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CA Ravi Kanth Miriyala • CA [illegible]nitanjani Miriyala

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CA Ravi Kanth Miriyala • CA Sunitanjani Miriyala

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With Blessings of
Sri Shirdi Sainath

&

My respected parents
Best wishes of my friends and beloved students

Telegram students group for doubts clarification:
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PREFACE

We would like to take this opportunity to thank everyone who has provided us suggestions and corrections for improving this edition. We worked on the valuable suggestions given by the colleagues, teachers from other academies and students to make this book more useful.

In this format, "Advanced Accounting made easy" will meet the students requirement.

The great features of this edition are:

- This Book covers 100% syllabus of CA Inter — Paper 1 - Advanced Accounting (New Syllabus);
- Covered all ICAI Text books questions & Question and answers of Previous year exams of CA Inter (old syllabus);
- Covered Multiple Choice Questions;
- Student friendly;
- Conceptual understanding of the standards with detailed examples;
- Lucid language to understand;
- Diagrammatic presentation wherever required.

We are glad to inform you that we came out with a new book on Auditing subject; i.e., Auditing and Assurance made easy; This book has detailed discussion of all the chapters covered in auditing paper as per ICAI new syllabus. As usual, it is written in very simple language and most of the concepts are explained in diagrammatic presentation. We feel this book also will be very useful to CA Inter students.

We are very confident that this book also helps the students preparing for CMA Inter, B. Com and M.Com examinations.

From the bottom of our heart, we are grateful to my dearest friend CA. Rama Krishna Reddy Borra for continuous help in motivating and correcting us at every stage of composing this book.

We have taken considerable care to ensure that the contents are accurate; few errors are inherent in a work of this kind. Therefore, we seek suggestions and comments from the readers.

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No book is the work of a single person. At first we would like to express our sincere thanks to our dearest friend CA. Ramakrishna Reddy Borra who has been a source of inspiration and support personally and professionally. This book would never have been written without his support, encouragement and motivation.

I would like to thank CA. Lalith M Sharma, CA. M. Radha, Prof. Vaidheeswaran, Prof. Narayana Rao, CA Uma Maheswara Rao, Prof. Avinash and other seniors & juniors for their professional and personal support.

Special words of thanks is also due to our favourite students CA Saurab Jain, CA Sujendra, CA Himajashree, Satya Sowmya & Meenakshi, who provided incisive comments and very useful feedback.

All valuable comments and suggestions for further improvement of this book will be gratefully acknowledged and appreciated.

CA. RAVI KANTH MIRIYALA
CA. SUNITANJANI MIRIYALA

Email: ravikanthca@gmail.com

CONTENTS

Weightage of Accounting Standards in previous CA Intermediate exams

AS	May-2018	Nov-2018	May-2019	Nov-2019	Nov-2020	Jan-2021	July-2021	Dec-2021	May-2022	Nov-2022	May-2023	Nov-2023
AS 1		5	4					5	4		5	
AS 2			5	5		5	5		5	5		5
AS 3	4			5			5	5		5		
AS 10		5			5		5		5		5	
AS 11	5	9		5		5		5		5	5	5
AS 12	5		1		5	5	5		5		5	5
AS 13	4	10	6	10	5	5		5		5		15
AS 16			5		5				5		5	5
Framework	4	13		4	4	8	4	5		5	5	5
AS 4		5	6				5	5		5		
AS 5	5		1			5			5	5		
AS 7	5		5		5		5		5		5	
AS 9			5	5			4	5		4	5	
AS 14		5				4		5		4		
AS 17	4				5	5			4		5	
AS 18		5	5				5				5	
AS 19	5		5	4		4		4	4			
AS 20	5	5		5				4	5	5		
AS 22	5		4		5	5	4			5		
AS 24		4					5					
AS 26	5			5	9	5		5				
AS 29				5	4				5	4		
Total Marks	**56**	**66**	**52**	**53**	**52**	**56**	**52**	**52**	**52**	**57**	**50**	

Weightage of Each topic in the new syllabus as notified by ICAI

Contents	Section	Weightage
1. Introduction to Accounting Standards	I	55%-65%
2. Framework for Preparation and Presentation of Financial Statements.		
3. All Accounting Standards from AS 1 to AS 29		
4. Company Accounts (i) Schedule III to the Companies Act, 2013 (Division I) (ii) Preparation of financial statements – Statement of Profit and Loss, Balance Sheet and Cash Flow Statement (iii) Buy back of securities (iv) Accounting for reconstruction of companies.	II	3 30%-35%
5. Accounting for Branches including foreign branches.	III	5%-10%

How to Proceed with These Classes & Book?

As mentioned earlier, this subject "Advanced Accounting" is a beautiful subject but remember it is very vast and thought provoking subject. All the standards are interlinked with each other. To understand this better, you need to follow a sequence of study.

- Before starting - Remember, this is a new to you– So, expect new words (technical terminology, new vocabulary and jargon) and you should remember those words and use them in the exam;
- We have given few instructions at the beginning of every chapter –strictly follow them;
- We suggest you to prepare your own summary of each standard and revise it frequently so that you will be able to understand the linkage provided by us;
- Maintain a library of new and important words like definitions which will enhance your understanding of these words in different contexts and will build your vocabulary.
- We strongly believe a command over technical words and their appropriate usage will gain confidence of the examiner and may contribute to additional marks in the exam.

We recommend following this sequence of videos for better understating of the subject.

1. AS Introduction videos & Journal Entries;
2. AS 1 – Disclosure of Accounting policies;
3. AS 12 - Government Grants;
4. AS 16 – Borrowing Costs;
5. AS 11- Effects of Changes in Foreign currencies;
6. AS 10 – PPE;
7. AS 26 – Intangible Assets (more or less similar to AS 10);
8. AS 13 – Investment Accounting;
9. AS 2 – Inventories;
10. AS 3 – Cash flow Statement & all related question and answers
11. Financial Statements; Having basic understanding of Balance sheet and P&L format for financial statements will help you to understand the presentation & disclosure requirements and the same is interlinked to the remaining chapters below – you must get good knowledge of this chapter.
12. AS 4 – Events occurring after the balance sheet date;
13. AS 5 – Profits or Loss for the period, Prior period errors & Change in accounting policies
14. AS 29 – Provisions, Contingent Liabilities and Contingent Assets;
15. AS 9 – Revenue Recognition;

16. AS 7 – Construction contracts;
17. AS 17 – Segment Reporting;
18. AS 24 – Discontinuing Operations;
19. AS 18 – Related party Disclosures;
20. AS 20 – Earnings per share;
21. AS 22 – Taxes on Income;
22. AS 25 – Interim Financial statements;
23. AS 14 – Amalgamation;
24. Internal Reconstruction;
25. AS 15 – Employee Benefits;
26. AS 19 – Leases;
27. AS 21- Consolidation;
28. AS 23 – Associates;
29. AS 27 – Joint Venture;
30. AS 28 – Impairment of Assets;
31. Buy back of Shares;
32. Branch Accounting;

Wish you the very best

CA Ravi Kanth Miriyala

CA Sunitanjani Miriyala

A INTRODUCTION

SYNOPSIS

"ACCOUNTING is the language of business"

"Accounting" has been in existence ever since the dawn of civilization where a person in the settlement wanted to keep track of his belongings and ensure a legal claim on his holdings – be it land or livestock. However, Fra Luca Bartolomeo de Pacioli (1445-1517) has been regarded as the father of modern accountancy for his noteworthy works describing the system of book-keeping, i.e., the double-entry accounting system which is widely accepted across the business world even today!

As time progressed, a natural evolution in accounting became evident. Industrial revolution and voluminous transactions in a complex financial and business environment led to need-based accounting, specific to the nature of transactions involved. The pressing demand for uniform Accounting Standards was felt in early 1930s post the Wall Street crash and the following Great Depression post the economic boom of 1920s.

Accounting Standards are the statements of code of practice of the regulatory accounting bodies that are to be observed in the preparation and presentation of financial statements. In layman terms, accounting standards are the written documents issued by the expert institutes or other regulatory bodies covering various aspects of measurement, treatment, presentation and disclosure of accounting transactions.

Financial statements are prepared to summarize the end-result of all the business activities by an enterprise during an accounting period in monetary terms. These business activities vary from one enterprise to other. To compare the financial statements of various reporting enterprises poses some difficulties because of the divergence in the methods and principles adopted by these enterprises in preparing their financial statements. In order to make these methods and principles uniform and comparable to the extent possible standards are evolved.

1. What are Generally Accepted Accounting Policies (GAAP)?

- GAAP means a common set of accepted accounting principles, standards, and procedures which an entity follows while preparation and presentation of financial statements.
- GAAP is a broad word. It includes Accounting standards and commonly accepted accounting principles where there is no guidance provided by Accounting standards.
- At international level, authoritative accounting standards are known as IFRS (International Financial Reporting Standards);
- In India we have two sets of authoritative standards those are (a) Accounting standards and (b) Ind AS (Indian accounting standards).
- At CA Intermediate, we will learn only Accounting standards and at CA Final, you will learn Ind AS.

2. Who issues Accounting Standards in India?

- ASs are written policy documents issued by Government with the support of other regulatory bodies like MCA (Ministry of Corporate Affairs) and NFRA National Financial Reporting Authority);
- AS reduces the accounting alternatives by standardizing based on the rationality to ensure the comparability of financial statements of different enterprises;
- The Institute of Chartered Accountants of India (ICAI) is the preparer of standards and at the later point of time it will be issued by the government after its review;
- Accounting Standards Board (ASB), a board formed by ICAI and which has main role in formulating / revising the Accounting Standards from time to time.

3. What are the benefits of Accounting Standards?

The following are the benefits of Accounting Standards

1. Standardisation of alternative accounting treatments:
   - Accounting Standards reasonably reduce or eliminate any confusing variations in the accounting treatment and presentation of financial statements.
   - These are commonly accepted and rational policies to be used in different identified areas, e.g. inventory valuation, capitalisation of costs, depreciation and amortisation, etc.
   - As it is not possible to prescribe a single set of policies for all the entities in the country – Standards give a choice to the entities in selection of policies based on its nature of business activities. Not only following the policies, the entity should disclose the accounting policies followed as per AS 1 (will be discussed in Chapter 1);
2. Requirements for additional disclosures
   - In certain areas disclosure of information is not required by the law, but such information may be very useful for the users of financial statements to understand the entity;
   - The additional disclosures are prescribed by Accounting standards.
3. Comparability of financial statements
   - As accounting is standardised with the help of ASs – it leads to compare the financial position & performance of one entity with another entity and the same entity in the current year compared to previous year.
4. Reduction of creative accounting:
   - The creative accounting here means twisting of accounting policies to produce financial statements favourable to a particular interest group (window dressing).
   - For example, it is possible to overstate profits and assets by capitalising revenue expenditure or to understate them by writing off a capital expenditure against revenue of current accounting period.
   - Such practices can be eliminated only by framing policies for capitalisation, particularly for the borderline cases where it is possible to have divergent views. The accounting standards provide adequate guidance in this regard.

In brief, the accounting standards aim at improving the **quality of financial reporting by promoting comparability, consistency and transparency**, in the interests of users of financial statements. Good financial reporting not only promotes healthy financial markets, it also helps in reduction of the cost of capital because investors can have faith in financial reports and consequently perceive lesser risks.

4. What is the duty of Statutory Auditor for Compliance with Accounting Standards?

- Section 129 of the Companies Act, 2013 provides that every Profit and Loss account and Balance Sheet of the company shall comply with the accounting standards.
- The statutory auditors are required to make qualification in their report in case any item is treated differently from the prescribed Accounting Standard. However, while qualifying, they should consider the materiality of the relevant item.
- In addition to this, Section 143 of the Companies Act, 2013 requires an auditor to report whether, in his opinion, the Profit and Loss account and Balance Sheet are complied with the accounting standards referred to in Section 129 of the Companies Act, 2013.

5. Procedure for Issuing/setting Accounting Standard

As discussed above, Accounting Standards Board (ASB) has main role in framing the Accounting Standards. The standard-setting procedure of ASB can be briefly outlined as follows:

1. ASB determines the broad areas in which Accounting Standards need to be formulated;
2. Study Groups will be constituted by ASB to consider specific subjects and for preparation of draft standards. In the formation of Study Groups, provision will be made for wide participation by the members of the Institute and others. The Study groups consider appropriate IFRS in preparation of draft standards if suitable to our country business.
3. The draft of the proposed standard will normally include the following:
   (a) Objective of the Standard,
   (b) Scope of the Standard,
   (c) Definitions of the terms used in the Standard,
   (d) Recognition and measurement principles, wherever applicable,
   (e) Presentation and disclosure requirements.
4. ASB will consider the preliminary draft prepared by the Study Group and if any revision of the draft is required on the basis of deliberations. It finalises the draft that is known as exposure draft.
5. The Exposure Draft of the proposed Standard will be issued for comments by the members of the Institute and specified outside bodies such as MCA, Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments.
6. After taking into consideration the comments received, the draft of the proposed Standard will be finalised by the ASB and submitted to the Council of the ICAI.
7. The Council of the ICAI will consider the final draft of the proposed Standard, and if found necessary, modify the same in consultation with the ASB. The Accounting Standard on the relevant subject will then be issued by the ICAI.
8. The accounting standards are issued by ICAI council to for Non-company entities; but for corporate entities the accounting standards are issued by the MCA in consultation with the NFRA.

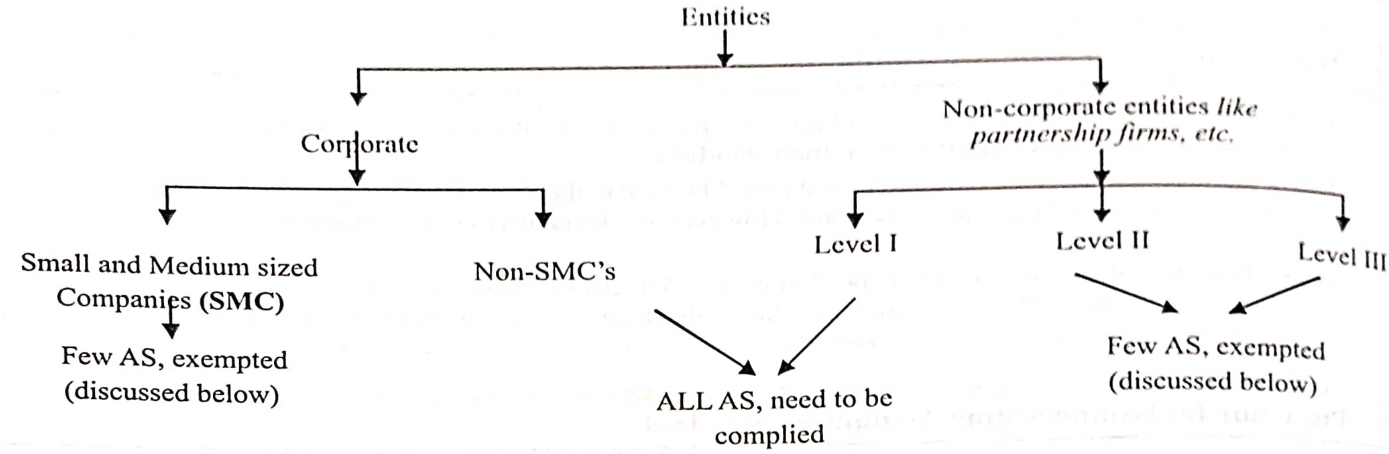
6. How many Accounting standards issued so far?

ICAI issued totally 29 accounting standards but out of these 2 standards are withdrawn at later point of time. So, effectively as of now there are only 27 Accounting standards in existence.

Are all standards applicable to all the entities?

7. Applicability of Accounting Standards

Every entity need NOT follow ALL Accounting standards. It is based on the classification of entities.



Let us learn about CORPORATE entities classification and the applicability of the AS: (AS AMENDED IN 2021)

Small and Medium sized Companies (SMC)

"Small and Medium Sized Company" means, a company—

(a) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(b) which is not a bank, financial institution or an insurance company;

(c) whose turnover (excluding other income) **does not exceed ₹250 crore** in the immediately preceding accounting year;

(d) which does not have borrowings (including public deposits) **in excess of ₹ 50 crore** at any time during the immediately preceding accounting year; and

(e) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

A company shall qualify as an SMC, if all the conditions mentioned therein are satisfied as *at the end of the relevant accounting period.*

Fully exempted ASs: AS 3, AS 17, AS 21, AS 23 and AS 27.

Limited (some paragraphs) exemption: AS 15, AS 19, AS 20, AS 28, AS 29 and AS 25.

Non-SMCs

Corporate entities which are not SMCs are considered as Non-SMCs.

All Accounting Standards should be complied with in preparation and presentation of financial statements.

NON-COMPANY ENTITIES **(As amended in March 2021)**

Let us learn about Non-company entities classification and the applicability of the AS

Level I Entities (Large entities): ***(CA IPCC – Nov 2017 & CA Inter - Jan 2021)***

Non-company enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(a) Enterprises, whose securities are listed or is in the process of being listed in India or outside India;

(E.g., Mutual fund is a trust and its units are traded in the stock exchanges & An exchange-traded fund (ETF) is an investment fund traded on stock exchanges)

(b) Banks (including co-operative banks), Insurance companies and Financial Institutions.

(c) All commercial, industrial and business reporting enterprises, whose turnover (excluding other income) for the immediately **preceding accounting period** on the basis of audited financial statements exceeds **₹250 crore.**

(d) All commercial, industrial and business reporting enterprises whose total borrowings including public deposits exceeds ₹50 **crores, at any time during the immediately preceding accounting period.**

(e) Holding and subsidiary companies of any of the above enterprises at any time during the accounting period.

All Accounting Standards should be complied with in preparation and presentation of financial statements.

Level II Entities

Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(a) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds ₹50 **crores** but does not exceed ₹250 **crores** in the **immediately preceding accounting year.**

(b) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of ₹10 **crores** but not in excess of ₹50 **crores** at any time during the **immediately preceding accounting year.**

(c) Holding and subsidiary entities of any one of the above.

Level III Entities

Non-company entities which are not Level I & II entities but fall in any one or more of the following categories are classified as Level III entities:

(a) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds ₹10 **crores** but does not exceed ₹50 **crores** in the **immediately preceding accounting year.**

(b) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of ₹2 **crores** but not in excess of ₹10 **crores** at any time during the **immediately preceding accounting year.**

(c) Holding and subsidiary entities of any one of the above.

Level IV Entities:

Non-company entities which are not covered under Level I, II and III are considered as Level IV entities.

Standards fully exempted : AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28

Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29

Level II, III and IV entities need not follow all the accounting standards. They get few exemptions.

Concept capsule 1

M/s Omega & Co. (**a partnership firm**), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crore in the previous year. It wants to avail the exemptions available in application of Accounting Standards to Non-company entities for the year ended 31.3.2017. Advise the management of M/s Omega & Co. in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

Suggested answer

M/s Omega & Co. (**a partnership firm**) is a Non-company entity. Accounting standards exemptions are based on the classification of entities based on conditions discussed above.

As per the prescribed classification of ICAI

Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed ₹10 crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed ₹2 crores at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover is less than ₹ 10 crores and borrowing is less than ₹2 crores, it falls under Level IV non company entities.

In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.

Concept capsule 2

A company was classified as Non-SMC in 2020-21. In 2021-22, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment.

Suggested answer

As per Companies (Accounting Standards) Rules, 2021, **an existing company, which was previously not a SMC and subsequently becomes an SMC, should not be qualified for exemption or relaxation in respect of** accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

8. International Financial Reporting Standards (IFRS)

The term "International Financial Reporting Standards (IFRS)" comprises:

1. IFRS issued by IASB;
2. IAS issued by IASC;
3. Interpretations issued by the Standard Interpretations Committee (SIC); and
4. Interpretations issued by the IFRS Interpretations Committee of the IASB (called IFRIC – International Financial Reporting Standards Interpretation Committee)

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. Right now except US, Japan & China big nations almost every country is following IFRS / Converged IFRS (discussed below).

9. What are Indian Accounting Standards (Ind AS)?

- Ind AS are converged IFRS. Convergence means, we made few changes to IFRS and made applicable in India. Those changes are called as Carve INs and Carve OUTs (discussed at next topic);
- Ind-AS are by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA (National Financial Reporting Authority);
- MCA has made the Ind AS applicable for companies in India based on certain criteria; (Criteria discussed below);
- The Ind AS are **named and numbered in the same way** as the corresponding IFRS.
- However, for Ind AS corresponding to IAS, same number is used i.e. IAS 1 = Ind AS 1 whereas for Ind AS corresponding to IFRS, one need to add 100 to the IFRS number e.g. for IFRS 1 corresponding to Ind AS number is 101.

10. What are Carve OUTs / INs in Ind AS?

- **Adoption of IFRS:** means following IFRS **"as it is"** e.g. United Kingdom, UAE and other countries adopted IFRS;
- **Convergence** means few changes are made to IFRS **(additions and deletions to IFRS)** and followed the same;
- Accordingly, while formulating IFRS converged Ind AS, **efforts** have been **made to keep these Standards, as far as possible,** in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors.
- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., **'statement of profit and loss'** in place of **'statement of comprehensive income'** and **'balance sheet' in place of 'statement of financial position'.**
- **Removal of options** in accounting principles and practices in Ind AS *vis-a-vis* IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, **these changes will not result into carve outs.**

- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in application of accounting principles and practices and economic conditions prevailing in India. These **differences which are in deviation to the accounting principles and practices stated in IFRS**, are commonly **known as 'Carve-outs'**. (Carve outs means **corrections**)
- 'Carve-in' means additional guidance provided to Indian companies (this is in addition to IFRS). There is only one Carve-in in the entire Ind AS i.e., only in Ind AS 103;

11. Benefits of Convergence with IFRS

There are many beneficiaries of convergence with IFRS such as the economy, investors, industry etc.

1. **The Economy**
   - When the markets expand globally the need for convergence increases since the convergence benefits the economy by increasing growth of its international business.
   - It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth.
   - It encourages international investing and thereby leads to more foreign capital flows to the country.
2. **Investors**
   - A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country.
   - Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions.
   - Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.
   - Investors' confidence is strong when accounting standards used are globally accepted.
   - Convergence with IFRS contributes to investors' understanding and confidence in high quality financial statements.
3. **The Industry**
   - The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries.
   - The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

12. Applicability of Ind AS – Roadmap for implementation of Ind AS

For Companies other than Banks, NBFCs and Insurance Companies

Phase I: 1st April, 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

1st April 2016: Mandatory Basis

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;

(b) Unlisted Companies having net worth of INR 500 crore or more;

(c) Parent, Subsidiary, Associate and JV of above.

Phase II: 1st April 2017: Mandatory Basis

(a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);