Contents

Abo	ut the authors	PAGE I-5
	pter-heads	I-3 I-7
Cnu		1-7
	1	
	ACCOUNTING FOR CORPORATE RESTRUCTURING	
٠	Clarification regarding Applicability of New Schedule VI Format	1
	SECTION I - AMALGAMATION AND EXTERNAL RECONSTRUCTION	
•	Introduction	2
1A.	Meanings	2
1 B .	Types of merger	4
1C.	Purchase Consideration (PC)	5
1D.	Accounting for amalgamations	8
1E.	Amalgamation involving inter-company shareholding (AS-14 is silent on this point)	20
1F.	Distribution of shares/debentures etc. between partners when vendor is a firm	25
1G.	Entries when same books of account are continued	27
1H.	Debtors and creditors settled on vendor's behalf	30
Que	stions with Solutions for Self Study	31
Que	stions for Class Work	87
	SECTION II - DEMERGER, ASSETS SWAP AND BUY-BACK	
Que	stions with Solutions for Self Study	98
Que	stions for Class Work	112
	SECTION III - INTERNAL RECONSTRUCTION	
1-I.	Internal reconstruction/capital reduction/reorganisation	116
Que	stions with Solutions for Self Study	119
Que	stions for Class Work	126
Ans	wers and Hints for Questions for Class Work	128
1J.	Revised Schedule VI to the Companies Act, 1956	131

CON	TENTS	I-10
		PAGE
	2	
	HOLDING COMPANY ACCOUNTS CONSOLIDATED FINANCIAL STATEMENTS	
Clari	fication regarding Revised Schedule VI Format	138
	SECTION I - CONSOLIDATION IN CASE OF SIMPLE HOLDING	
2A.	Introduction	138
2B.	Consolidation of balance sheet	141
2C.	Other important points	152
Ques	stions with Solutions for Self Study	167
Ques	stions for Class Work	206
	SECTION II - CONSOLIDATION IN CASE OF CHAIN HOLDING	
2D.	Chain holding	212
Ques	stions with Solutions for Self Study	218
Ques	stions for Class Work	234
	SECTION III - CONSOLIDATION IN CASE OF CROSS HOLDING	
2E .	Cross holding	238
Ques	stions with Solutions for Self Study	242
Ques	stions for Class Work	247
	SECTION IV - CONSOLIDATED P&L AND CASH FLOW STATEMENT	
2F.	Consolidated profit & loss account	248
2G.	Consolidated cash flow statement	248
2H .	Special Transactions & their Effect on Consolidated Profit & Loss, Balance Sheet, Cash Flow consolidated profit	249
Ques	stions with Solution for Self Study	254
-	stions for Class Work	255
	, SECTION V - CONSOLIDATION IN CASE OF SUBSIDIARY, ASSOCIATE & JOINT VENTURE	
2-I.	Investment in equity of other company and consequent classification in	
<i>2</i> -1.	subsidiary associate and joint venture	257
Ques	stions for Class Work	263
2J.	Consolidated financial statements of Larsen & Toubro Ltd. for the year ended 31-Mar-2012	265
Ansv	vers and Hints for Questions for Class Work	270

I-11	CONTENTS
SECTION I - VALUATION OF GOODWILL	PAGE
3A. Valuation of goodwill	272
Questions with Solutions for Self Study	279
Questions for Class Work	288
SECTION II - VALUATION OF SHARES	
3B. Valuation of shares	295
Questions with Solutions for Self Study	301
Questions for Class Work	311
SECTION III - VALUATION OF ASSETS (INCLUDING BRAND), LIABILITIES & BUSINESS	
3C. Valuation of assets	317
3D. Brand valuation	319
3E. Valuation of liabilities	322
3F. Valuation of business	322
3G. Accounting as a measurement discipline - Valuation principles	325
Questions with Solutions for Self Study	327
Questions for Class Work	327
Answers and Hints for Questions for Class Work	328

VALUE ADDED STATEMENT & ECONOMIC VALUE ADDED

SECTION I - VALUE ADDED

4A. Value Added (VA)	331
Questions with Solutions for Self Study	333
Questions for Class Work	343
SECTION II - ECONOMIC VALUE ADDED	
4B. Economic Value Added	347
Questions with Solutions for Self Study	349
Questions for Class Work	353
SECTION III - MARKET VALUE ADDED AND SHAREHOLDERS' VALUE ADDED	
4C. Market value added	354
4D. Shareholders' value added	354
Answers and Hints for Questions for Class Work	354

5

HUMAN RESOURCE REPORTING/ACCOUNTING

5A. Introduction

		PAGE
5 B .	Models of HRA	356
5C.	Implications of human capital reporting	359
5 D .	HRA in India	359
Quest	ions for Class Work	360
Answ	ers and Hints for Questions for Class Work	361

6A.	Introduction	362
6 B .	Guidance Note on Accounting for Employee Share-based payments - Salient Features	363
6C.	Important Issues involved in the Share-Based Payments	364
6 D .	Accounting of Employee Stock Option Plan (ESOP)	364
6E.	Employees' Stock Purchase Plans (ESPP)	383
6F.	Cash-settled Employee Share-Based Payment Plans [Stock Appreciation Rights (SAR)]	384
6G.	Employee Share-based payment plans with cash alternatives	386
6H.	Sweat equity shares	388
Quest	ions with Solutions for Self Study	389
Quest	ions for Class Work	393
Answe	ers and Hints for Questions for Class work	397

7

FINANCIAL REPORTING FOR FINANCIAL INTERMEDIARIES

SECTION I - MUTUAL FUNDS

7A. Mutual funds	398
Questions with Solutions for Self Study	406
Questions for Class Work	409
SECTION II - NON-BANKING FINANCIAL COMPANIES	(NBFCs)
7B. Non-Banking Finance Companies (NBFCs)	411
Questions with Solution for Self Study	416
Questions for Class Work	417
SECTION III - MERCHANT BANKERS	
7C. Merchant bankers	419
SECTION IV - STOCK BROKERS	
7D. Stock and commodity market intermediaries	420
Answers and Hints for Questions for Class Work	422

I-12

13	CONTENTS	

PAGE

8

ACCOUNTING FOR FINANCIAL INSTRUMENTS

8A.	Financial Instrument, Financial Asset and Financial Liability	424
8 B .	Hedging	441
8C.	Equity instruments	445
8 D .	Accounting for derivatives	449
8E.	Accounting for securitisation	479
8F.	Entries for various types of financial instruments	481
Ques	tions with Solutions for Self Study	485
Ques	tions for Class Work	506
Answers and Hints for Questions for Class Work		511

9

GUIDANCE NOTES ON ACCOUNTING ASPECTS

AS : GENERAL INTRODUCTION

٠	Introduction	520
٠	Evolution of Accounting Standards	520
٠	Benefits and limitations	520
٠	Meaning of Accounting Standard (AS)?	521
٠	AS generally covers	521
٠	Type of organizations to which as applicable	521
٠	Need for convergence towards global standards	521
٠	International accounting standard board	522
٠	International financial reporting standards as global standards	523
٠	A list of current IFRS/IAS	523
٠	Adoption of IFRS in India (convergence of Indian AS with IFRS)	524
٠	Convergence of US-GAAP with IFRS/IAS	526
٠	US GAAP	526

PREFACE TO ACCOUNTING STANDARDS (ISSUED BY ASB)

٠	General	528
٠	Formation of A.S.B.	528
٠	Function of A.S.B.	528
٠	Scope of A.S.	528
٠	Procedure for Issuing A.S.	529

СС	DNTENTS	I-14
		PAGE
٠	Compliances with A.S.	529
•	Mandatory Accounting Standard	529
	FRAMEWORK FOR THE PREPARATION & PRESENTATION OF THE FINANCIAL STATEMENTS	
٠	Purpose of this Framework	530
٠	Concept of Financial Statements	530
٠	Enterprises to whom the framework is applicable	531
٠	The 'users' of financial statements	531
٠	The objective of financial statements	531
٠	Qualitative characteristics of Financial Statements	531
٠	True and Fair View	533
٠	Elements of Financial Statements	533
٠	Asset 533	
٠	Liability	534
٠	Equity	534
٠	Income	534
٠	Expense	535
٠	Recognition of the elements of Financial Statements	535
٠	When should asset be recognized in the Balance Sheet?	535
٠	When should a liability be recognized in the Balance Sheet?	536
٠	When should income be recognized in the Profit and Loss Account?	536
٠	When should expenses be recognized in the Profit and Loss Account?	536
٠	Measurement	536

• Concepts of Capital

10

537

AS-1 : DISCLOSURE OF ACCOUNTING POLICIES

10.0	Introduction	539
10.1	Requirements of AS-1	539
10.2	Meaning of 'Accounting Policies'	539
10.3	Nature of Accounting Policies	540
10.4	Fundamental Accounting Assumptions	540
10.5	Disclosure of Accounting Policies	541
10.6	Changes in Accounting Policies	542

AS-2 : VALUATION OF INVENTORIES

11.1	Requirements of AS-2	544
11.2	Applicability	544
11.3	Definitions of inventories	545
11.4	Valuation of inventories	545
11.5	Valuation of Stock of raw materials	548
11.6	Valuation of joint products, by-products and scrap	548
11.7	Disclosures	548
11.8	Is reversal of write down of inventories permissible?	549

12

AS-3 : CASH FLOW STATEMENT

12.1	Requirements of AS-3	551
12.2	Meaning	551
12.3	Presentation of cash flow	552
12.4	Other special items	552
12.5	Reconciliation of cash and cash equipment	553

13

AS-4 (REVISED) : CONTINGENCIES & EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

13.1	Requirements of AS-4	556
13.2	Events occurring after the balance sheet date	556
13.3	Disclosure	557

14

AS-5 (REVISED) : NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

14.1	Requirements of AS-5	559
14.2	Net profit or loss for the period includes	559
14.3	Profit or loss from ordinary activities	559
14.4	Extraordinary activities	560
14.5	Prior period items	561

PAGE

CONTENTS		I-16
		PAGE
14.6	Change in Accounting Estimate	561
14.7	Changes in Accounting Policies	562

AS-6 (REVISED) : DEPRECIATION ACCÓUNTING

15.1	Requirements of AS-6 (Revised)	565
15.2	Concepts of Depreciation	565
15.3	Depreciation of Additions/Extensions	566
15.4	Methods of charging of depreciation	567
15.5	Where depreciation rates are provided by statute	567
15.6	Change in the method of depreciation	567
15.7	Change in the cost of asset	567
15.8	Depreciation in case of revalued assets	568
15.9	Revision of useful life	568
15.10	Disclosures	568

16

AS-7 (REVISED) : ACCOUNTING FOR CONSTRUCTION CONTRACTS

16.1	Requirements of AS-7 (Revised)	572
16.2	Applicability	572
16.3	Construction Contract	572
16.4	Types of Construction Contracts	573
16.5	Combining and segmenting Construction Contracts	573
16.6	Contract Revenue	574
16.7	Contract Costs	575
16.8	Basis of recognition of contract revenue and expenses	576
16.9	Changes in Estimates	577
16.10	Disclosure	577

17

AS-9 : REVENUE RECOGNITION

17.1	Requirements of AS-9	579
17.2	Definition of Revenue	579
17.3	Revenue Recognition	580

I-17		CONTENTS
		PAGE
17.4	Effect of Uncertainties on Revenue Recognition	583
17.5	Disclosure	584
17.6	Disclosure of Revenue from Sales Transactions	584

AS-10 : ACCOUNTING FOR FIXED ASSETS

18.1	Requirement of AS-10	586
18.2	Definition of fixed asset	586
18.3	Types of fixed assets	586
18.4	Accounting for fixed assets	587
18.5	Assets acquired for non-monetary consideration	587
18.6	Self-constructed fixed assets	588
18.7	Subsequent expenditure on existing assets	588
18.8	Revaluation of fixed assets	588
18.9	Accounting for disposal of fixed assets	590
18.10	Material items retired from active use and held for disposal	590
18.11	Derecognition from Financial Statements	590
18.12	Basket purchase of fixed assets	590
18.13	Fixed assets owned jointly with others	590
18.14	Disclosure	590

19

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

Requirements of AS-11 (Revised 2003)	591
Introduction	591
Scope of AS-11 (Revised 2003)	592
Reporting Currency	592
Definition	592
Foreign Currency Transactions	593
Translation of Financial Statement of Foreign Operations	594
Change in the classification of a foreign operation	596
Deferred tax	596
Forward Exchange Contract (or contract similar in substance)	596
Transitional Provision	597
	Introduction Scope of AS-11 (Revised 2003) Reporting Currency Definition Foreign Currency Transactions Translation of Financial Statement of Foreign Operations Change in the classification of a foreign operation Deferred tax Forward Exchange Contract (or contract similar in substance)

CONTENTS	I-1	8
	PAG	Е

AS-12 : ACCOUNTING FOR GOVERNMENT GRANTS

20.1	Requirements of AS-12	599
20.2	Government	599
20.3	Government grants	599
20.4	Recognition of Government Grant	599
20.5	Accounting for Government Grants	600
20.6	Presentation of Grants in Cash flow Statements	601
20.7	Disclosure	601

21

AS-13 : ACCOUNTING FOR INVESTMENTS

21.1	Requirements of AS-13	603
21.2	Definition of Investment	603
21.3	Valuation of Investments	603
21.4	Determination of Cost	604
21.5	Fair Value	605
21.6	Determination of carrying amount of investments	605
21.7	Disposal of Investments	606
21.8	Reclassification of Investments	606
21.9	Classification of Investments	606
21.10	Disclosure	606
21.11	Valuation of investments held as stock in trade	607
21.12	Is revaluation of long-term investments permitted under AS-13?	607

22 AS-14 : ACCOUNTING FOR AMALGAMATIONS

22.1	Requirements of AS-14	608
22.2	Introduction	608
22.3	Applicability	608
22.4	Consideration	609
22.5	Accounting for Amalgamations	609
22.6	In the books of Purchasing Company (Transferee Company)	610
22.7	Disclosures in the 1st financial statement after amalgamation	612
22.8	Amalgamation after the Balance Sheet Date	612

AS-15 : (REVISED 2005) EMPLOYEE BENEFITS

23.1	Employee benefits - General points	614
23.2	Short term employee benefits recognition and measurement	615
23.3	Post employment benefits	616
23.4	Other long term employee benefits	621
23.5	Termination benefits	621
23.6	Transitional Provisions	622

24

AS-16 : BORROWING COSTS

24.1	Requirement of AS-16	625
24.2	Applicability	625
24.3	Accounting for Borrowing Costs	625
24.4	Write down to Recoverable Amount	629
24.5	Disclosure	629

25

AS-17 : SEGMENT REPORTING

25.1	Requirements of AS-17	631
25.2	Objective of AS-17	631
25.3	Concept and relevance of Segment Information	631
25.4	Scope of AS-17	632
25.5	Cases in which single financial report contains both consolidated financial statements and the separate financial statements of the parent	632
25.6	Business Segment	632
25.7	Geographical Segment	633
25.8	Reportable Segment	633
25.9	Exercise of judgment in defining segments	634
25.10	Certain Important Terms	634
25.11	Identifying Primary Reporting Formats and Secondary Segment Reporting Formats	636
25.12	Identification of Reportable Segments	637
25.13	Primary Reporting Format	638
25.14	Secondary Reporting Format	639

PAGE

I-20

PAGE

26

AS-18 : RELATED PARTY DISCLOSURES

26.0	Introduction	642
26.1	Requirements of AS-18	642
26.2	Scope of AS-18	642
26.3	Why related party disclosures (rationale)?	642
26.4	Exemptions from disclosure requirements of AS-18	643
26.5	Related Parties	643
26.6	Related party transaction	646
26.7	Disclosures	646

27

AS-19 : LEASES

27.1	Requirements of AS-19	649
27.2	Applicability	649
27.3	Lease	650
27.4	Important Terms	652
27.5	Accounting for Leases	654
27.6	Sale and Leaseback Transactions	659

28

AS-20 : EARNINGS PER SHARE

Requirements of AS-20	661
Applicability	661
EPS in Consolidated Financial Statement	661
Definitions	661
Presentation of Basic and Diluted EPS	662
Calculation of Basic Earnings Per Share	662
Diluted Earnings per share	665
Restatement	668
Transactions occurring after the balance sheet date	668
Disclosure	668
Disclosure in case of extraordinary items	669
	Applicability EPS in Consolidated Financial Statement Definitions Presentation of Basic and Diluted EPS Calculation of Basic Earnings Per Share Diluted Earnings per share Restatement Transactions occurring after the balance sheet date Disclosure

PAGE

29

AS-21 : CONSOLIDATED FINANCIAL STATEMENTS

29.1	Requirements of AS-21	671
29.2	Provision of Companies Act	672
29.3	Voluntary Preparation	672
29.4	Requirements of Accounting Standards	672
29.5	Consolidation Policy : Subsidiary to be excluded from consolidation	673
29.6	Consolidation Procedures	673
29.7	Other special points in consolidation	674
29.8	Consolidated Cash Flow Statement	677

30

AS-22 : ACCOUNTING FOR TAXES ON INCOME

30.1	Requirements of AS-22	681
30.2	Objective	681
30.3	Scope	682
30.4	Accounting for taxes on income	682
30.5	Criteria for Recognition of Deferred Tax Assets and Liabilities	683
30.6	Re-assessment of Unrecognised Deferred Tax Assets	685
30.7	Measurement	685
30.8	Review of Deferred Tax Assets	685
30.9	Presentation and Disclosure	685
30.10	Transitional Provisions	686

31

AS-23 : ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

31.1	Requirements of AS-23	690
31.2	Definition	690
31.3	Accounting for Investment by Equity Method	691
31.4	Different Reporting date of Associate	691
31.5	Uniform Accounting Policy	692
31.6	Dividend on Cumulative Preference Shares	692
31.7	Share in Losses of Associates	692
31.8	Other Important Points	692
31.9	Disclosure	692
31.10	Transitional Provisions	692

I-22

PAGE

32 AS-24 : DISCONTINUING OPERATIONS

32.1	Requirements of AS-24	696
32.2	Objective of AS-24	696
32.2A	Applicability of AS-24	696
32.3	Discontinuing Operation	697
32.4	Initial Disclosure Event	697
32.5	Recognition and Measurement	698
32.6	Presentation and Disclosure	699
32.7	Disclosure in Interim Financial Reports	700

33

AS-25 : INTERIM FINANCIAL REPORTING

33.1	Introduction	702
33.2	Requirements of AS-25	702
33.3	Applicability	703
33.4	Objective	703
33.5	Interim Period	703
33.6	Period to be Reported	704
33.7	Highly seasonal business	704
33.8	Final interim period	704
33.9	Period to be covered in IFR illustrated	704
33.10	Recognition of Assets, Liabilities, Expenses and Incomes	705
33.11	Revenues received seasonally/occasionally	706
33.12	Cost	707
33.13	Change in Accounting Policy	707

34

AS-26 : INTANGIBLE ASSETS

34.1	Requirements of AS-26	709
34.2	Applicability of AS-26	709
34.3	Meaning and definition of intangible assets	711
34.4	Recognition and initial measurement of intangible asset	712
34.5	Recognition of internally generated intangible assets	715
34.6	Internally generated computer software for internal use	717
34.7	Web site costs	719

	PAGE
34.8 Recognition of an expense	720
34.9 Subsequent expenditure	721
34.10 Measurement subsequent to initial recognition	721
34.11 Revaluation of intangible assets	724
34.12 Retirements and disposals	725
34.13 Accounting for Sweat Equity Shares	725
34.14 Impact of AS-26 on Deferral of Revenue Expenditure	725
34.15 Disclosures	725
34.16 Transitional Provisions	726

35

AS-27 : FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

35.1	Requirement of AS-27	730
35.2	Applicability	730
35.3	Objective and Scope	731
35.4	Joint Venture	731
35.5	Contractual Arrangement	731
35.6	Forms of Joint Venture	732
35.7	Jointly Controlled Operations	732
35.8	Jointly Controlled Assets (JCAs)	732
35.9	Jointly Controlled Entities (JCEs)	732
35.10	Operator or Managers	733
35.11	Transaction between Venturer and Joint Venture	734
35.12	Contingent liability	734
35.13	Capital Commitments	734

36

AS-28 : IMPAIRMENT OF ASSETS

36.0	Requirement of AS-28	737
36.1	Concept Impairment of assets'	737
36.2	What is new about this provision for impairment loss?	737
36.3	What has changed after AS-28?	738
36.4	Is impairment provision in addition to/in lieu of depreciation?	738
36.5	Distinction between depreciation and impairment provision	738
36.6	Exclusions from AS-28	738
36.7	Requirements of AS-28 in nutshell	739

		PAGE
36.8	Identifying an Asset that may be Impaired	740
36.9	Measurement of Recoverable Amount	741
36.10	Impairment in respect of cash generating units	743
36.11	Recoverable amount of a Cash Generating Unit	744
36.12	Carrying amount at a Cash Generating Unit	744
36.13	Impairment of Goodwill	745
36.14	Corporate Assets	746
36.15	Impairment loss of CGU	746
36.16	Reversal of Impairment loss	746
36.17	Reversal of Impairment loss for Individual	747
36.18	Disclosures	748

I-24

37

AS-29 : PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

37.1	Requirements of AS-29	751
37.2	Applicability	751
37.3	Repeal of certain paragraphs of AS-4 (Revised)	752
37.4	Scope AS-29	752
37.5	Provision	753
37.6	Recognition of Provisions	753
37.7	Contingent Liabilities	755
37.8	Contingent Assets	755
37.9	Measurement of Provisions	756
37.10	Application of the Recognition and Measurement Rules	757
37.11	Changes in Provisions	757
37.12	Use of Provisions	757
37.13	Disclosure	758
37.14	Exemption from disclosure requirements of paras 66 to 70 of AS-29	758
37.15	Comparison with IAS 37, Provisions, Contingent Liabilities and Contingent Assets (1998)	758

38

AS-30 : FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

38.1	General points	761
38.2	Definitions	762
38.3	Embedded Derivatives	765

		PAGE
38.4	Recognition and derecognition	765
38.5	Regular Way Purchase or Sale of a Financial Asset	768
38.6	Derecognition of a Financial Liability	769
38.7	Measurement	769
38.8	Reclassifications	770
38.9	Gains and losses	771
38.10	Impairment and uncollectibility of financial assets	771
38.11	Hedging	773
38.12	Transitional provisions	778

39

AS-31 : FINANCIAL INSTRUMENTS : PRESENTATION

39.1	Objective	781
39.2	Financial assets and financial liabilities	782
39.3	Equity Instruments	783
39.4	Derivative Financial Instruments	783
39.5	Contracts to Buy or Sell Non-Financial Items	783
39.6	Presentation	784

40

AS-32 : FINANCIAL INSTRUMENTS : DISCLOSURES

40.1	General points	793
40.2	Balance sheet	794
40.3	Statement of profit and loss and equity	796
40.4	Other disclosures	796
40.5	Appendix A	800
SOLVED PAPERS OF LATEST EXAMS		803
♦ N	NOVEMBER 2011	803
◆ N	ЛАҮ 2012	825
♦ N	NOVEMBER 2012	848
♦ N	ЛАҮ 2013	864
♦ N	VOVEMBER 2013	881

I-25