

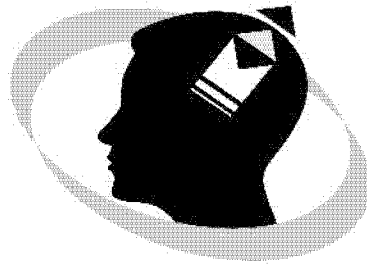
# CA - INTER COURSE MATERIAL

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**SUBJECT CODE: 5, MATERIAL NO: 41  
FAST TRACK MATERIAL ON ACCOUNTING STANDARDS \_ 39e  
(APPLICABLE FOR OLD AND NEW SYLLABUS)  
(COVERS ACCOUNTING AND ADVANCED ACCOUNTING)**

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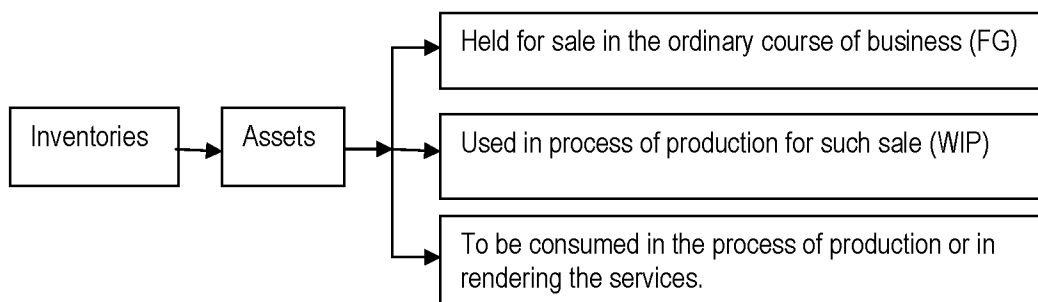
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## **AS -1: DISCLOSURE OF ACCOUNTING POLICIES**

1. Accounting policies are principles and methods adopted in preparation & presentation of Financial statements.
2. Selection of accounting policies is the responsibility of the management
3. In selection of accounting policies management should consider the following considerations:
  - **Primary Consideration:** Selected policies should give True & Fair view to Financial statements
  - **Secondary Consideration:**
    - Prudence
    - Substance Over form
    - Materiality
4. **Disclosure of Accounting policies:**
  - Accounting policies should form part of the financial statements
  - All policies should be disclosed at one place
  - Disclosure is not a remedy for wrong or inappropriate accounting
5. **Fundamental Accounting assumptions:**
  - Going concern
  - Consistency
  - Accrual
6. Disclosure of fundamental accounting assumptions is **not necessary** when the entity is following the same
7. Disclosure is necessary if the entity Does not follow

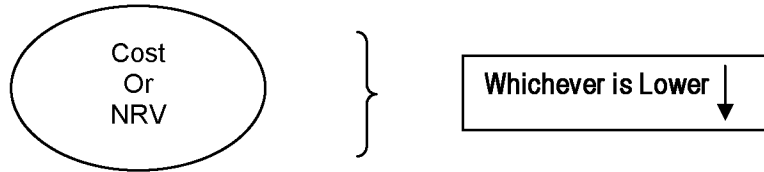
## **AS - 2: VALUATION OF INVENTORIES**

1. **Objective:** To determine the carrying amount of inventories in financial statements
2. **Scope:** AS – 2, doesn't apply to:
  - Work in progress arising under construction contracts.
  - WIP of service providers.
  - Entities holding shares, debentures, other financial instruments as stock in trade.
  - Inventories of livestock, agricultural and forest products, mineral oils, ores and gases
3. **Definition:**



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4. Measurement of inventories:



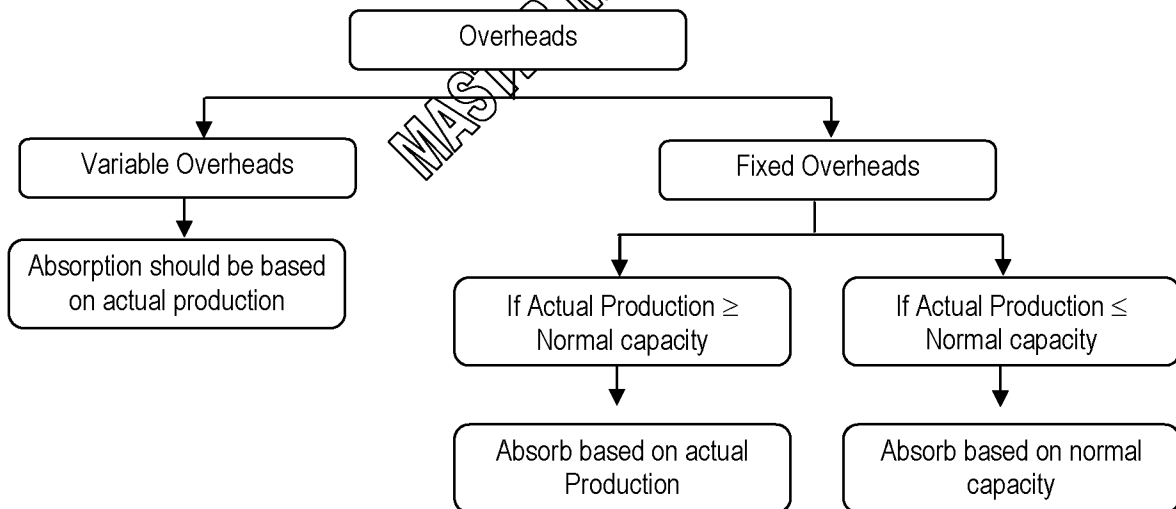
5. Cost of inventory: - Includes

- Cost of purchase
- Cost of conversion
- Other costs (to bring inventory to present location).

➤ Cost of purchase:

Purchase price	XXX
<b>Add:</b> Non-refundable taxes & duties	XXX
Carrying cost	XXX
Inward insurance cost	XXX
Other costs	XXX
<b>Less:</b> Trade discounts	(XXX)
Quantity discounts	(XXX)
Duty drawbacks	(XXX)
<b>Cost of purchase</b>	<b>XXX</b>

- **Cost of conversion:** Costs incurred to convert the raw materials into finished goods.  
Eg: Labour, Factory rent, fuel costs, factory overheads. Etc..



- **Other costs:** All other costs incurred to bring the inventory to the present location and condition.  
Eg: Quality Control cost, R&D Cost, Packing Cost etc..

6. Cost of inventory excludes the following:

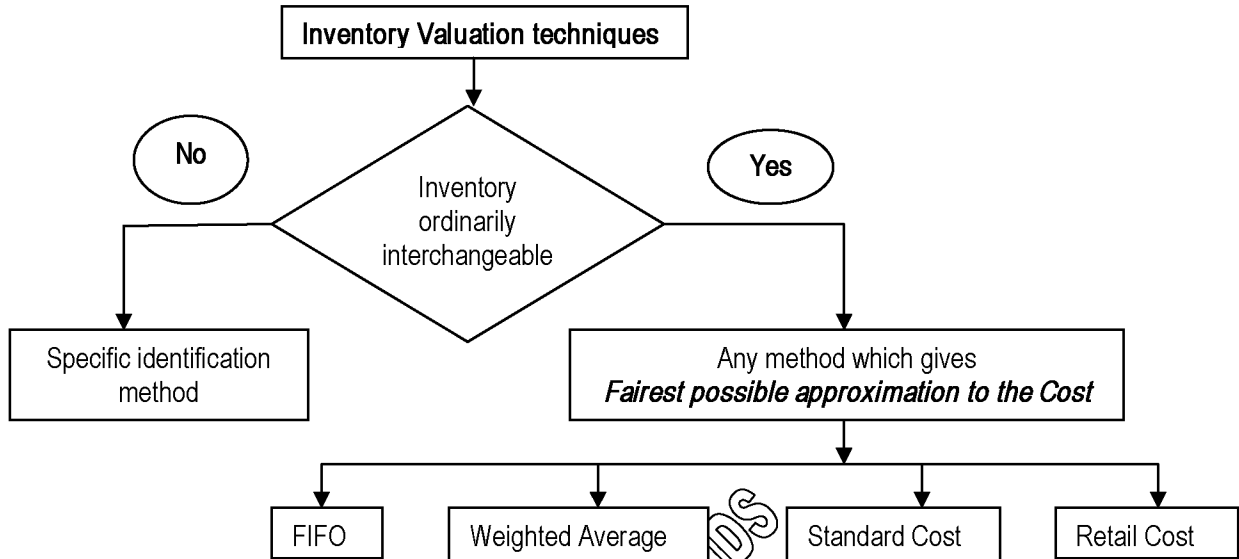
- Abnormal waste of Raw material, labour or other production costs
- Storage costs
- Administration Overheads
- Selling & Distribution Costs
- Interest & finance charges in general

7. Allocation of cost in Special situations:

- **Joint products:** Costs are allocated on a rational and consistent basis.
  - Sales Value at the time of separation or;

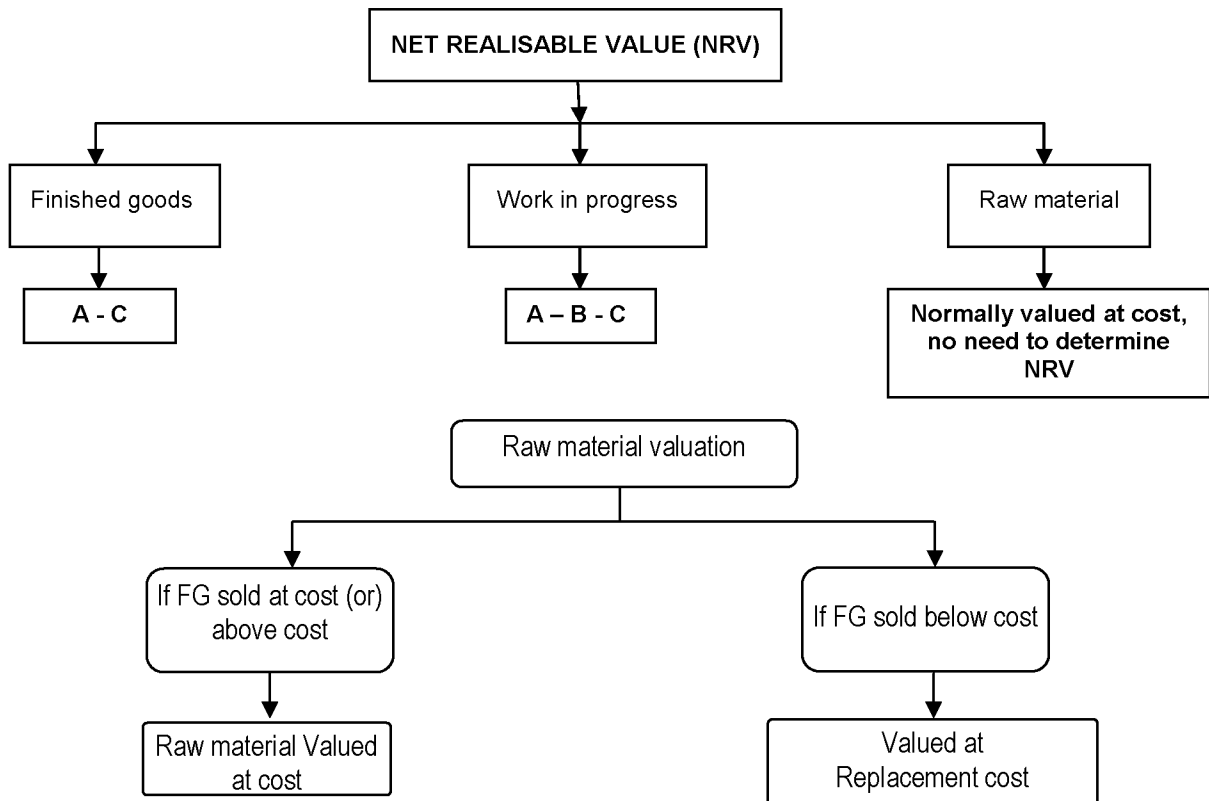
- Sale value of final products or;
- Sale value of final products *Less* Further processing cost
- **By-products:** No need to find out the cost of by product.
  - Cost of main product = Total cost (-) NRV of by product.

**8. Cost Formulas:**



**9. Net realizable value (NRV):**

- |  |              |
|--|--------------|
| A. Estimated selling price in the ordinary course    | : xxx        |
| B. Less: Cost of completion (in case of WIP)         | : (xxx)      |
| C. Less: Cost to make the sale (in case of WIP & FG) | : (xxx)      |
| <b>NRV</b>   | <b>: xxx</b> |



**10. Disclosures:**

- The accounting policies adopted in measuring inventories, cost formulas used.
- Total carrying amount of inventories and its classification appropriate to the enterprise.

**AS - 3: CASH FLOW STATEMENT**

1. Cash flow statement reflects the various sources and applications of cash & cash equivalents during the year.
2. Cash includes cash in hand, cash at bank & Demand deposits with Banks
3. Cash equivalents:
  - Short term & Highly liquid investments which are readily convertible into cash
  - Insignificant risk of changes in value
4. Based on the nature of Business of the entity; the Cash activities are classified as follows:
  - Operating Activities
  - Investing activities
  - Financing activities
5. **Operating activities:**
  - Principal revenue producing activities
  - Those activities which can't be classified as investing or financing
6. **Investing activities:**
  - Purchase & Sale of long term assets and other investments
  - Income received from the investments
7. **Financing activities:**
  - Which changes the composition or Size of owner's capital & borrowing.
  - Financing Costs
8. **Presentation of Cash flows from operating activities:** The Cash flows from operating activities can be presented in Two ways. They are
  - **Direct Method:** Which gives information about major classes of Gross cash receipts & payments
  - **Indirect method:** Cash flows from operating activities are determined by adjusting the Profit or Loss before tax and extraordinary/exceptional items with the following:
    - Non-cash items
    - Non-operating items
    - Changes in working capital
    - Tax paid & Extraordinary items
9. **Disclosure:**
  - The components of cash & cash equivalents
  - Reconciliation of the amount in cash flow statements with amount reported in balance sheet
  - Cash balances not available for use by the entity
  - Any additional information

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**AS – 4: CONTINGENCIES & EVENTS OCCURING AFTER BALANCE SHEET DATE**

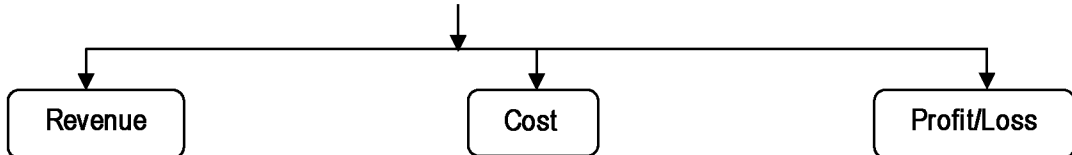
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**AS – 5: NET PROFIT / LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGE IN ACCOUNTING POLICIES**

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**AS – 7: CONSTRUCTION CONTRACTS**

1. **Objective:** Prescribes the Accounting treatment of the following in relation to Construction contracts

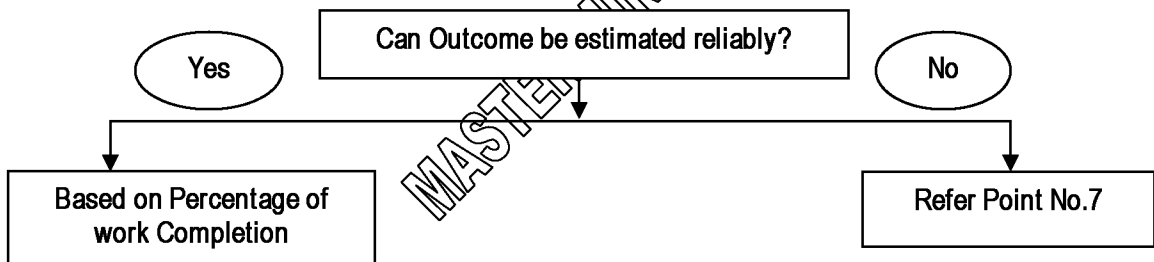


2. **Definition:** A Contract for construction of a single asset Or group of assets which are closely interrelated and also includes

- Service contracts in relation to Construction &
- Contracts for Destruction & Restoration

3. **Profit/ Loss from a contract** = Contract Revenue – Contract cost

4. **Recognition of Contract revenue and Expenses:**



5. **When the Outcome can be estimated reliably:**

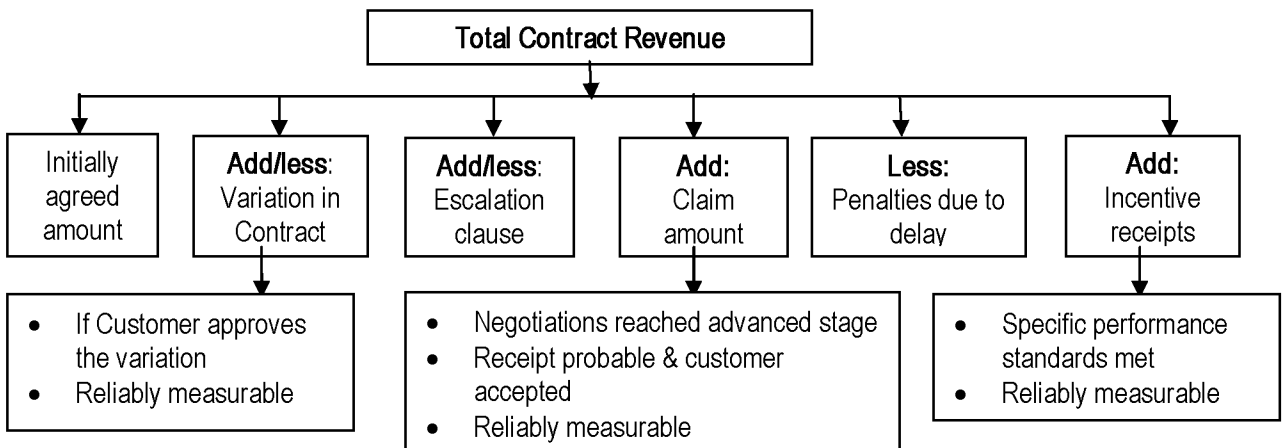
I. **Contract Revenue:**

A. **Determination of Contract revenue:** Contract revenue for a period = (Total contract revenue x % of Work completed) – Revenue already recognised

B. **Determination of “% of Completion”**

- Based on Cost incurred: Percentage of work completed = (Contract cost incurred till date/ Estimated total cost) x 100

C. **Determination of Total Contract Revenue:**



**II. Contract Cost:**

**A. Determination of Contract Cost:**

**Contract cost for a period = Actual cost incurred during the period**

**B. Contract Cost includes:**

- **Specific cost:** Costs that are directly related to a specific Contract
  - **Ex:** Material cost, Labour cost, Depreciation of plant etc..
  - Incidental income which is not included in Revenue should be reduced from cost
- **Attributable and allocable costs:** Costs which are not specifically incurred for a particular contract. These costs are allocated to various contracts in a systematic and rational basis.
  - **Ex:** Insurance premium paid, Cost of design and technical assistance etc..
- **Other Costs as per agreement:** If it is specifically mentioned in the agreement, it should added to contract cost
  - **Ex:** General admin costs, R&D costs etc..

**C. Unallocable costs:**

- General administration cost
  - R&D Cost
  - Selling costs
  - Depreciation on plant which is not used for contract
- Allocable if mentioned in Contract

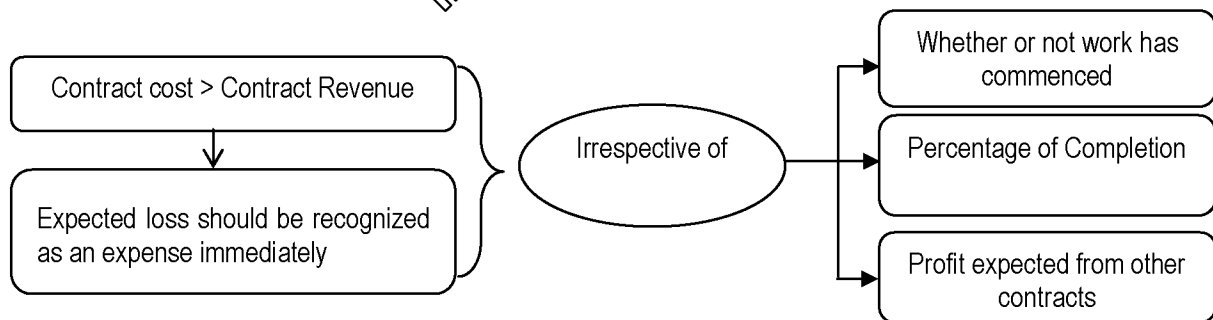
**Note:**

- Material not used/installed at the site will not be included in the cost
  - Advance payments to labour will not be included in the cost
- Considered as Contract Work in progress

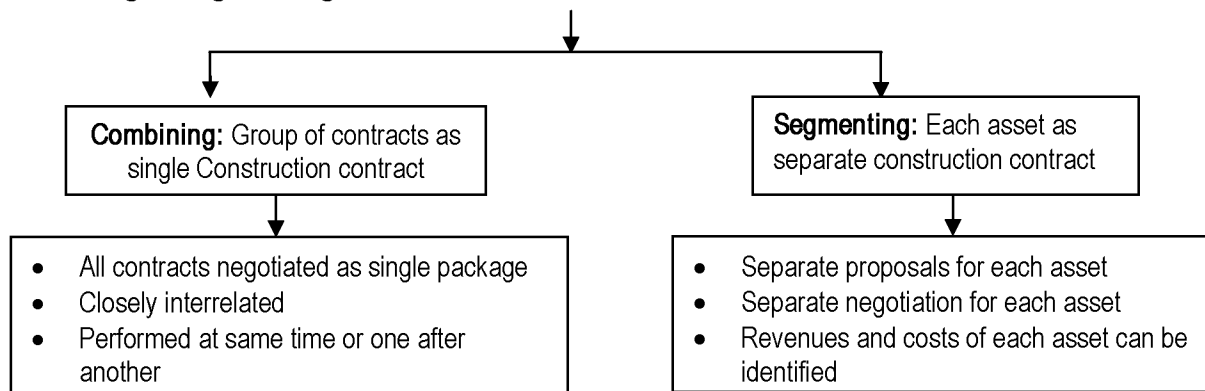
**6. When the Outcome of a contract Cannot be estimated reliably:**

- Recognise revenue to the extent of cost Recoverable; if recovery of such cost is possible
- Recognise Cost as an expense when it is incurred

**7. When the entity expects a Loss:** When it is probable that

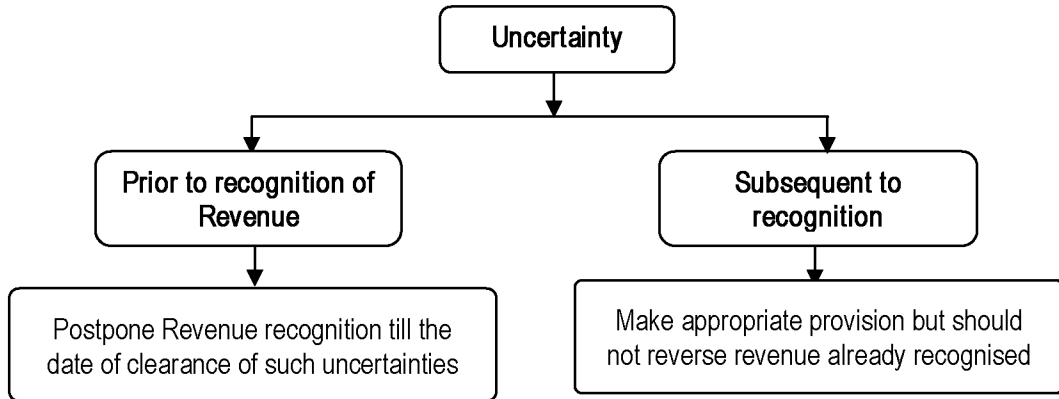


**8. Combining & Segmenting construction contracts:**





**9. Uncertainty in collection:**



**10. Disclosures:**

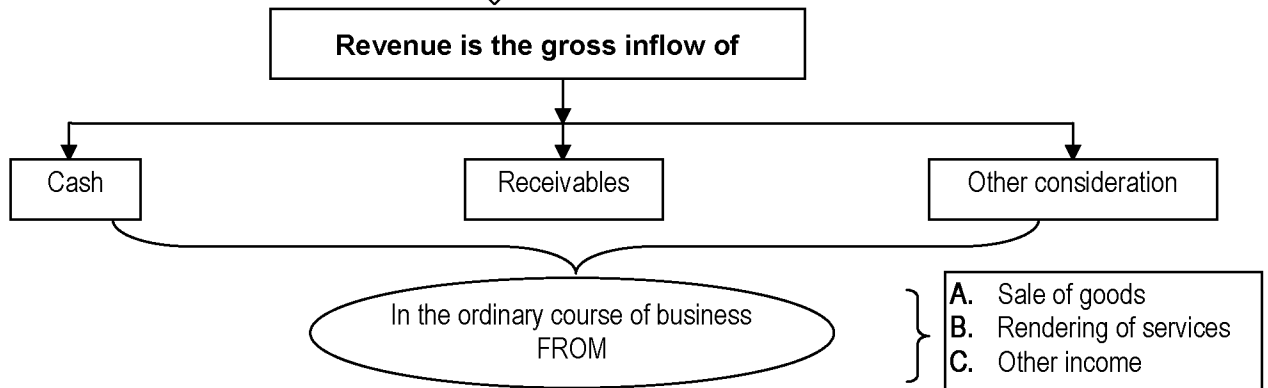
- Contract revenue recognized
- Method used for determination of contract revenue
- Methods used for determination of percentage of completion
- Details of Contracts in progress

**AS-9: REVENUE RECOGNITION**

- Objective:** Deals with timing of Recognition of Revenue
- Scope:** Deals with Revenues arising in the ordinary course of business



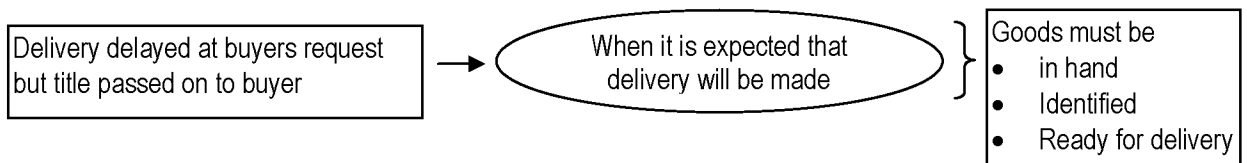
**3. Definition:**

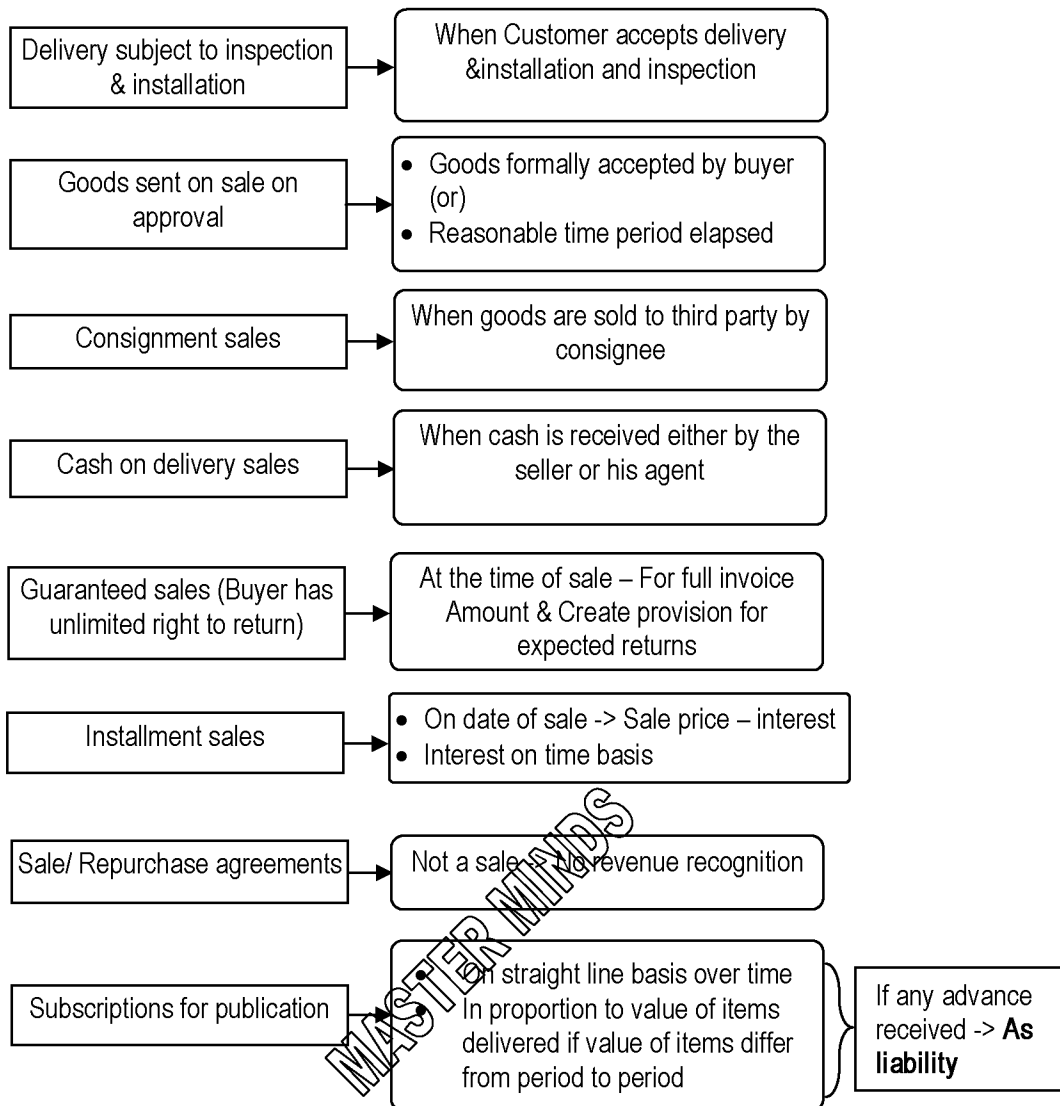


**4. Sale of Goods:** Revenue from sale of goods is recognized if the following conditions are satisfied:

- Significant risk and rewards of ownership transferred to buyer
- NO significant uncertainty in ultimate collection at the time of recognition

**5. Recognition under different situations in case of Sale of goods:**

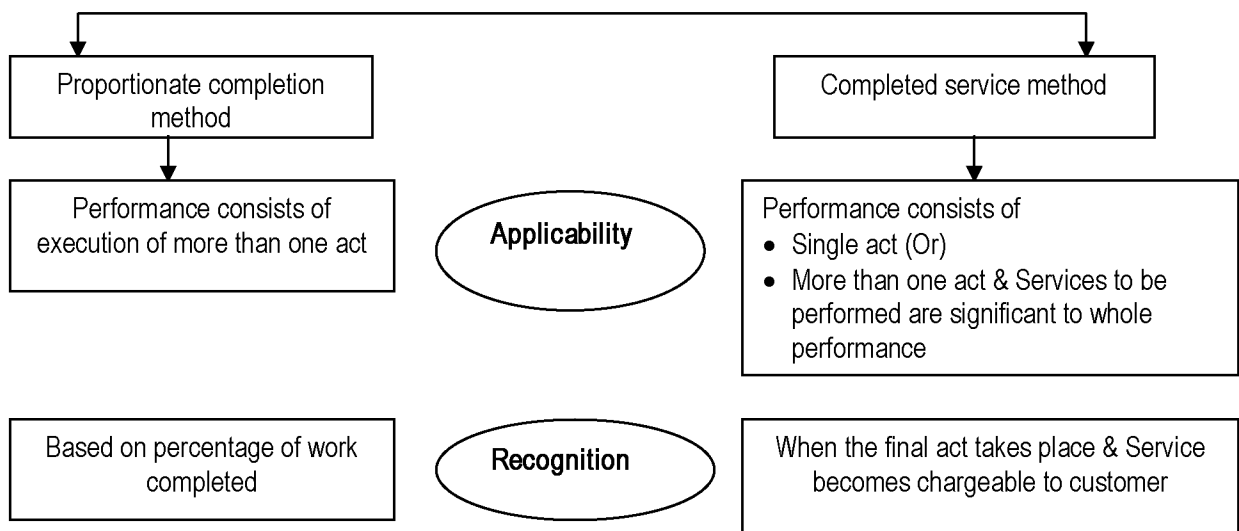




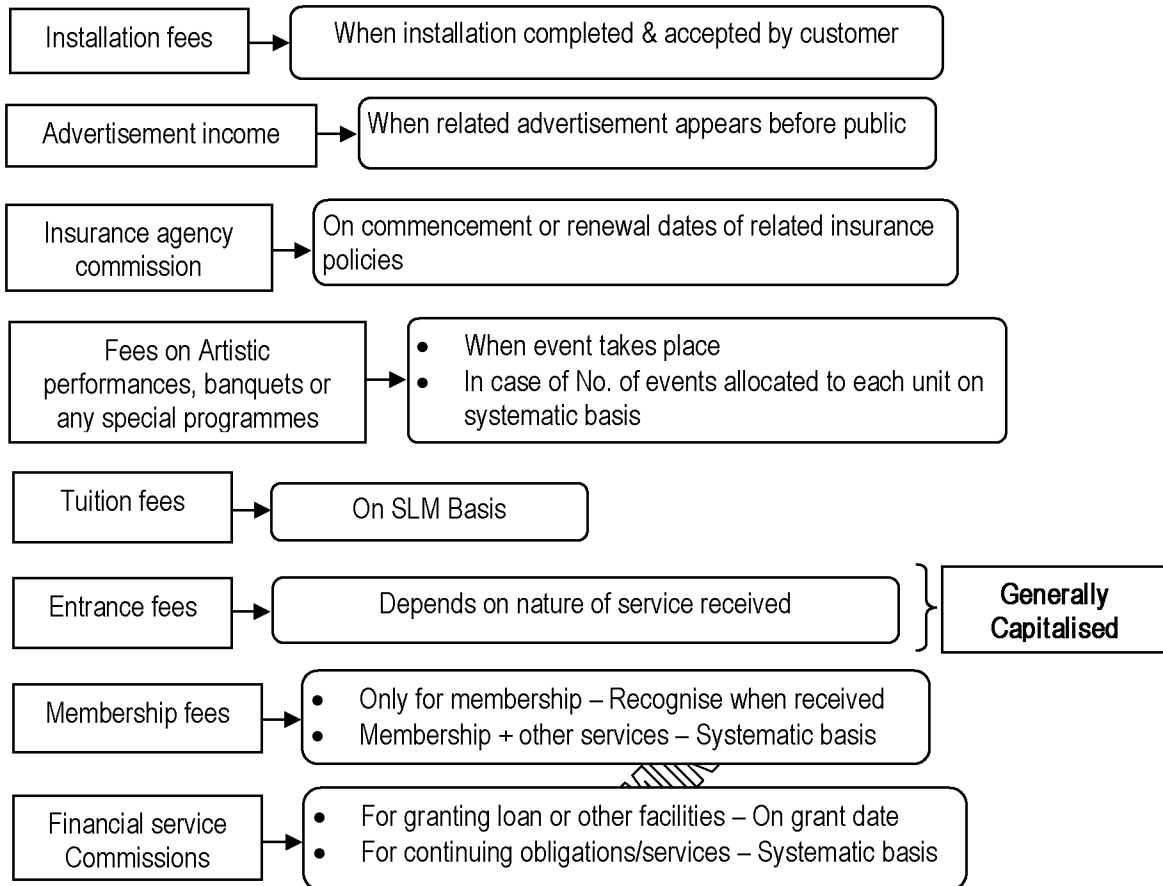
**6. Rendering of services:** Revenue from Rendering of services is recognized if the following conditions are satisfied:

- Services should be performed
- NO significant uncertainty in ultimate collection at the time of recognition

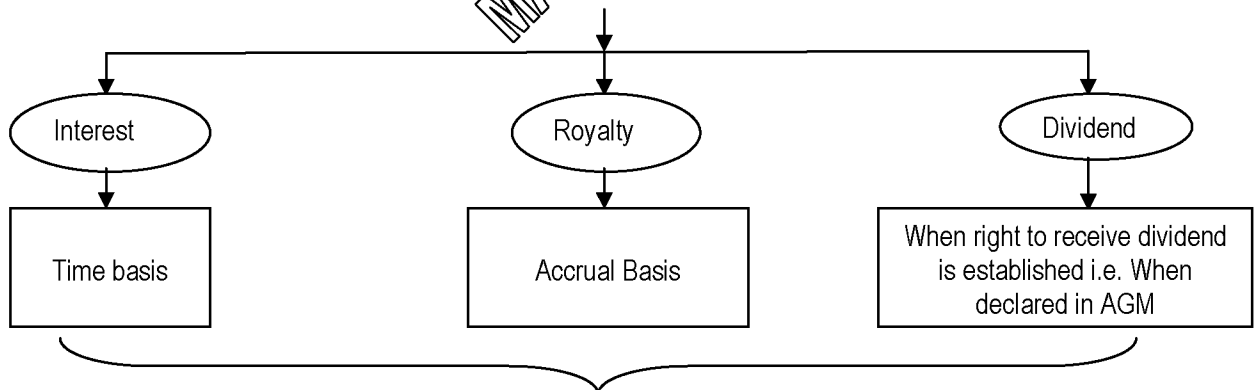
**7. Methods to determine performance of service:** ↓



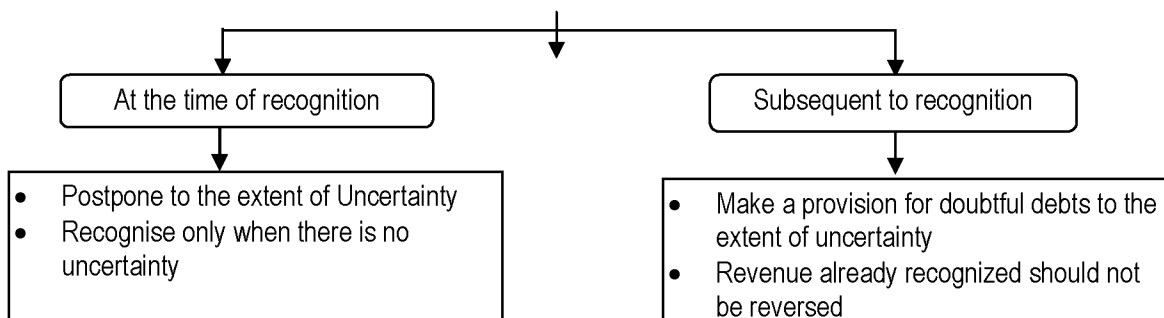
**8. Recognition under different situations in case of Rendering of services:**



**9. Other income - Arises from use of enterprise resources by others**



**10. Effect of uncertainty on Revenue recognition:**



## AS – 10: PROPERTY, PLANT AND EQUIPMENT (PPE)

### 1. Scope:

- Generally PPE are grouped into categories like Land, Buildings, Plant & Machinery, Furniture & Fittings, etc.

**Does not deal with:**

- Biological assets related to agricultural activity other than bearer plants.
- Wasting assets including mineral rights, expenditure on exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources
- If PPE'S recognition is covered by any other AS, to that extent one should follow the respective standard.

- **Bearer Plant:**

- Is used in the Production/supply of agricultural produce
- Expected to bear produce for more than a period of 12 months
- Has a remote likelihood of selling the bearer plant as an agricultural produce, except for incidental scrap sales

### 2. Definition of PPE: PPE are tangible items

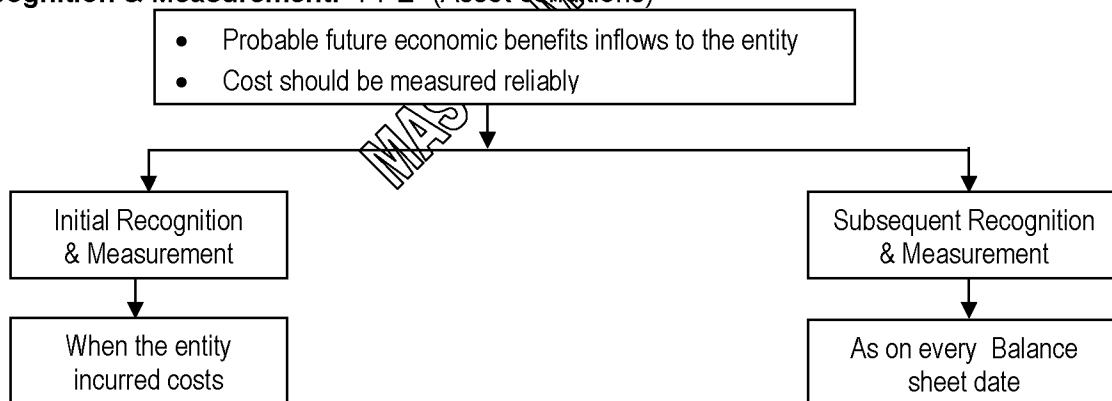
a) Held for use in

- Producing goods
- Providing services
- Rental to others
- Administrative purpose

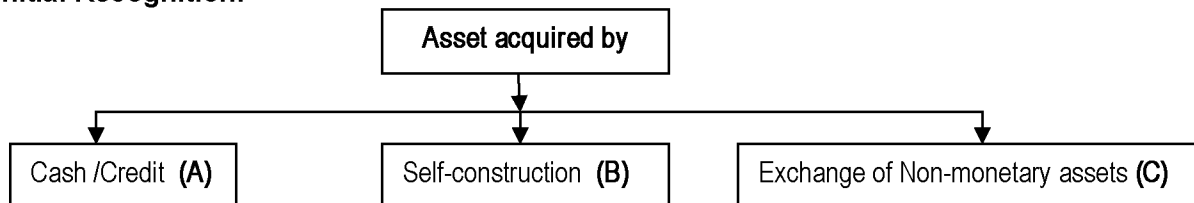
And

b) Expected to be used for more than 12 months

### 3. Recognition & Measurement:- PPE- (Asset conditions)



### 4. Initial Recognition:



#### A. Asset Purchased by Cash/ Credit :- PPE should be measured at its Cost

**Cost of asset includes:-**

- Purchase Price
- Taxes & duties (Non-refundable)
- Initial delivery and handling costs
- Site preparation cost
- Installation costs
- Professional costs
- Borrowing costs (as per AS-16)

- Present value of decommissioning, restoration costs

- Test runs expenditure (-) realisable value
- Directly attributable costs( if any)

**Adjustments to be made for:-**

- Subsequent price changes
- Changes in duties
- Trade discounts
- Government Grants

**Note:** The following costs should not form part of cost of the PPE

- General administration Overheads
- Expenses incurred between the date of ready to use and actual commencement of commercial production

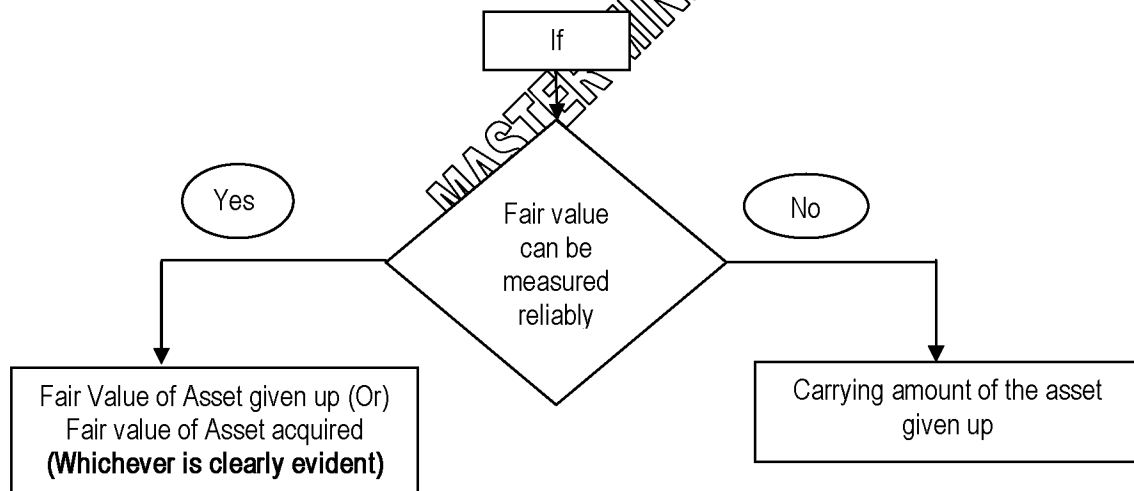
**B. Self-Constructed PPE:- Cost Includes**

- All Costs capitalised as above in A
- Cost of construction directly relate to specific asset
- Costs attributable to construction activity
- Borrowing costs (As per AS – 16)

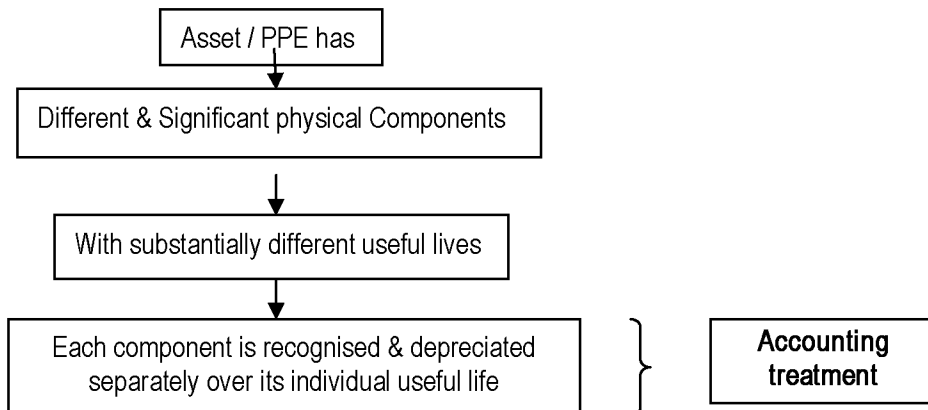
**Note:**

- Any internal profits should be eliminated.
- Abnormal loss of material, labour, other Resource should be eliminated.

**C. PPE acquired by Exchange of Assets:- Asset is recorded at,**

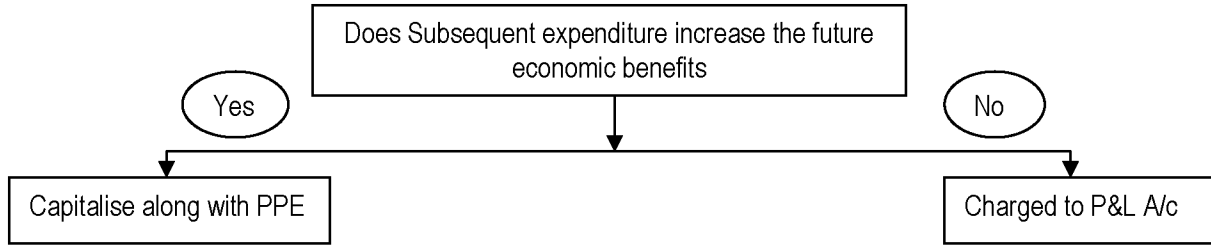


**5. Component Accounting:**

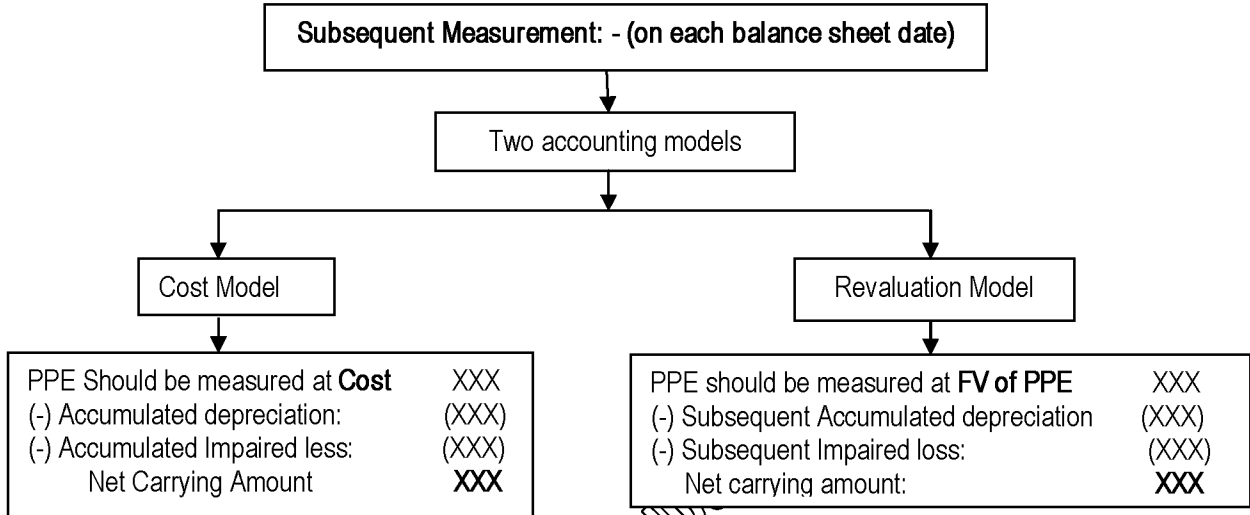


**Note:** If a significant component is replaced, then Old component is derecognized and new component is capitalized.

6. Subsequent Expenditure on PPE:-



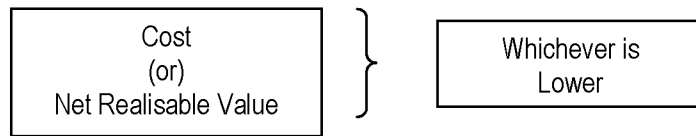
7. Subsequent Measurement:



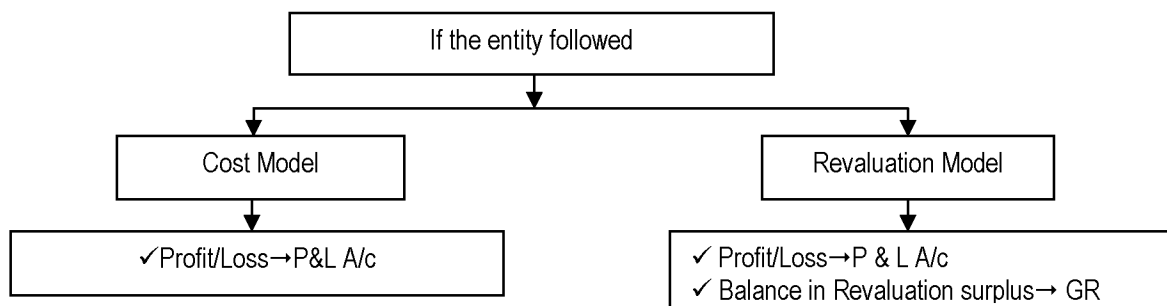
8. Revaluation Accounting

First Time Revaluation		Subsequent Revaluation	
Upward	PPE A/c Dr. To Revaluation surplus A/c	Upward	PPE A/c Dr. To revaluation surplus A/c
		Downward	Revaluation Surplus A/c (to the extent available) P & L A/c (Balancing Figure) To PPE A/c
Downward	P & L A/c Dr. To PPE A/c	Upward	PPE A/c Dr. To P & L A/c (to the extent charged earlier) To Revaluation surplus A/c (Balancing Figure)
		Downward	P & L A/c Dr. To PPE A/c

9. Retirement of PPE: If PPE is retired from active use and held for disposal; PPE should be stated in Balance Sheet.



10. Disposal of PPE:



**11. Depreciation:** Systematic allocation of the **Depreciable amount** of an asset over its useful life.

**A. Depreciable Amount:**

Historical/revalued amount:	XXX
<b>Less:</b> Estimate residual value:	(XXX)
Depreciable amount	<b>XXX</b>

**B. Factors in determining depreciation amount:**

- Historical cost/ Revalued amount
- Useful life
- Residual value

**C. Useful Life:** Period over which Depreciable asset is expected to be used by the entity.

**D. Estimated residual value:** An estimated amount which can be recovered from the asset at the end of its useful life.

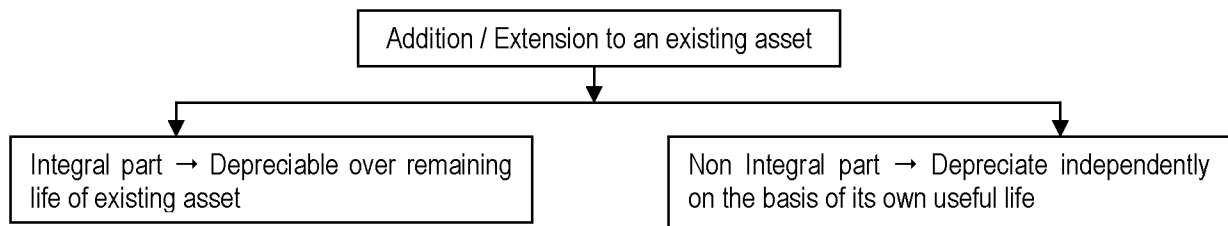
**Notes:**

- As part of component accounting, an entity should allocate the total cost among its significant parts and provide depreciation on each such part separately.
- The depreciation charge should be recognized in P&L unless it is included in the carrying amount of another asset.

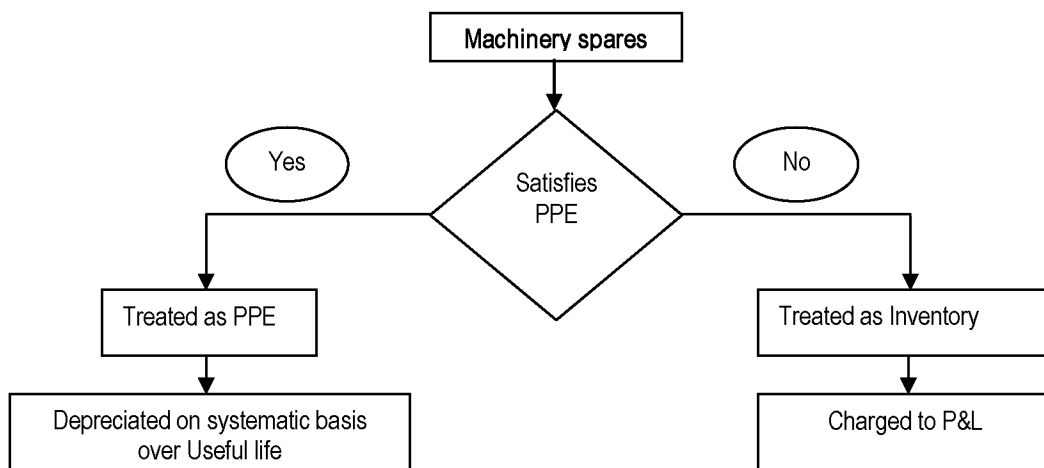
**12. Method of Depreciation:-**

- Depreciation method should reflect the pattern in which the **future economic benefits** of the asset are expected to be consumed by the entity.
- Depreciation method selected to an asset should be **reviewed** at least at each financial year end.
- Change in the method of depreciation should be accounted for as a change in **accounting estimate**.
- Two different methods **can be followed** for different parts of single PPE.
- If any asset has been added, sold, discarded, demolished or destroyed during any financial year then depreciation should be calculated on **pro rata** basis.

**13. Depreciation on addition/extension to an existing asset:**



**14. Treatment of machinery spares:**



15. **Disclosures:** For each PPE, the following disclosures should be made:

- a) Measurement basis used (Cost or revaluation model).
- b) Depreciation methods used
- c) Useful lives & depreciation rates used
- d) Gross carrying amount & accumulated depreciation
- e) Revaluation details
- f) Reconciliation of the carrying amount at the beginning and end of the period.

## AS - 11: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1. **Scope:** This standard deals with the following:

- Foreign currency transactions
- Translation of financial statements of foreign operations
- Accounting for forward exchange contracts

**Abbreviations Used:**

- OS – Opening stock
- CS – Closing stock
- HO – Head Office

2. **Accounting for Foreign currency transactions:**

A. **Definitions:**

a) **Monetary items:** Monetary items are

- Money held &
- Other assets and Liabilities

Which are receivable and payable in terms of money

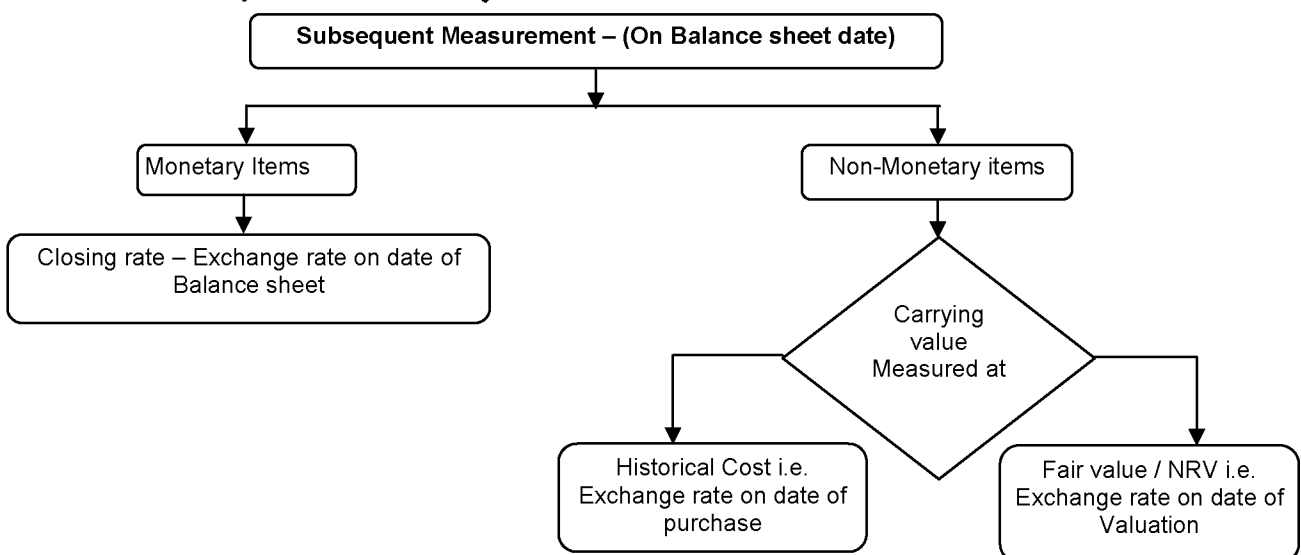
**Examples:** Cash in hand & at Bank, Trade receivables, Trade payables

b) **Non-Monetary items:** Other than Monetary items.

**Examples:** Tangible fixed assets, Intangible assets etc.

B. **Recognition and Measurement**

- **Initial recognition & Measurement:** Transactions should be recorded at the rate prevailing as on the date of transaction
- **Subsequent recognition & Measurement:** It depends on the Classification of items into Monetary and Non-monetary.



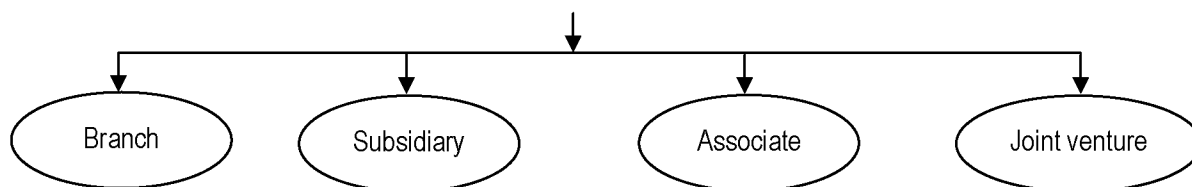
C. **Exchange rate difference:** All the exchange differences should be recognized in P&L A/c as Exchange Gain or Loss in the year in which it occurs.

**Exception: Para 46A (Refer Point No.4)**

3. **Accounting for Translation of Foreign Operation:**

A. **Foreign Operation:** A foreign operation includes a foreign

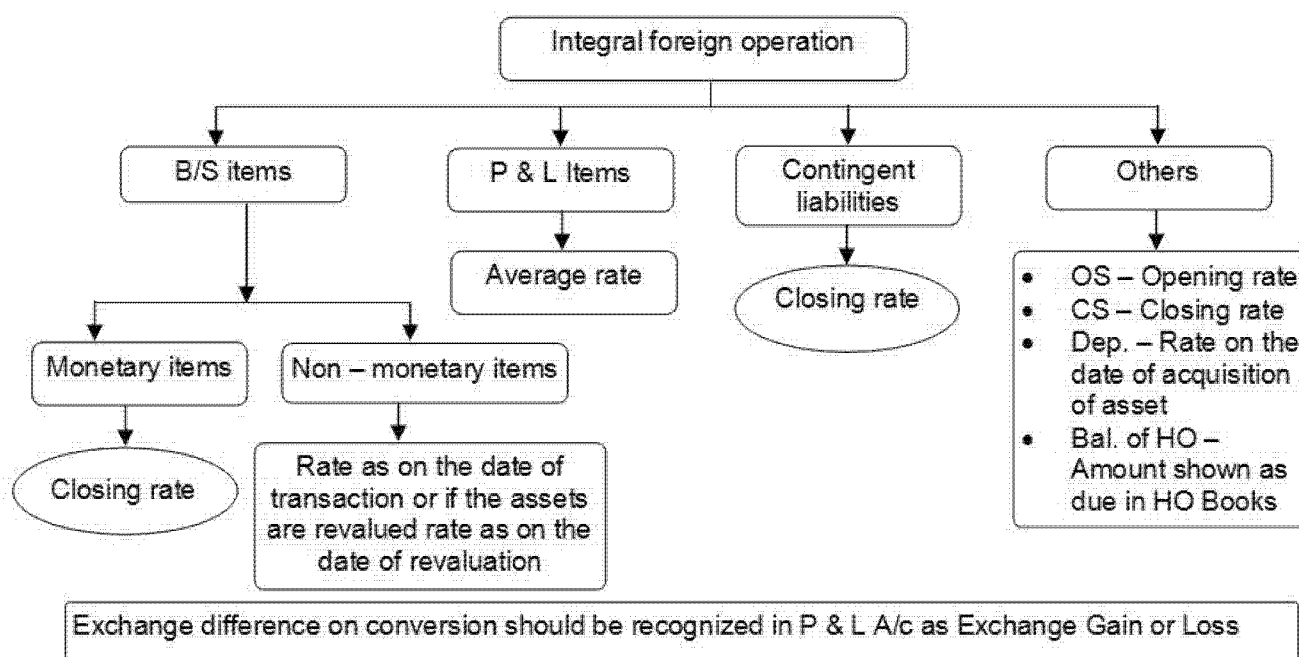




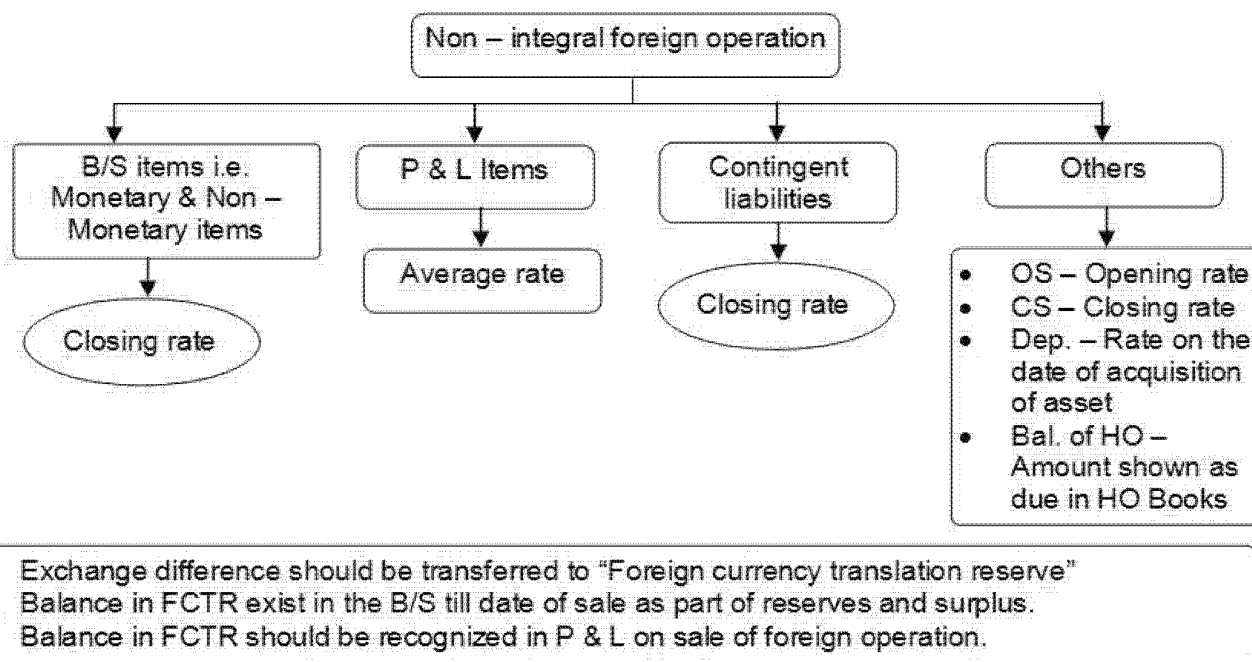
**B. Classification of foreign operations:**

- **Integral foreign Operation:** A Foreign operation (Branch) does its business outside india as if it is an extension to the indian business.
- **Non-integral foreign operation:** A Foreign operation does business independently and accumulates cash and other monetary items and remits foreign currency occasionally.

**C. Translation of Financial statements of an Integral foreign operation:**

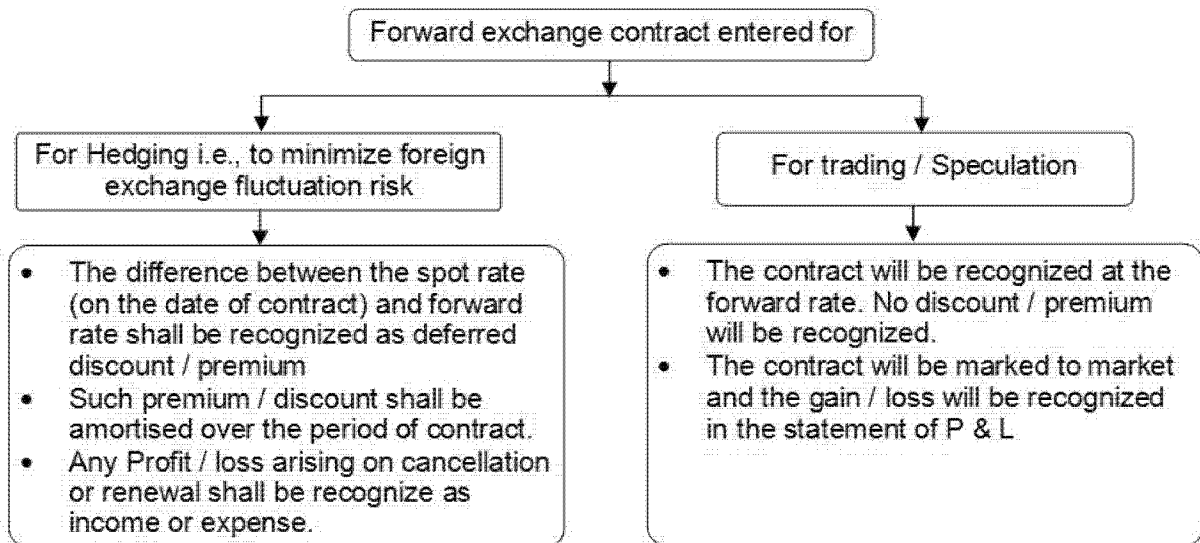


**D. Translation of Financial statements of an Non-Integral foreign operation:**



4. Accounting for Forward exchange contracts

- A. **Forward exchange contract:** An agreement to exchange different currencies at a specified future date at a predetermined rate
- B. **Accounting treatment:**



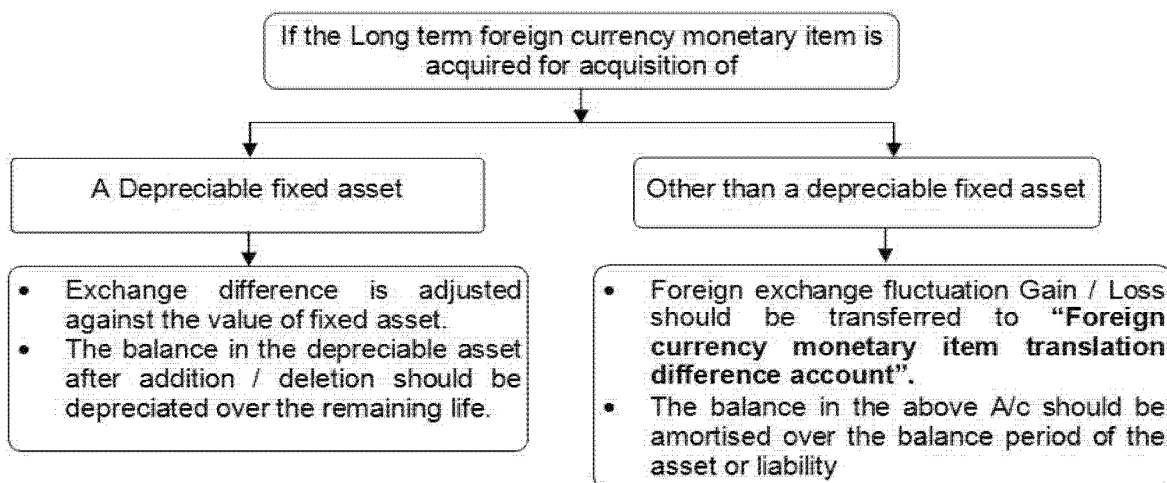
5. Treatment of Exchange difference as per Para 46A

A. **Applicability:**

- An **Option** available to the Companies
- If exercised by any company, should continue with the same
- Para 46A is Prospective and Not retrospective
- Only in relation to All **Long term foreign currency monetary items**

B. **Long term foreign currency monetary items:** Assets or liabilities which are expressed in foreign currency and that have a term of 12 months or more from the starting date of such asset or liability.

C. **Treatment of Exchange difference:**

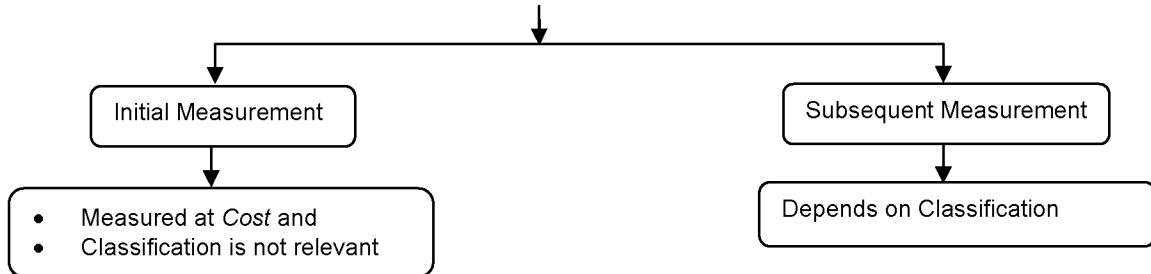


**AS – 12: ACCOUNTING FOR GOVERNMENT GRANTS**

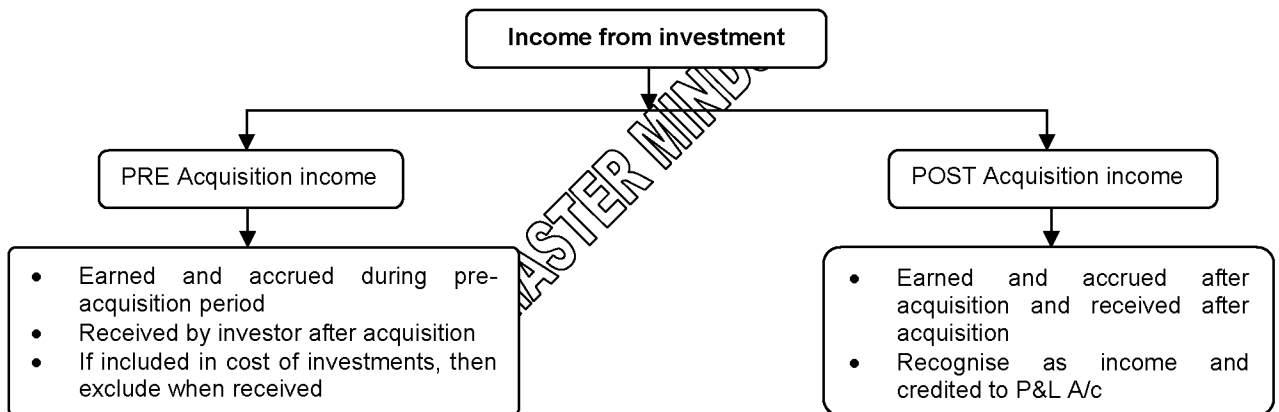
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## AS - 13: ACCOUNTING FOR INVESTMENTS

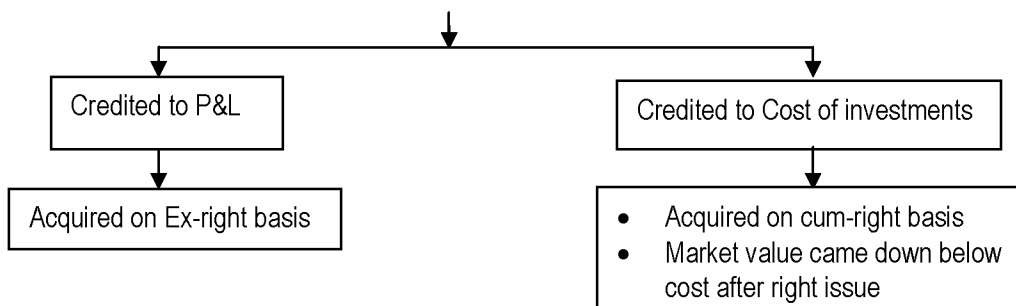
- Investment is an asset held for earning income by way of
  - Dividend,
  - Interest and rental,
  - for capital appreciation or
  - for other similar benefits.
- Investments are recognized and measured in two stages



- Cost of investment includes:
  - Basic cost of investments,
  - Direct costs incurred for acquisition
- Income from investment: Income from investments is classified as follows:



- Bonus and Right Shares:
  - Bonus Shares:**
    - Issued to existing equity shareholders at free of cost
    - Cost of investment – NIL
    - No need to record any journal entry
    - No. of bonus shares are added to existing No. of shares
  - Right shares:**
    - Issued to existing shareholders the “Right” to purchase the shares at a discounted price
    - Shareholders can renounce their right if they don’t want to exercise the right
    - Proceeds from renouncement of rights



6. **Classification of investments for Subsequent measurement:** For subsequent measurement on Balance sheet date investments are classified as follows:

- **Current Investments:**
  - Readily realizable
  - Intension to hold for not more than one year from date of acquisition
- **Long term Investments:**
  - Which is not current investment

Cost OR Fair value  
whichever is lower

Always value at Cost

**Exception:** In case of permanent diminution reduced to **Carrying amount**

**Note:** The carrying amount of Investments should be on **individual basis** but not on overall basis

7. **Sale of investments:** The profit/Loss on sale of investments should be recognized in the P&L A/c

- **If the investments are sold in full:**
  - Profit/(Loss) = Sale proceeds (Net of selling exp) – Carrying amount (Book value)
- **If the investments are partly sold:**
  - The carrying amount of the partly sold investments are determined by Average cost basis.
  - Now the Profit/(Loss) will be determined as above

8. **Reclassification of investments:**

- **From Long term to Current :** Lower of **Cost** and **Carrying amount**
- **From Current to Long term:** Lower of **Cost** and **Fair value**

On the date of Reclassification

9. **Disclosures:**

- Accounting policies
- Gross income received/ Receivable
- Profit/Loss on sale of investments and adjustment of carrying amount of investments if any
- Quoted and unquoted investments and the market value of quoted investments

## AS – 14: ACCOUNTING FOR AMALGAMATION

REFER FLOWCHART

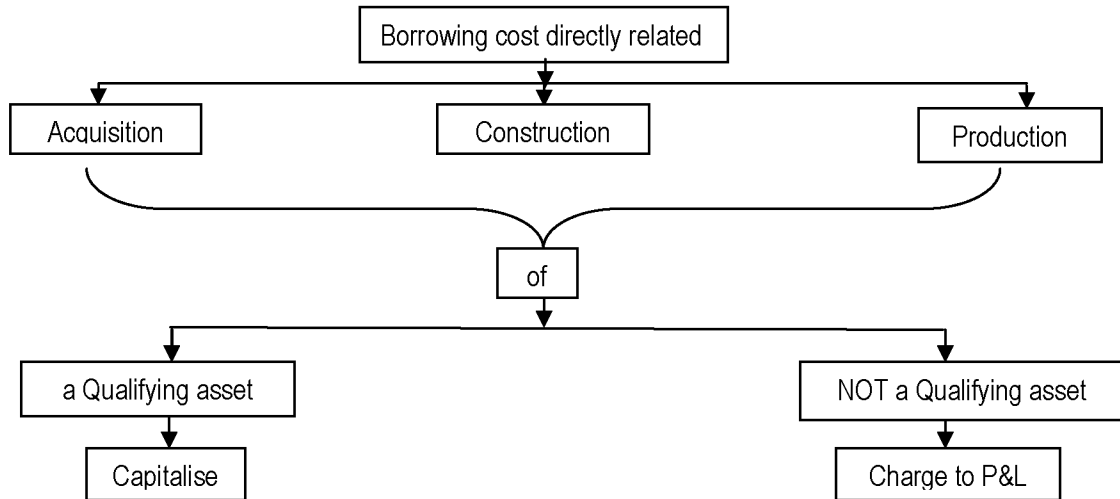
## AS - 16: BORROWING COSTS

1. **Objective:** Whether the borrowing cost should be capitalized or charged to Profit & Loss account.

2. **Definitions:**

- i) **Borrowing Cost :** Interest and other costs incurred relating to borrowing of funds.  
may Includes:-
  - a) Interest & commitment charges on borrowing.
  - b) Amortisation of discounts or premium.
  - c) Amortisation of ancillary costs incurred for arrangement of borrowing.
  - d) Finance charges incase of finance leases.
  - e) Exchange difference arising from foreign currency borrowings to the extent that they are regarded as **adjustment to interest costs**. (See 7th Point)
- ii) **Qualifying asset:** An asset that necessarily takes **substantial period of time** to get ready for its **intended use / sale**.
- iii) **substantial period of time:**
  - Primarily depends on facts of the case
  - Generally 12 months period
  - Even less than 12 months (if justifiable)

3. Recognition:



4. **Quantum of Capitalisation:** The amount to be capitalized depends on the funds used for acquiring the Qualifying asset. If the Qualifying asset is acquired out of

a) **Specific borrowing:**

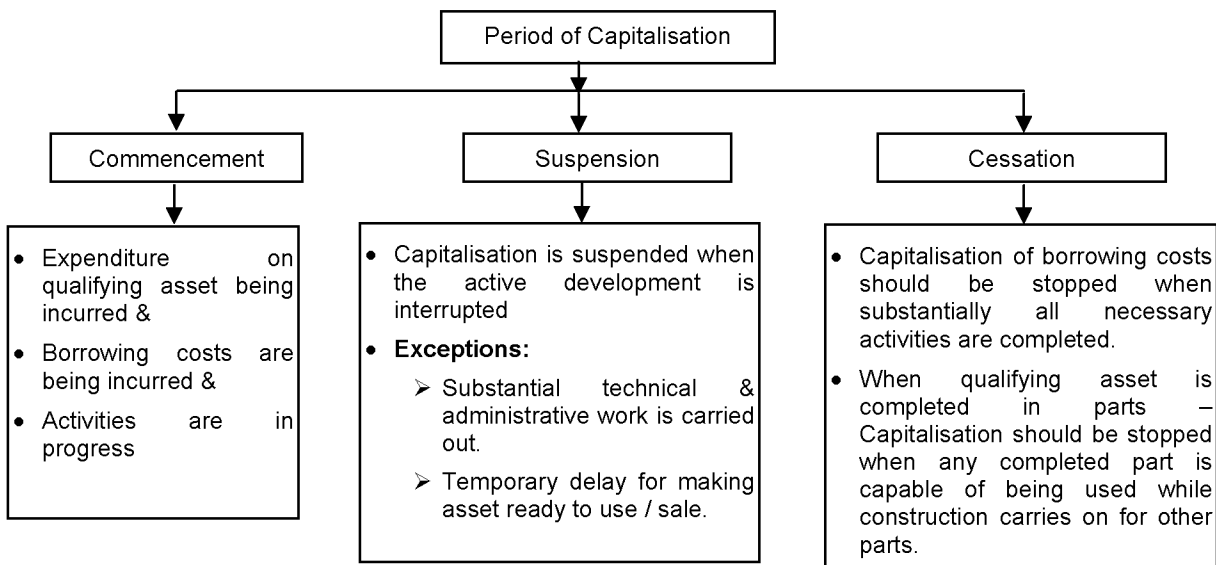
Actual borrowing costs incurred	xxx
Less: Any Income on temporary investments of borrowed amount	xxx
Amount to be capitalized	xxx

b) **General borrowing:**

- i) Entity should determine **Capitalisation rate**
- ii) Specific borrowings should not be considered for calculation of Capitalisation rate
- iii) 
$$\text{Capitalisation rate} = \frac{\text{Average borrowing costs incurred during year}}{\text{Aggregate outstanding borrowings}} \times 100$$
- iv) 
$$\text{Aggregate of outstanding borrowings} = \frac{\text{Amount of borrowings} \times \text{No. of months outstanding}}{12}$$
- v) 
$$\text{Interest to be capitalized} = \text{Exp. incurred on asset} \times \text{capitalisation rate} \times \frac{\text{Period of construction}}{12}$$

**Note:** Where the expenditure incurred on a qualifying asset is on different dates, then in such cases the average accumulated expenses will be calculated by considering the period weights.

5. **Period of Capitalisation:**



**6. Excess of carrying amount than Recoverable amount:**

- If carrying amount (after Capitalisation) > Recoverable Amount (NRV); Excess Carrying amount is written off as per,
  - AS -2 (Incase qualifying asset is inventory)
  - AS – 28 (incase qualifying asset is fixed asset)

**7. Exchange difference arising from foreign currency borrowings to the extent that they are regarded as adjustment to interest costs.**

• **Adjustment to interest cost**

Interest in reporting currency (if the loan taken in reporting currency) – xxx

Less: interest on foreign currency loan (convert using closing rate) – (xxx)

Adjustment to interest cost xxx

- The adjustment to interest cost should be considered as borrowing cost as per AS – 16
- The Adjustment to interest cost cannot exceed the Exchange difference.
- Exchange difference as per AS – 11 = Exchange difference – Adjustment to interest cost

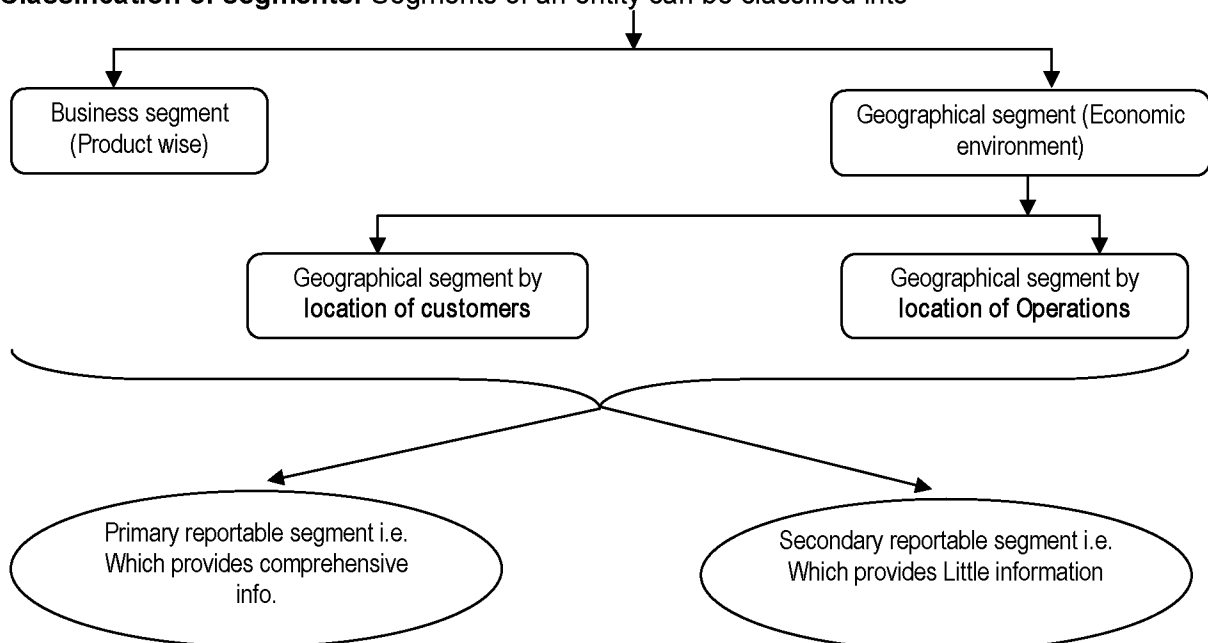
**8. Disclosures:**

- a) The accounting policy adopted for borrowing costs.
- b) The amount of borrowing costs capitalized during the period.

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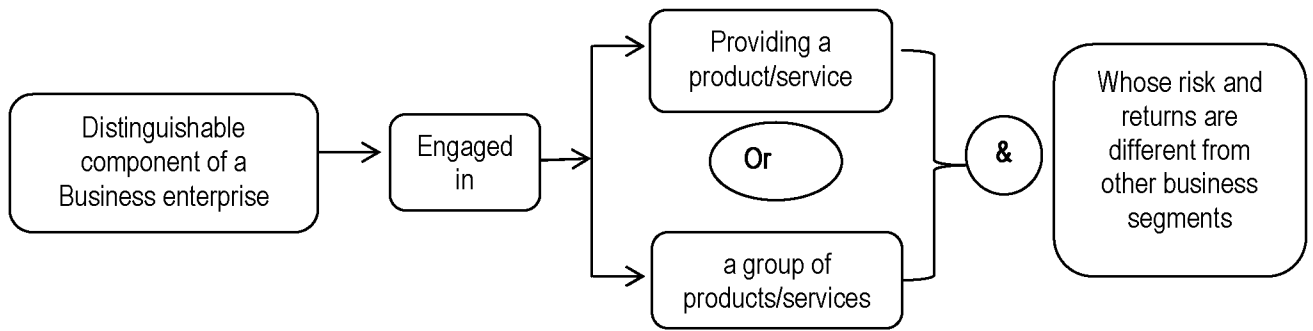
## AS – 17: SEGMENT REPORTING

1. **Objective:** Reporting of segment information is necessary for meeting the needs of users of financial statements. This standard makes it mandatory in providing such information.
2. **Scope:** This standard is basically a disclosure standard. It is applicable to the entities presenting
  - General purpose financial statements
  - Consolidated financial statements
3. **Classification of segments:** Segments of an entity can be classified into

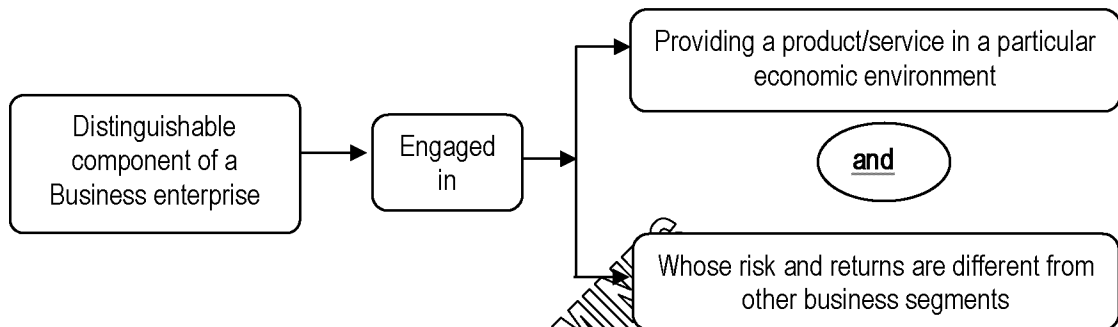


**4. Definitions:**

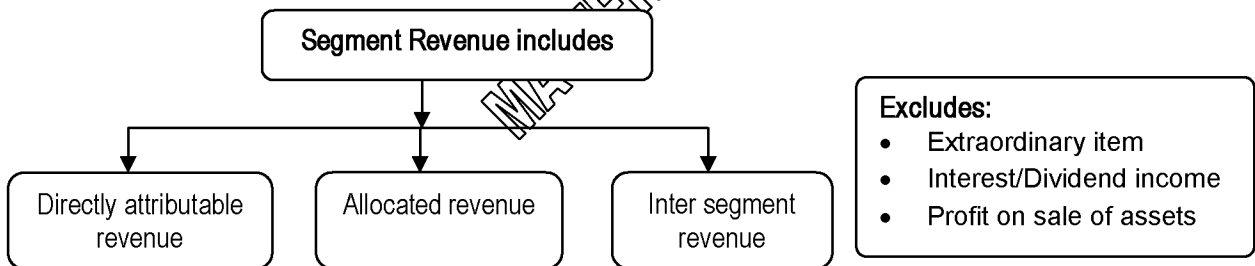
**A. Business Segment:**



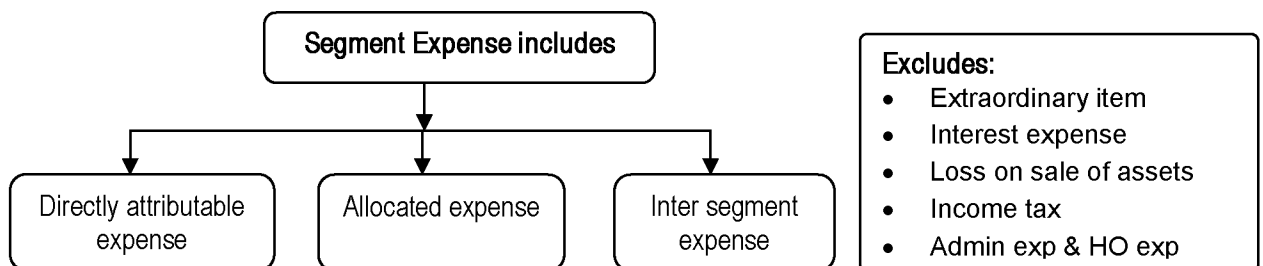
**B. Geographical segment:**



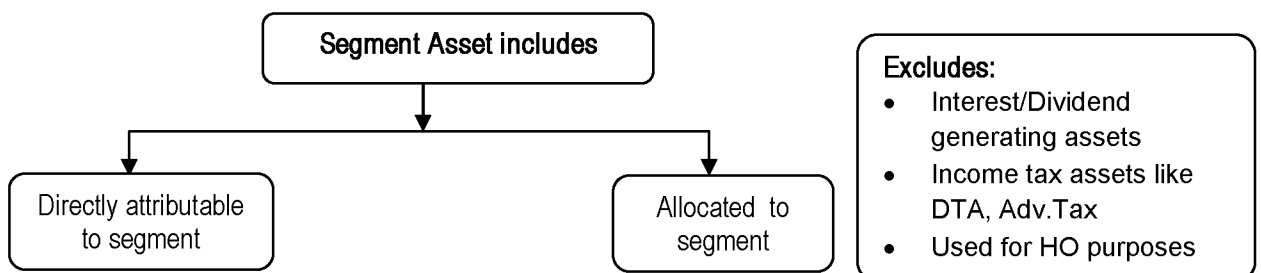
**C. Segment revenue:**



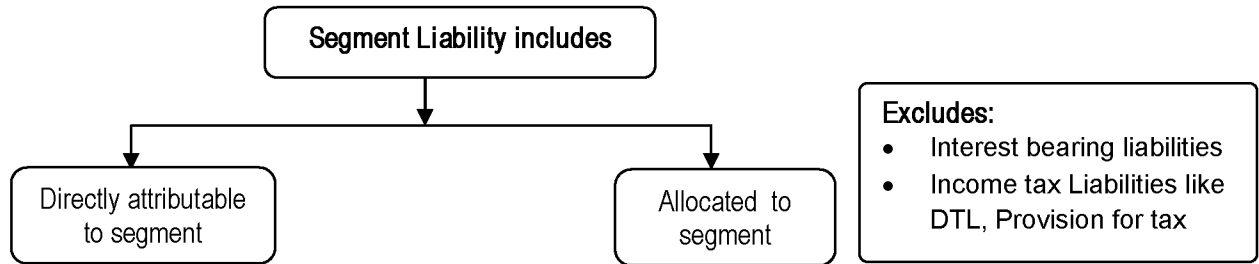
**D. Segment Expense:**



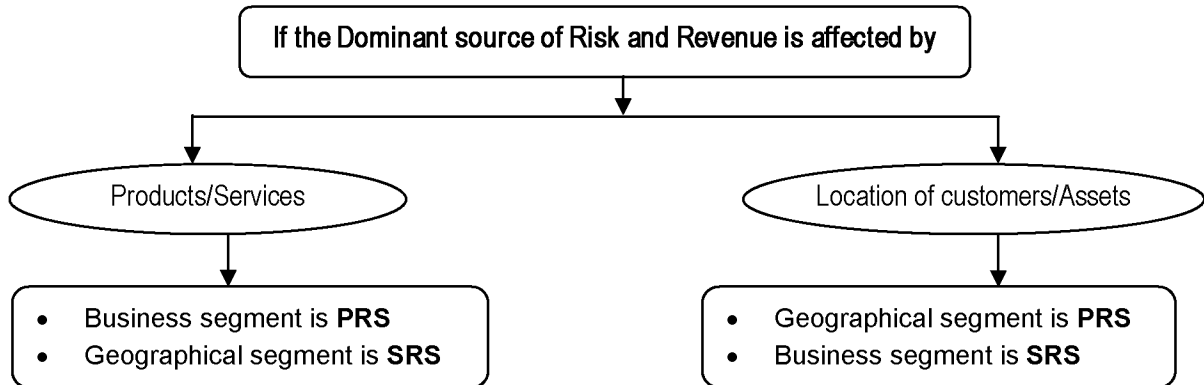
**E. Segment Asset:**



F. Segment Liability:



5. Identification of Primary and Secondary reportable segments:



6. Identification of Reportable segment:

A. REVENUE Criteria:

Segment Revenue  $\geq$  10% of Total Revenue of all segments

Revenue from external & inter segment transfers

B. RESULTS Criteria:

Segment result (whether profit/Loss)  $\geq$  10% of

- Aggregate of only segment profits; Or
- Aggregate of only segment losses (In absolute manner)

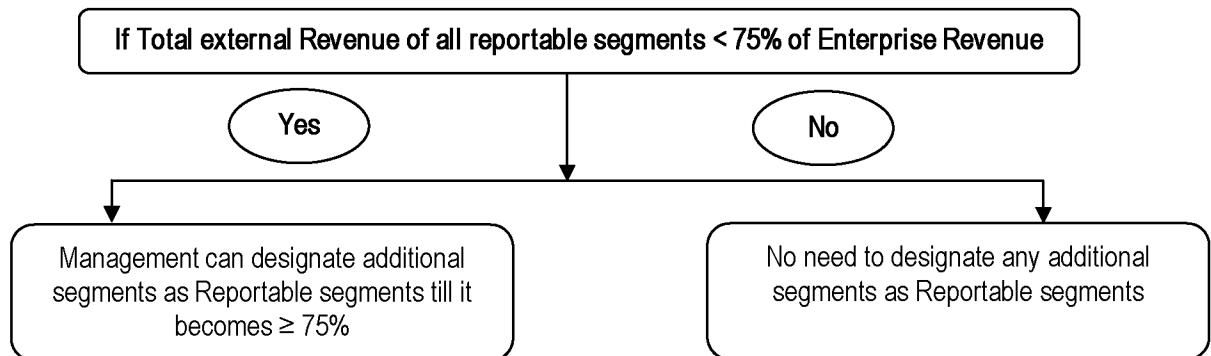
C. ASSETS Criteria:

Segment Assets  $\geq$  10% of Total assets of all Segments

D. Management Discretion:

Even if the above conditions are not satisfied, Management at its discretion can designate a Business or Geographical segment as Reportable segment.

E. Overall External revenue Criteria:

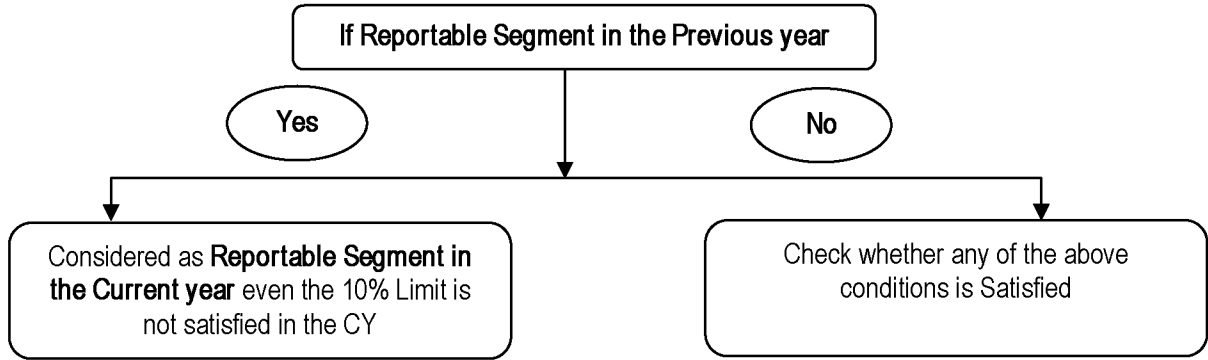


F.

G.



**H. Based on Comparative information:**



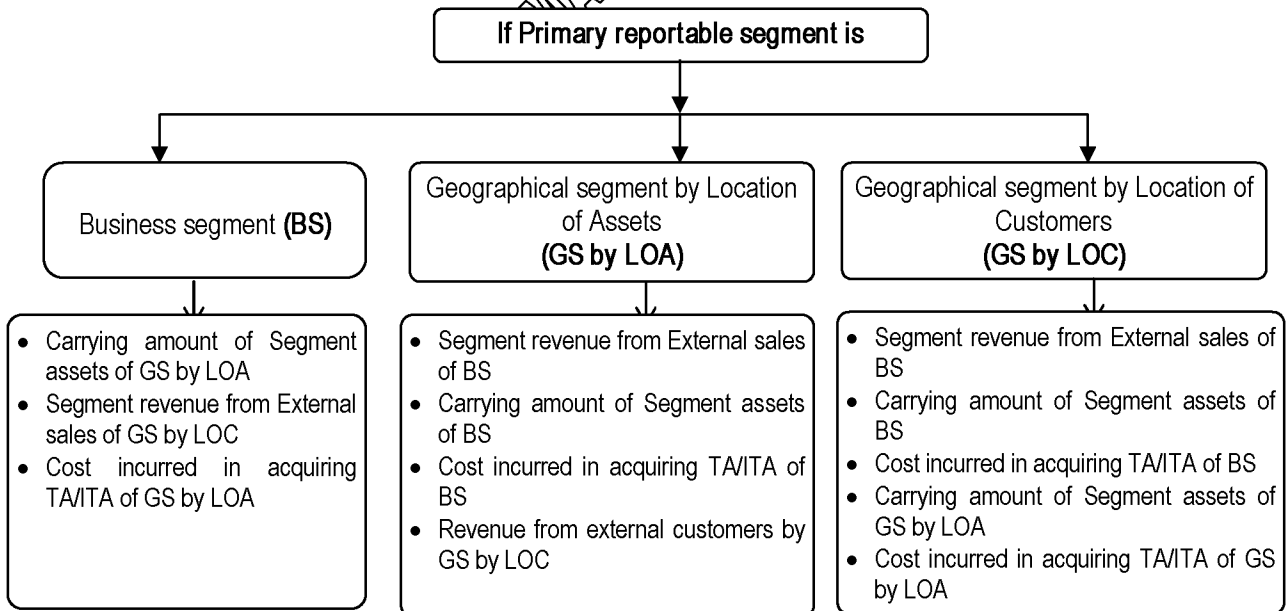
**Note:** If any one of the above condition is satisfied by a Business or Geographical segment, then it should be considered as Reportable Segment.

**7. Disclosures:** The disclosure information remains same in respect of Primary reportable segment irrespective of the nature of Segment i.e. Business segment or Geographical segment

**A. Reporting requirements of Primary reportable segment:**

- Segment revenue
- Segment result
- Segment assets
- Segment liabilities
- Capital expenditure incurred on fixed assets
- Depreciation & Amortisation expense
- Non-cash expenses other than depreciation

**B. Reporting requirements of Secondary reportable segment:** Secondary segment reporting information will depends on the Primary reportable segment (PRS)



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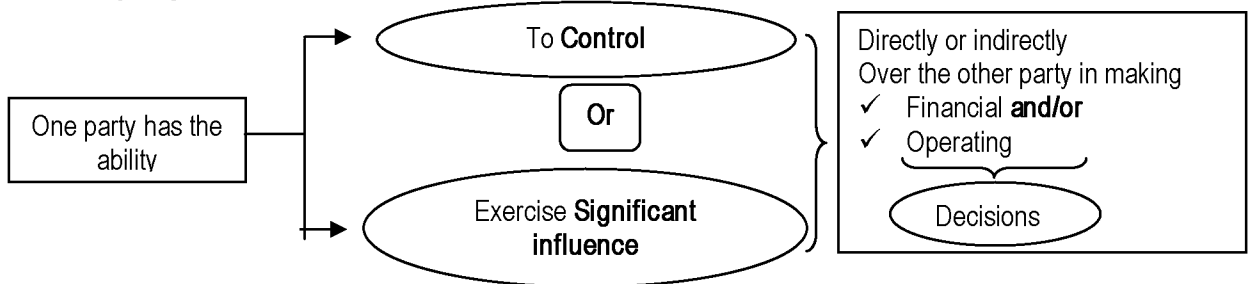
## AS-18: RELATED PARTY DISCLOSURES

1. **Objective:** This standard requires disclosure of

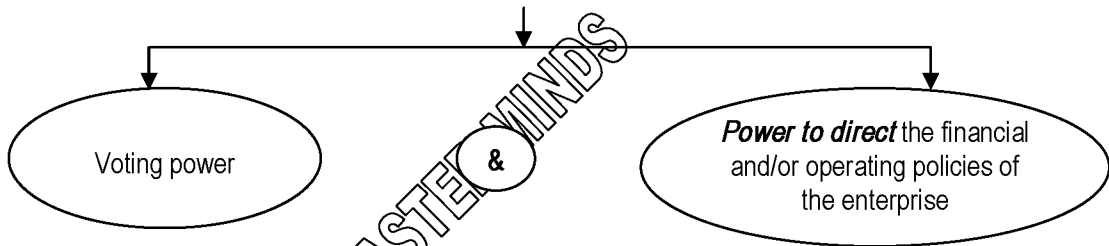
- Related party Relationship and
- Related party Transactions

2. **Definitions:**

- **Related party:**



- **Control:** Control implies holding directly or indirectly
  - More than one half of the Voting power of an enterprise (Or)
  - Control of the composition of the board of directors (Or)
  - A substantial interest in

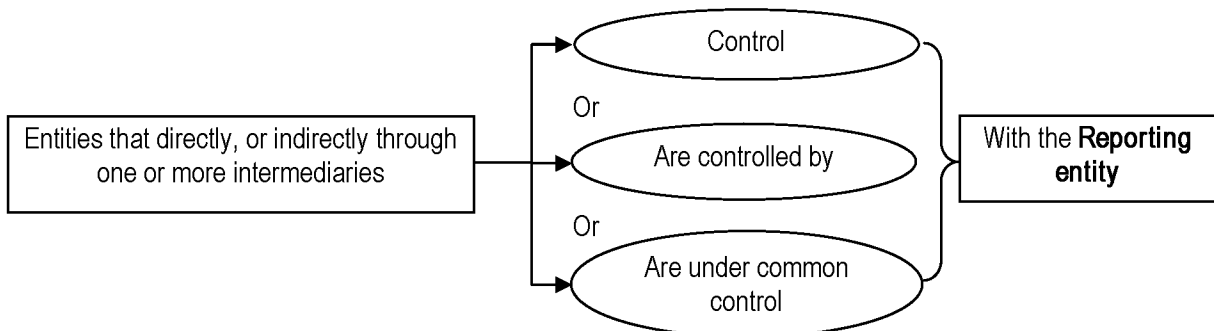


- **Significant influence:** *Power to participate* in the financial and/or operating policy decisions of an enterprise, But not control over those policies.
- **Substantial interest:** An Enterprise/Individual owns, 20% or more interest in the voting power

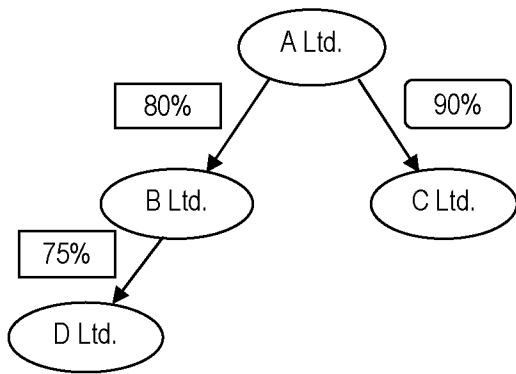
3. **Scope:** The following relationships are covered by AS-18:

- Holding and Subsidiary
- Investor Vs. Associate and Venturer Vs. Joint venture
- An individual having Control/ Significant influence & his relatives
- Key managerial personnel & their relatives
- Entities over which any person described in (c) or (d) above having significant influence

A. **Holding and subsidiary:**



Example:



**RELATED PARTIES**

**In the books of A Ltd.**

- Direct control – B & C Ltd
- Indirect control – D Ltd.

**In the books of B Ltd.**

- Direct control – D Ltd
- Controlled by – A Ltd
- Under Common control – C & D

**In the books of C Ltd.**

- Controlled by – A Ltd
- Under common control – B & D Ltd

**In the Books of D Ltd.**

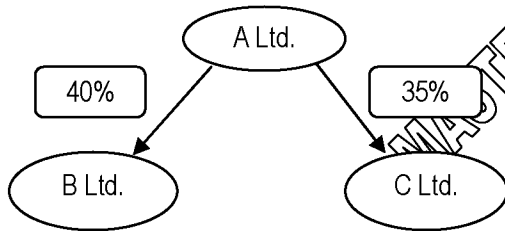
- Directly Controlled by – B Ltd
- Indirectly controlled by – A Ltd
- Under common control – C Ltd.

**Note:** In a group of Holding & Subsidiary, each subsidiary is related to all other subsidiaries

**B. Investor Vs. Associate and Venturer Vs. Joint venture**

- Associates and Joint ventures of the Reporting entity &
- Investing party or venturer in respect of which Reporting entity is an associate or joint venture

**Example: (Investor Vs. Associate)** Assume that A Ltd. has Significant influence over B & C Ltd.



**RELATED PARTIES**

**In the Books of A Ltd.**

- Associates – B Ltd & C Ltd.

**In the Books of B Ltd.**

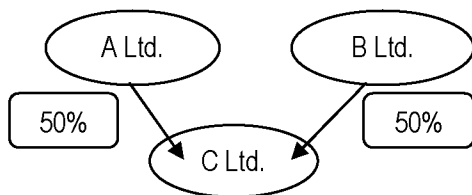
- Investing party – A Ltd

**In the Books of C Ltd.**

- Investing party – A Ltd

**Note:** Co – Associates are not related parties except if they are under common control

**Example: (Venturer Vs. Joint venture)**

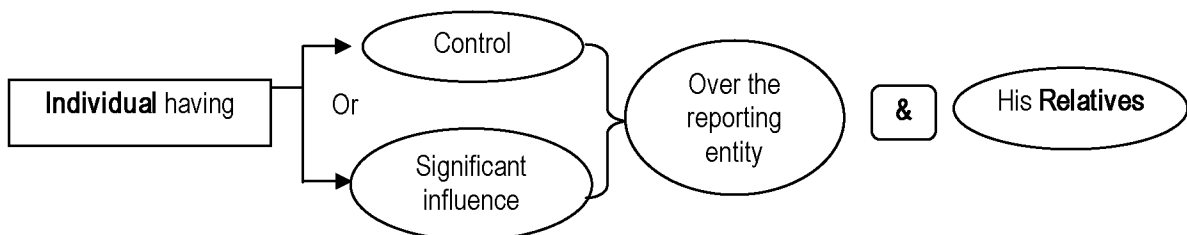


**A Ltd & B Ltd – Co- Venturers  
C Ltd – Joint Venture**

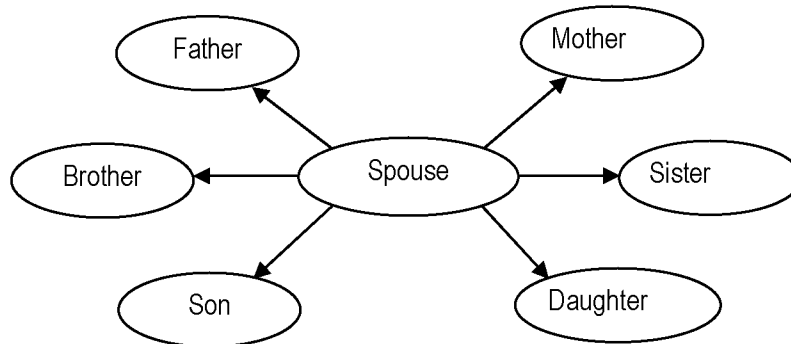
- A Ltd & C Ltd are Related parties
- B Ltd & C Ltd are Related parties
- A Ltd & B Ltd are not Related parties

**Note:** Co – Venturers are not related parties.

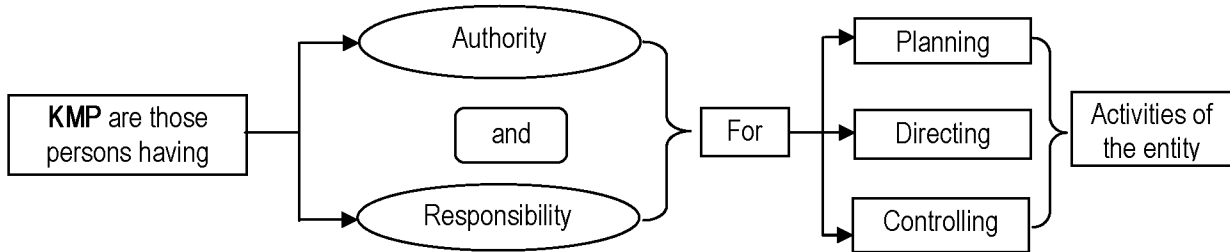
**C. Individual having Control/ Significant influence & his relatives**



**Relative as per AS – 18:** Relative of an individual includes



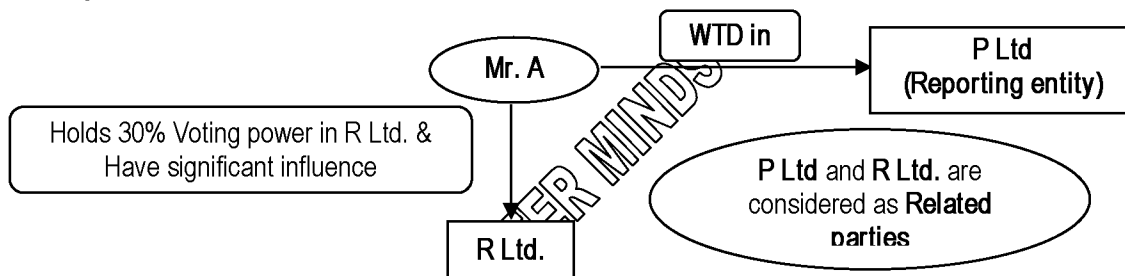
**D. Key managerial personnel & their relatives**



**Note:** A Non-executive director is not considered as Key management personnel

**E. Entities over which any person described in (C) or (D) above having significant influence**

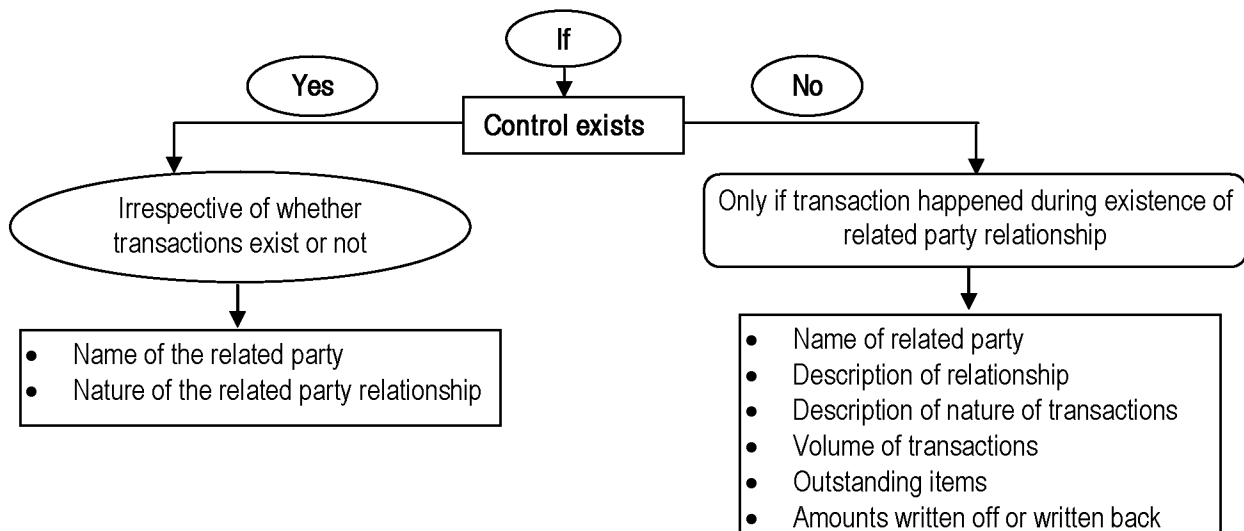
**Example:**



**4. Exclusions from Related parties**

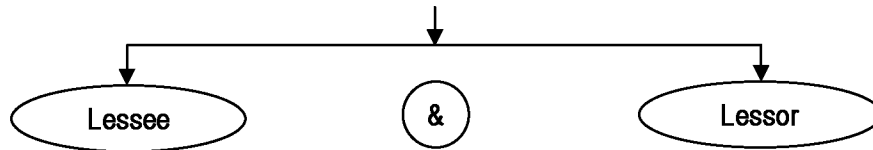
- Companies having common directors  
**Exception:** If the above directors are able to influence the policies of the companies
- Persons with whom entity transacts significant volume of business &
- **Following parties:**
  - Providers of finance
  - Trade unions
  - Public utilities
  - Govt. Departments & Agencies

**5. Disclosure:**



**AS – 19: LEASES**

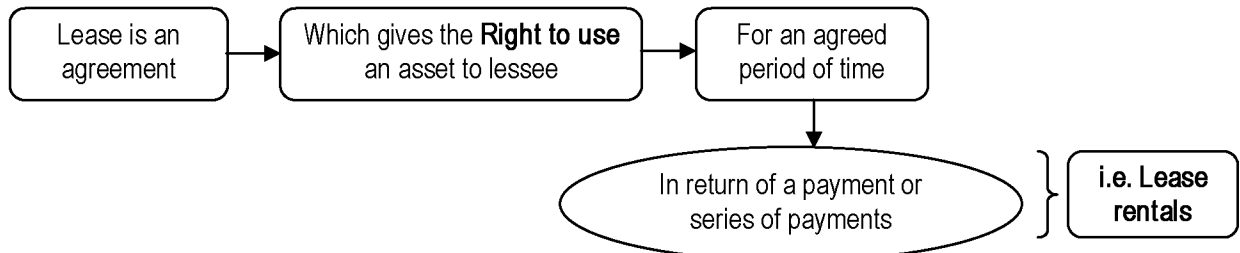
1. **Objective:** Prescribes the accounting treatment for leases in the books of



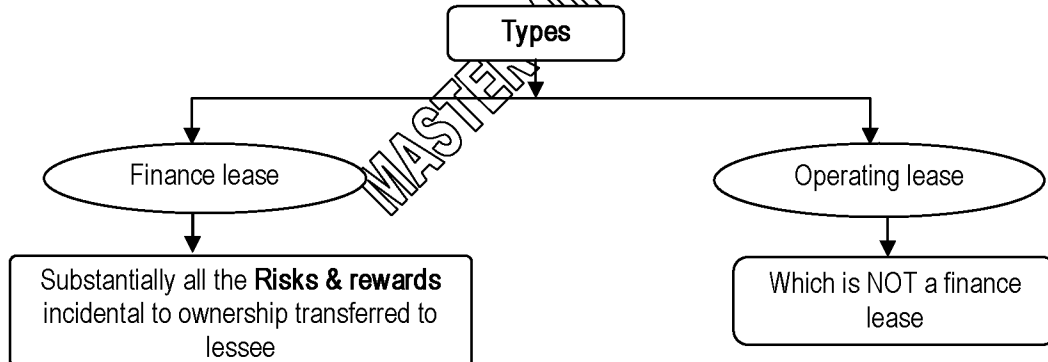
2. **Scope:** Applicable to all leases other than

- Lease agreements to explore for or use natural resources
- Licensing agreements for such as motion picture films, video recordings, patents and copyrights
- Lease agreements to use lands

3. **Definition of Lease:**

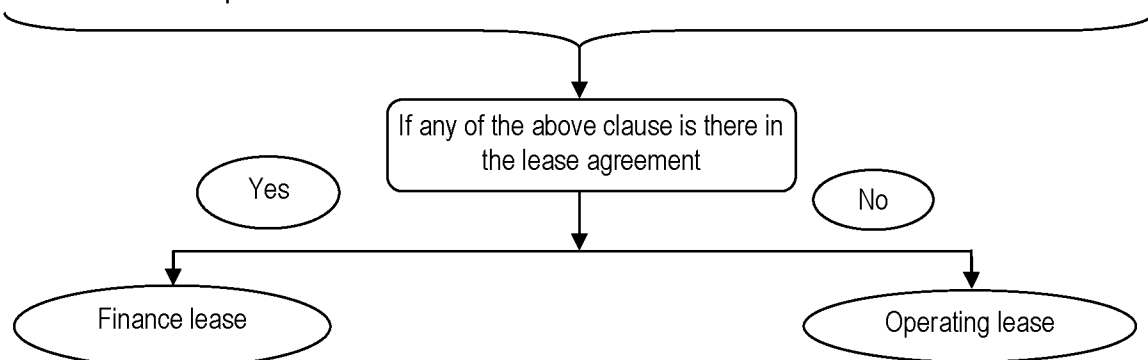


4. **Types of Leases:**



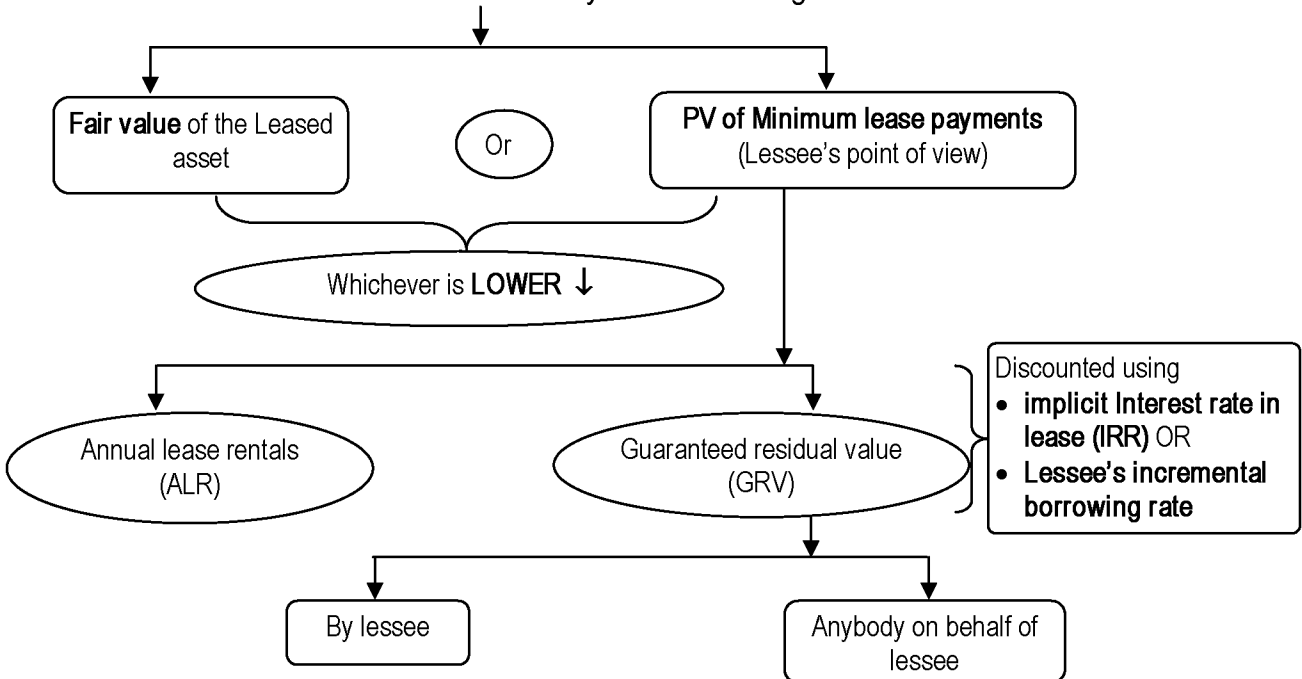
5. **Indicators of finance lease:**

- **Transfer of Ownership** of the asset to the lessee at the end of the lease term
- Lessee has an **option to purchase** the asset at a lower price than fair value on the date of exercising the option.
- The lease term is for the **major part of the economic life** of the asset
- The leased asset is of a **specialized nature** which can be used only by the lessee without major modifications.
- The **PV of Minimum lease payments** are substantially equal to the fair value of the leased asset at the inception



**6. Finance lease Accounting – In the books of Lessee**

- In the books of lessee Asset & Liability should be recognized at



- ✓ **PV of MLP (From lessee point of view) = PV of ( ALR + GRV)**
- ✓ **Implicit Interest rate in lease is that rate where Fair value of asset = Present value of Gross investment in lease (GIL)**

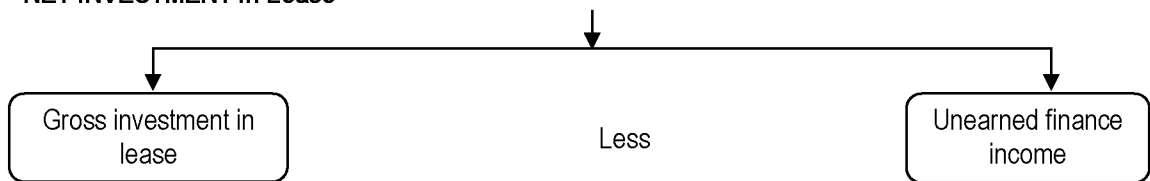
- Subsequent lease rentals shall be apportioned between **interest expense** and **principal portion**
- The recognized leased asset should be depreciated as per revised AS-10

**7. Finance lease accounting – In the books of Lessor**

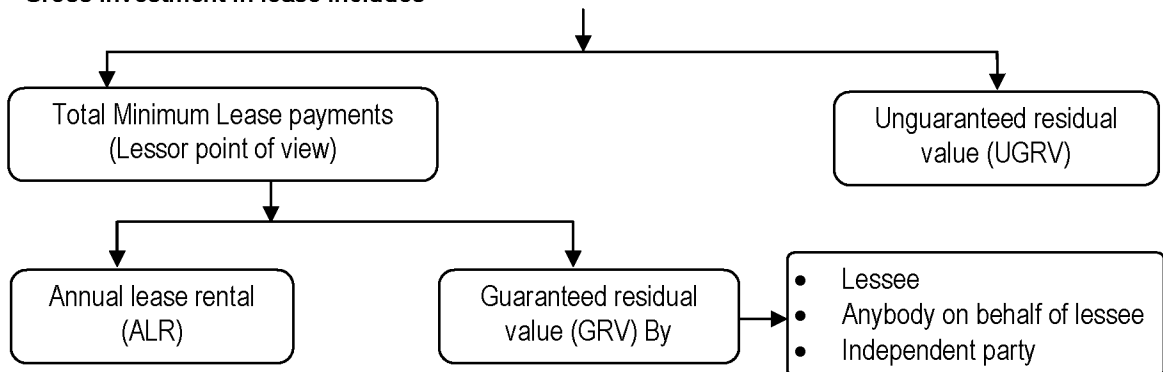
- In the books of Lessor recognize the receivable amount as an asset at **NET INVESTMENT** in lease

Receivable from lessee A/c      Dr.  
To Asset/ Sales A/c

- NET INVESTMENT in Lease**

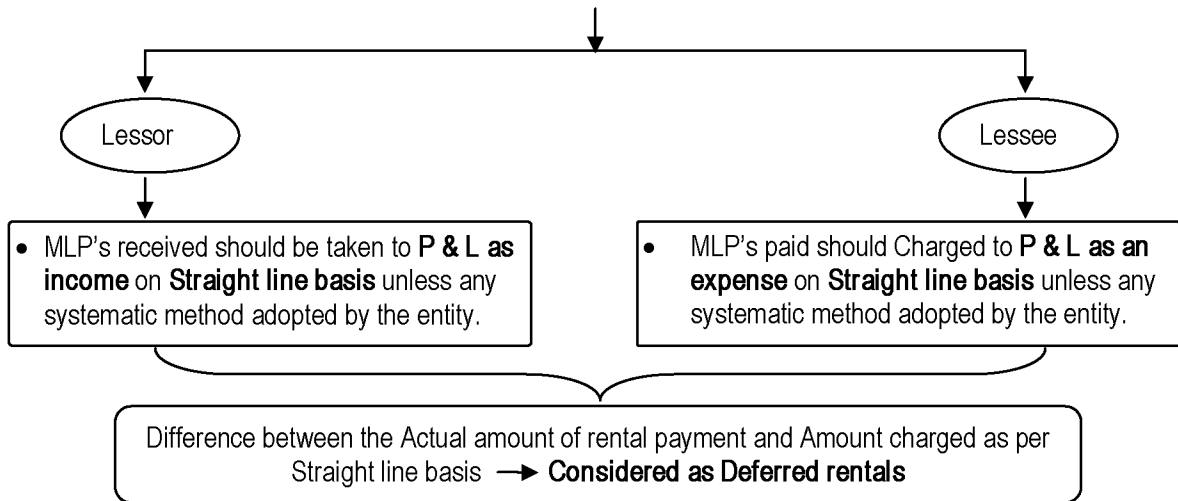


- Gross investment in lease includes**

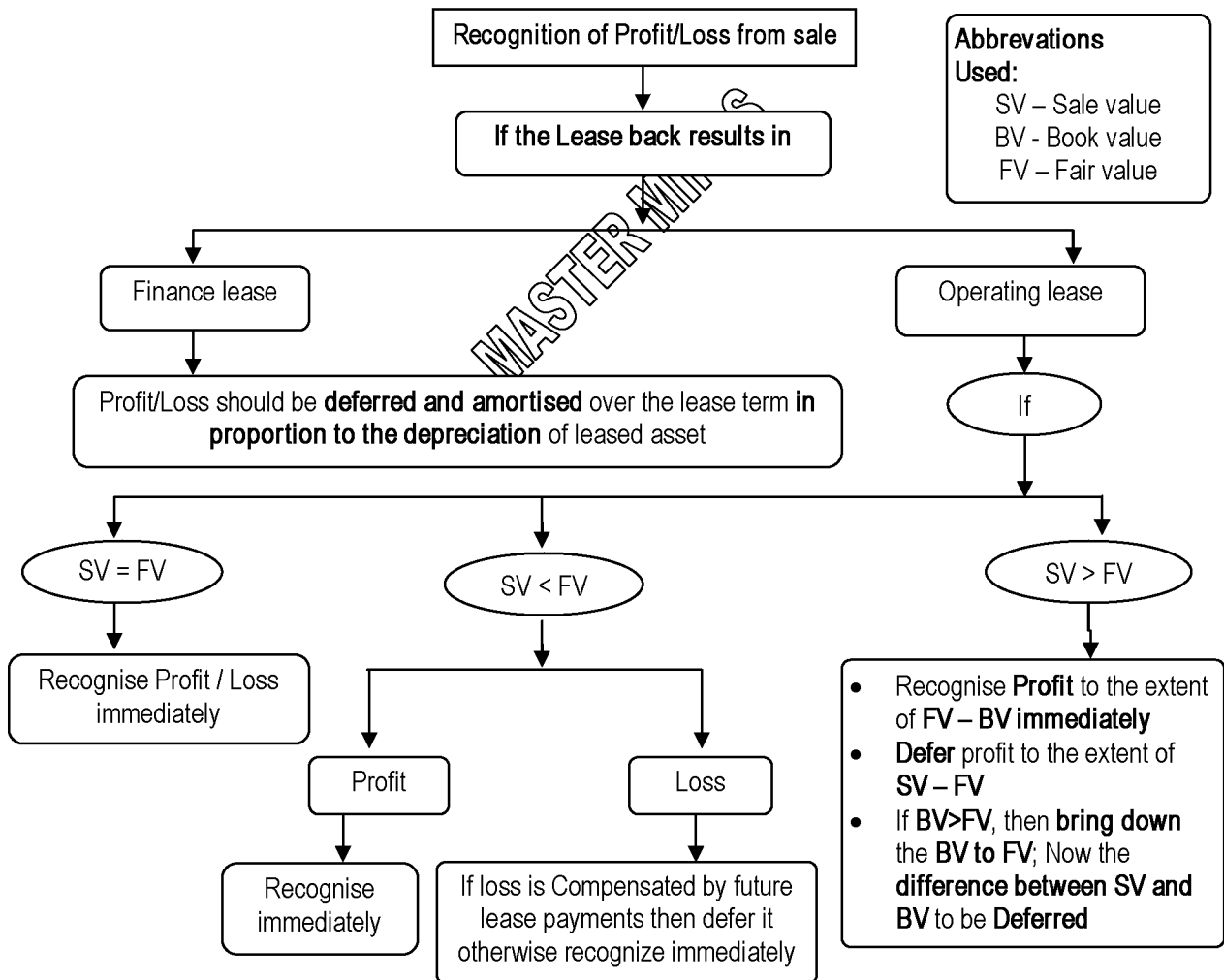


- Unearned finance income = Gross investment in lease – PV of Gross investment in lease at IRR**
- MLP's receipts should be apportioned between **Interest income** and **Receipt of receivable**

**8. Operating Lease Accounting – In the books of Lessor and Lessee**



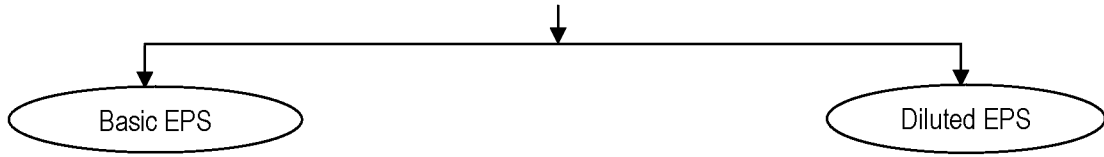
**9. Sale and lease back transactions: One party sells an asset to another party and the buyer of the asset leases it back to the seller immediately**



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## AS – 20: EARNING PER SHARE

- Objective:** Deals with **determination** and **presentation** of EPS.
- Presentation of EPS:** An entity should present the following EPS on the face of P&L A/c



3. **Basic EPS** = 
$$\frac{\text{Net profit Loss for the period attributable to equity shareholders (A)}}{\text{Weighted average no. of equity shares outstanding during the period (WANES) (B)}}$$

(A)

PBIT	XXX
Less: Interest	(XXX)
PBT	XXX
Less: Tax	(XXX)
PAT	XXX
Less: Appropriations	
General reserve	XXX
Preference dividend	XXX
Equity dividend	XXX
DDT	XXX (XXX)
Profits attributable to ESH	XXX

(B)

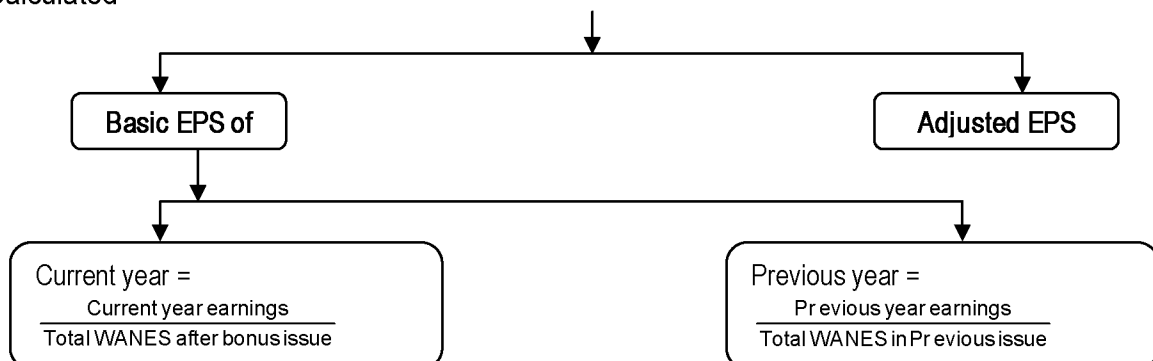
No. of equity shares	
Outstanding at the beginning	XXX
+/-: Shares issued or bought back during the year X Time weight factor	(XXX)
<b>Weighted average No. of shares</b>	<b>XXX</b>

Time factor should be considered from **Effective date**

**C. Effective date in Various situations:**

Shares Issued for	Effective date
• Cash	→ Date on which cash received
• Rendering services	→ Date on which services rendered
• Conversion of Debentures	→ From date of Conversion
• Settlement of a Liability	→ Date of settlement or as agreed upon
• Purchase of Asset	→ Date on which asset is purchased
• Amalgamation in the nature of purchase	→ Date of Acquisition
• Amalgamation in the nature of Merger	→ From the Beginning of current reporting period
• Bonus Issue reporting	→ From the Beginning of previous period

4. **Calculation of EPS in case of Bonus issue:** In case of Bonus issue the following EPS are to be Calculated





**Adjusted EPS:** Restatement of previous year EPS as if the bonus issue is there in the previous year

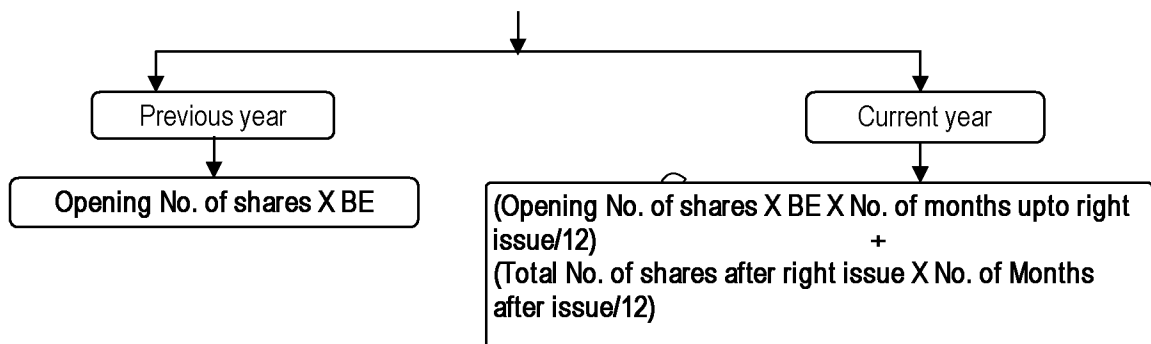
$$\text{Adjusted EPS} = \frac{\text{Net profit/Loss for the Previous year attributable to equity shareholders}}{\text{Total No. of Shares after bonus issue}}$$

- In case of Bonus issue there will be increase in No. of shares without increase in resources
- Which leads to reduction in Current year EPS and there by the need for Calculation of adjusted EPS arises.

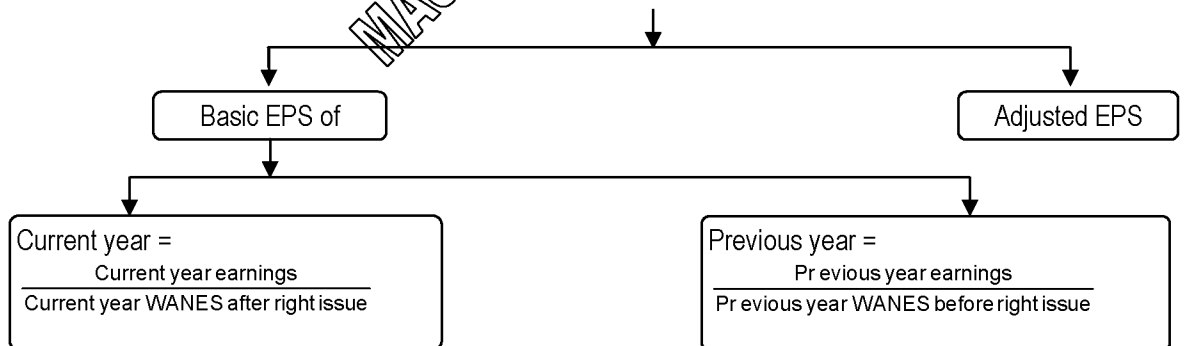
**5. Calculation of EPS in case of Right issue:** Generally rights are issued at less than Fair value. So, there exists bonus element in the right issue also.

- **Bonus Element (BE) =**  $\frac{\text{Fair Value per share immediately prior to the exercise of rights}}{\text{Theoretical Ex. - rights fair value per share (TERP)}}$ 
  - **Theoretical Ex-right value per share (TERP) =**  $\frac{\text{Fair Value of share outstanding before rights issue} + \text{Amount received on issue of rights}}{\text{Total No. of shares after right issue}}$

• **Calculation of WANES after Right issue:**



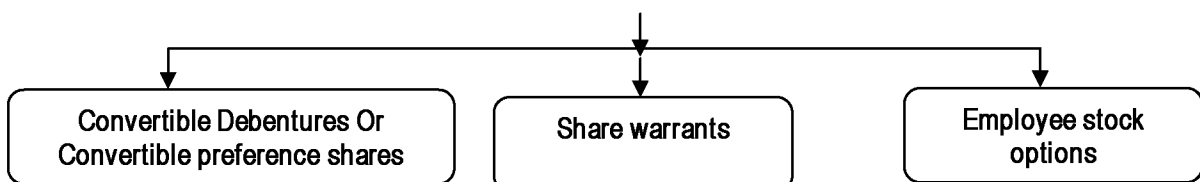
• **EPS In case of Right issue:** In case of Right issue the following EPS are to be Calculated



- **Adjusted EPS =**  $\frac{\text{Net profit/Loss for the Previous year attributable to equity shareholders}}{\text{Previous year WANES after right issue}}$

**6. Diluted EPS:** Refers to the reduction in EPS due to the effect of **Potential Equity shares**

- **Potential equity shares (PES):** A Financial instrument or other contract, which entitles or may entitle the Holder to equity shares.
- **Potential equity shares includes**



- Potential equity shares can be Dilutive Or Anti-dilutive
- In case of Anti-dilutive potential equity shares DEPS need not be calculated

• Diluted Earnings Per Share(DEPS)

$$\frac{\text{Net Profit or loss attributable to equity share holders after giving effect of potentially dilutive equity shares}}{\text{Weighted average No. of shares after giving effect of potentially dilutive equity shares}}$$

## AS - 22: ACCOUNTING FOR TAXES ON INCOME

1. Objective:

- Prescribes the accounting treatment for taxes on income. This standard wants to book the tax expense based on Accounting income.

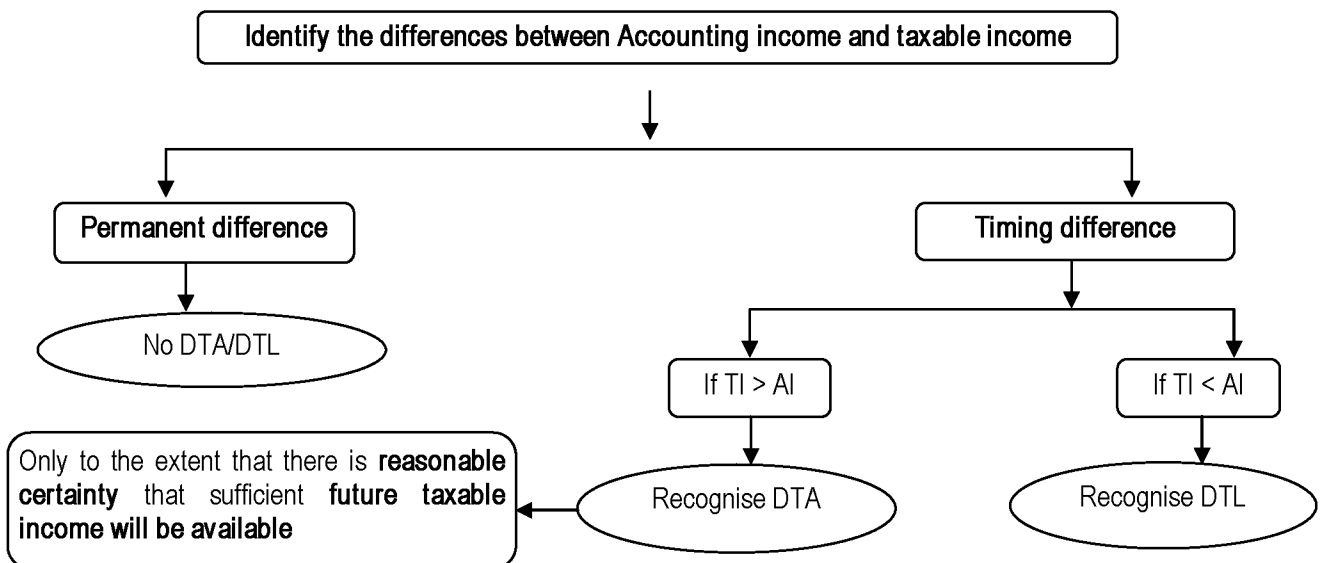
2. Scope:

- It is applicable only for taxes on taxable income i.e., income tax (domestic and foreign tax)
- Not applicable for other taxes like goods & Service tax, Customs duty etc.

3. Definition:

Accounting Income:	Net profit / Loss before tax as per the statement of Profit / Loss
Taxable Income (Tax loss):	Income / Loss calculated as per tax laws
Current Tax:	Tax on taxable income for current year
Deferred tax	Tax effect of timing differences i.e. An adjustment made towards tax expense as per taxable income and tax expense as per accounting income
Tax Expense / Saving:	Current tax +/- Deferred tax.
Timing Difference	Difference between accounting income and taxable income arises in one period and capable of being reversed in subsequent years Eg.: Depreciation, expenses not deductible u/s 43B etc.
Permanent Difference:	Difference between accounting income and taxable income arises in one year and don't reverse subsequently Eg.: Dividend income agricultural income etc.
Deferred tax asset:	<ul style="list-style-type: none"> <li>• Arises when accounting income &lt; taxable income.</li> <li>• Income tax benefit on a future date (carry forward (unused tax losses)</li> </ul>
Deferred tax liability	<ul style="list-style-type: none"> <li>• Arises when accounting income &gt; Taxable income.</li> <li>• Income tax payable on future date</li> </ul>

4. Recognition:



5. Other Points:

- A. Incase of unabsorbed depreciation and carried forward losses & deferred tax asset to be recognized only to the extent of that there is virtual certainty (not reasonable) that sufficient future taxable income is available against which the carried forward losses / unabsorbed depreciation can be adjusted.

- B. On every balance sheet date Re-assess unrecognized DTA
- C. Deferred tax – Tax holiday
  - a) Tax holiday: Entity need not pay taxes on certain income during this period.
  - b) Don't recognize deferred tax which arises during tax holiday period and also reversing during tax holiday period.
  - c) Recognise deferred tax which arises during tax holiday period and reversing after tax holiday period.
  - d) Follow FIFO basis for reversing concept

**6. Minimum Alternative tax (MAT):**

- A. MAT is calculated on book profits of the company
- B. It is minimum amount of tax payable by the company.
- C. When current tax is less than MAT, Company should pay MAT amount to the government.
- D. For deferred tax calculation, entity should consider regular taxes even in case of MAT payment to the government.
- E. Amount of tax debited to P & L = current tax + Differed tax + excess of MAT over current tax.
- F. Excess of MAT over current tax is called MAT credit and it can be carried forward for set off in 7 years.
- G. The carrying amount of deferred tax asset should be reviewed at each balance sheet date.

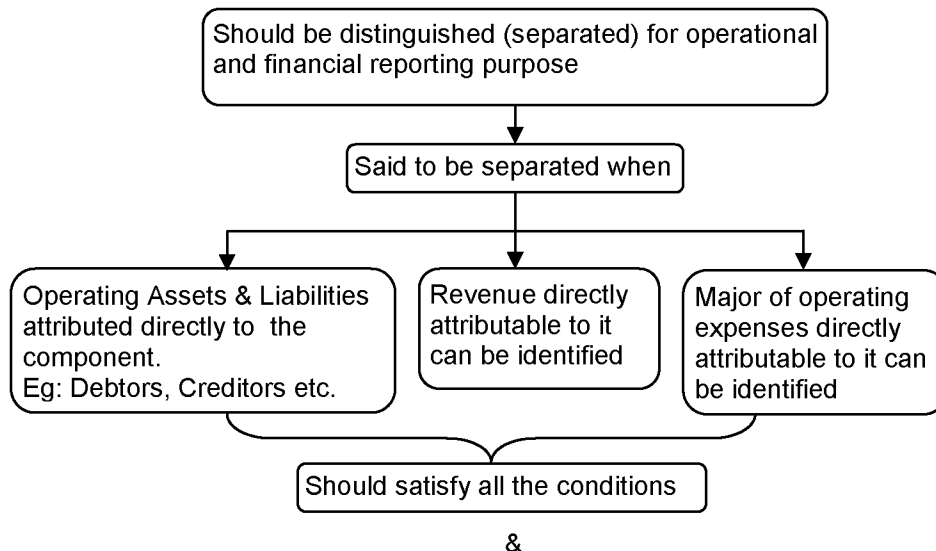
**7. Presentation & disclosure:**

- A. Deferred tax asset & deferred tax liability can be set off provided.
    - a) Entity has legally enforceable right to set off &
    - b) Entity has intension to settle on net basis.
- In general, entity disclose DTA & DTL on net basis (above conditions will satisfy by the entity).

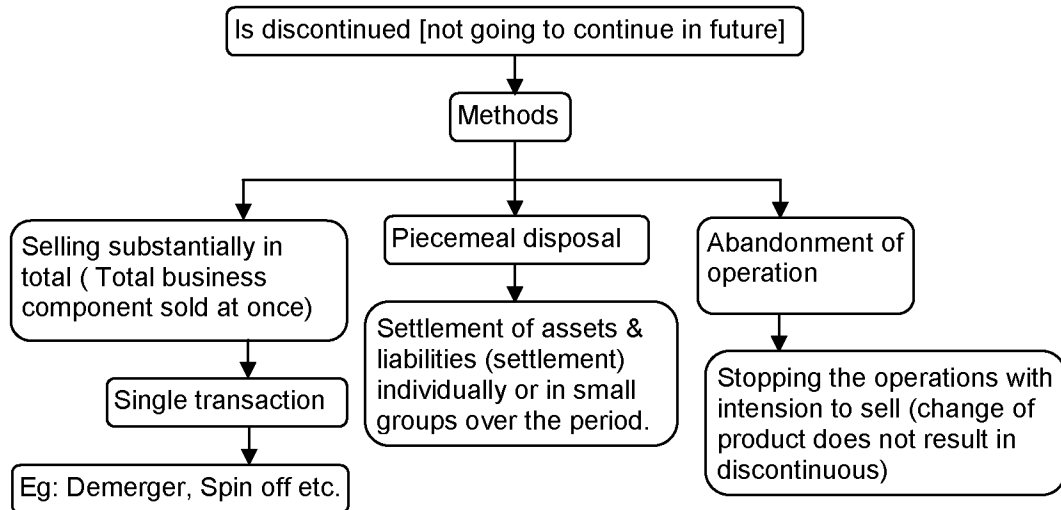
**AS-24: DISCONTINUING OPERATION**

**MEANING:** It is a component of an entity which

- a) Represents, separate major line of business or Geographical area.  
Eg: car division, bike division, business in India, USA etc.
- b)



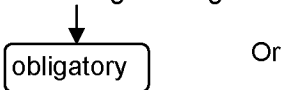
c)



**Initial Disclosure Event:**

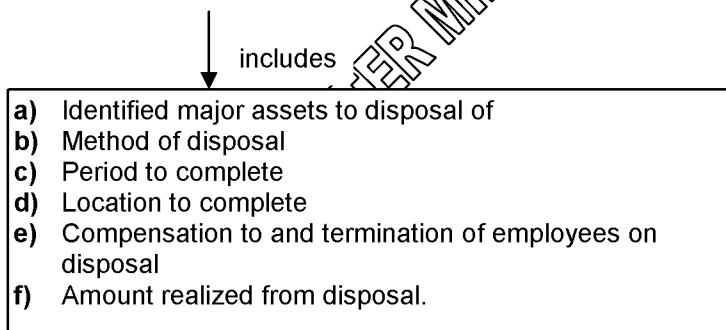
Earlier of

- a) Entering into binding sale agreement to sell the component.



- b) Board of directors / similar governing body has

- i) Approved formal plan for discontinuance



- ii) Made an announcement of the formal plan for discontinuance.

**Disclosure:**

It is a disclosure standard, it requires the following disclosure in notes to accounts from the year in which initial disclosure event occurred till completion of discontinuance.

- a) Description of the discontinuing operation
- b) Is it a segment reported as per AS-17
- c) The date and nature of initial disclosure event.
- d) Period required for discontinuing.
- e) Details of total assets to be disposed and liabilities to be settled.
- f) Revenue and Expense attributable to discontinuing operation
- g) Pre tax profit or loss of discontinuing operation and income tax expense related there to
- h) Cash flows attributable to operating activities, investment activities & financing activities

AS-4 to be applied when initial disclosure event happened after the balance sheet date but before approval of financials by board of directors.

Additional disclosure when there is a binding agreement to sale or method of discontinuing starts.

- a) Pre tax gain or loss on disposal and tax related there to.
- b) Information about binding agreement to sale
  - i) Selling price of asset (net of expenses)
  - ii) Expected time of cash flow
  - iii) Carrying amount of those assets on balance sheet.

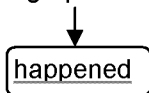
Significant change in Cash flows & Time of Cash flows to be disclosed.

Change in the plan or withdrawal from the plan of discontinuing to be disclosed and Reason of change, effected to be disclosed.

**Re statement of prior periods:** Current year discontinuing operation to be shown as discontinuing operation for previous year also in current year financial statements for comparison purpose.

**Disclosure in interim financial reports:** Disclosure of discontinuing operations should be made as per AS-25. "Interim Financial reporting" includes

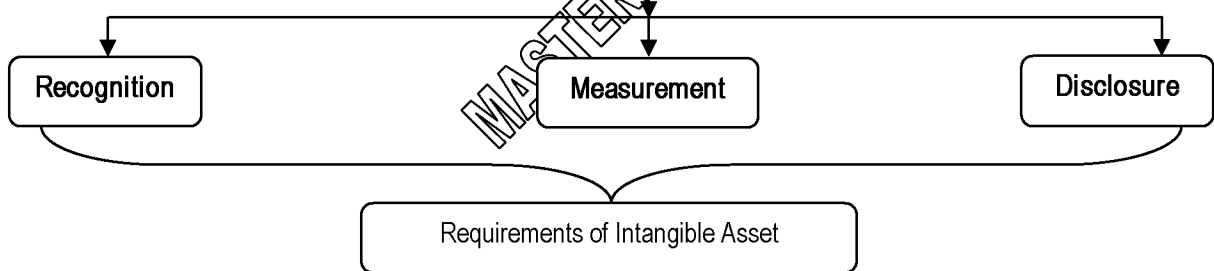
- a) Activities or Events relating to discontinuing operations (from recent annual reporting period to a discontinuing operation)



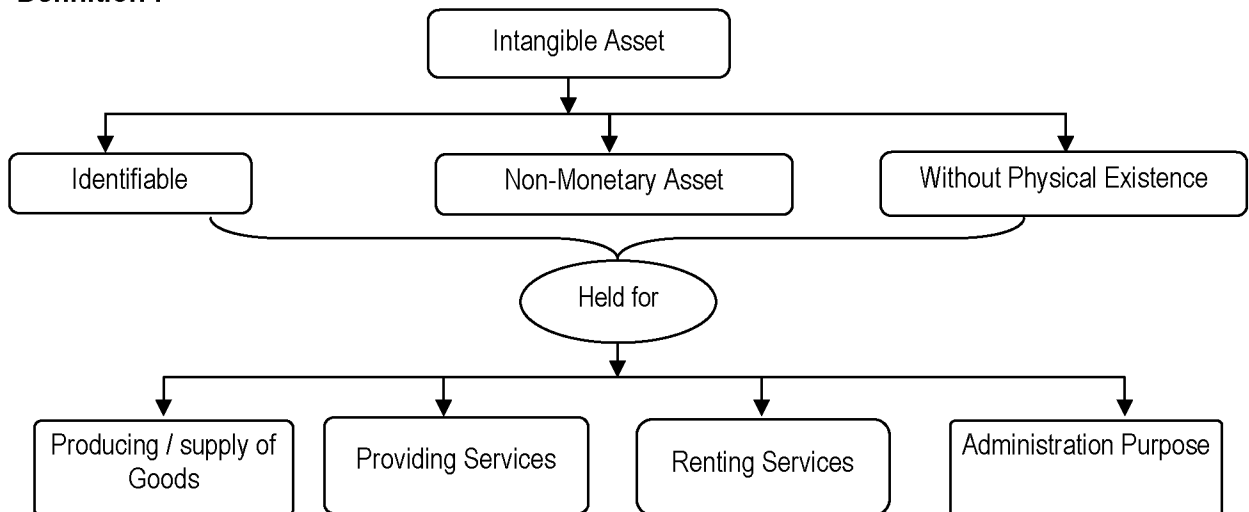
- b) Significant changes in the amount or timing of Cash flows relating to the assets to be disposed or liabilities to be settled.

**AS-26 INTANGIBLE ASSETS**

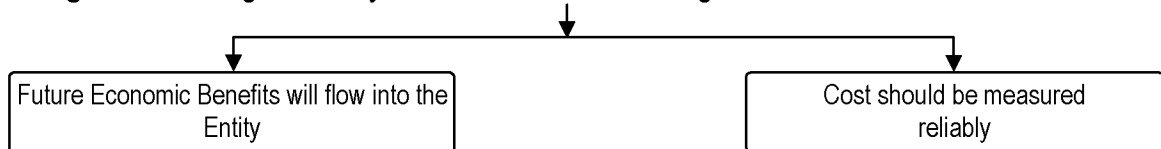
1. **Objective:** Deals with



2. **Definition :**

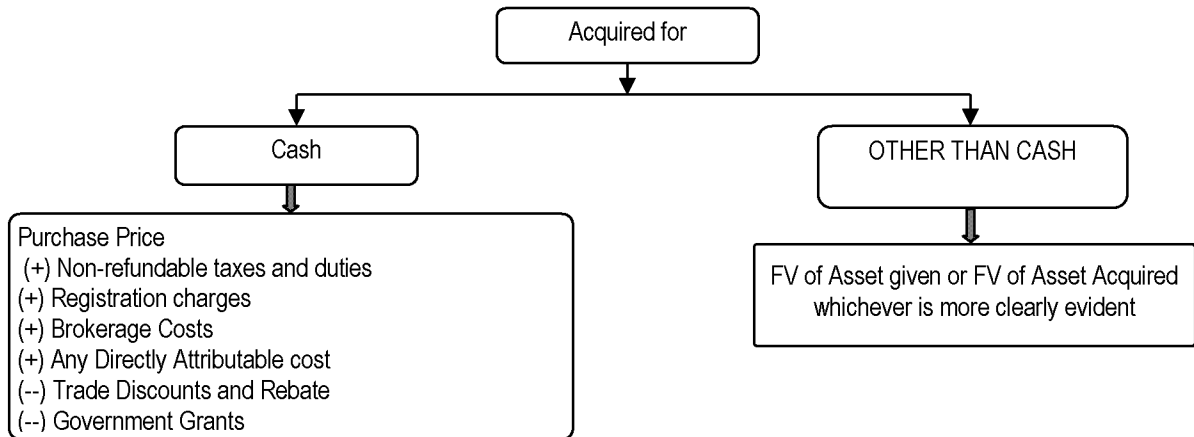


3. **Recognition:** Recognised only when it satisfies following conditions

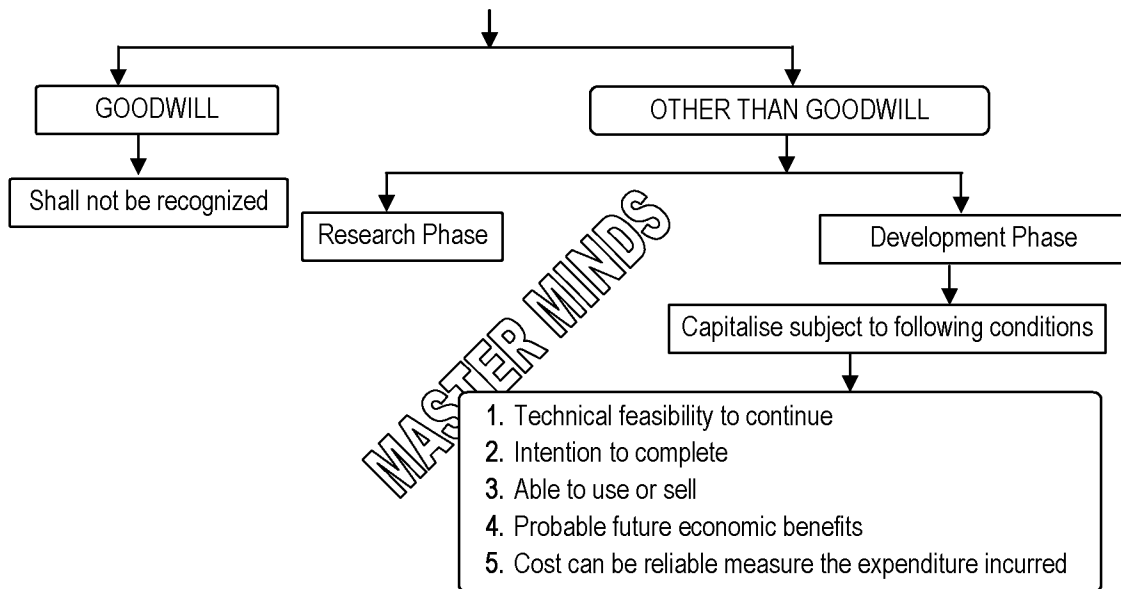


4. Initial Recognition:

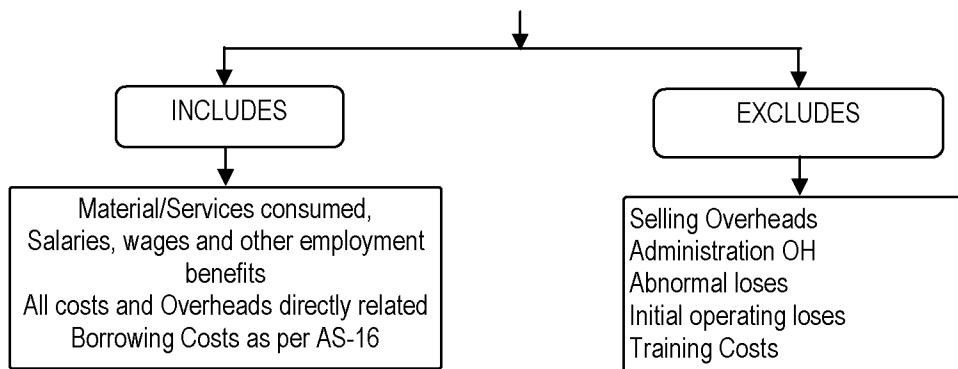
i.



ii. Self-generated Intangible Assets



5. Cost of internally generated Goodwill:

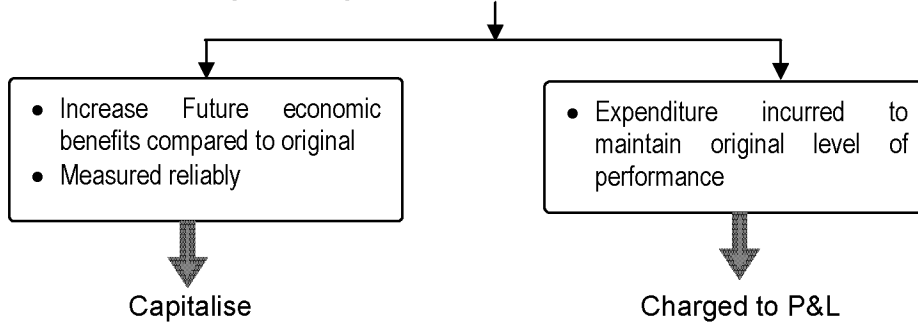


6. Recognition of an Expense:

- Any Expense incurred on an intangible item should be recognised as an expense if it doesn't satisfy Recognition Criteria.
- Any expenditure on Intangible Asset once charged to P&L account cannot be capitalized.

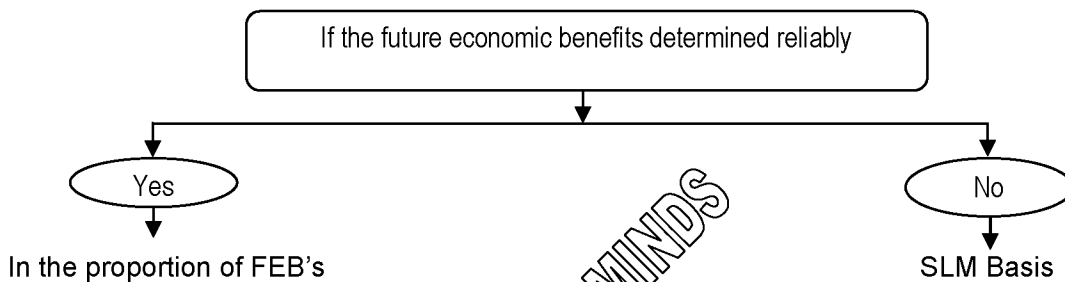
7.

**Subsequent expenditure:**



8. **Amortization:**

- Shall be Amortised over useful life of Asset
- Amortisation period shall not exceed 10 years unless otherwise proved
- The method of Amortisation depends on pattern of flow of economic benefits



- The Amortisation period and method should be reviewed at the end of every financial year.
- In case of change in useful life or pattern of economic benefits then prospective Accounting should be followed as per AS-5.

9. **Disposal:**

$$\text{Net sale proceeds} - \text{Carrying amount of Asset} = \text{Gain/Loss}$$

↓  
Income/Expenditure in P&L

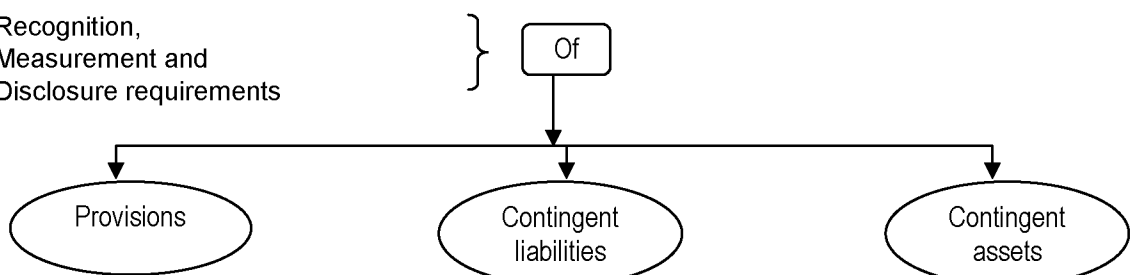
10. **Disclosures:**

- The useful lives or the amortisation rates used;
- Method of amortisation;
- The gross carrying amount and the accumulated at the beginning and end of the period;
- A reconciliation of the carrying amount at the beginning and end of the period.

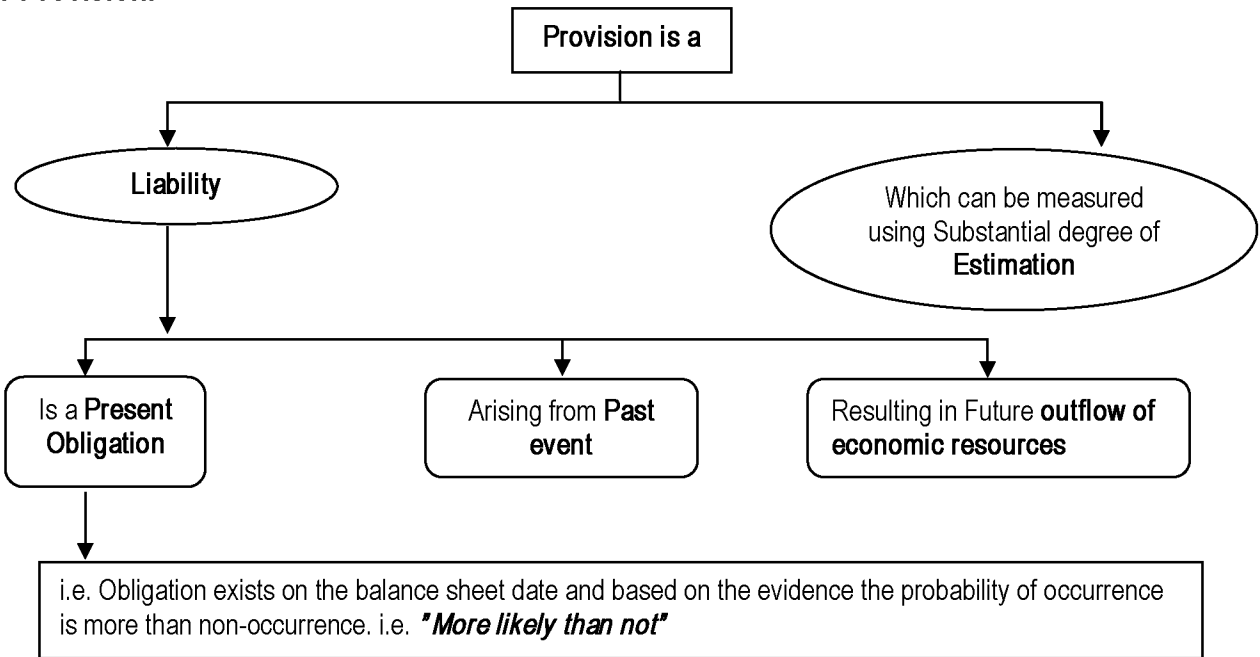
## **AS – 29 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

1. **Objective:** Deals with

- Recognition,
- Measurement and
- Disclosure requirements



2. Provision:



3. Recognition of Provision: Conditions to be satisfied for recognition of a provision.

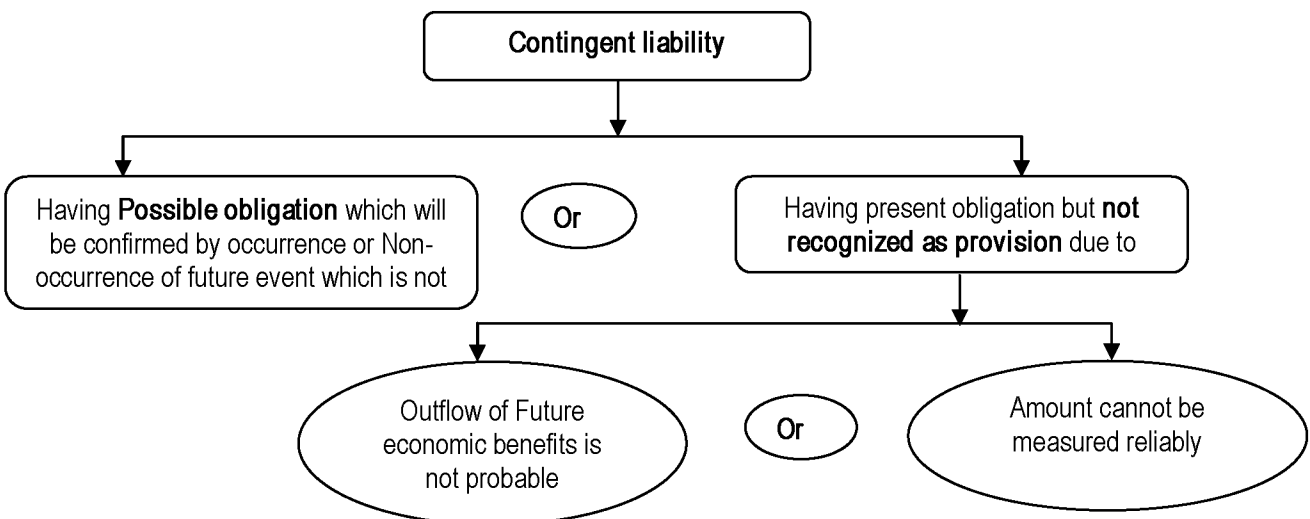
- Present Obligation as a result of past event
- Future outflow of economic resources
- Reliably measurable

All the conditions should be satisfied

Note:

- ✓ Provision should be reviewed on each balance sheet date
- ✓ NO Provision is required for future operating losses
- ✓ Provision should not be discounted except in case of Decommissioning, restoration and similar liabilities recognized as per AS – 10
- ✓ If there is any reimbursement right, it should not be adjusted against the provision rather it should be shown separately

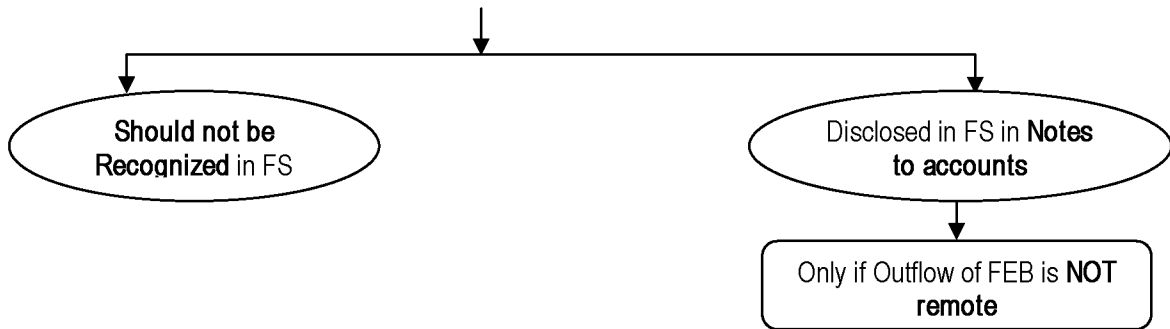
4. Contingent Liability:



**Possible Obligation:** Based on the evidence available, its existence at the balance sheet date is not probable.



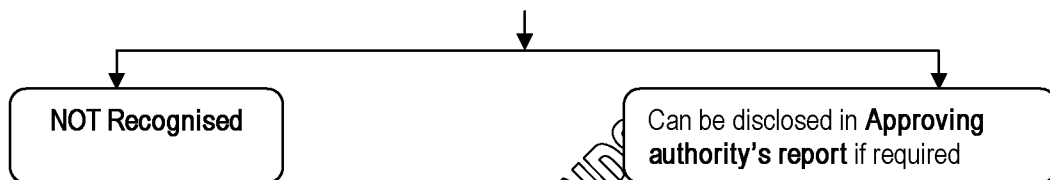
**5. Recognition of Contingent liability:**



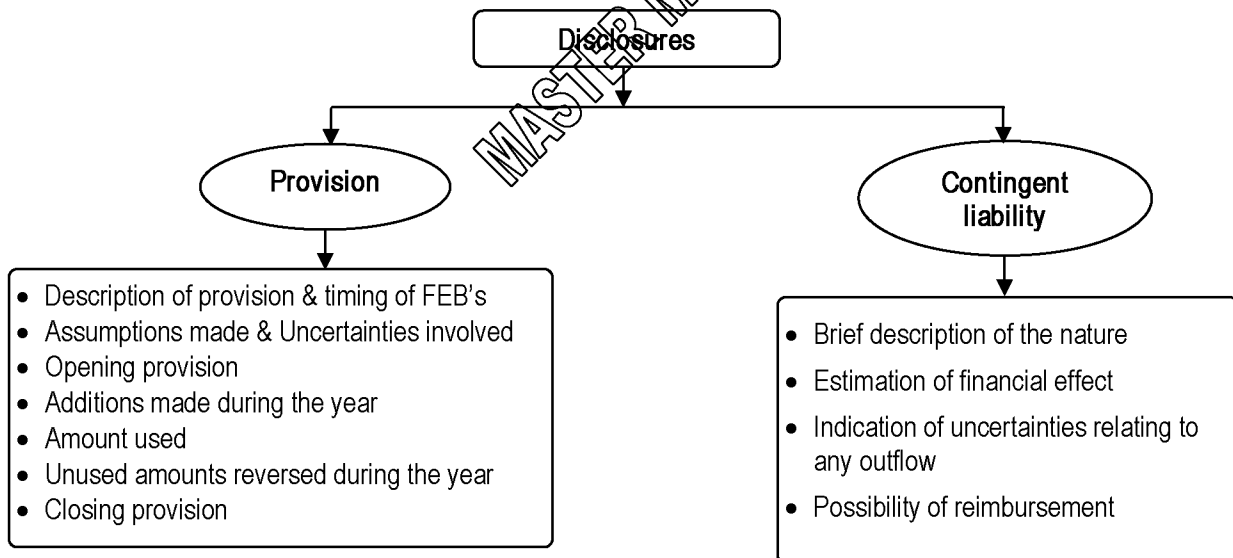
**6. Contingent Asset & Its Recognition:**

- A **Possible asset** that arises from **past event** and its existence will be **confirmed only by** occurrence or non-occurrence of uncertain future events not wholly with in the control of enterprise
- Usually arises from unplanned or unexpected events

**Recognition**



**7. Disclosures:**



**THE END**