrying amount of assets

Gains should not be classified as revenue, as defined in AS 9
However, an enterprise that in the course of its ordinary activities, routinely sells items of PPE that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets should be recognised in revenue in accordance with AS 9, Revenue Recognition.

Disclosure
Disclose for each class of property, plant and equipment:
- the measurement bases (i.e., cost model or revaluation model)
- the depreciation methods used;
- the useful lives or the depreciation rates used
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period.

The financial statements should also disclose:
- the existence and amounts of restrictions on title.
- the amount of expenditure recognised in the course of its construction (Capital WIP);
- the amount of contractual commitments for the acquisition of PPE;
- the amount of compensation from third parties for items of PPE that were impaired, lost or given up
- the amount of assets retired from active use and held for disposal.
If items of PPE are stated at revalued amounts, the followingshould be disclosed:
- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods applied in estimating fair values of theitems;
- the extent to which fair values of the items were determined directly byreference to
  - observable prices in an active market or
  - recent market transactienson arm’s length terms or
  - other valuation techniques;and
- the revaluation surplus and anyrestrictions on the distribution of the balance to shareholders.
The Effects of Changes in Foreign Exchange Rates

- Foreign Currency transaction
  - Initial recognition
  - Reporting at subsequent balance sheet dates
  - Recognition of exchange difference

- Financial Statements of Foreign Operations
  - Classification into Integral & Non Integral operations
  - Disposal of non-integral operations
  - Change in classification

- Foreign Exchange contract
  - Contract entered for managing risk (hedging)
  - Contract entered for trading or speculation
Segment 1

Foreign Exchange Transaction
- Buying or selling of goods or services
- Lending or borrowing
- Acquisition and disposal of assets

Initial recognition
- Apply exchange rate at the "date of the transaction" (or) "Average rate" if it approximates the actual rate

Reporting at subsequent B/S date
- Monetary items
- Non Monetary items
- Apply "closing rate"

Recognition of exchange differences
- Difference due to initial recording and settlement rate
- Difference due to initial recording and reporting rate
- Difference due to reporting and settlement rate

Carried at "Fair Value"
- Fair value rate on estimation date

Carried at "Historical Cost"
- Rate on the transaction date

Recognize as “income or expense” in the period in which they arrive
Segment 2

**Foreign Operations**
Subsidiary, Associate, Joint venture or Branch

Direct impact on cash flow of reporting enterprise

- **YES**
  - Integral operation
  - Forms integral part of reporting enterprise
    - Translation similar to the principles of foreign currency transaction of the reporting enterprise
    - Exchange difference – recognize in statement of P & L

- **NO**
  - Non-integral Operations
    - Treated as a separate enterprise
    - **Assets / Liabilities** - Closing rate
    - **Incomes/ Expenses** - Rate at date of transaction / average rate
    - Exchange difference – accumulate in FCTR

**Change in classification**

- **Integral to Non-integral**
  - Accumulate exchange difference in FCTR

- **Non-integral to Integral**
  - Exchange difference which have been deferred are not to recognized as income or Expense, until disposal of Net Investment
Segment 3

**Forward Contract**
- Agreement between two parties to buy or sell
- Settlement at a future date
- At an agreed price

**For managing risk (Hedging)**
- To minimize risk
- Distribute gain / loss based on movement of translation date

**For trading or speculation**
- To earn profit
- Contract is marked to current market price

The gain or loss that arises should be recognized as income or expenses for the period

Premium or discount arising at the inception of the contract should be recognized over the tenor of the contract based on rate movements

Premium or discount is not separately accounted, it is not recognised
AS – 12
ACCOUNTING FOR GOVERNMENT GRANTS

Accounting for Government Grants

Recognition criteria
- Assurance of compliance of terms and conditions
- Reasonable certainty of collection

Capital Approach
- Grant is treated as part of Shareholders Fund

Income Approach
- Grant is treated as income over one or more periods

Concessional Rate
- Accounted at acquisition cost

Free of Cost
- Recorded at Nominal Value

Consider appropriate accounting treatment based on nature of grant
- Non-monetary consideration
Grants related to Specific Fixed Assets (monetary consideration)

Primary Condition
Qualifying enterprise should purchase, construct or acquire such assets

Depreciable Assets

- Deduct from GBV of concerned asset to arrive at NBV
- Grant equals cost – Nominal value

Method I
- No Obligation
  - Credit to Capital Reserve
  - No charge to Income

Non Depreciable Assets

Method II
- Obligation
  - Treat as deferred income
  - Transfer deferred income to P & L in same proportion as depreciation bears to depreciable amount

Refund of Grant
Treated as Extraordinary Item (AS 5)

Disclose
- Accounting Policy, including method of presentation
- Nature and extent of recognition in financial statements, including grants given at concessional rate or free of cost
- Any contingencies after recognition is governed by AS 29.
Refund of Grant

Relating to revenue

Apply first against Unamortised Government Grant
Charge balance in P&L A/c

Relating to Promoter’s Contribution

Deduct from Capital reserve

Relating to Specific Assets

Depreciable Assets

Alternative II
Apply first against Unutilised grant
Then apply Unamortised Deferred Government Grant.
Charge balance in P&L A/c

Alternative I
Apply first against Unutilised grant
Reduce the Capital reserve, if any
For balance, increase book value of assets

Note: Depreciate the revised book value of assets prospectively over the remaining useful life

Non-Depreciable Assets

Deduct from Capital reserve

Non-Depreciable Assets

Deduct from Capital reserve

Note: Depreciate the revised book value of assets prospectively over the remaining useful life
Investments
Asset held for earning income by way of dividend, interests and rentals for capital appreciation

Intention to hold the Investment for more than 1 year and not for sale?

YES  
Long term investment

Cost of Investment
- Purchase Price
- Directly attributable costs like brokerage, fees, etc.
- Adjust pre-acquisition interest and dividend

Cost in case of “Exchange”

Exchanged for shares
Fair value of securities issued

Disposal
- Adjust difference between proceeds and carrying amount through P & L
- Part sale – Apply average carrying amount

Exchanged for another shares
FMV of asset given up or acquired which is more clearly evident

Reclassification
Long term to current
Take lower of cost and “carrying amount”

current to Long term
Take lower of cost and “Fair value”

NO  
Current investment

Carrying amount
- Lower of cost & NRV
- Review periodically
- Route impact of movement below cost through P & L
AS-14

ACCOUNTING FOR AMALGAMATIONS

Amalgamation – “to unite”
Accounting in the books of purchasing company ONLY

CONDITIONS

Assets & Liabilities
- All assets/liabilities of SC should be taken over
- All assets/liabilities should be recorded at same values that existed in SC books

Shareholders
- Atleast 90% of shareholders of SC become shareholders of PC
- Consideration to be paid only in form of equity shares of PC (cash for fractional shares)

Business
- PC should intend to carry on existing business of SC

All five conditions satisfied?

Yes
Amalgamation in the nature of “Merger”

Pooling of Interest Method
- All assets/liabilities recorded at book values
- Difference between purchase consideration and share capital – adjust with P & L, reserves
- If Purchase consideration > share capital – debit difference to reserve (credit to reserve if vice versa)

No
Amalgamation in the nature of “Purchase”

Purchase Method
- All assets/liabilities recorded at fair values
- PC > Net assets – debit goodwill
- PC < Net assets – Credit Capital reserves
(Net assets = Assets at fair values
Less: Liabilities at agreed values)
- Non-cash consideration - record at Fair values
- Adjustment of consideration if conditional, upon one or more future uncertain events materializing
- Amalgamation after the B/S date – AS 4
- Separate accounting adjustment/entry is not required for statutory reserves in case of mergers
- In case of purchase, statutory norms to be complied with
- Disclosure covers three distinct areas – all amalgamation, pooling of interest and purchase method

<table>
<thead>
<tr>
<th>Discharge of Purchase consideration</th>
<th>Pooling of Interest</th>
<th>Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset &amp; Liabilities</td>
<td>Recorded at Book value</td>
<td>Recorded at fair value</td>
</tr>
<tr>
<td>Reserves</td>
<td>Are brought into and recorded in the books</td>
<td>Only statutory reserves are recorded by debit to amalgamation adjustment Reserve account (reversed when statutory conditions are met)</td>
</tr>
<tr>
<td>Difference between consideration and net value of assets</td>
<td>Difference is adjusted against reserves</td>
<td>Recorded as goodwill or capital reserve</td>
</tr>
</tbody>
</table>
Employee Benefits
Benefits arising due to employer – employee relationship

Matching concept
Match revenue generated from Assets (Employees) to Cost

Short term employee benefits
Falls due for payment within 12 months
“Less than 12 m”

Post-employment benefits
Falls due after completion of employment
“at or after retirement”

other Long-term employee benefits
Do not fall due for payment within 12 months
“More than 12 m”

Termination benefits
Falls due when employee-employer relation ends
“before normal retirement”

Underlying concept of accounting treatment

Accrual basis of accounting
Apply present value concept and recognize future liability
Segment I

Short term Employee Benefit
- Vested benefits
  - Non-conditional on terms of future employment
- Non-Vested benefits
  - Conditional on terms of future employment

Recognition & Measurement
- Accrual basis of accounting
- Recognize on undiscounted basis (actual cost)

Liability
- Recognize amount expected to be paid
  - "Accrued expense"

Asset
- Amount paid greater than amount payable “Prepaid expense”

Includes cost of asset
- Labour cost in self constructed fixed Asset

Special Treatment

Short term Compensated Absence (Paid leave)
- Earned Leave
  - Expected cost to be recognized as expenses for unavailed portion of accumulated leave
- Casual Leave
  - Recognize cost as and when employee avails (no accumulation so no additional cost)

Profit sharing bonus plans
- Present obligation arises on account of past service cost
- Cost to be reliably estimated
- Full cost be recognized on actual basis
Segment II

Define Contribution Plans (DCP)
- Enterprise pays fixed amount to a fund
- No obligation to pay further amounts in case of shortfall in the fund

Define Benefits Plans (DBP)
- Benefits are determined by length of service & other variable factors
- Obligations to pay additional funds as and when needed

State Plans
- Established by legislation
- Enterprise is to make fixed periodical payments

Multi Employer Plans
- Assets of many enterprises are pooled, invested and distributed by privately managed third parties

Insured Benefits
- Arrangement made with an insurer & pay Insurance premia to the fund

Is “Actuarial or Investment risk” shifted to Employer?

- Yes
  - DBP
  - Obligation to pay arises as employee render services
  - Adjust liability with the fair value of Plan asset and show not amt. Is BS
  - All attributable cost to be recognized as expenses

- No
  - DCP
  - Obligation to pay falls due within 12 months

  - No
    - Adopt accrual basis of accounting

  - Yes
    - Adopt present value concept
      - Discount rate should be market yield on govt. bonds as on BS date
Segment III

Other Long Term employee Benefits

Recognition & Measurement

- Treatment similar to “Segment II”
- On introduction of a scheme of benefit or change being made therein shall be recognized immediately

Segment IV

Termination Benefits

When does obligation arise?

Employer’s Decision
Terminate employment before normal retirement date

Employee’s decision
Accept voluntary redundancy in exchange for benefits (VRS)

- Occurrence of obligation is uncertain
- If obligation is not met it becomes a liability

- Enterprise has present obligation as a result of past events
- Provision is to be created (AS 29)

If benefits falls due for payment more than 12 months after BS date, benefits to be discounted using PV concept
AS – 16
BORROWING COSTS

Eligible Items of Borrowing Cost

BC that are directly attributable to acquisition, construction or production of Qualifying Asset (QA)

BC that would have been avoided if the expenditure on QA had not been made

Capitalization Condition

- QA will give future economic benefits
- Costs to be capitalized can be measured reliably?

YES

NO

Capitalize the BC

Charge of as Expense

Specific Borrowings

- These could have been avoided but for expenditure on QA
- Capitalization rate = ‘Actual BC’
- Amount of BC = Actual BC (less) Income on temporary Investment

General Borrowings

- Borrowing is wholly or partly for expenditure incurred on QA
- Capitalization rate = “Weighted Average of BC
- BC capitalized should not exceed actual cost incurred during the period

Commencement

- Expenses on QA being incurred
- BC are incurred
- Activity in progress

Suspension

- Active development is interrupted (avoidable)
- Other unavoidable reasons (earthquake)

Cessation

- Substantial completion of all activities
- Completed part of an asset if the same is capable of use
Segment Reporting

Reporting based on multiple products / services and operations in different geographical areas

Business Segment

Segmentation based on “products or services” or related products that are prone to different risks and returns

Factors for identification

- Nature of product or services
- Nature of production process
- Type or class of customer
- Marketing or distribution techniques
- Nature of regulatory environment

Distinguishable component

Segment Expense

- Expenses directly attributable to the segment
- Expenses allocable to the segment
- Expenses on transacting with other segment

Geographical Segment

Segmentation based on operations in different “geographical areas” that are prone to different risks and returns

Factors for identification

- Similarly of economic & political conditions
- Relationship between operation in different geographical areas
- Proximity and risk of operations
- Exchange regulations & currency risk

Basis

- Location of assets
- Location of customers

Segment Revenue

- Revenue directly attributable to the segment
- Income allocable to the segment
- Inter segment income

Segment result = Segment revenue – Segment expenses

Segment Assets

- Operating assets directly attributable
- Operating assets allocated on reasonable basis
- Goodwill, if directly attributable or if reasonable allocated

Segment Liabilities

- Operating liabilities directly attributable
- Operating liabilities allocated on reasonable basis
Basis for deciding composition of segments

- Existence of organizational units
- Analysis and reporting to BoD by CEO – MIS
- Management Approach - Role of judgement

Identification of segments

“Dominance” Factor

Primary Segment

- If business segment dominates as primary then geographical segment will be secondary

Secondary Segment

- If geographical segment dominates as primary then business segment will be secondary

Reportable Segment

Revenue Test
- Segment revenue ≥ 10% of all segment revenues

Result Test
- Segment result ≥ 10% of higher of segments in profit or loss

Assets Test
- Segment Assets ≥ 10% of Total assets all segments

Management Choice
- Management may decide if tests are not satisfied

75% Test
- Is external revenue of reportable segment < 75% of enterprise revenue

Previous years segment information to continue in current year.
If consistent, previous year figures to be regrouped to fall in line with current year

Disclosure

Primary format

Secondary format
AS 18 required reporting enterprises to provide “additional information” pertaining to related parties who:

- Exercise "control" & on whom control is exercised
- Exercise “Significant influence"
- Are Under “common control” with reporting enterprises

**Related Party**
- At any time during reporting period
- One party has the ability to, Control the other party
- or exercise significant influence in making financial or operating decision

**Related Party relationship**
- Enterprise that control, controlled by, or that are under common control
- Associates and JV
- KMP and relatives
- Individuals having control or significant influence and relatives
- Enterprises in which KMP or individuals have significant influences

**Control**
- More than 50% of voting power
- Control composition of BoD
- Substantial interest in voting & power to direct, by statute or agreement

**Significant Influence**
- More than 20% of voting power
- Representation of the BoD
- Participation in policy making
- Material inter-company transaction
- Interchange of managerial personnel
- Dependence on technical information

**Disclose whether or not transaction occurred:**
- Information about party & nature of relationship
- Full details of material related party transactions
- “Disclosure is a must even if transactions are not influenced by relationship”

**Exempted Disclosures:**
- Intra group transactions in Consolidated Financial statements
- Transactions with state controlled entities
- Where disclosure would conflict with the duties of confidentiality
**AS – 19**

**LEASES**

**Lease**
- Convey right to use an asset
- In return for payment or series of payments
- For an agreed period of time
- Includes Hire Purchase Agreements

**Classify “at the inception” of the lease as -**

**Finance Lease**
- Consider “Substance over form”
- Substantially transfer all risks and rewards incident to ownership

**Operating Lease**
- Other than finance lease
- Negative definition

**Minimum Lease Payment (MLP)**
- Total lease rent + guaranteed residual value, (or)
- Total lease rent + Payment on purchase option

**In the books of lessee**
- Recognize as asset and liability
- Initial recognition of asset – at lower of FV and PV of MLP
- Charge Finance Charges to P & L
- Provide depreciation as per AS 10

**In the books of Lessee**
- Recognize lease payment in P & L
- Pattern – straight line basis over the lease term

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In the books of lessor
• Recognize as “Receivables” at an amount equal to net investment in the lease
• Recognize Finance income in P & L

In the books of Lessor
• Recognize asset given on lease as per AS 10
• Charge depreciation as per AS 10
• Recognize Lease payment in P & L.
• Pattern – straight line basis over the lease term

Disclosure
• Details of leasing agreement
• Accounting policy for initial direct cost
• Age wise break up of Gross investment, PV of MLP
  o Upto 1 year
  o > 1 year ≤ 5 years
  o > 5 years
EARNINGS PER SHARE

EPS
Profit available to Equity shareholders (PAES) + Weighted average no. of equity shares (WANES)

Earnings (Numerator)
- Profit after tax Less preference dividend and corporate dividend tax thereon
- In case of more than one class of equity shares – distribute earnings in proportion of dividend right for each class

WANES (denominator)
- No of shares (after adjustments for additions and deletion during the period)
- Weighted = no. of days shares were outstanding during the period (timing)

Preference Dividend
- No-cumulative = deduct if declared or provided
- Cumulative = deduct whether provided or not (arrears not to be deducted)

Participating preference share – treatment of fixed and variable element of dividend

Timing – shares issued are included
- For cash – cash is receivable
- Conversion of debt – date of conversion
- Settlement of liability – date of settlement
- Acquisition of asset – recognition
- Amalgamation – purchase – date of acquisition
- Merger – beginning of reporting period

Potential Equity Shares
**Dilutive shares**
- Option exercised at price less than FV
- Leads to reduction in EPS

**Non-Dilutive shares**
- New shares issued at fair price
- Does not lead to reduction in EPS

**Diluted EPS**

**Diluted Earnings** (Numerator)
PAES + Preference dividend + interest recognized on dilutive potential shares adjusted for tax expense + / - after tax amount of any change in Expense or Income

**Revised WANES** (denominator)
WANES + Weighted average of additional equity shares outstanding assuming conversion

- Take cognizance of implications under Bonus Issue, Rights Issue, Split or consolidated of shares
- Contingently issuable shares - if already existing - start of the period if issued during the period – Date of Issue
Consolidated Financial Statements

Consolidation
Parent + subsidiary = one single economic entity

Preparation
- Combine “on line by line” basis
- Should be prepared even if activities of both are dissimilar

Exceptions
- Control is intended to be temporary
- Subsidiary operates under severe long term restrictions

Control
- < 50% of voting power
- Control of composition of BoD

Elimination
Cost of parents investment in subsidiary with that of parents portion of Equity on date of investment

Goodwill (Asset)
Cost of parents investment in subsidiary > parents portion of Equity on date of investment

Capital Reserve (Liability)
Cost of parents investment in subsidiary < parents portion of Equity on date of investment
Minority Interest
- Consolidated Profit – Minority’s share = profit share of parent
- Adjust Outstanding cumulative preference dividend of subsidiary whether provided or not

Minority Interest in net asset
- Amount of Equity attributed to minorities
- Share of movements in equity from date of relationship

Negative Minority Interest
- Adjust against majority interest
- Subsequent profit by subsidiary is allocated to majority until previous loss is recovered

Intra Group balances
- Eliminate along with unrealized profit in full
- Eliminate unrealized loss if recoverable amount is more than cost of transaction

Same reporting date
- CFS to be drawn on same reporting date
- If not practicable, adjustments to be made
- Differences between dates not to exceed 6 months

Uniform Accounting Policies
- CFS to be prepared using uniform accounting policies
- If not practicable, disclose the fact
AS – 22

ACCOUNTING FOR TAXES ON INCOME

**Tax Expense**
Aggregate of Current Tax and Deferred Tax

**Current Tax**
Tax determined to be payable for the period

**Deferred Tax**
Difference between tax expense and tax liability as per IT Act

**Measurement**
Amount “expected” to be paid using applicable tax rates

**Measurement**
Amount payable as per tax laws that have been enacted at the balance sheet date

**Difference**
between accounting income and taxable income

**Permanent Difference**
Difference that originate in one period and do not reverse subsequently

**Timing Difference**
Difference that originate in one period and are capable of reversal in one or more subsequent periods
Accounting income is greater than taxable income

Profits as per accounts but loss as per IT Act

Accounting income is less than taxable income

Loss as per accounts but Profit as per IT Act

**Deferred Tax Liability**
- Save tax now, Pay later
- Debit P & L

**Deferred Tax Asset**
- Pay tax now, Save later
- Credit P & L

**Recognition (Prudence)**
- Unabsorbed depreciation and c/f losses based on virtual certainty of future income
- Other cases based on reasonable certainty

**Review of DTA**
- Write down – DTA is not recoverable
- Reverse previous write down if DTA recoverable through subsequent profits
AS – 23
ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

Associate
- Enterprise where investor has "significant influence"
- Neither a subsidiary of JV

AS 23 applies for preparation of CFS

Significant Influence
- Power to participate in the financial and / or operating decisions
- But investor does not control the associates

20% or more of voting power
Consider “Substance over form”

Accounting for investment in Associates – “Equity method”

Initial recognition
Recorded at cost, identifying goodwill/capital reserve at time of acquisition

Goodwill/capital Reserve
- Difference between cost and investor’s share of equity
- To be included to CA

Periodic adjustment of CA
- Change in share of investor
- Change in share of NAV due to post acquisition profits

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Losses in Associates
- If investor’s share of losses equals or exceeds cost of investment, then report investment at NIL value.
- Recognize profit only after recovery of unrecognized amount.

Discontinuance of Equity method
- Investor ceases to have significant influence.
- Investment held for temporary period intended for sale in the near future.
- Associate is under severe long term restrictions in transfer of funds.

Diminution in value
If permanent diminution in the value of investment, reduce CA to the extent of decrease (AS 13).

Unrealized profit/losses
Eliminate to the extent of interest of investor.

Other procedures for application for Equity method are similar to consolidated procedure as per AS 21.
**AS – 24**

**DISCONTINUING OPERATIONS**

**Discontinuing Operations (DO)**
Change in Distinguishable component

**Well coordinated Plan**
- Sale
- Termination
- Abandonment
- Disposal in entirety or piecemeal

**Downsizing of**
- Geographical or business segment
- In response to impact of change in market force

**Considerable Circumstances**
- Phasing out of an activity
- Closing down of facility
- Shifting of production or marketing activity
- Discontinuing several products

- Distinguishable component to represent major line of business or geographical area of operation
- Should be distinguished operationally and financially

**Effect**
- Material reduction in operating facility
- Component should be distinguishable with reference to attributable assets, liabilities, income and expenses

**Special circumstances -**
- Restructuring and extraordinary items are not D.O
- Does not affect “going concern”

**Initial Disclosure Event**
Disclose on occurrence of any of the two whichever is earlier

- Enterprise enters into a “binding sale agreement”
- Approves and announces a detailed formal plan for discontinuance

**Discontinuance accomplished**
- Plan is substantially complete
- Plan is abandoned “irrespective of receipt or payment”
AS – 25
INTERIM FINANCIAL REPORTING

Interim reporting period
Shorter than full financial year

Recognition criteria
- “year to date basis”
- Recognition similar to annual accounts
- Tax expenses - weighted average IT rate

Discrete Approach
- Interim period is treated as distinct accounting period
- Suggested approach

Integral Approach
- Interim period is treated as part of overall annual accounts
- Fair assessment is effected

Interim financial period
Year to date basis “materiality and reliability”

Complete set of financial statement
- Balance sheet, P & L & Cash Flow statement
- Notes and explanatory statements
- Similar to annual accounts

Condensed financial statement
- Condensed B/S, Condensed P & L, Condensed CFS
- Selected notes and explanatory statements
Calculate the weighted average annual effective tax rate.

Estimated tax expense = Current Tax ± Deferred Tax

Income tax expense for Interim Period

effective Tax rate = estimated tax expense ÷ estimated annual accounting income

Minimum requirement

Heading and subheadings used in most recent annual financial

Additional notes without which the report may be misleading

Earnings per share (EPS) for the interim period as per AS 20

Comparative requirement
B/S, P & L and CFS of current interim period with immediately preceding accounting year
AS – 26
INTANGIBLE ASSETS

Intangible Asset (IA)
- Identifiable
- Non monetary asset
- Without physical substance

Recognition criteria
- Should have characteristics of Asset
- Future economic benefits
- Cost can be reliably measured

Initial measurement at Cost

Direct Purchase
- Purchase price and all directly attributable costs

Exchange of Asset
- FMV of asset given up

Through issue of securities
- FMV of securities issued or of asset acquired – whichever is clearly evident

Amalgamation
Recognize only – Nature of purchase (AS 14)

Research & Development Expenses
- Research Phase – Treat as Expense
- Development Phase - Capitalize if 6 point recognition criteria is met

Government Grants
Nominal value (AS 12)

SIX CONDITIONS
- technical feasibility
- intention to compl
- ability to use or sell
- existence of a marke
- availability of technical, financial resources
- Reliable measure
Internally generated goodwill – do not recognize

Not IA – Treat as Expenses
- Training Expenses
- Advertisement and Promotion
- Relocating Expenses

Subsequent Expense – Capitalize if
- Increased future economic benefits
- Attributable to asset and reliably measures

Residual Value
“Zero” unless commitment by 3rd Party to buy at end of useful life

Amortization
Carrying amount = Cost - RV

Method of Amortization
- Based on flow of benefits (matching concept), or
- Preferred SLM – if no pattern

Useful Life
“10 years” Unless there is clear evidence of longer life
Joint Venture (J)
- Contractual agreement
- Two or more parties
- Undertake an economic activity
- Jointly controlled

Investor
- Part of JV
- No control

Control
- "Power of govern" operating financial policies of economic entity

Venturer
- Part of JV
- Has control

Interest in JV
- Jointly controlled operation
- No separate legal entity
- Assets are fully owned
- Sale – as per contract
- No separate accounting records

Jointly controlled entity
- Separate legal entity
- Separate contract to determine “control”
- Benefit – shared as per agreement

Jointly controlled Assets
- No separate legal entity
- Assets are jointly owned
- Asset used to derive benefit
- Expenses are shared
**Books of Venturer & CFS recognize**
- Asset it controls
- Expenses & liabilities it incurs
- Share of income from JCO

**Books of “Investor”**
- Apply AS 13

**Books of “Operator”**
- Fee income is revenue
- Recognize as per AS 9

**Separate financial statement**
- Interest – Investment (AS 13) CFS
- Report interest as per “Proportionate consolidation method”

**Books of Venturer & CFS recognize**
- Share of Asset in JCA’s
- Direct liabilities, expenses incurred
- Jointly incurred liabilities
- Share of income from JCA

**Proportionate completion method**
- Account & report venture’s share as a “separate line item”
AS – 28

IMPAIRMENT OF ASSETS

Impairment Loss (IL)
Carrying amount – Recoverable amount

Carrying Amount
Amount in B/S (less) Acc. Depreciation (less) Impairment Losses

Recoverable Amount is higher of -

Net Selling Price
Estimated Sales proceeds (less) cost of disposal

Value in use
Preset value in estimated future cash flows from asset + Residual price

Factors indicating impairment
- External indications
- Internal indicators

Indications evident
Identify recoverable amount

No Indications – No impairment Loss
If Revision of estimates required – AS 6

- Adjustment impairment loss to Revaluation reserve
- Surplus after adjustment – Charge to P & L
RA cannot be estimated to individual asset
- Estimate RA for cash generating unit (CGU) to which the asset belongs
- IL recognized for CGU only if RA is less than carrying amount

No goodwill
Allocate IL of CGU pro-rata basis to the constituent asset

Goodwill allocable to CGU
- CA of CGU = CA of asset (+) allocable goodwill
- Allocate IL first to Goodwill & then to assets "Bottom-up test"

Goodwill not allocable
- Identify next large CGU
- CA of CGU = CA of asset (+) allocable goodwill
- Allocate IL first to Goodwill & then to assets "Top-down test"

- Consider corporate assets also for allocation
- Estimate at each B/S whether previous IL has ceased to exist or decreased (for reversal of IL)
AS – 29
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Obligation from past events

Present Obligation
Existence of obligation at B/S date is "Probable"

- Is outflow of resources probable
- Can quantum of liability be measured

YES

Provision
- Liability is recognized
- Provision made in books

NO

Possible Obligation
Existence of obligation at B/S date is "Not Probable"

Existence of obligation is confirmed by future uncertain events that may or may not occur

Contingent Liability
No recognition, only disclosure

Contingent Asset
No recognition, disclosure in director’s report
DO's

- Should be measured before tax
- Based on "best estimate"
- Risk and uncertainties to be considered
- Future events that affect provisions should be reflected
- To be used only for expenses for which provision was made

DON'T'S

- Gains from disposal of asset are not to be considered
- Should not be discounted to PV
- Should not be recognized for future operating losses
- Provision for restructuring, other than direct cost should not be recognized

Accounting treatment

Amount of provision to be shown as expense in P & L net of reimbursement

Disclosure in B/S

- Outstanding provision should be shown in liabilities side
- Expected reimbursement to be shown in asset side

Shift from contingent liability to provision

On review if it becomes that outflow of resources is required to settle obligation