

CA INTER

ACCOUNTING

STANDARDS

Sample Notes

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Curated By:—

CA, CPA Vinod Kumar Agarwal

(AIR 2 - CA Foundation, AIR 4 - CA Inter, AIR 24 - CA Final)



ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION,
INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level. He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate and CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.
- Compiled a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C., Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- Also appeared for UPSC exam and cleared Mains twice.

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management and Economics for Finance at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than 42000 YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

CHAPTER - 23

AS 15 - EMPLOYEE BENEFITS

1. WHO IS AN EMPLOYEE?

- Employee include employee, family member of employees who are dependent on employee, spouse, etc.
- All directors of companies are also considered as employee though employer - employee relationship may not exist.
- Interns, apprentice, contract labour are not employees.

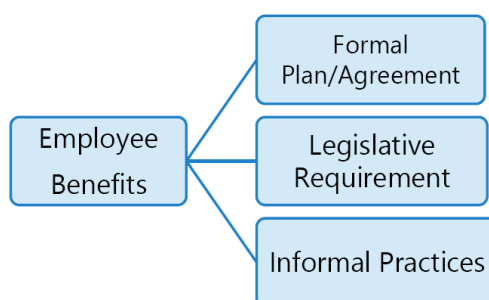
2. FORMS OF EMPLOYEE BENEFITS

Employee benefits can be in –

- Cash
- Kind

Employee benefits may arise due to -

- legal or contractual (formal) or
- constructive obligation

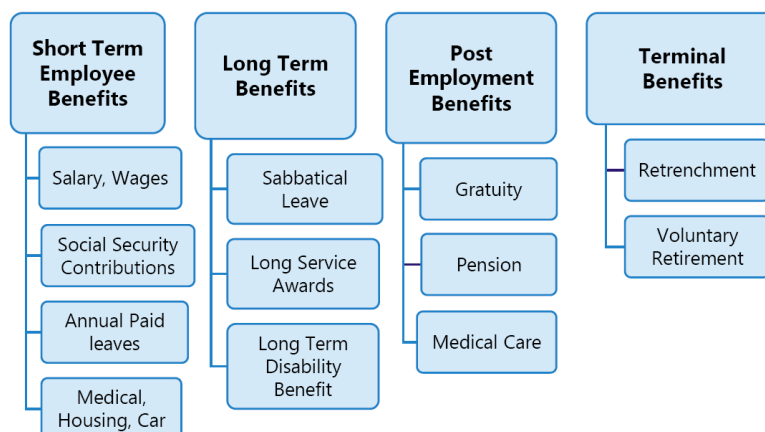


3. SHARE BASED PAYMENT TO EMPLOYEES

Employee benefits in the nature of share based payment are not covered by AS 15. These are covered by separate guidance note issued by ICAI.

4. CATEGORIES OF EMPLOYEE BENEFITS

- a) Short-term Employee Benefits (STEB)
- b) Post-employment employee benefits (PEEB)
- c) Long-term Employee Benefits (LTEB)
- d) Termination Benefits (T.B)



5. SHORT-TERM EMPLOYEE BENEFITS (STEB)

Whenever employee benefits are expected to be settled within 12 months from reporting date, then such employee benefits are called STEB.

6. POST-EMPLOYMENT BENEFITS (PEB)

These are expected to be settled on retirement or post-retirement.

7. LONG-TERM EMPLOYEE BENEFITS (LTEB)

These are expected to be settled beyond 12 months from reporting date but before retirement.

8. TERMINATION BENEFITS (TB)

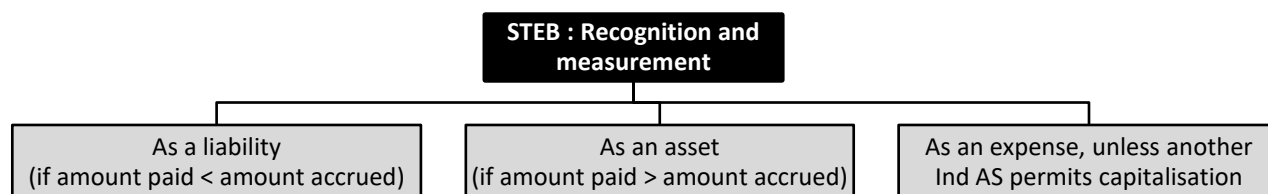
These are compensation for termination of services,

9. SHORT-TERM EMPLOYEE BENEFITS (STEB) - ACCOUNTING TREATMENT

- These employee benefits will be settled within 12 months from reporting date.
- Since STEB are payable within 12 months from reporting date, hence, they should not be discounted.

EXAMPLES :

- ⇒ Wages, salaries and social security contributions
- ⇒ Paid annual leave, paid sick leave (called Short-term compensated absences), maternity leave
- ⇒ Profit sharing and bonus (if payable within twelve months of the end of the period)
- ⇒ Non-monetary benefits such as medical care, housing, cars, free or subsidized goods or services for current employees



Journal Entries

			Debit	Credit
1.	<u>When services are availed and paid for</u>			
	Employee Benefits A/c	Dr.		
	To Bank A/c			
	(Being amount paid for employee benefits)			
2.	<u>When Services are availed and not paid for</u>			
	Employee Benefits A/c	Dr.		
	To Provision for Employee Benefits			
	(Being expenses and liabilities recorded for services)			
	Note : In subsequent period, payment will again be charged to employee benefit account but above provision will get			

	eliminated with employee benefit.			
3.	In Subsequent Year			
a)	Employee Benefits A/c	Dr.		
	To Bank A/c			
	(Being payment made)			
b)	Provision for Employee Benefits A/c	Dr.		
	To Employee Benefits A/c			
	(Being provision eliminated)			

- **NOTE** – Bonus and profit sharing plan by management are generally STEB. These should be provided in books, if entity has present obligation which will be settled through outflow of resources, and can be measured reliably. Generally management estimates it on the basis of past data.

Profit-sharing and Bonus Plans

Recognition of expenses for profit sharing and bonus plans would depend on fulfillment of conditions mentioned the Standard. The conditions are:

- Enterprise has a present obligation to make such payments as a result of past events; and
- Reliable estimate of the obligation can be made.

The second condition can be satisfied only when the profit sharing and bonus plans contained a formula for determining the amount of benefit. The enterprise should recognize the expected cost of profit sharing and bonus payments in the financial statements.

QUESTION : 1

A profit-sharing plan requires an enterprise to pay a specified proportion of its net profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of net profit. The enterprise estimates that staff turnover will reduce the payments to 2.5% of net profit. How much Liability will be provided?(Study Material)

SOLUTION : 1

The enterprise recognises a liability and an expense of 2.5% of net profit.

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10. SHORT-TERM COMPENSATED ABSENCES (STCA)

These are in nature of leaves granted by entity which are being carried forward up to 12 months from the end of the reporting period.

These can be called earned leave, Sick leave, casual leave, etc.

SITUATION 1 : If leave cannot be carried forward

- ⇒ These are called non-accumulating leave
- ⇒ No Accounting treatment required.

SITUATION 2 : If leaves can be carried forward

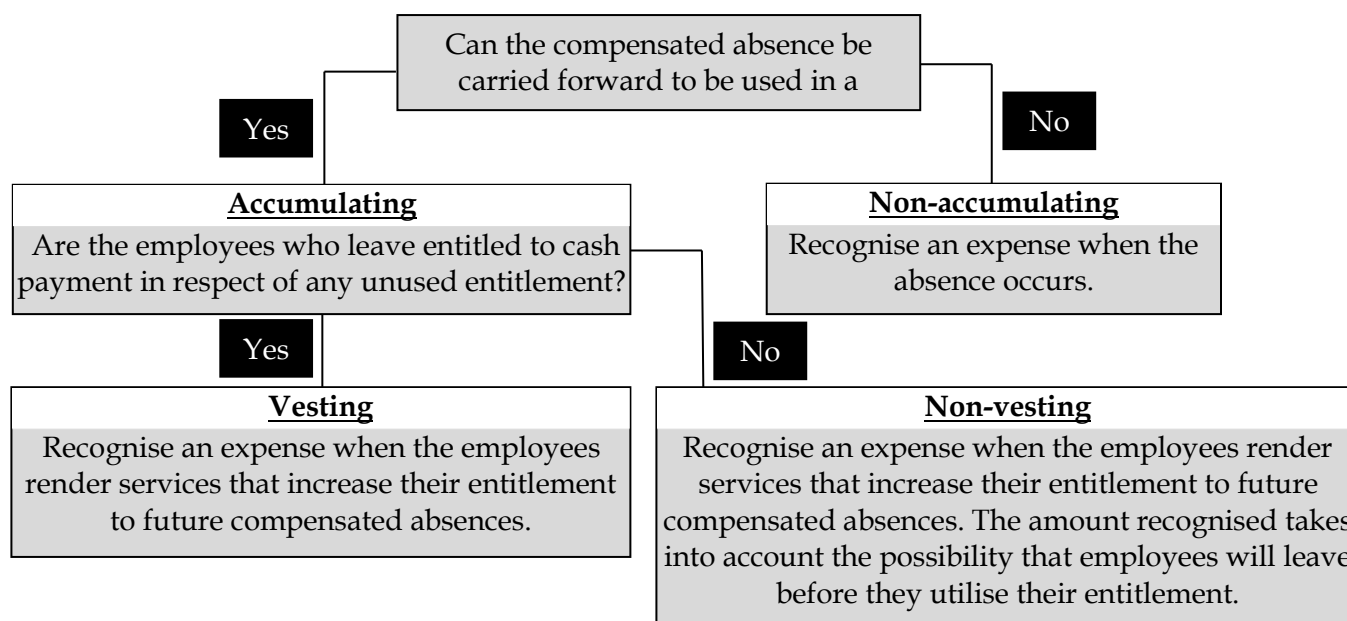
These are called accumulating leaves.

Case 1 : If these leaves can be settled in cash or by taking leave – These are called vested leaves. Entity should make provision for full amount of leaves carried forward.

Case 2 : If these leaves can not be settled in cash i.e. these can be settled only in form of leaves.

These are called non-vesting leaves.

Entity should make provision for leave on which entity is expecting leaves to be availed.



Exception

Small and Medium-sized Company and Micro, Small and Medium-sized Enterprises (Levels IV, III and II non-corporate entities) may not comply with short term absences to the extent they deal with recognition and measurement of absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment of unused entitlement on leaving).

QUESTION : 2

An entity has 100 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31st March, 20X1, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 20X1-20X2 and that the remaining eight employees will take an average of six and a half days each.

Would the entity require to recognize any liability in respect of leaves? How much is the expected liability due to leaves? **(Study Material)**

SOLUTION : 2

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 20X1 (one and a half days each, for eight employees).

Therefore, the entity would recognize a liability equal to twelve days of sick pay.

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11. POST-EMPLOYMENT BENEFITS (PEB) AND LONG -TERM EMPLOYEE BENEFITS (LTEB)

⇒ PEB are retirement benefits which are other than termination benefits and payable on or after retirement.

⇒ **For Example -**

- ✦ Gratuity
- ✦ Leave Salary / Earned Leave Payment
- ✦ Ex-gratia
- ✦ Settlement allowance

- ✦ Medical facilities
- ✦ Housing facilities
- ✦ Pension

⇒ LTEB are those benefits which are payable after 12 months from reporting date and which are not post-employment benefits or termination benefits.

⇒ **For Example –**

- ✦ Long-term compensated leaves
- ✦ Sabbatical leaves
- ✦ Long-term disability benefits
- ✦ Jubilee benefits
- ✦ Bonus / Profit sharing plan payable on long-term

12. TYPES OF PEEB AND LTEB

- a) Defined contribution plan (DCP)
- b) Defined Benefit Obligation (DBO)

13. DEFINED CONTRIBUTION PLAN

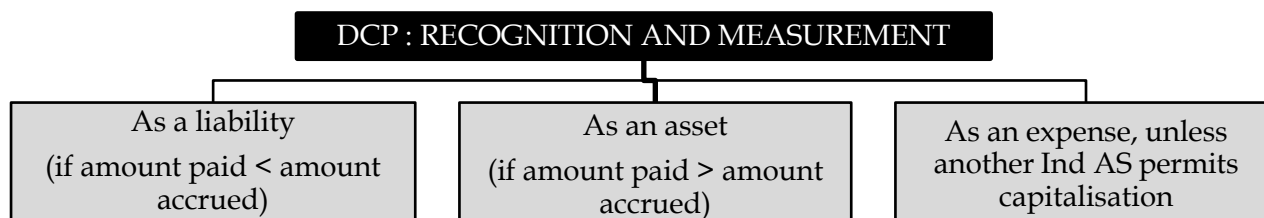
- i) Employer has obligation limited up to contribution required to settle employee benefit.
- ii) Contribution made by employer and employee, if any, is invested in
 - a) Multi-employer plan (MEP), or
 - b) State Plans (SP)
 - c) Insurance Plans (IP)
 - d) Trust created by employer for employees

14. WHO BEARS RISKS IN DCP ?

All risks in DCP are borne by employees, e.g., risk related to return on funds or repayment of funds.

15. ACCOUNTING TREATMENT OF DCP

- a) Recognising contribution as employee cost in profit & loss A/c
- b) Discounting is not required if contribution is payable within 12 months, otherwise discounting is required.



QUESTION : 3

ASF Ltd makes contributions to the pension fund of employees at a rate of 5% of gross salaries. For convenience, the entity pays ` 10,000 per month into the pension scheme with any balance being paid in the first month of the following accounting year. The wages and salaries for 20X6 are Rs 2.7m.

Required:

Calculate the pension expense for 20X6, and the accrual/ prepayment at the end of the year.

SOLUTION : 3

This appears to be a defined contribution scheme.

The charge to profit or loss should be:

$$\text{Rs } 2.7\text{m} \times 5\% = 1,35,000$$

The Balance Sheet will therefore show an accrual of ₹ 15,000, being the difference between the ₹ 1,35,000 expense and the ₹ 1,20,000 (₹ 10,000 × 12 months) cash paid in the year.

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16. DEFINED BENEFIT OBLIGATION (DBO)

- It means benefits whose obligation is with the employer.
- All risk related to settlement, repayment, return are with the employer.
- These DBOs can be funded (fully or partially) or unfunded.
- Funded means employer is accumulating funds for settlement called plan asset (investments).
- Unfunded means employer is not accumulating funds.
- Plan assets can be invested in –
 - ✦ Multi-employer plan (MEP), or
 - ✦ State Plans (SP)
 - ✦ Insurance Plans (IP)
 - ✦ Own trust created by employer for employees.

17. DBO- CALCULATION OF LIABILITY

1. Ind AS recommends taking help of expert for calculation related to DBO. Hence, most of the companies take Actuary Report.
2. If DBO is to be calculated, then “Projected Unit Credit Method” (PUCM) should be applied.
3. Following steps are applied -

Step 1 : Estimate liability by making suitable assumption (which are called actuary assumption)

Step 2 : These assumptions should be market based, unbiased and compatible. These assumptions can be –

a) Demographic -

- ⇒ Labour turnover ratio
- ⇒ Death Rate
- ⇒ Claim Rate

b) Financial

- ⇒ Discount Rate
- ⇒ Expected rate of return
- ⇒ Salary Escalation Rate

Note - Expected Rate of return, represents -

Interest and Discount Income on Investment	XXX
Realised / Unrealised gain / loss on Investment	XXX
Less : Expected cost to Administer Investment	XXX

Step 2 : Calculate Allocated Benefits

$$\text{Allocated Benefits} = \frac{\text{Estimated Liability as per Step 1}}{\text{Service Period}}$$

Step 3 : Calculate “Current Service Cost” based on present values, using discount rate.

Step 4 : Build liability sheet each year.

18. ACCOUNTING TREATMENT OF DBO - LIABILITY ACCOUNTING

Journal Entries

Date			Debit	Credit
1.	Current Service Cost A/c	Dr.	XXX	
	Interest Cost A/c	Dr.	XXX	
	To PV of Defined Benefit Obligation (DBO)			XXX
	(Being CSC & Interest Cost Recorded)			
2.	Re-measurement Loss A/c	Dr.	XXX	
	To PV of DBO			XXX
	(Being re-measurement loss recorded)			
	Note – In case of gain, reverse the above entry.			
3.	Profit & Loss A/c	Dr.	XXX	
	To Current Service Cost A/c			XXX
	To Interest Cost A/c			XXX
	(Being expenses written off)			

QUESTION : 4

ASF Ltd. has a defined benefit plan (DBP) for bonus payable at end of 5th year of service @10% of salary last drawn for each completed year of service.

Employee has salary of Rs.50,000 p.a. in year 1.

Assumption - Salary escalation rate 10% p.a.

- Discount Rate is 8%

Pass Journal Entries and show extracts for year 1 and year 2.

(Reference Book)

SOLUTION : 14

Step 1 : Check whether bonus payable is STEB or LTEB or PEEB ?

It is LTEB as it payable more than 12 months from reporting date and before the retirement.

Step 2 : Check whether it is DCP or DBP.

It is DBP because the employer is obliged to pay agreed benefit.

Hence, entity should apply PUC method.

Step 3 : Calculation of estimated benefit payable

$$= 50,000 \times (1.10)^4 \times 10\% \times 5$$

$$= 36,600$$

Step 4 : Calculate allocated Benefit

$$= \frac{36,600}{5}$$

$$= 7,320$$

Step 5 : Calculation of current service cost (CSC)

Year	Allocated Benefit	PV Factor@8%	CSC
1	7,320	0.735	5,380
2	7,320	0.793	5,810
3	7,320	0.867	6,273
4	7,320	0.926	6,778
5	7,320	1	7,320

Step 6 : Journal Entry for year 1

Date			Debit	Credit
Year 1	Current Service Cost A/c	Dr.	5,380	
	To PV of DBO (Bonus)			5,380
	(Being CSC Recorded)			
Year 1	No Entry for interest cost			

Step 7 – P&L A/c Year 1 :

		Rs.
A.	Employee Benefit Expense	5,380

Step 8 : Balance Sheet (extract) As on (Year 1)

		Rs.
A.	Equity & Liabilities	
	⇒ Non-current Liabilities	
	⇒ Provisions for employee Benefits	5,380

Step 9 : Journal Entry for year 2

Date			Debit	Credit
Year 2	Current Service Cost A/c	Dr.	5,810	
	Interest Cost A/c (5,380 x 8%)	Dr.	430	
	To PV of DBO (Bonus)			6,240
	(Being expense Recorded)			

Step 10 : Statement of Profit & loss – year 2

		Rs.
	Employee Benefit Expenses	6,240

Step 11 : Balance Sheet (extract) As at (Year 2)

		Rs.
A.	Equity & Liabilities	
1.	Non-current liabilities	
	Long-Term Provision	
	Provision for employee Benefits (5,380 + 6,240)	11,620

19. PRESENTATION IN BALANCE SHEET

In the Balance Sheet of the enterprise, 'the amount recognized as a defined benefit liability should be the net total of the following amounts:

- the present value of the defined benefit obligation at the balance sheet date;
- minus any past service cost not yet recognized;
- minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.'

In case where fair value of plan assets is high, it may so happen that the net amount under defined benefit liability turns negative (giving rise to net assets). AS 15 states that the enterprise, in such a situation, should measure the resulting asset at the lower of:

- the amount so determined; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

20. PRESENTATION IN STATEMENT OF PROFIT AND LOSS

The recognition of expenses relating to defined benefits in the Statement of Profit and Loss is stated in Para 61 of the Standard. The Standard identifies seven components of defined employee benefit costs:

- current service cost;
- interest cost;
- the expected return on any plan assets (and on any reimbursement rights);
- actuarial gains and losses (to the extent they are recognized);
- past service cost (to the extent they are recognized);
- the effect of any curtailments or settlements; and
- the extent to which the negative net amount of defined benefit liability exceeds the amount mentioned in Para 59(b) of the Standard.

QUESTION : 5

The following information relates to a defined benefit plan:	₹ 000
Fair value of plan assets	950
Present value of pension liability	800
Present value of future refunds and reductions in future contributions	70

Required:

What is the value of the asset that recognised in the financial statements?

(Reference Book)

SOLUTION : 5

The amount that can be recognised is the lower of:

	₹ 000
Present value of plan obligation	800
Fair value of plan assets	(950)
Net	(150)
PV of future refunds and/or reductions in future contributions	(70)

Therefore the asset that can be recognised is restricted to Rs 70,000.

21. PAST SERVICE COST

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.

Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

In measuring its defined benefit liability, an enterprise should recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested.

To the extent the benefits are already vested, following the introduction of, or changes to, a defined benefit plan.	Recognize immediately in the statement of profit and loss account as income or expense.	Past service cost.....Dr To liability for gratuity
Unvested	Defer and write off in the remaining vesting period	Deferred Past service cost.....Dr To liability for gratuity

Where an enterprise **reduces** benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognized as (negative) past service cost **over the average period until the reduced portion of the benefits becomes vested.**

PROBLEM : 6

ASF Ltd operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1st January 20X5 the enterprise improves the pension to 2.5% of final salary for each year of service starting from 1 January 20X1. At the date of the improvement, the present value of the additional benefits for service from 1st January 20X1 to 1st January 20X5 is as follows:

Employees with more than five years' service at 1/1/X5	Rs.150
Employees with less than five years' service at 1/1/X5 (average period until vesting: three years)	Rs. 120
	Rs. 270

Suggest the accounting treatment.

(Reference Book)

SOLUTION : 6

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22 SETTLEMENT

A settlement occurs when an employer enters into a transaction that eliminates all further legal or constructive obligations for part or whole of the benefits provided under a defined benefit plan. For example, the commuted portion of pension.

23 CURTAILMENT

A curtailment occurs when an employer either commits to reduce the number of employees covered by a plan or reduces the benefits under a plan.

Treatment - The gains or losses on the settlement or curtailment of a defined benefit plan should be recognized when the settlement or curtailment occurs.

Gain or loss on Curtailment

		Rs.
A.	Reduction in liability	XXX
B.	Less : Assets distributed to curtail	XXX
C.	Gain / loss on curtailment (A-B)	XXX

PROBLEM : 7

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ` 18 (10% of ` 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

- Immediately before the curtailment, gross obligation is estimated at ` 6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at ` 5,100.
- The unamortized past service cost is ` 180.
- Curtailment reduces the obligation by ` 600, which is 10% of the gross obligation.

(Study Material)

SOLUTION : 7

Gain from curtailment is estimated as under:

Reduction in gross obligation	600
Less: Proportion of unamortised past service cost	(18)
Gain from curtailment	582
The liability to be recognised after curtailment in the balance sheet is estimated as under:	
Reduced gross obligation (90% of ` 6,000)	5,400
Less: Fair value of plan assets	(5,100)
	300
Less: Unamortised past service cost (90% of ` 180)	(162)
Liability to be recognised in the balance sheet	138

24. ACTUARIAL GAINS AND LOSSES

Actuarial gains and losses comprise:

- experience adjustments (the effects of difference between the previous actuarial assumptions and what has actually occurred); and
- the effects of changes in actuarial assumptions.

Treatment - Actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense.

25. ACCOUNTING TREATMENT OF PLAN ASSETS

Following journal entries are passed –

Date			Debit	Credit
1.	For contribution to plan assets			
	Plan Assets A/c	Dr.		
	To Bank A/c			
2.	For Benefits Paid (assuming use of plan assets)			
	Bank A/c	Dr.		
	To Plan Assets A/c			
	(Being amount used for payment of benefits)			
3.	For Expected Return			
	Plant Assets A/c	Dr.		
	To Expected Return			
	(Being expected return calculated)			
4.	Actuary Gain/Loss			
	Plan Assets A/c	Dr.		
	To Actuarial Gain A/c			
	(Being actuarial gain recorded)			
	Note – Reverse the entry, in case of loss.			
5.	If plan assets are used for curtailment, consider just like benefit paid.			

PROBLEM :- 8

The fair value of plan assets of Anupam Ltd. was ` 2,00,000 in respect of employee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of ` 25,000 and received inward contributions of ` 55,000. On 31st March, 20X2 the fair value of plan assets was ` 3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.25
Realized gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 20X2, as per AS 15.

SOLUTION 8 :

Computation of Expected Returns on Plan Assets as on 31st March, 20X2, as per AS 15

	%
Return on opening value of plan assets of ₹ 2,00,000 (held for the year) @ 10.25%	20,500
Add: Return on net gain of ₹ 30,000 (i.e. ₹ 55,000 - ₹ 25,000) during the year i.e. held for six months @ 5% (equivalent to 10.25% annually, compounded every six months)	1,500
Expected return on plan assets as on 31st March, 20X2	22,000

**Computation of Actual Returns on Plan Assets as on 31st March, 20X2,
as per AS 15**

	₹	₹
Fair value of Plan Assets as on 31st March, 20X2		3,00,000
Less: Fair value of Plan Assets as on 1st April, 20X1	(2,00,000)	
Add: Contribution received as on 30th September, 20X1	55,000	(2,55,000)
		45,000
Add: Benefits paid as on 30th September, 20X1		25,000
Actual returns on Plan Assets as on 31st March, 20X2		70,000

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CHAPTER - 26

AS 25 - INTERIM FINANCIAL REPORTING

1. SCOPE AND COVERAGE

AS 25 aims at bringing about uniformity of approach in the following areas.

- MINIMUM COMPONENTS OF AN INTERIM FINANCIAL REPORT (IFR)
- Form and content of IFR, including materiality
- Periods for which IFR is to be presented
- Recognition and measurement aspects
- Restatement of items previously reported in interim periods

2. PERIODICITY

The standard does **not prescribe the “periodicity”** or intervals at which the enterprises may elect to present the interim reports.

3. COMPLIANCE

with the IFR is essential only for those entities who elect to present interim reports, or who are otherwise required by a regulator (SEBI) to do so.

4. INTERIM PERIOD

- Interim period is a financial period **shorter than a full financial year**.
- It does not include the annual financial statement of 1st year of operation which may be for less than a year.

5. INTERIM FINANCIAL REPORT

Interim financial report is the **condensed or full financial statements** for an interim period.

Interim financial report should at **minimum** include the following :

- a. Condensed balance sheet.
- b. Condensed statement of profit and loss
- c. Condensed cash flow statement (it is required only if the enterprises presents cash flow statement in annual financial report) and
- d. Selected explanatory notes.

6. COMPLETE STATEMENT

If complete financial statement is presented it should **conform to the requirements applicable to annual financial statements** including notes to accounts.

7. CONDENSED STATEMENT

If condensed statement is presented it should include at a minimum each of the heading and sub-heading as were included in its most recent annual statement. Additional line item or notes should be included if their omission will make the statement misleading.

Complete set	Minimum Component - Condensed set
Balance Sheet	Condensed Balance Sheet

Statement of profit and loss	Condensed statement of P&L Account
Cash flow statement, and	Condensed cash flow statement, and
Notes and other explanatory material that form an integral part of financial statements	Selected explanatory notes – in order to impart clarity
This conforms to requirements as applicable to annual accounts	This is supplemented by additional information on new activities, events, or other circumstances not previously reported.

8. NOTES TO INTERIM FINANCIAL REPORT

Information (notes) which are already disclosed in previous annual financial accounts and are unchanged need not be disclosed in interim report. As a minimum following notes be disclosed on year to date basis (i.e. from the end of last financial year to the end of current interim period). Any event or transaction which is material to current interim period should also be disclosed.

1. A statement that **same accounting policies** are followed as in the latest financial statement. In case of change, the nature and effect of, change should be disclosed.
2. Explanatory statement about **seasonality of interim operations**.
3. Nature and amount of **unusual items**.
4. Nature and amount of **changes in estimates** of prior interim period or prior financial years if it has material effect on current interim period.
5. **Issue, buyback, repayment and restructuring of debt**, equity and potential equity shares.
6. **Dividends aggregate or per share** (in absolute or percentage terms) for equity shares and other shares.
7. **Segment revenue, segment capital employed (Asset-Liabilities) and segment result** for its primary segment. This is required if enterprises is required by AS-17 to make segment reporting in its annual financial report.
8. Effect of **changes in composition of enterprise due to amalgamation, acquisition** or disposal of subsidiaries and long term investment, restructuring and discontinuing operations and
9. Material changes in **contingent liability**.

9. DISCLOSURES REQUIRED BY OTHER ACCOUNTING STANDARDS

Disclosure required as per other accounting standards are **NOT** necessary if an enterprise prepare condensed financial statements.

10. PERIODICITY OF INTERIM FINANCIAL REPORTS & COMPARATIVES

Components of financial statements	Period	Comparatives
Balance sheet	At the end of the Interim period.	Comparative balance sheet at the end of immediately preceding financial year.
Profit & loss account	For the current interim period.	For current year to date and same for the previous year (i.e. interim period and year to date in previous year.
Cash flow statement	Cumulatively for the current financial year to date	Comparable year to date for the immediately preceding year.

For seasonal enterprises: interim financial statements	For the 12 months ending on the interim reporting date.	Comparative information for the prior twelve months period.
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11. NOTE ON HIGHLY SEASONAL BUSINESS

In case of highly seasonal business **the enterprise is encouraged (i.e. it is no mandatory)** to give financial information (i.e. balance sheet, profit and loss account and cash flow) for 12 month period ending on the interim reporting date and corresponding 12 month ending in previous year in addition to the requirement of para 18 of AS - 25.

PROBLEM : 1

A company is carrying out operations which are seasonal by nature. It has to prepare quarter interim financial statements for the period ended 31st December ,2013. As per AS-25 describe the periodicity of its interim financial statements along with comparatives.

12. FINAL INTERIM PERIOD

An enterprise **may not prepare and present** a separate financial report for final interim period because the annual financial statements are presented. (i.e. accounting standard does not require the preparation of interim report for interim final period but it does not prohibit the enterprise to do so.)

When an enterprise does not prepare interim report for final interim period then estimate of an amount made in previous interim periods if changes significantly, the nature and amount of change should be reported in annual financial statement by way of notes.

13. RECOGNITION OF ASSETS, LIABILITIES, EXPENSES & INCOME

- The interim period is the **part of a financial year**, hence the principles for recognizing assets, liabilities, income and expenses for interim period are same as in annual financial statements.
- Estimates of various items be made by considering on year to date basis, hence the estimates made in previous interim period may be revised in current interim period by making further provisions or reversal of provision already made.

14. SEASONAL OR OCCASIONAL REVENUES

Revenue items like rent, dividend, royalties government grants occur occasionally. Revenues that are received seasonally or occasionally **should be recognized in the period when they occur** and not to be anticipated or deferred.

15. UNEVENLY INCURRED COST

Cost that are incurred unevenly should be anticipated or deferred for interim reporting if and only if it is also appropriate to defer for annual financial reporting.

16. CHANGE IN ACCOUNTING POLICY

- A change in accounting policy should be **applied retrospectively from the beginning of current year, by restating the figures of prior interim periods** of the current financial year.
- AS -25 does not require restatement of the financial data of previous year.

PROBLEM : 2

Intelligent Corporation (I-Corp.) is dealing in seasonal products. The quarterly sales pattern of the product is given below:

Quarter I	II	III	IV
Ending 30th June 15%	30th September 15%	31st December 50%	31st March 20%

For the First quarter ending 30th June, 20X1, I-Corp. gives you the following information:

	₹ crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter, 'I-Corp.' wants to defer ₹ 21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, third quarter should be debited by higher expenditure, considering the seasonal nature of business and that the expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company's view.

(Source : Study Material)

SOLUTION : 2

Result of the first quarter ended 30th June, 20X1

		(₹ in crores)
Turnover		50
Add: Other Income		Nil
Total		50
Less: Change in inventories	Nil	
Salaries and other cost	30	
Administrative and selling expenses (8 + 2)	10	40
Profit		10

As per AS 25 on Interim Financial Reporting, the income and expense should be recognized when they are earned and incurred respectively. As per AS 25, the costs should be anticipated or deferred only when

- it is appropriate to anticipate that type of cost at the end of the financial year, and
- costs are incurred unevenly during the financial year of an enterprise.

Therefore, the argument given by I-Corp relating to deferment of ₹ 21 crores is not tenable as expenditures are uniform throughout all quarters.



17. INCOME TAX EXPENSE

- Income tax should be estimated by taking best estimated weighted average effective income tax rate applicable for full final year.
- Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

Steps Involved :

Step 1 : Calculate taxable income for year based on actual and estimated income.

Step 2 : Calculate tax on taxable income for the year.

Step 3 : Calculate weighted average tax rate (WATR)

$$\text{WATR} = \frac{\text{Tax on Taxable Income}}{\text{Normal Accounting Income}} \times 100$$

These tax rates should be calculated for –

- Deferred Tax
- Special Tax
- Regular Tax

Step 4 : Calculate tax expense for each interim period by multiplying tax rate of step 3. This tax should be calculated on year-to-date basis and earlier tax expense should be cancelled.

Special Points:

Tax Deductions/Exemptions	<ul style="list-style-type: none"> Tax statutes may provide deductions/exemptions in computation of income for determining tax payable. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate.
Tax Loss Carry-forwards	<ul style="list-style-type: none"> The effect of the tax loss carry-forward is reflected in the computation of the estimated average annual effective income tax rate.

PROBLEM 3 :

An enterprise reports quarterly, estimates an annual income of Rs.10 lakhs. Assume tax rates on 1st Rs. 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are Rs. 75,000, Rs.250,000, Rs. 3,75,000 and Rs. 3,00,000.

Calculate the tax expense to be recognized in each quarter (Study Material + May, 2011 - 4 Marks)

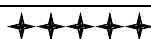
SOLUTION 3 :

As per para 29 of AS 25 “Interim Financial Reporting”, Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

	Rs.
Estimated Annual Income	10,00,000
Tax expense:	
30% of Rs. 5,00,000	1,50,000
40% of remaining Rs. 5,00,000	<u>2,00,000</u>
	<u>3,50,000</u>

$$\text{Weighted average annual income tax rate} = \frac{3,50,000}{10,00,000} = 35\%$$

Tax expense to be recognized in each of the quarterly reports	Rs.
Quarter I - Rs. 75,000 × 35%	26,250
Quarter II - Rs. 2,50,000 × 35%	87,500
Quarter III - Rs. 3,75,000 × 35%	1,31,250
Quarter IV - Rs. <u>3,00,000</u> × 35%	<u>1,05,000</u>
<u>10,00,000</u>	<u>3,50,000</u>



18. DIFFERENCE IN FINANCIAL REPORTING YEAR AND TAX YEAR

- When an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year.
- Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

PROBLEM 4 :

An enterprise's financial reporting year ends 30 September and it reports quarterly. Its year as per taxation laws ends 31 March. For the financial year that begins 1st October, Year 1 ends 30 September of year 2, the enterprise earns Rs. 100 lakhs pre-tax each quarter. The estimated weighted average annual effective income-tax rate is 30 percent in Year 1 and 40 percent in Year 2.

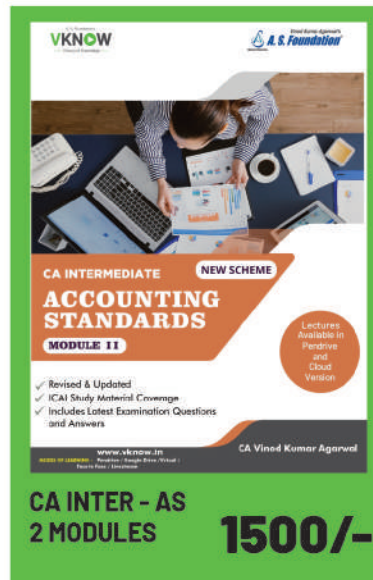
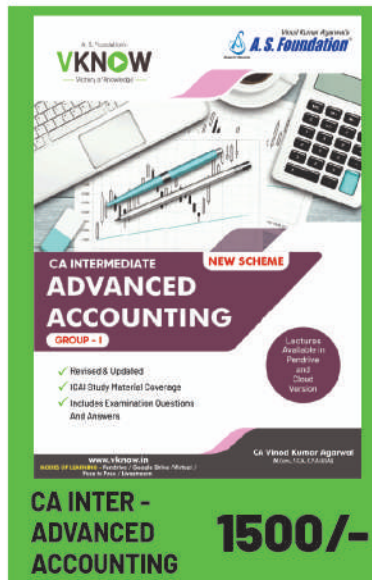
SOLUTION 4 :

	Amount in Rs. Lakhs				
	Quarter Ending 31 Dec. Year 1	Quarter Ending 31 Mar. year 1	Quarter Ending 30 June Yea 2	Quarter Ending 30 Sep. Year 2	Quarter Ending 30 Sep. Year 2
Tax Expense	30	30	40	40	140
		★★★★★			

CA INTER BOOKS (NEW SCHEME)

By CA, CPA Vinod Kumar Agarwal
(AIR In All 3 Levels Of CA Exam)

Group 1



Scan Here

Group 2



FEEDBACK



Hello Sir,

After studying the first group of CA final in just four months, I passed in the first attempt and the feeling is amazing. Scored 53 in FR and 63 in SFM.. writing paper was so easy because I was familiar with every question and logic which was taught by you... Taking your class was my one of the best decision in my life..

Also I want to share that my financial condition is not good to purchase lectures of any faculty.. literally I decided to start with self study but You offered your lectures at very low price and it was golden opportunity for me..the tears of joy in my mother's eyes after hearing the result reminded me of you....

The amount of respect I have for you is not something I can put into words..

THANK YOU GURUJI...!

-Rushikesh Pokalekar

Hello, sir you are the best teacher. You are the best faculty for practical subject as well as theory subjects. I really enjoyed your class. Lots of questions like all past questions, RTP, MTP, study material question solved in classroom. It is very helpful for me because lot of practice is needed to tackle the exam. Sir, your theory subject Economics is very helpful for me because it solves practical approach in the classroom, lots of examples. Thankyou so so so much sir.

- Payal Ramesh Mali

Hello, I am Rushikesh Shrihari Puri, studied the FM-ECO subject under the guidance of CA Vinod Kumar Agarwal sir. Sir won't speak much more about himself but his pervasive domain of knowledge regarding subject he teaches even Accounts can enlighten your brain with great thoughts & knowledge. Just last words to say, that please & a humble request to take real guidance under his roof of knowledge for becoming CA & human too. Yes, this institute is not on marketing basis, it is on the experience of student to student.

So, enjoy your CA inter journey as we all have enjoyed

- Rushikesh Shrihari Puri

Vinod sir teaches with utmost conceptual clarity which helped me retain concepts very easily, with logical explanation is at peaks which helps solve tricky question very easily. All RTP, MTP and past year questions were solved in class itself and sir teaches in a way that develops your thinking process which would eventually lead to solving of hard questions in very efficient and effective way. Thankyou Vinod sir for everything.

-Sarthak Nalawade



FEEDBACK

Sir, I have purchased your SFM class...and i have scored exemption in it! Just wanted to thank you for all the concept clarity and making the subject so easy...Your way of teaching was simply awesome because you have always given reason behind every concept...and hence we never have to mug up any concept. Thank u so much sir.

Regards,
Nishigandha R. Daulatkar

Hello sir Wanted to convey my thanks to you for your wonderful guidance in my SFM subject. Scored 72 marks I was not prepared for rest of the group so just jumped into SFM preparation and achieved exemption. It was just because of your wonderful conceptual clarity and guidance.

Regards,
Nishtha Chopra

Dear Sir, I am your virtual class student Mayuri Sutar. I have majorly done my CA Final classes with AS Foundation (FR, SFM, Audit and Costing) regular as well as revision classes. Your SFM revision lecture are really helping me to complete my syllabus in very short time.

Thnx for entire team for processing my order in a speedy way. Very happy to take classes from Vinod sir who has such a great heart in understanding the needs of students and providing classes at such affordable prices. I will repay my debt to Vinod sir by scoring Exemption in May 21 attempt and post the Mark sheet here itself...Once again thnx thnx thnx....a lot

Good morning,
I wrote only 2nd group in this May 2022 attempt and I cleared that group and I attended Risk Management class from Vinod sir and I got exemption in that and I got 60 marks in that subject.

-Sonia S

Hello sir you are really the best teacher forever for the chapter portfolio management even 1st standard student can understand the concepts thoroughly. thank you so much sir.

- Venkatalakshmi Lakshmi.

Respected Vinod Sir,
Sir your FR and SFM regular batch lectures really helped me in my interview . Received an internship offer from Tresvista for an Investment Research role . Thank you for all the classes.

Thanks & Regards, Joydeep Gorai

Hello.. I have taken FR and SFM class from Vinod Sir. I scored 62 in FR and 64 in SFM. My registration no. is [REDACTED] I cleared CA in this attempt.

- Diganta Chowdhury

FEEDBACK

Thank you so much VK sir,
Your teaching techniques helped me
a lot to take 73 marks.

Regards,
Manjunath Doddamani

I scored 68 in SFM.. all thanks to you...
From hating financial management in
IPCC...to an exemption in CA final..
credits to you.

Thank you to Rakesh agrawal and VK
sir.. I bought video lectures from A.S.
Foundation. I got 59 marks in costing
And 74 marks in FSCM. Thanks a lot

Regards,
Abarna J

Hello sir,Glad to share that I cleared CA
final exam..Had cleared grp 2 in July
attempt already..Scored exemption in
FR & SFM..
Big big thanks to you !!
Thanks and regards,
CA Swapnil Kshirsagar

I took vinod sir's FR and SFM..scored
exemption in both

Regards,
Shebin Sebastian

Sir today I cleared my CA final group 1
with exemption in all subjects I secured
63 in FR & 63 in SFM
Thanks a lot sir for your guidance :)

Please convey my message to Vinod
Sir. Because of him I was able to pass
when result is just 11%

I have done Vinod Sir's FR revision
lecture's and able to score 55 Marks in
FR. Thank you very much Vinod Sir. I
cleared group 1

Regards,
Abhijit Mohan Lokhande

Hi Sir, I had secured exemptions in
SFM(60) and FM(73) in previous
attempts. SFM score helped me clear
G1 this time.

Regards,
Kaushal

Sir, I cleared CA final in 1st attempt.
Special thanks to VK Agarwal Sir for all
his guidance and motivation ☺☺

Regards,
Siddhi Suman Parab

Hello sir I have taken CA final FR and
SFM lectures from A.S Foundation. Now
I have cleared both groups of CA Final

Regards,
Ashwani Kumar

I am very thankful to vinod sir. I cleared
group 1 and scored 53 in SFM. Vinod
sir's SFM class helps in clearing SFM.

Regards,
Ashutosh Kumar

I completed SFM revision it's good.
Sir covered all concepts.
- Srinath Y.C

Dear Vinod Sir, Very well explained.
In first 30 minutes sir has built the
base with help of various examples.
-Milan Jeswani.

Hi sir. Good evening. I have taken SFM
from you. I have cleared group-1.
I am very thankful to you sir.
I really loved the way you teach sir.
Regards
Sai Eshwar

I am also purchasing this sfm lectures
and I have also done the FR from
vinod sir by virtual classes ,it's really
helpful and having easy
understanding methods.

Ye sir hai jinke wajah se CA
intermediate students ko bahut help
milti hai. Aur to aur maine Vinod sir
ke classes kiye hai. Inke jaise
padhanewale kash hi koi ho sakate
hai.
- Laxman Patil

Dear Vinod Sir, I've attended your FR
and SFM regular classes. I liked it very
much and I've recommended the same
to my friends too. Many of my friends
have already watched your class. Thank
you so much sir.
Regards,
Anu

VK SIR STUDENT'S FEEDBACK

Vinod Kumar Agarwal sir-

- Teaches with 100% conceptual clarity,
- All of the queries are solved on emails within a day or two.
- Gives minimal homework,
- Almost all of the questions are solved in the class
- His lectures are effective
- The best thing is, in every chapter he teaches almost 60 questions whereas in ICAI material there are around 15 questions only
- Those questions includes ICAI material + Previous Exam questions + MTP RTP. So everything is covered
- He also, marks down the questions which seems to be important
- Although students of this generation tends more towards younger teachers maybe because they use humour, but the experience that VK sir has is exceptional!

-Saddab Idrisi

Hello Sir,

Bought your CA Inter Accounting Standards Group 2 book; I must say the book is so comprehensive that it covers everything in it. I went through the lectures provided on YouTube, the way you covered the standards for examination purpose as well as for real life application was commendable. Thank you so much sir for all your efforts.

Regards,
Sakshi K

These is Unnat Chandak. I took CA Final FR classes from AS Foundation. Sir has taught us in very simple way and has covered all previous attempt paper questions in his book. His teaching techniques and practice questions helped me to get exemption in FR.

Respected Vinod Sir,

Good evening sir. Hope you are well . Sir I was from an engineering background enrolled in FR regular batch from Feb 2022 (online) . Sir, your teaching made me confident in FR. Thank you for all the important lectures delivered by you. And books are very good for revision. Will always be thankful to you for FR .

Thank & Regards
Name - Joydeep Gorai

Hi...i took risk management classes from Vinod sir...I cleared my 2nd grp of CA final.. scored good marks in Risk management...

Notes of risk management helped me a lot
-Supriya paygude

FEEDBACK



Subject : CA Final SFM Face-to-Face Batch

In the era of online/pen-drive lectures, it was great to have an opportunity to attend SFM classes face to face by VK Agarwal sir.

The portion was covered extensively & main focus was given on conceptual understanding. Face to Face batch helped me in covering full portion efficiently. Sir has taught SFM in such a way that now it feels easy & it has given me confidence that I can score marks in it & get exemption as well.

The class has been engaging & sir's enthusiasm to teach us is infectious & makes us excited to study more & love the subject.

He has covered all types of questions in the class not just from ICAI material but also from other reference material.

- Meenal Malpote

SFM Revision Batch

The batch was awesome & I got maximum out of it, that I could. Almost every concept was explained with detailed explanation, followed by solving problems in the class. Didn't have to mug up any rule or concept because it was explained thoroughly. Practice booklet provided by you have lots of problems that a student can do after chapters are over. The material was updated perfectly having latest types of sums asked by ICAI, even the RTP, MTP and exam questions of may 2023 were covered.

This batch was great covering huge syllabus in just 30 days. Thnakyou sir.

-Champak Dixit

Face to face batches are the essence of learning and I have rediscovered the joy of studying after doing this SFM fully exam oriented face to face batch.

Sir has covered all concepts and has made us solve all varieties of questions in this short amount of time. Doing video lectures was taking very long & was not as fun as doing face to face lectures. I was lucky to find this batch and I'm amazed how quickly we were able to cover all of SFM, this has saved me a lot of precious time & has opened the doors for considering giving both groups.

The way sir has taught us, it made me understand and grasp all chapters. The notes given are concise & precise & easy for revision. I'm very confident in this subject now & I have also joined the FR Fully exam oriented face to face batch.

Sir has brought back my joy of learning. He is one of the rare faculties who is less interested in marketing & strives to help students in every way possible.

-Ajit Pawar

Hello Sir,

I am Abhay Singh From Chhindwara .

I want to express my heartfelt gratitude to you Sir, for providing free of cost class. I'm fortunate for receiving knowledge from the very experienced teacher V.K Agarwal Sir.

When I started your lecture it seemed very easy from me to understand the concept because you are providing indepth knowledge about every concept.

Alongwith it, you tell us about which topic is important for exam and also the question which is frequently asked in the exam .

And the Advanced Accounts Book is so precise that I am getting all MTP, RTP, previous year questions in a single book which helps me to get more practice of a variety of question in single compact book.

Thank you so much sir!

-Abhay Singh

