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Advanced Accounting *Brahmastra*

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▶ FS of Companies

▶ Buyback of Securities

▶ Amalgamation of Companies

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▶ Reconstruction of Companies






▶ Branch Accounting

▶ Consolidated FS

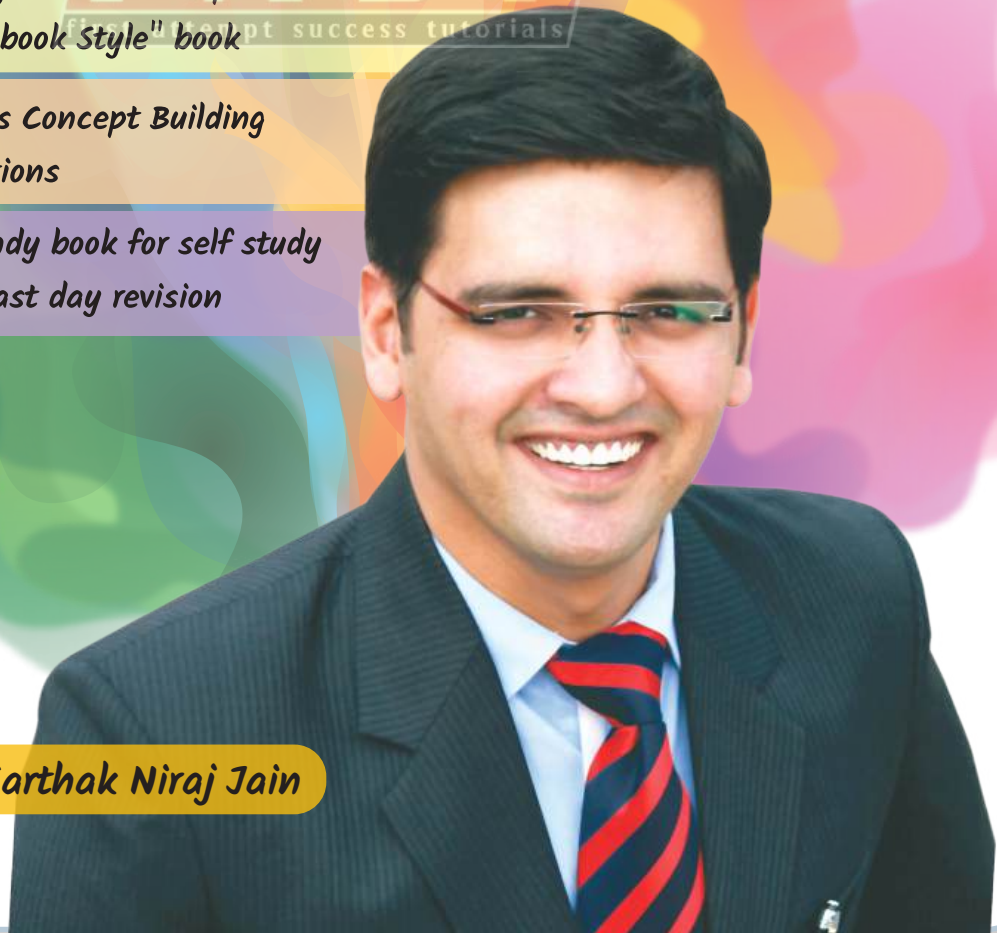
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CA Inter-Advanced Accounting VOLUME I

-  **Notebook style multicoloured Book penned by CA SJ**
-  **Scientifically designed for conceptual understanding with minimum effort**
-  **Excellence in simplicity - A very neat and simple "Notebook Style" book**
-  **Covers Concept Building Questions**
-  **A handy book for self study and last day revision**

Author : CA. Sarthak Niraj Jain





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AUTHOR

CA. SARTHAK NIRAJ JAIN

(Refer AS Brahmastra for Chapter 1 to 9)

CHAPTER

II

FINANCIAL STATEMENTS OF COMPANIES

A

FINANCIAL STATEMENTS

Balance sheet

Statement of Profit and Loss

Cash Flow Statement

Statement of changes of Equity (if applicable)

Notes and other statements

Provisions to be followed while preparing final accounts:

- ▶ Requirements of Schedule III to the Companies Act;
- ▶ Other statutory requirements;
- ▶ Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29);
- ▶ Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

B

SCHEDULE III – DIVISION I: AS BASED FINANCIAL STATEMENT (FS)

(FS of a company required to comply with the Companies (AS) Rules, 2006)

- I. **Divisions to Schedule III & Applicability (Section 129 of Companies Act, 2013):**
 - a) Schedule III, Division I applies to companies following AS;
Schedule III, Division II applies to companies following Ind-AS; &
Division III to NBFCs.
 - b) **Schedule III is not applicable to:**
 - Banking Companies
 - Insurance Companies
 - Companies exempted by CG from S.III requirements
 - d) **Applies to:**
 - NBFCs
 - Section 8 Companies (except Statement of Income & Expenditure in place of Statement of Profit & Loss is prepared)
 - Govt. Companies
 - e) Company having Subsidiary/JV/Associate to prepare and present 'Consolidated FS' as well, as per schedule III, unless exempted.

2. Authority:

- a) Law prevails over AS as well as Schedule III
- b) AS prevail over Schedule III
- c) When AS has an option wherein one option is in line with Schedule III & other contradicts schedule III, then follow the former option.



3. Structure of Schedule III:

I. General Instructions (G.I.)	IV. Part II : Statement of Profit & Loss-Format (SPL)
II. Part I : Format of Balance Sheet	V. General Instruction on Statement of Profit & Loss
III. General Instruction on Balance Sheet	VI. General Instruction on Consolidated F.S.

* Section 2(27) Financial Statements includes:

Balance Sheet	Format & G.I. given in Schedule III
Statement of Profit & Loss	Format & G.I. given in Schedule III
Cash Flow Statement	Refer AS 3 as no format or G.I. given in Schedule III for Cash Flow Statement
Notes to Accounts	Explanatory Notes and Significant Accounting Policies

4. General Instructions overall for FS:

- Flexible format of Schedule III, changing line items, names etc. for better presentation permitted.
- **Rounding off: (mandatory)**
 - $\left\{ \begin{array}{l} \text{Total Income} \geq 100 \text{ Cr., round off nearest Lakhs (00000), Millions (000000) or Crores (0000000)} \\ \text{Total Income} < 100 \text{ crores to nearest hundreds, thousand, lakhs or millions.} \end{array} \right.$
- **Notes to Accounts: (can be in form of)**
 - I. Narrative Descriptions – E.g. Contingent Liabilities
 - II. Disaggregation of items presented in FS-
E.g. BS-PPE-Notes to PPE-Disaggregation
 - III. Disclosure of items not otherwise presented in FS.
E.g. Charge on assets

5. **Balance Sheet: General Instructions: CURRENT & NON CURRENT ASSETS & LIABILITIES**

5.1 **Current Assets (Para 1 to General Instructions for preparing BS):**

Lets say

When asset satisfies any of the following criteria it is classified as current Asset:

Rule (i) → it is expected to be realised or intended to be sold or consumed within entity's normal operating cycle (OC); or

Rule (ii) → it is held primarily for the purpose held for trading; or

Rule (iii) → it is expected to be realised within 12 months after the reporting date; or

Rule (iv) → it is Cash or cash equivalent, unless it is restricted from being used/ exchanged to settle a liability for atleast 12 months after the reporting date

Any asset that is not a current Asset, will be classified as a Non-Current Asset

Examples:-

(1)	Date	Particulars	Case i	Case ii
	01.01.25	Credit sales-Debtor	16 months	16 months
		Operating Cycle	16 months	15 months
	31.03.25	Classification	Current	Non-Current

(2)	Date	Particulars	Case i	Case ii
	01.01.25	Machine purchased	15 months (Life)	15 months (Life)
		Operating Cycle	12 months	15 months
	31.03.25	Classification	Non-Current	Non-Current

(3)	31.03.25	Goods expected to be sold in 15 months and will be realised after 3 months of sale.		
	Cases	Particulars	Classification	
	1	Operating Cycle- 12 months	Non-Current Current	
	2	Operating Cycle- 15 months	Current	
	3	Operating Cycle- 18 months	Current	

Generalisation of above definition of Current Asset:**• Rule (i)**

- a) Only relevant for operating (working capital) items like Raw material, WIP, Finished goods, Debtors, Prepaid expenses, Advance to supplier of goods etc.
- b) If above items are expected/intended to be realised or consumed or sold (any of these and not just realised) with operating cycle then classification to be current
- c) To be tested not on Balance Sheet date but on date when asset is recognised in F.S.

• Rule (ii)

- a) Applies to all inventory items like stock of raw material, WIP, Finished Goods, By-products, Spares classifiable as inventory
 - b) Spare parts classifiable as Fixed Assets/PPE will not be covered under this rule
 - c) Inventory is **Always Current** whether it is slow-moving or not
- * Slow moving or Non moving but if it is inventory, classify it as current

• Rule (iii)

- a) Relevant for all assets
 - b) Realised means encashed (under this rule)
 - c) Any asset, expected to be encashed within 12 month from balance sheet date will be 'Current'
- Eg. A 6 months capital advance for Fixed Asset with 10 months life will not necessarily classified as current, as they are not expected to be realised (encashed) within 12 months
- d) Fixed Assets will only be classified as current:
 - (i) When they have been classified as held for sale, and
 - (ii) Are expected to be sold and realised within 12 month of balance sheet date
 - e) Prepaid expense, Advance to supplier etc. are not classifiable under this rule as such assets are not encashed, unless contract is cancelled & money becomes refundable (as we will receive services/goods against these and not cash)

An Asset may be Partly classified as **Current** and partly as **Non-current**

Eg. Loan given to borrower for 50 lacs, repayable 10 lacs p.a., what will be classification?

Hint: Classification:

- 10 lacs- Current maturities of long-term loans will be classified as current
- 40 lacs- Non-Current

Expected to be realised is more important than contractual right to realise

g) Eg. Debtors on balance sheet date:

As per contract- credit period remaining is 10 months, but as per practise, expected to be realised in 15 months, what will be the classification?

Hint: Classification: Non-current, as expected to be realised after 12 months

Fictitious Assets, if any, are always Non-Current.

h) Eg. 31.03.2018 share issue expenses (Asset) 30,000 to be written off eventually in next 3 years (assume shown under asset for illustration purpose)

Balance Sheet (extract)

Particulars	Amount
Non-Current Assets	
Other Non-Current Assets: Share issue expenses	30000

• Rule (iv)

Cash & Cash equivalents means: (as per AS-3)

- Alternate form of keeping cash, and + In readily realisable asset + Having insignificant risk of changes in value
- Readily realisable asset means realisable within 3 months (ICAI Clarification)

5.11.

Current & Non-Current Liabilities

Current liabilities: (Para 2) when any of the following condition met classify liability as a current liability. Else, it will be a non-current liability:

- (a) It is expected to be settled within entity's normal operating cycle; or
- (b) It is primarily held for the purpose of being traded (eg. Derivative Financial Liability); or
- (c) It is due to be settled within 12 months after the reporting date (i.e. Due date is to be seen and not expected settlement date); or
- (d) The company does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting date.

➤ Classification is not affected by the fact that settlement is to be made in Cash or through Equity shares

➤ Eg. Debentures issued, redeemable in 12 months from balance sheet date and holder can convert the debentures into equity shares instead of redeeming.

What will be the classification?

Hint: Current, as it does not matter whether settlement is in cash or equity shares.

5.III.

Operating Cycle:

- Means time taken from acquisition of assets for processing to realisation in cash or cash equivalents;
- Operating Cycle:



<p>Lead time for acquisition of goods</p> <ul style="list-style-type: none"> + Storage time of Raw material + Processing time + Storage time for Finished Goods before sale + Credit period given to Trade Receivables on sale of goods 	<p>Gross* Operating Cycle (This to be considered)</p>	<p>Net Operating Cycle (Not Considered)</p>
<ul style="list-style-type: none"> - Credit Period received from supplier of goods 		


* *As the obligation is to determine time taken to complete one cycle of business and not to determine working capital blocked in business*

- **Normal Operating Cycle is to be considered :**
 - ◆ Normal or Average operating cycle is considered and not contract specific operating cycle
- **One business to have one Operating Cycle only**
 - ◆ But if Company has **Multiple Business**, then it can have **separate normal Operating Cycle for each business** and accordingly current/non-current classification of asset/liabilities of each business will be determined
- **If Operating Cycle is not determinable, then assume to be 12 months**

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Book penned by CA SJ with
summary charts



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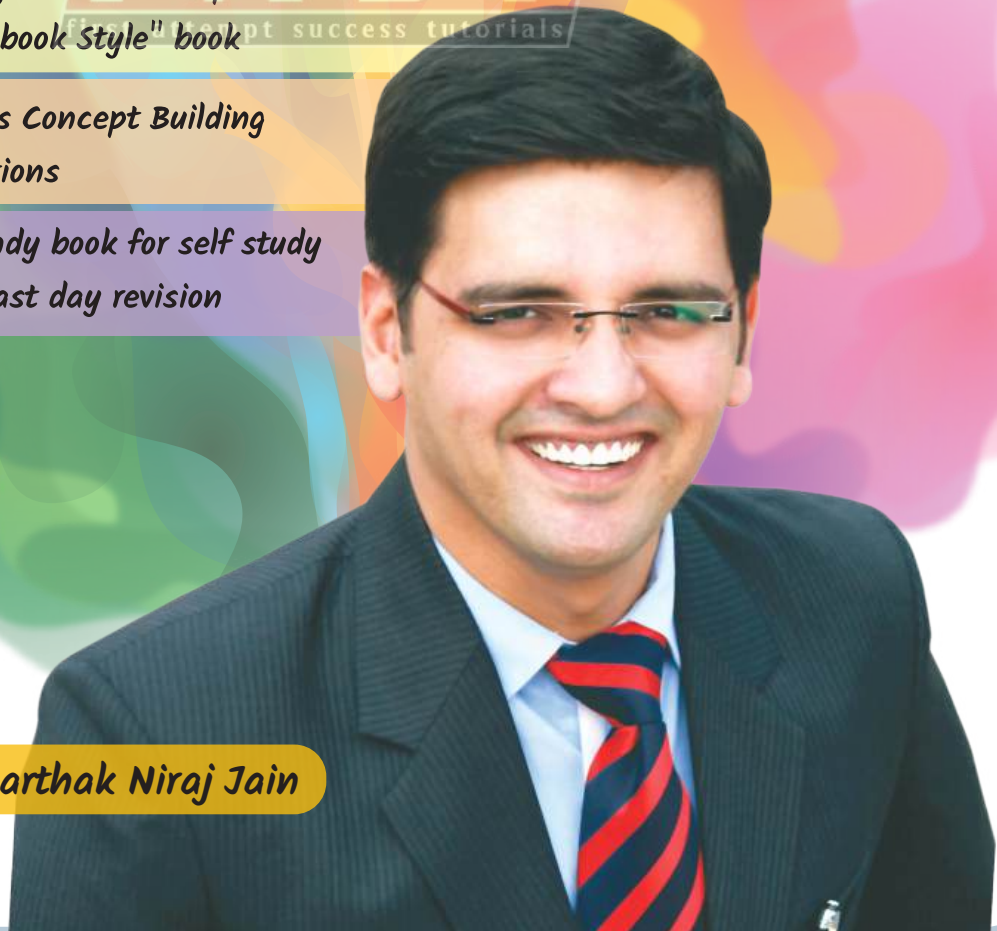
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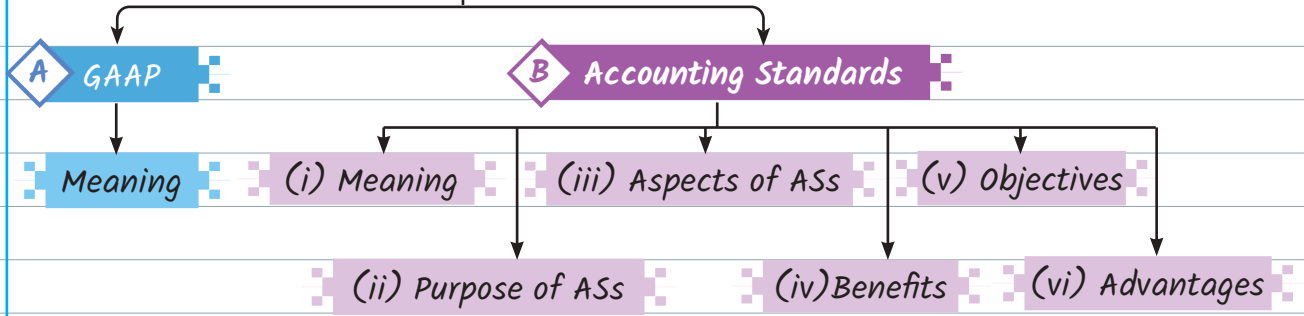
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CH 1 INTRODUCTION TO ACCOUNTING STANDARDS

I. INTRODUCTION



A Generally Accepted Accounting Principles (GAAP)

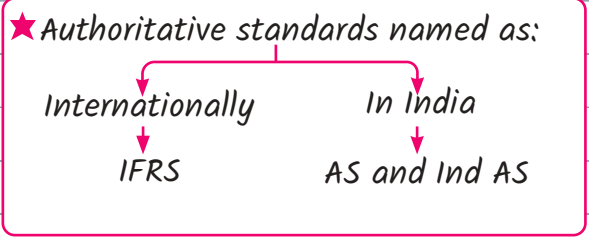
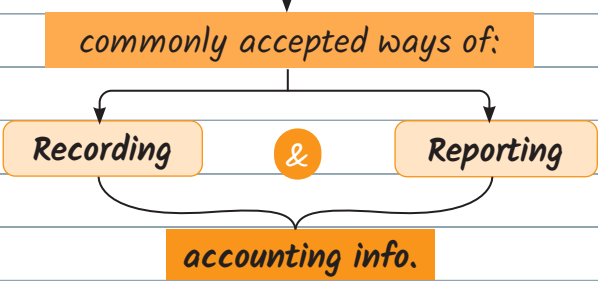
Meaning

a) A common set of accepted:



that business reporting enterprise must follow when it prepares & presents its FSs.

b) It is a combination of authoritative standards (set by policy boards) and



B Accounting Standards

(i) Meaning



Eg: MCA issuing ASs for corporates (in consultation with NFRA) covering following aspects of a/cing transactions/events in FS:

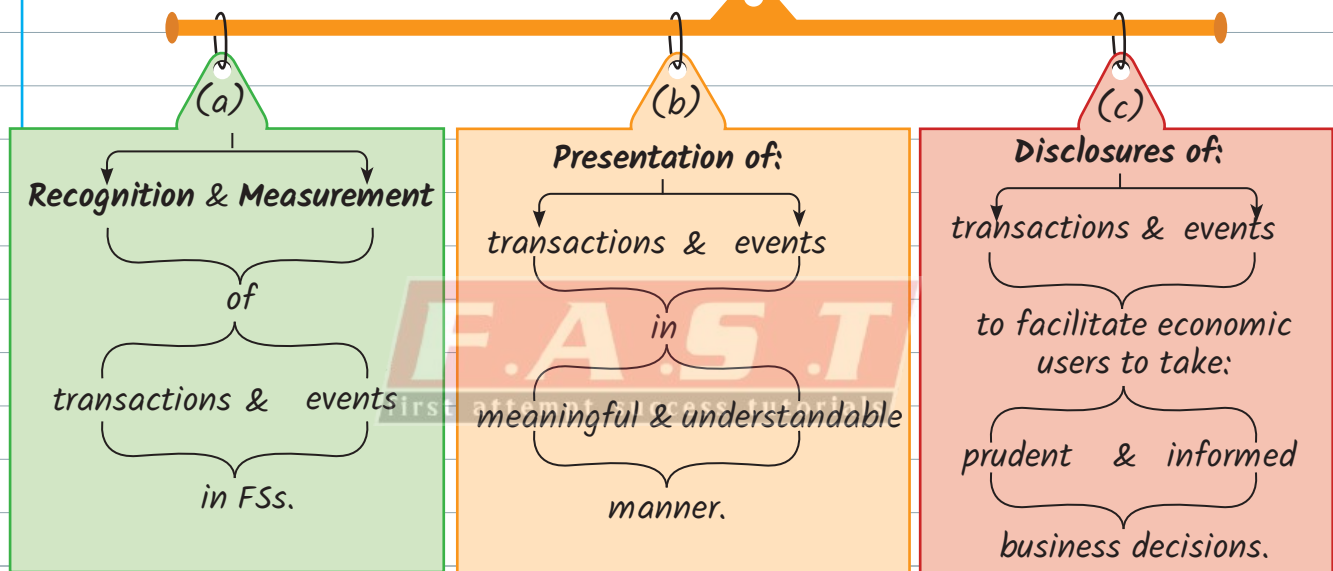


(ii) Purpose of ASs

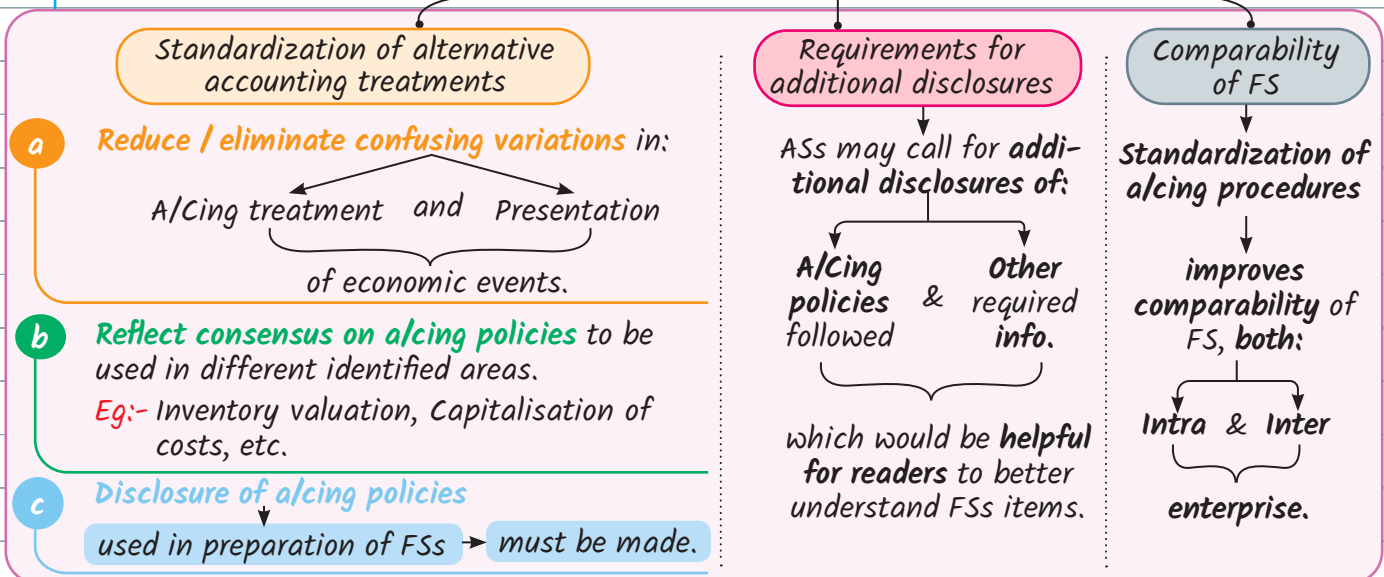
Promote dissemination of timely and useful financial info. to investors & other stakeholders.

Reduce accounting alternatives, thereby ensuring comparability of FSs of different enterprises.

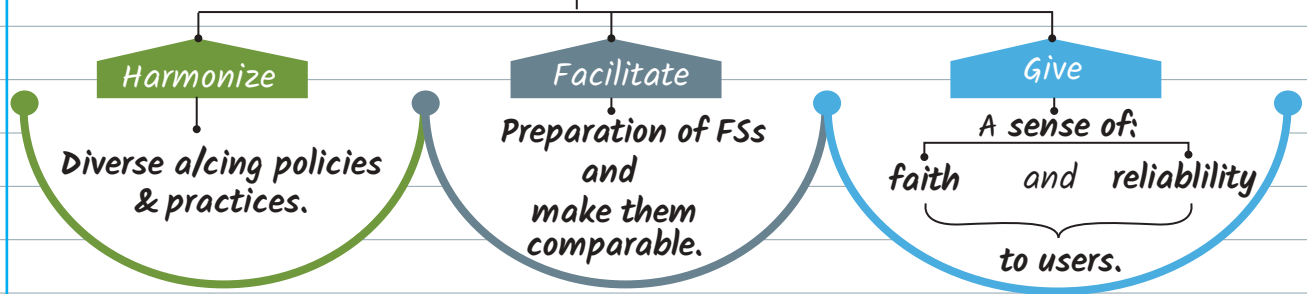
(iii) Aspects of ASs



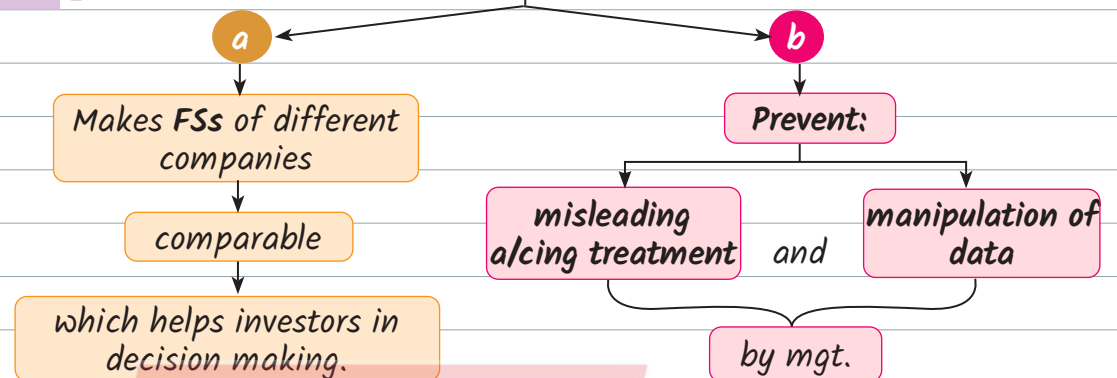
(iv) Benefits



(v) Objective



(vi) Advantages



2. STANDARDS SETTING PROCESS

Background

- ❖ ICAI constituted Accounting Standards Board (ASB) in 1977.
- ❖ ASB considered IASs / IFRSs while framing ASs in India and integrated them, as per applicable laws, customs, usages and business environment in the country.
- ❖ Composition of ASB includes representatives of industries, associations of industries (namely, ASSOCHAM, CII, FICCI), regulators, academicians, government departments, etc.
- ❖ ASB is independent in the formulation of ASs.
- ❖ NFRA recommend these standards to the MCA.
- ❖ MCA has to spell out the ASs applicable for companies in India.

➔ The standard-setting procedure of ASB can be briefly outlined as follows:

- Step I Identification of area: Identification of broad areas by ASB for formulation of AS.
- Step II Constitution of study groups: Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed ASs.

- **Draft includes:**
 - Objective and scope of the standard,
 - Definitions of the terms used in the standard,
 - Recognition and measurement principles wherever applicable, and
 - Presentation and disclosure requirements.
- Consideration of preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.

Step III**Preparation of draft and its circulation:**

Circulation of draft AS (after revision by ASB) to the ICAI Council members and specified outside bodies such as MCA, SEBI, C&AG, CBDT, SCOPE, etc. for comments.

Step IV**Ascertainment of views of different bodies on draft:**

Meeting with representatives of the specified outside bodies to ascertain their views on the draft of the proposed AS.

Step V**Finalisation of exposure draft :**

Finalisation of exposure draft of the proposed AS and its issuance inviting public comments.

Step VI**Comments received on exposure draft:**

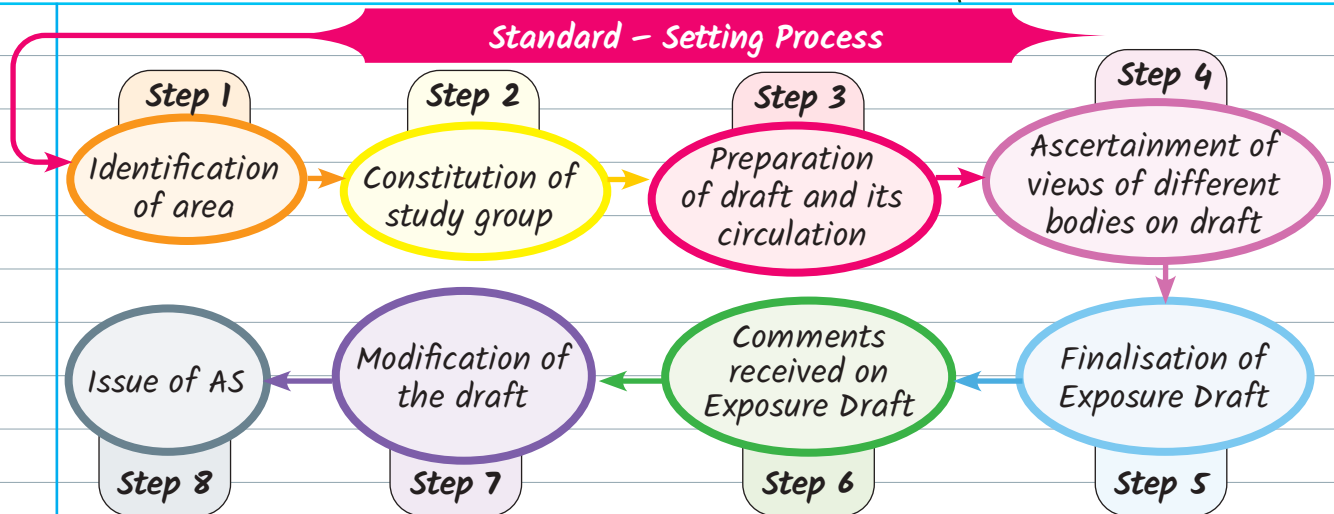
Consideration of comments received on exposure draft and finalisation of the draft AS by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.

Step VII**Modification of the draft:**

Consideration of the final draft by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.

Step VIII**Issue of AS:**

The AS on the relevant subject (for non-corporate entities) is then issued by ICAI. For corporate entities the AS are issued by MCA in consultation with NFRA.



→ Sec. 133 of Companies Act, 2013

The Central Government may prescribe ASs or any addendum thereto, as recommended by ICAI, constituted u/s 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of recommendations made by NFRA.

3. HOW MANY ACCOUNTING STANDARDS?

The ICAI has, so far, issued 29 ASs. However, AS-6 on 'Depreciation Accounting' has been **withdrawn** on revision of AS-10 'Property, Plant and Equipment' and AS-8 on 'Accounting for Research and Development' has been **withdrawn consequent to the issuance of AS-26** on 'Intangible Assets'. Thus **effectively, there are 27 ASs at present.**

4. STATUS OF ACCOUNTING STANDARDS

The ASs are made **mandatory from the dates specified in respective standards** and are **generally applicable to all enterprises, subject to certain exceptions.** Mandatory status of an AS also depends on statute governing the enterprise.

5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Few key aspects which required the need for convergence are as under:

A Raising funds from international markets

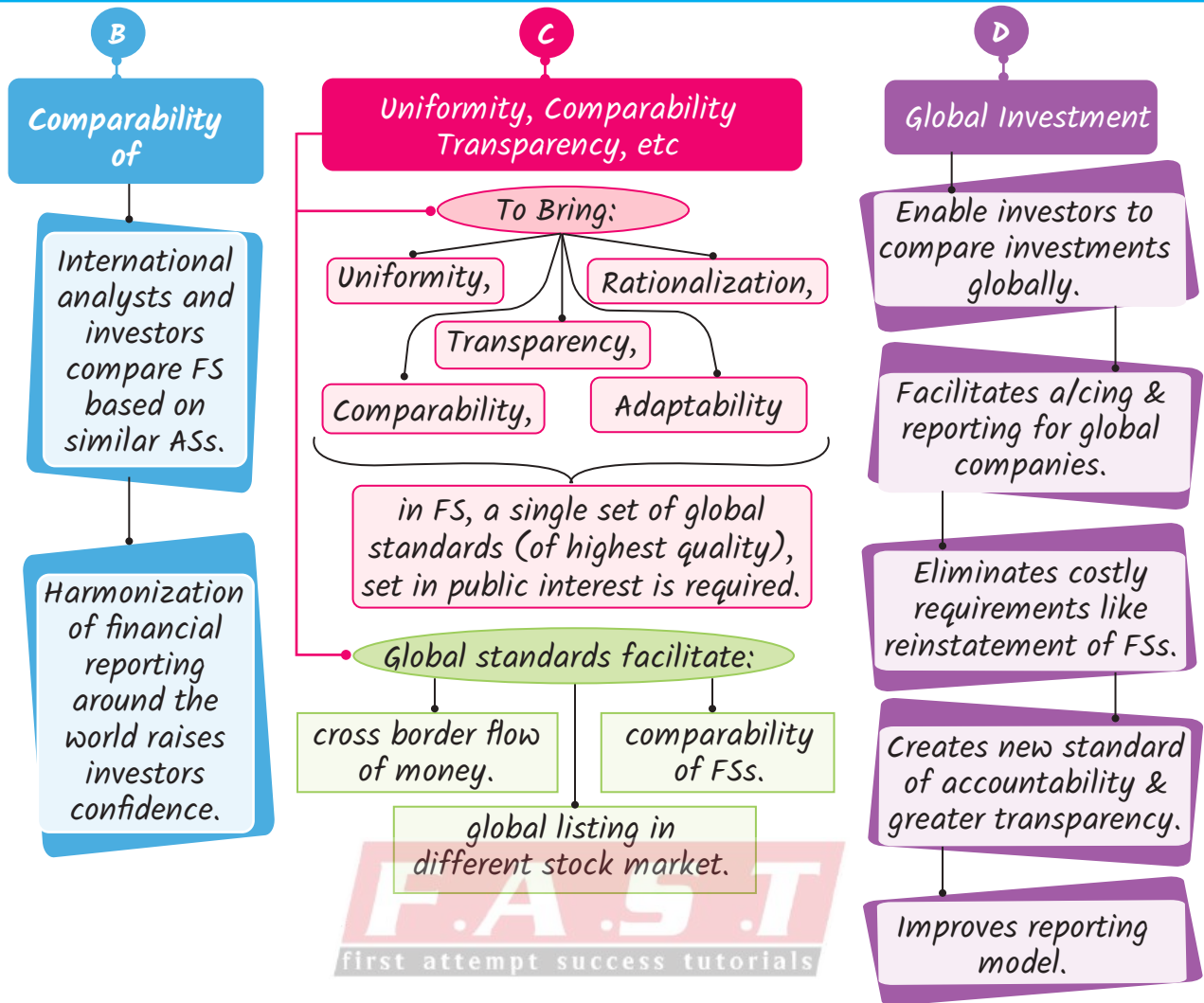
When an enterprise decides to raise capital from international markets, rules & regulations of such other country shall apply.

This require enterprise to understand difference b/w:

rules governing financial reporting in foreign country

with

that of its own country (i.e. country of origin).

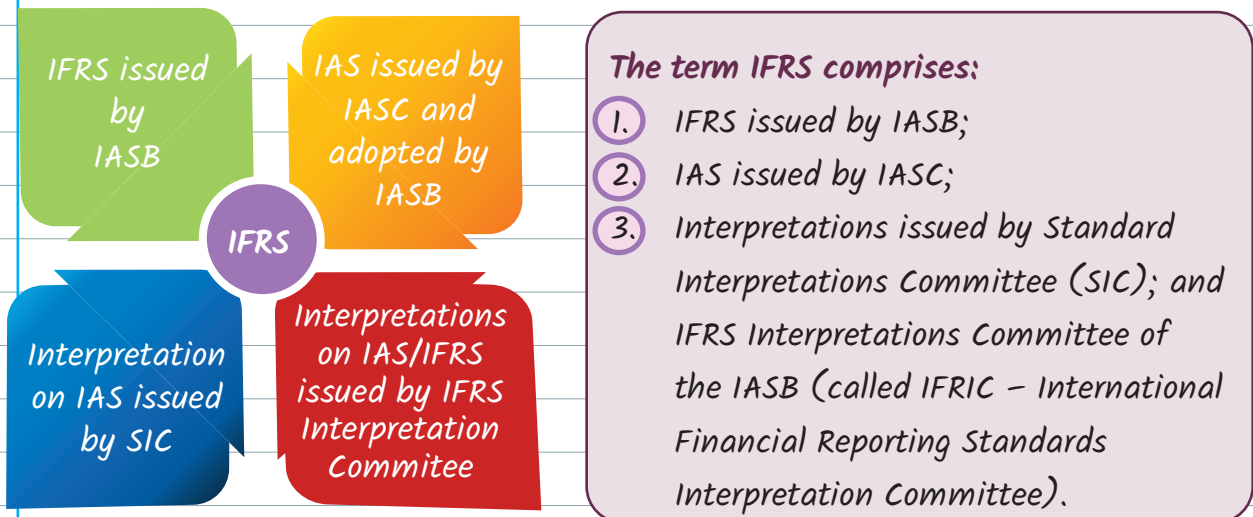


6. INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB)

- 1 For setting global standards, International Accounting Standards Committee (IASC), presently known as International Accounting Standards Board (IASB), responsible for developing International Accounting Standards (IAS), was established in June, 1973.
- 2 IASs were issued to promote acceptance and observance of IASs worldwide.
- 3 The members of IASC undertook a responsibility to support the standards developed by IASC and to propagate those standards in their respective countries.
- 4 Between 1973 and 2001, the IASC released IASs.
- 5 Between 1997 and 1999, IASC restructured their organization, which resulted in formation of IASB. These changes came into effect on 1st April, 2001.
- 6 Subsequently, IASB issued statements called IFRS. However, IASB has not rejected the standards issued by the IASC.

- 7 Those pronouncements continue to be designated as “International Accounting Standards” (IAS). **The standards issued by IASC till 31.03.2001 are known as IASs and the standards issued by IASB since 01.04.2001 are known as IFRSs.**

7. International Financial Reporting Standards (IFRS) as Global Standards



8. BECOMING IFRS COMPLIANT

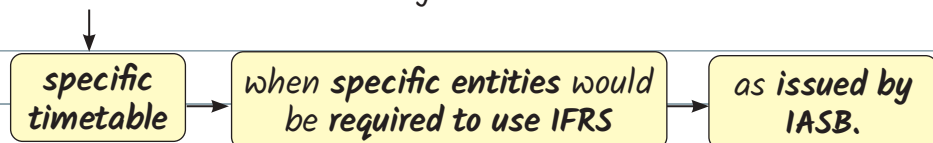
Any country  can become IFRS compliant either:

by adoption process

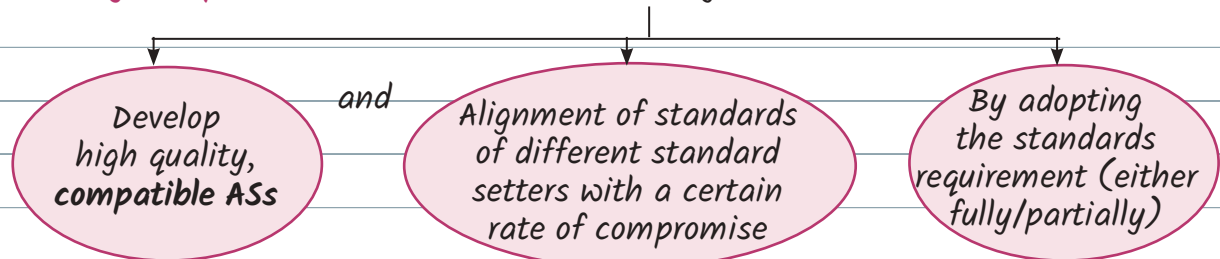
or

by convergence process

- ▶ **Adoption process:** It means that the country sets a

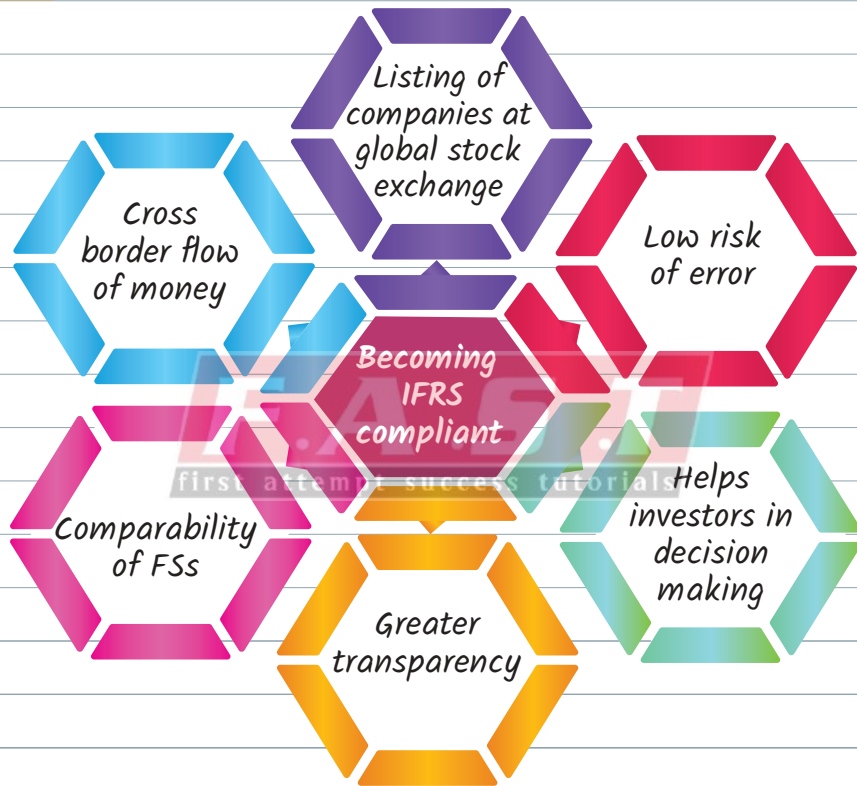
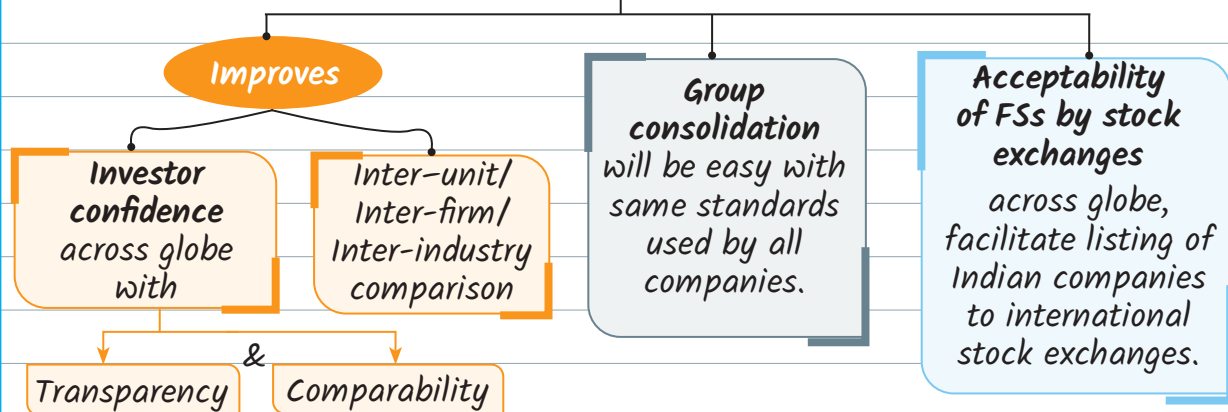


- ▶ **Convergence process:** It means that the country will:



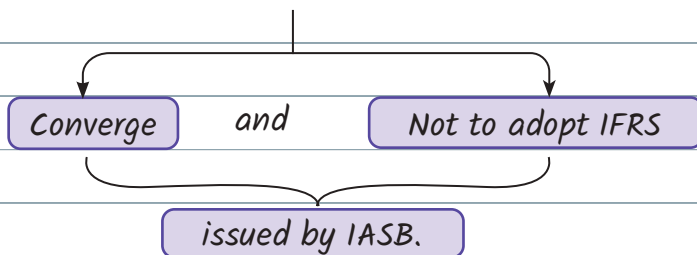
Note: *Ind ASs* → almost similar to IFRS but with few carve outs.

Benefits of convergence with IFRS



9. WHAT ARE CARVE OUTS / INs IN IND AS?

1. GOI (in consultation with ICAI) decided to:



2

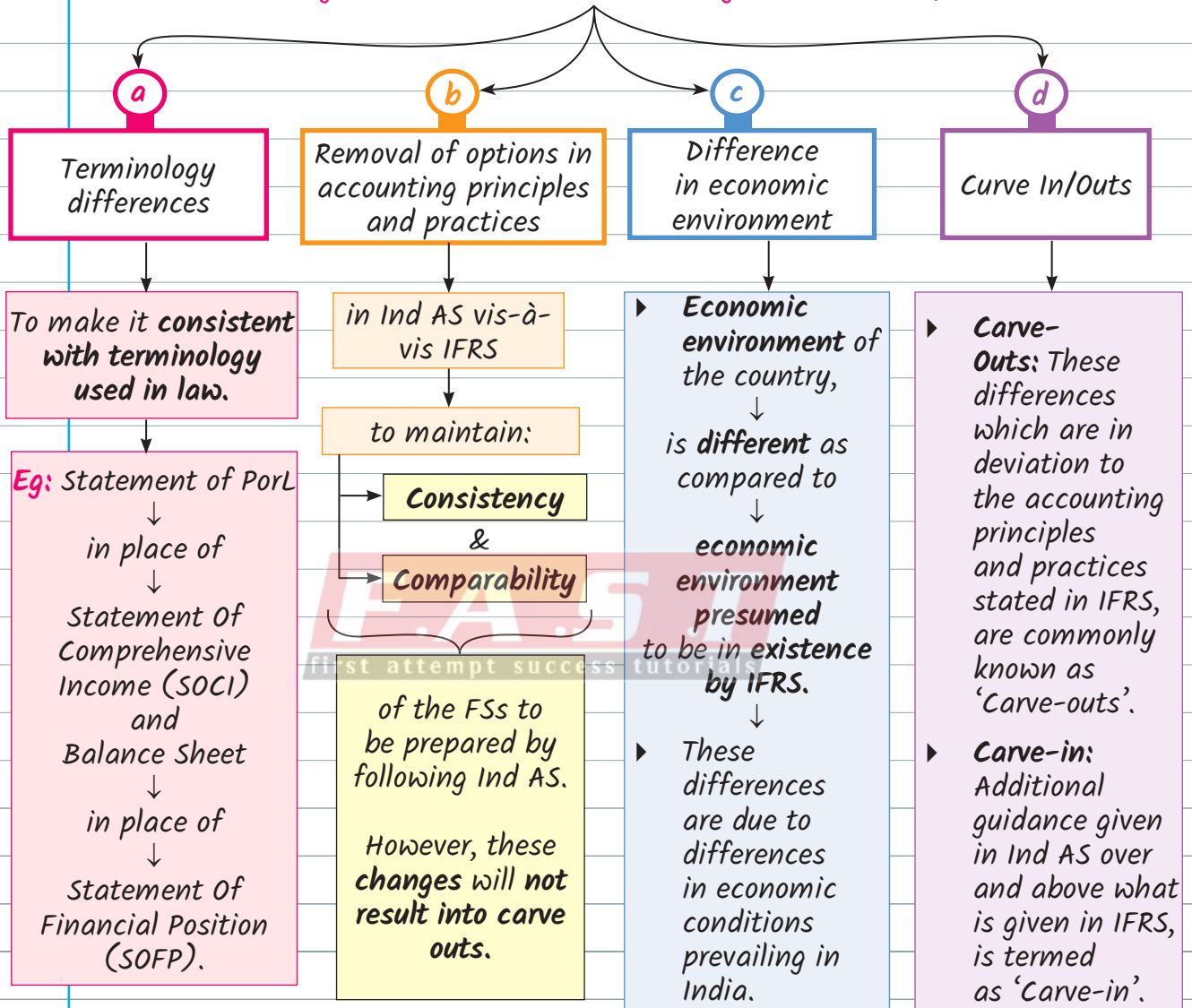
Ind AS made in line with:

corresponding IAS / IFRS

and

departures have been made where essential.

These changes have been made considering various factors, such as:



Formulation of Ind AS

Departures

Resulting into Carve-outs

Deviation from the accounting principles stated in IFRS.

Not resulting into carve-outs

Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS.

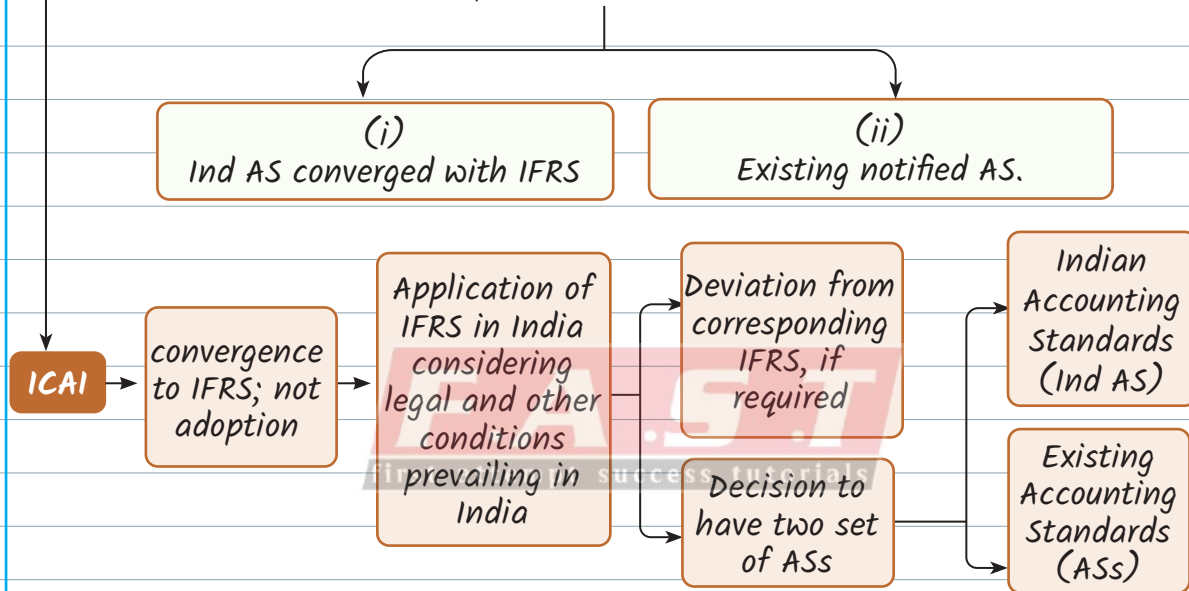
10. CONVERGENCE TO IFRS IN INDIA

1) Aim

- To comply with IFRS (to the extent possible)
 - to formulate sound financial reporting standards.
 - to prepare globally accepted FSs.

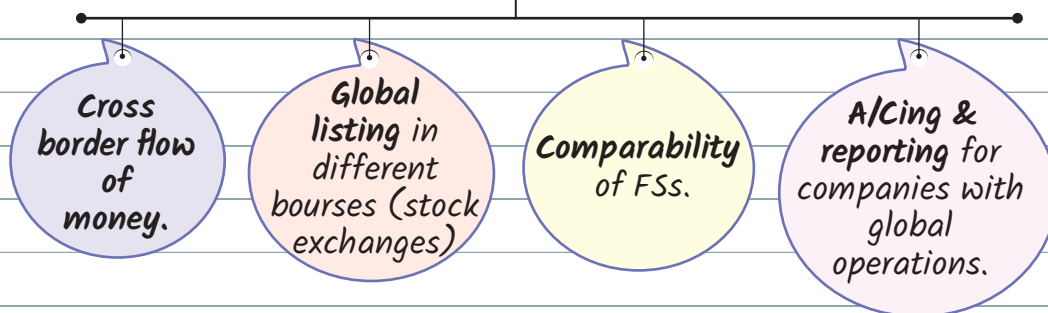
2) For convergence of Ind AS with IFRS

- ASB (in consultation with MCA)
- decided to have two separate sets of AS viz.



3) Significance of emergence of IFRS as Global Standards

(i) Facilitate:




- (ii) Improves investor's ability to compare investments globally.
- (iii) Therefore, lowers the risks of errors of judgment.
- (iv) Eliminates costly requirements, say, reinstatement of FSs.

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