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The Institute of Chartered Accountants of India
(Set up by an act of Parliament)

The Chartered Accountant STUDENT

Your monthly guide to CA news, information and events

Final
Financial Reporting

Intermediate
Strategic Management

Foundation
Principles and Practice of Accounting

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> **When something is important enough, you do it even if the odds are not in your favour.**
>
> **ELON MUSK**

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SWACHH BHARAT - A STEP TOWARDS CLEANLINESS

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My Dear Students,

As we together as a nation pay rich tribute to the father of the nation, **Mahatma Gandhi** on his 152nd birth anniversary on October 2, 2021, we are reminiscent of the profound life lessons which we should learn and imbibe. As a leader he brought unity amongst the masses, as a philosopher and thinker he propagated non-violence, truthfulness and austerity; as a humanist he stood for equality and justice for all and as a reformist he always preached perseverance, philanthropy and cleanliness. He believed that strength lies in one's character; self-faith and self-confidence which are the biggest assets. In fact, his entire life is a lesson for one and all which is why he continues to inspire generations across the world.

Results of July 2021 Examination declared

I extend my heartiest Congratulations to all of you who have remained successful in CA Foundation, Intermediate and Final examinations held in July 2021 results of which have been announced recently. This time a unique distinction has been created in CA Final examination as all top rank holders of both Final Old and New course are female candidates. It is a matter of pride seeing girls taking the lead and I am sure, if the trend continues for a prolonged period, it will encourage more girls to join CA profession wherein already 41% students and 27.5% members are girls. All of you are poised to enter a new phase of your academic or professional journey. The successful CA Foundation and Intermediate students can now tread ahead with registrations in the subsequent levels and ICITSS to join articleship at the earliest. Those of you who qualified CA Final should now prepare for transition to the profession as you must have registered for the upcoming campus interviews commencing in the current month or planning to enter in the field of practice/consultancy.

I wish all of you the very best for your future pursuits!

Relaxations extended to our students

In continuation of my earlier communication, I wish to inform that some more relaxations have been extended to our students in view of the hardships faced on account of the pandemic, which are as follows:

- Students who converted from earlier scheme to the revised scheme during the period from **July 21, 2021 to August 20, 2021** have now been allowed to appear in either of the schemes Old/ New, as per their choice, in the upcoming December 2021 examination. Announcement in this regard is available at: *https://www.icai.org/post/students-converted-from-earlier-scheme-to-revised-scheme*
- **Exemption of Course fee including ICITSS and AICITSS** fee for students who have lost either of their parents during Covid-19 pandemic. The scheme is applicable for the period from **1st April 2020 to 31st March 2023**. Such students are required to fill the Registration Form at the SSP Portal, upload the Death Certificate and Identity Proof of deceased parent, duly attested by DCOs Heads/Regional Heads/Officer-in-charge of the Branch/Principal under whom the student is registered for Articleship or Central Council Member/ Regional Council Member / Managing Committee Member of the Branch.
- **Reduction in Study Period to 6 months** for the aspirants who have passed July, 2021 CA Foundation Examination. Such students can register in CA Intermediate by November 1, in order to appear in May, 2022 Intermediate Examination.

Prepare to become a global professional

Being students of this esteemed profession, you need to constantly update your knowledge beyond the curriculum. You must prepare yourself for the next generation accounting with the policy guidelines in sync with the world in order to be future ready. International accounting bodies are focusing on Sustainability Reporting in order to exhort and prepare robust global businesses that can ensure inclusive growth and prosperity post the pandemic. At ICAI, the Sustainability Reporting Standards Board has been set up last year with an objective to formulate and issue Sustainability Accounting Standards, develop apt reporting technology platforms such as XBRL Taxonomies and analytical tools/ techniques, provide guidance per se and interpretation of standards and collaborate with the Government/Regulators to propagate these standards.

As a budding accounting professional, you must get an overview about Sustainability Reporting and other new age developments such as Valuation methods, Insolvency process etc. so as to identify the underlying opportunities in the upcoming thrust area not only in the local business environment but also to become a global accountant.

As the latest edition to the Capsule series, the current issue covers content for **CA Foundation - Principles and Practice of Accounting, CA Intermediate - Strategic Management** and **CA Final - Financial Reporting**. The issue offers skimmed contents for the subjects making it relevant and amenable for revision.

With festivals galore in the current month, I extend best wishes for Dussehra and Durga Puja. May the Goddess enrich your mind, body and soul with knowledge, wellness and peace.

I close with the words of **Mahatma Gandhi**- ***"Carefully watch your thoughts, for they become your words. Manage and watch your words, for they will become your actions. Consider and judge your actions, for they have become your habits. Acknowledge and watch your habits, for they shall become your values. Understand and embrace your values, for they become your destiny".***

CA. Nihar N Jambusaria
PRESIDENT, ICAI

"Optimism is the one quality more associated with success and happiness than any other." - Brian Tracy

CHAIRMAN'S COMMUNICATION

Dear Students,

I wish to convey my heartiest Congratulations to all the students who recently qualified the July 2021 CA Foundation, Intermediate and Final examination. Your true diligence, persistent efforts and unfettered determination have all paid off! I am sure that you shall continue to nurture the learning spirit as you move up the ladder in your academic or professional pursuits and always work resolutely to be your better selves to deliver your best in everything that you attempt.

Your thoughts when transformed into action are imbibed in your character traits and gradually manifest in your personality. Therefore, it is about the ability to think consistently about the target, the goal that you wish to achieve. This will propel you to make efforts towards achieving the target and fulfilling the goal that you set for yourself whether it is academic, professional or personal. The essence is that anything can be accomplished if you venture in the right direction with the necessary imperatives- indomitable will, stern tenacity and formidable force.

Self-Belief coupled with diligent efforts: Your secret to success

Confidence and diligence are twin virtues. One leads to the other. As students, you are responsible for your learning, academic pursuits and accomplishments. You should never forget that your goals are your responsibility. Being confident means that you trust your own capabilities and rely on your own judgements and decisions. For this, you must do a **Self-SWOT Analysis** to identify your strengths, weaknesses, opportunities and threats. You must then devise a strategy customised around your strengths. This will motivate you to break the inertia and take the first step forward. Diligence is all about staying consistent and focused. While keeping the final goal in mind, you might have to re-work your strategy/approach to re-align with new methods of learning; you will then thoroughly enjoy the journey to success.

BoS: Your Comrade

The BoS is always engaged in facilitating learning resources that whet your yearning for learning and help you to supplement your preparation for the upcoming examination. Such recent resources/ endeavours are briefly mentioned as under:

- **Revision Test Papers (RTPs)** for the upcoming December 2021 examination (November 2021 exam cycle) that comprise questions for practice with model answers for all subjects of CA Foundation, Intermediate and Final including the Old and New Schemes have been released. These provide both subjective questions as well as MCQs for the purpose of extensive practising.
- **Mock Test Papers Series-I** for December 2021 examination will be held from October 4, 2021 for our students appearing in CA Foundation, IIPC & Intermediate; Final Old & New examination. You can view the schedule at: *https://resource.cdn.icai.org/66559bos53756.pdf*
- **Mobile App 'ICAI-BoS':** It is appreciable that the application is getting popular amongst our students, currently being accessed by more than **1 lakh fifteen thousand** of you. ***'Ask the query'*** option has been enabled in an endeavour to further bridge the gap between BoS (Academic) and our students across the globe. The option allows you to post a query with respect to any subject, its contents in the Study Material, MCQs in the Booklets based on Case Scenarios, Case Studies, Revision Test Papers (RTPs) , latest Mock Test Paper Series (MTP) even to seek guidance regarding the application. You can track your query with the help of a unique number allocated to each query as you post it.

I earnestly urge you to attempt the Mock Test papers to gauge your performance to identify lacunas that can be fixed well ahead of time to strengthen your preparation. You must make frequent use of the mobile application to seek information; you may post your genuine feedback/suggestions/queries regarding the same at: *bosmobileapp@icai.in*

CRET

The Academic Group constituted as part of the CRET committee has conducted a series of meetings to discuss the Schema and Subjects vis a vis the CA course curriculum. The group shall table its discrete recommendations in due course of time.

Capsule Contents

The highlight of this issue is an inclusive Capsule based on **Paper-1 Principles and Practice of Accounting, for CA Foundation, Paper-2 Strategic Management for CA Intermediate and Paper-1 Financial Reporting for CA Final.** It comprises major concepts, succinctly presented, complete with illustrations, appropriate for comprehension and revision.

Your future depends on what you do today. Work in present to build a bright future. In the words of Mahatma Gandhi – ***"Persistent questioning and healthy inquisitiveness are the first requisites for acquiring learning of any kind."*** Learn to question to affect learning!

Best Wishes for Dussehra and Durga Puja,

CA. JAY CHHAIRA
CHAIRMAN, BOARD OF STUDIES (ACADEMIC)

"I can't change the direction of the wind, but I can adjust my sails to always reach my destination." - Jimmy Dean

CA FINAL - PAPER 1 - FINANCIAL REPORTING

This capsule in Final Paper 1 Financial Reporting is seventh in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019, October, 2019, November, 2020 and July/August, 2021 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. In this capsule we have covered significant provisions of Ind AS 103 through pictorial/tabular presentations for better understanding and quick revision. Students are advised to refer the study material or bare text of Ind AS 103 for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

INDIAN ACCOUNTING STANDARD (IND AS) 103 : BUSINESS COMBINATIONS

Overview of Ind AS 103: Business Combinations

- Definition and Elements
  - Of Business Combination
  - Of Business
- Acquisition Method
  - Identifying the acquirer
  - Determining the acquisition date
  - Purchase Consideration
- Subsequent Measurement and Accounting
  - Reacquired rights
  - Contingent liabilities
  - Indemnification of assets
  - Contingent consideration
- Common Control Transactions
- Disclosures

Determination of Purchase consideration | Allocation of Purchase Consideration | Recognition and Measurement of

- Identifiable assets acquired and the liabilities assumed
- Goodwill or gain from a bargain purchase
- Non-controlling interest in the acquiree

Objective

To improve the relevance, reliability and comparability of the information provided in the financial statements about a business combination and its effects

To accomplish that, this Ind AS establishes principles and requirements for how the acquirer, in its financial statements

- Recognises and measures
  - Identifiable assets acquired
  - Liabilities assumed
  - Any non-controlling interest in the acquiree
  - Goodwill acquired in the business combination or a gain from a bargain purchase
- Determines what information to disclose to enable users
  - To evaluate the nature and financial effects of the business combination

Scope

- This Ind AS applies to a transaction or other event that meets the definition of a business combination
- This Ind AS does not apply to:
  - Accounting for formation of a joint arrangements
  - Acquisition of an asset or group of assets that is not a **business**
  - Acquisition by an investment entity in subsidiary which is **measured at FVTPL**
  - Combination of entities or businesses under common control

- In such cases the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed
- The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase
- No goodwill arises in asset acquisition

An entity shall account for each business combination by applying the Acquisition Method

Steps for Accounting of Business Combination (Acquisition Method)

1. identify a business combination
2. identify the acquirer
3. determine acquisition date
4. recognise/measure identifiable assets acquired/liabilities assumed
5. recognise/measure any non-controlling interest
6. identify and measure consideration transferred
7. determine goodwill or gain on a bargain purchase

Identifying a Business Combination

Is there a transaction or event in which acquirer obtains **control*** over a **business****?

- Yes → It is a Business Combination
- No → It is an Asset Acquisition

Control*

- Power over the investee
- Exposure, or rights to variable returns
- Ability to use its power over the investee to affect the amount of investor returns

Business**

- Integrated set of activities and assets
- Capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities

A business combination may be structured in a variety of ways for legal, taxation or other reasons, which include but are not limited to:

(a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer
(b) one combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners
(c) all of the combining entities or its owners transfer their net assets or equity interest, to a newly formed entity
(d) a group of former owners of one of the combining entities obtains control of the combined entity.

An acquirer might obtain control of an acquiree in a variety of ways, for example:

(a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business)
(b) by incurring liabilities
(c) by issuing equity interests
(d) by providing more than one type of consideration
(e) without transferring consideration, including by contract alone

Business Elements
(It generally consists of:)

Inputs
(economic resource that creates, or has the ability to create, outputs)

Inputs and processes are mandatorily required:
- Inputs (e.g. employees, non current assets)
- Processes (e.g. strategic/ operation management)

Process
(Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.)

Output
(The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners)

Outputs are not mandatorily required for a set of activities and assets to qualify as a business.
- Development stage activities without outputs may still be businesses

Goodwill :
There is a presumption that if goodwill exists, the acquisition is a business.
But
A business need not necessarily have goodwill

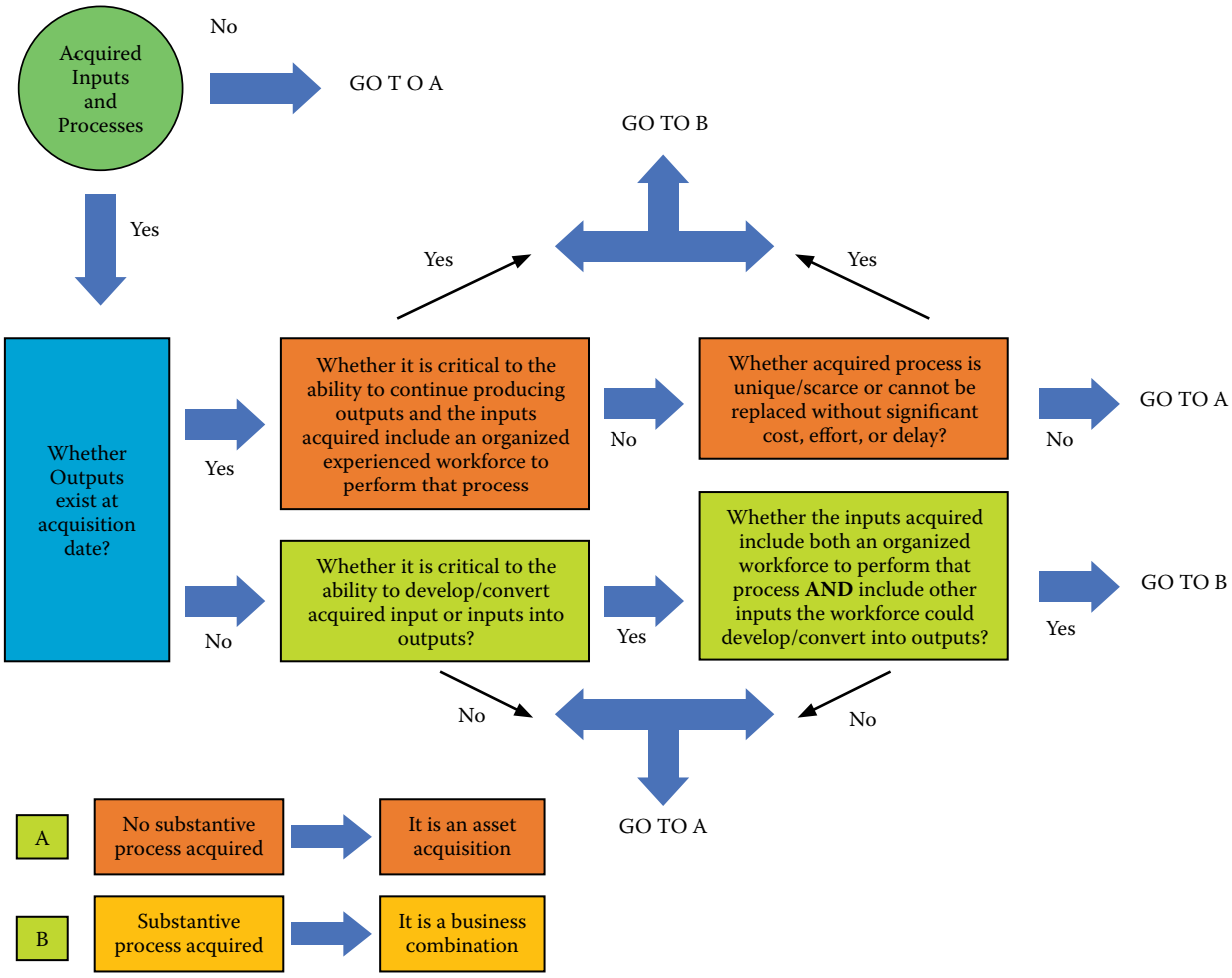
Meaning of a Business
A business need not include all the inputs or processes that the seller used in operating that business
If a market participant is capable of utilising the acquired set of activities and assets to produce outputs by integrating the acquired set with its own inputs and processes, the acquired set might constitute a business
If the elements that are missing from an acquired set are not present with a market participant but easily replaced/replicated, the acquired set might still be a business
The acquired set of activities and assets must have at least some inputs and processes in order to be considered a business

Definition of a Business: Development Stageof a set of Activities and Assets
Is the transferred set of activities and assets a business?
Factors include but are not limited to whether the set: • Has begun its planned principal activities • Has employees, intellectual property and other inputs and processes that could be applied to those inputs • Is pursuing a plan to produce outputs • Will be able to obtain access to customers that will purchase the outputs
Determination should be based on whether the integrated set is capable of being conducted and managed as a business by a **market participant** *(rather than the specific acquirer)*

Decide what you want, decide what you are willing to exchange for it. Establish your priorities and go to work.

- H L Hunt

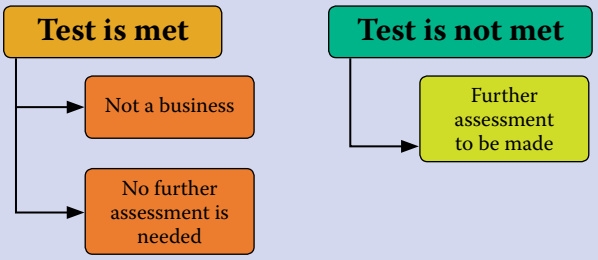
Further Assessment to Determine Whether Transaction is Business or not:



Concentration Test

An optional test (the concentration test) has been introduced in Ind AS 103 to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

On the basis of the above test, following will be the consequences:



- Optional test is to identify concentration of fair value
- An entity may make such an election separately for each transaction or other event
- The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets

Differences in Accounting for Business Combination Vs. Asset Acquisition		
Impact on	**Business combination**	**Asset acquisition**
Intangible assets	Intangible assets are recognised at fair value, if they are separately identifiable	Intangible assets acquired as part of a group of assets would be recognised and measured based on an allocation of the overall cost of the transaction with reference to their relative fair values
Goodwill	Goodwill (or gain on bargain purchase) may arise	No goodwill is recognized
Initial measurement of assets acquired and liabilities assumed	Fair value	Allocated cost (on a relative fair value basis)
Directly attributable transaction costs	Expensed	Capitalised
Deferred tax on initial recognition	Recognised	Not recognized
Contingent liabilities assumed	To be recognised if represents present obligation that arises from past events and its fair value can be measured reliably with subsequent changes to profit or loss	Not recognised, subject to Ind AS 37
Disclosures	More extensive	Less disclosures required

Identifying the Acquirer

- All business combination within the scope of Ind AS 103 are accounted under the acquisition method (also known as purchase method)
- For each business combination and in order to apply the purchase method, one of the combining entities shall be identified as the acquirer
- The guidance in Ind AS 110 shall be used to identify the acquirer
  - As per Ind AS 110, an investor controls an investee if and only if the investor has all the following:
    - Power over the investee + Exposure, or rights, to variable returns from its involvement with the investee + The ability to use its power over the investee to affect the amount of the investor's returns = Control over the Investee
    - **Note:** The above definition is very wide and control assessment does not depend only on voting rights instead it depends on other factors as well, which are discussed in detail in Ind AS 110
- If applying the guidance in Ind-AS 110 does not clearly indicate the acquirer, the following factors are considered in making the determination :
  - Acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities
  - Acquirer is usually the entity that issues its equity interests [**Note:** However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree]
    - Acquirer normally has the largest portion of the voting rights in the combined entity (consider the existence of any unused or special voting arrangements and options, warrants or convertible securities)
    - Existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest
    - Acquirer will have ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity
    - The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity
    - The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities
  - The entity whose size is significantly greater than that of the other combining entity or entities

Date of Acquisition

The date on which the acquirer obtains control of the acquiree (as identified by the acquirer)

In general, the **date of obtaining the control** is the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree

However, the acquirer might obtain control on a date that is either earlier or later than the closing date

Classification

The acquirer classifies and designates assets and liabilities *at acquisition date* based on:
- acquirer's economic conditions
- contractual terms of the assets/liabilities
- acquirer's operating or accounting policies
- other pertinent conditions existing at the acquisition date

Exception to the classification:
- classification of a lease contract in which acquiree is the lessor as either an operating lease or a finance lease in accordance with Ind AS 116, Leases
- Classification of a contract as an insurance contract in accordance with Ind AS 104, Insurance Contracts

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (and not on the acquisition date)

Recognition and Measurement Principle

At the acquisition date, the acquirer shall **recognise**, separately from goodwill:
- the identifiable assets acquired
- the liabilities assumed and
- any non-controlling interest in the acquiree

Exceptions to recognition principle: contingent liabilities, deferred taxes, employee benefits, assets indemnifications, leases in which acquiree is the lessee

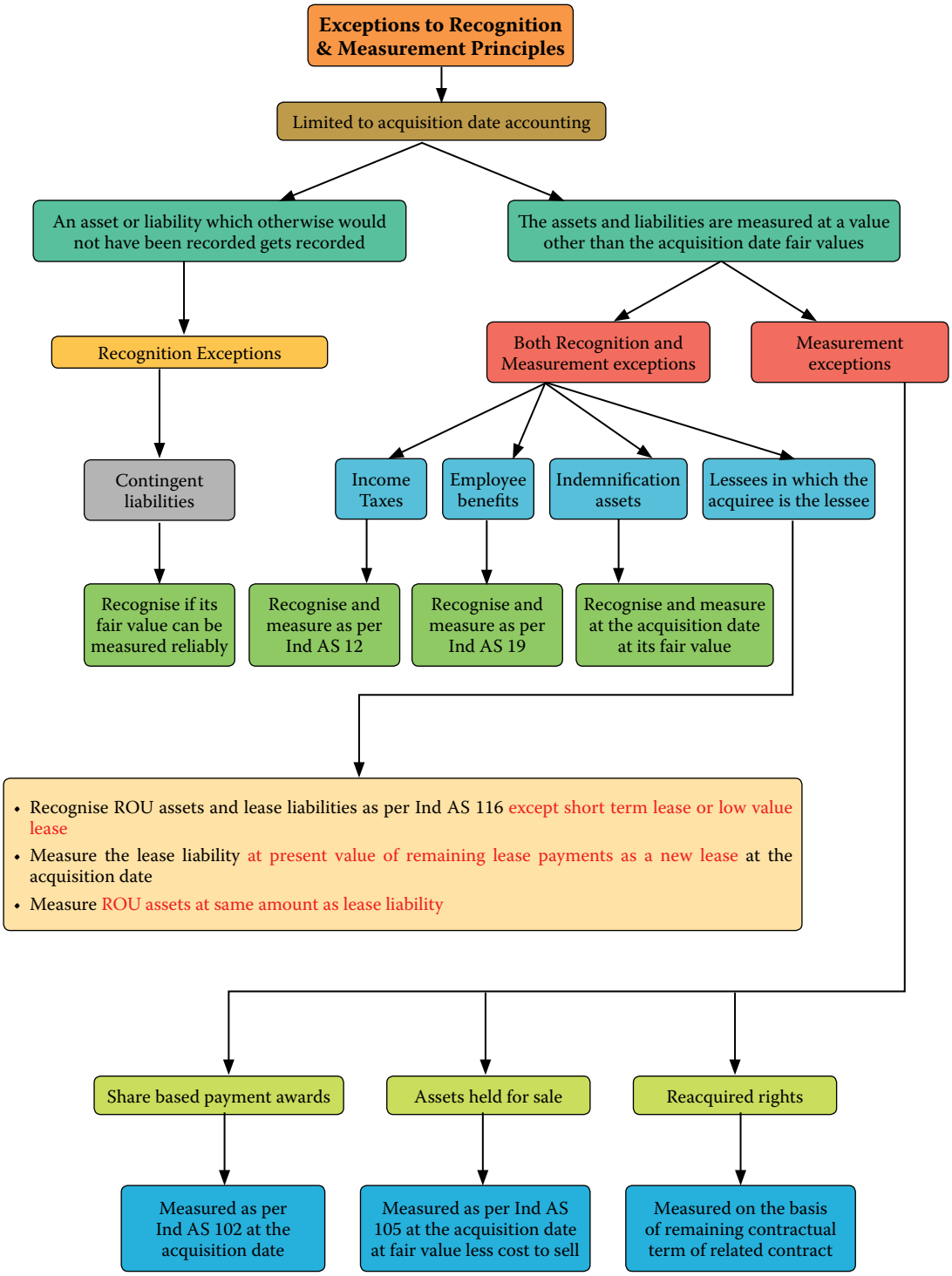
The acquirer shall **measure** the identifiable assets acquired and the liabilities assumed at their **acquisition-date fair values**

Exceptions to measurement principle: deferred taxes, employee benefits, assets indemnifications, leases in which acquiree is the lessee, reacquired rights, share-based payments, assets held for sale

For recognition of identifiable assets acquired/ liabilities assumed as part of the acquisition method, these assets/ liabilities
- must meet the definitions of assets and liabilities in the Framework issued by ICAI at the acquisition date
- must be part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction

The acquirer shall determine which assets acquired or liabilities assumed, if any, are the result of separate transactions, they are to be accounted for in accordance with their nature and the applicable Ind AS

The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements


Exceptions to Recognition & Measurement Principles
Limited to acquisition date accounting
An asset or liability which otherwise would not have been recorded gets recorded
The assets and liabilities are measured at a value other than the acquisition date fair values
Recognition Exceptions
Both Recognition and Measurement exceptions
Measurement exceptions
Contingent liabilities
Income Taxes
Employee benefits
Indemnification assets
Lessees in which the acquiree is the lessee
Recognise if its fair value can be measured reliably
Recognise and measure as per Ind AS 12
Recognise and measure as per Ind AS 19
Recognise and measure at the acquisition date at its fair value
• Recognise ROU assets and lease liabilities as per Ind AS 116 except short term lease or low value lease
• Measure the lease liability at present value of remaining lease payments as a new lease at the acquisition date
• Measure ROU assets at same amount as lease liability
Share based payment awards
Assets held for sale
Reacquired rights
Measured as per Ind AS 102 at the acquisition date
Measured as per Ind AS 105 at the acquisition date at fair value less cost to sell
Measured on the basis of remaining contractual term of related contract

Recognising Particular Assets Acquired and Liabilities Assumed

- For recognition purposes → Intangible assets → The acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination
  - → An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal criterion
- Reacquired rights → An acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets
  - → A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill
- Assembled workforce and other items that are not identifiable → The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable or not qualifies as assets as of the acquisition date
- For measurement purposes → Operating leases in which the acquiree is the lessee → The acquirer shall recognise assets or liabilities related to an operating lease in which the acquiree is the lessor
  - → The acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with the market terms

Recognising and Measuring Goodwill or Gain from Bargain Purchase

Goodwill = Consideration transferred + Non Controlling Interests (NCI) + Acquisition date fair value of acquirer's previously held equity interest − Fair value of net identifiable assets at the acquisition date

Non Controlling Interests (NCI):
- At Fair value
- OR
- At Proportionate share in the recognized amounts of acquiree's identifiable net assets

- NCI is equity in a subsidiary not attributable, directly or indirectly to a parent
- Measurement option for NCI is done at acquisition date
- Choice is made for each business combination (not a policy choice)

Note:
"Bargain Purchase" is accounted when sum total of fair value of net assets and NCI exceeds consideration transferred

In case of bargain purchase, the acquirer should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed

- If reassessment confirms bargain purchase, any gain is recognized in equity as capital reserve (routed through OCI) on the acquisition date.
- However, if there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, the gain (bargain purchase) should be recognised directly in equity as capital reserve.

To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred

Note:
Acquisition related costs charged to P&L except, debt securities issue cost–incorporated in effective interest rate (Ind AS 109) and Equity issue cost recognized in equity (Ind AS 32).

Consideration Transferred

Consideration transferred is the sum of the acquisition-date fair values of:

- Assets transferred by the acquirer
- \+
- Liabilities incurred by the acquirer to former owners of the acquiree
- \+
- Equity interests issued by the acquirer

Note: Any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with Ind AS 102 rather than at fair value.

It also includes acquisition date fair value of contingent consideration

Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

If the carrying amount of transferred assets / liabilities differ from fair value, AND

Whether they remain within the combined entity after business combination? (for example the assets or liabilities were transferred to the acquiree rather than to its former owners)

Yes

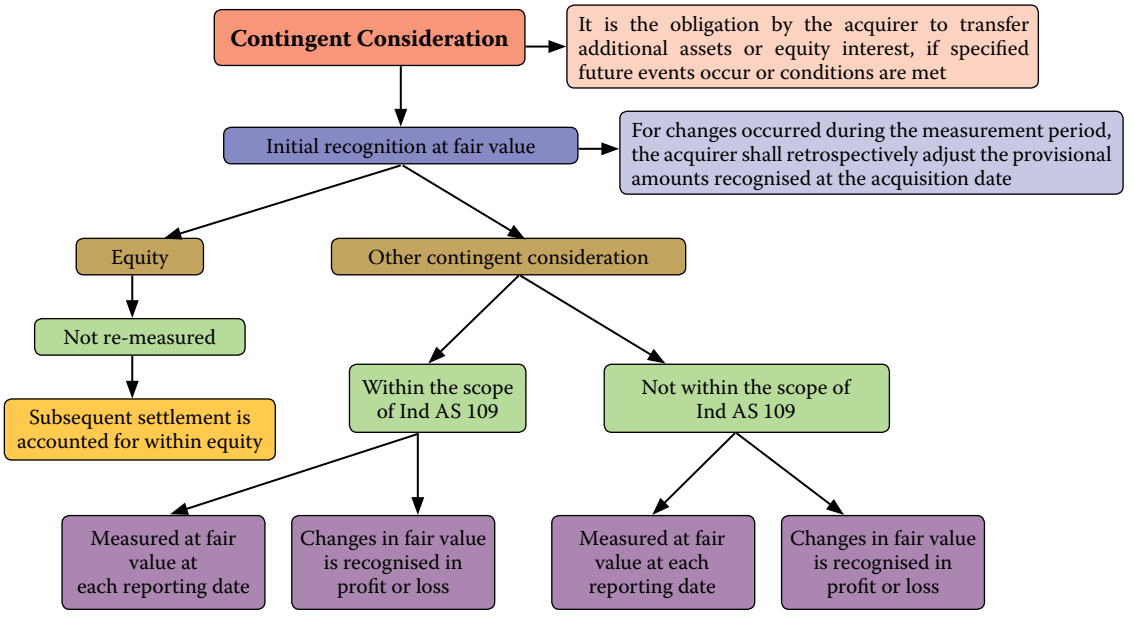
- Measure those assets and liabilities at their carrying amounts immediately before the acquisition date
- Gain or Loss is not recognized in Profit or Loss (when acquirer controls the assets or liabilities both before and after the combination)

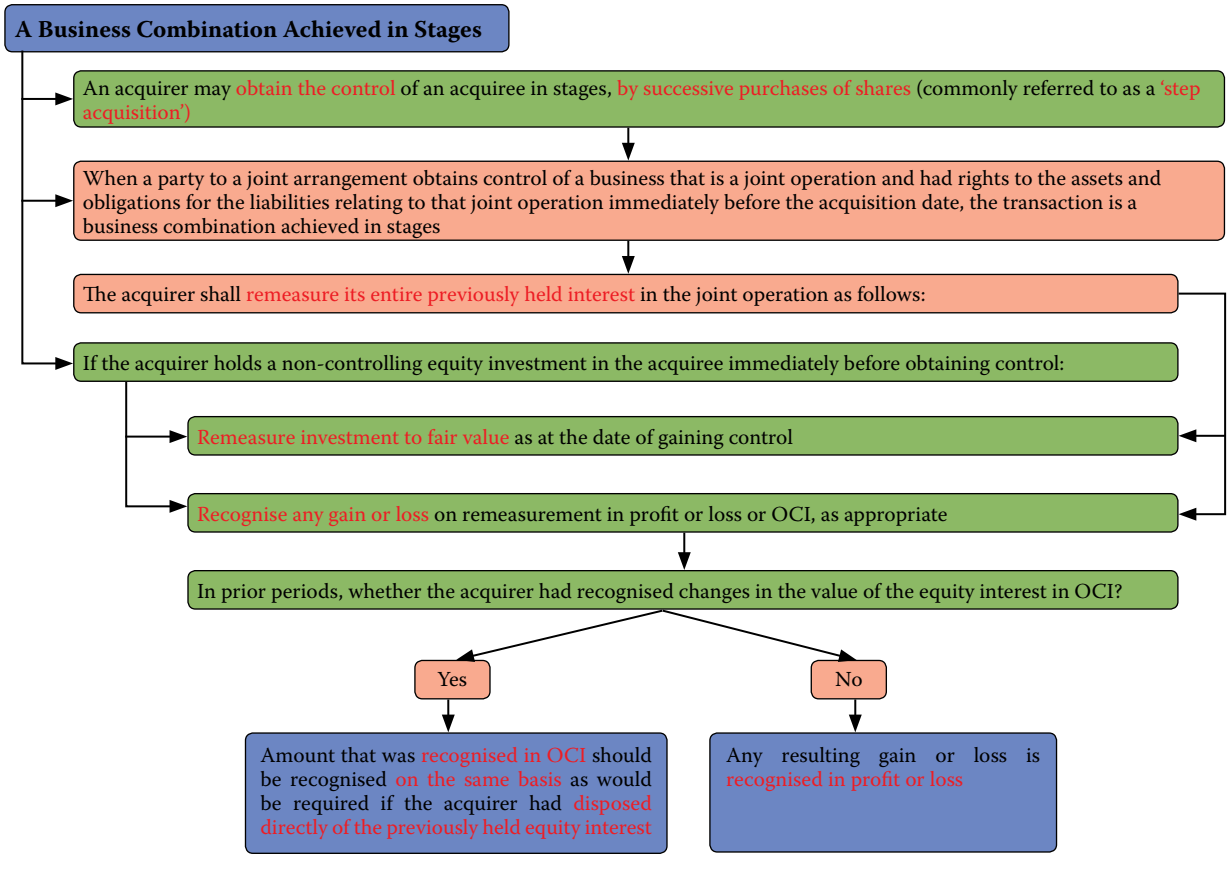
No

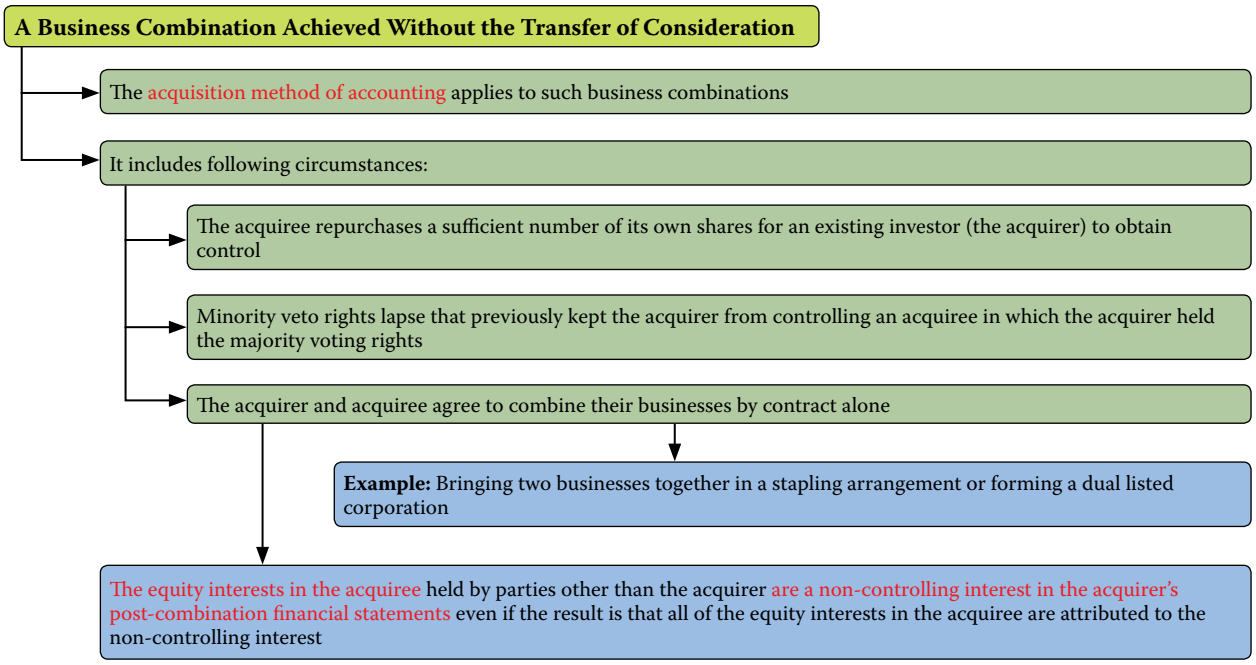
- Remeasure the transferred assets or liabilities to their fair values as of the acquisition date
- Gain or Loss is recognized in Profit or Loss

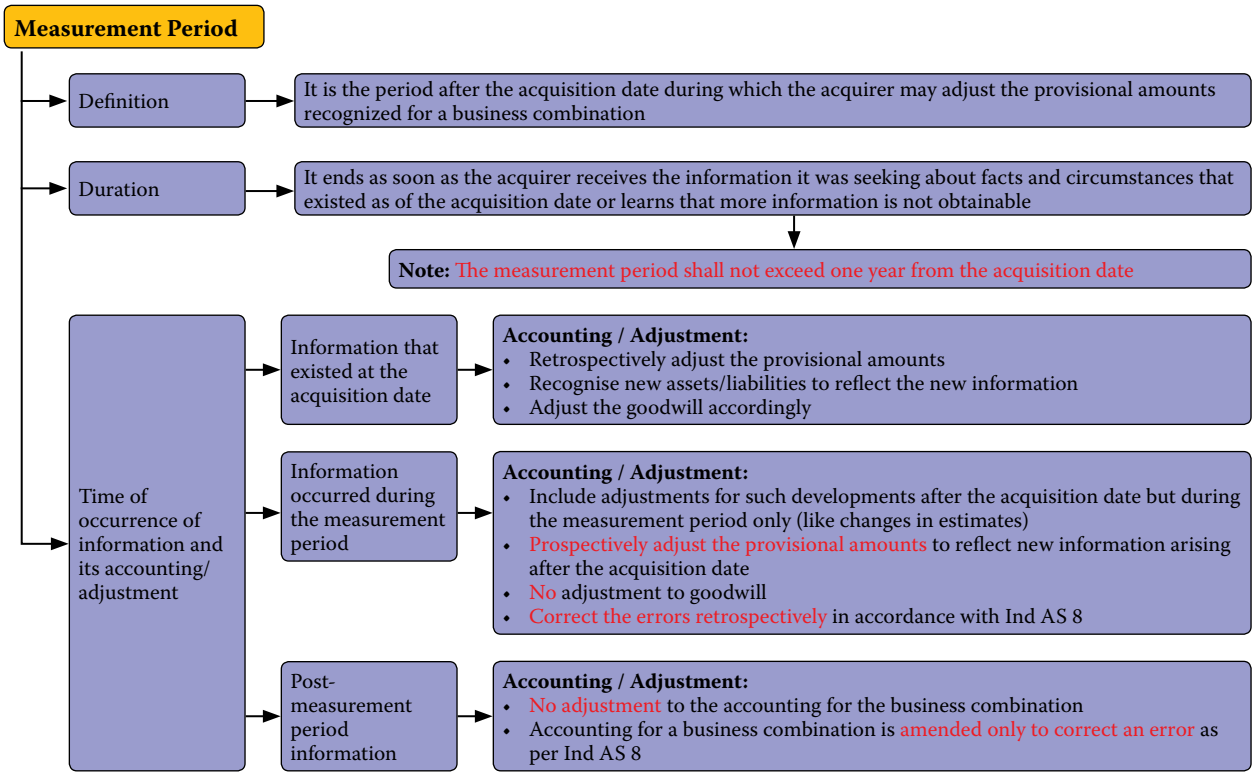
Acquisition-Related Costs

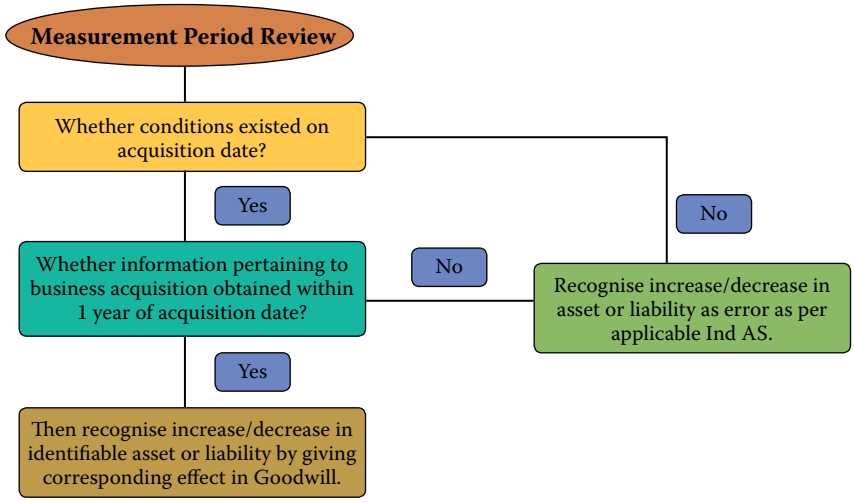
Definition	Acquisition-related costs are costs that the acquirer incurs to effect a business combination
Examples	Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities
Accounting treatment	The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received
Exception	The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109

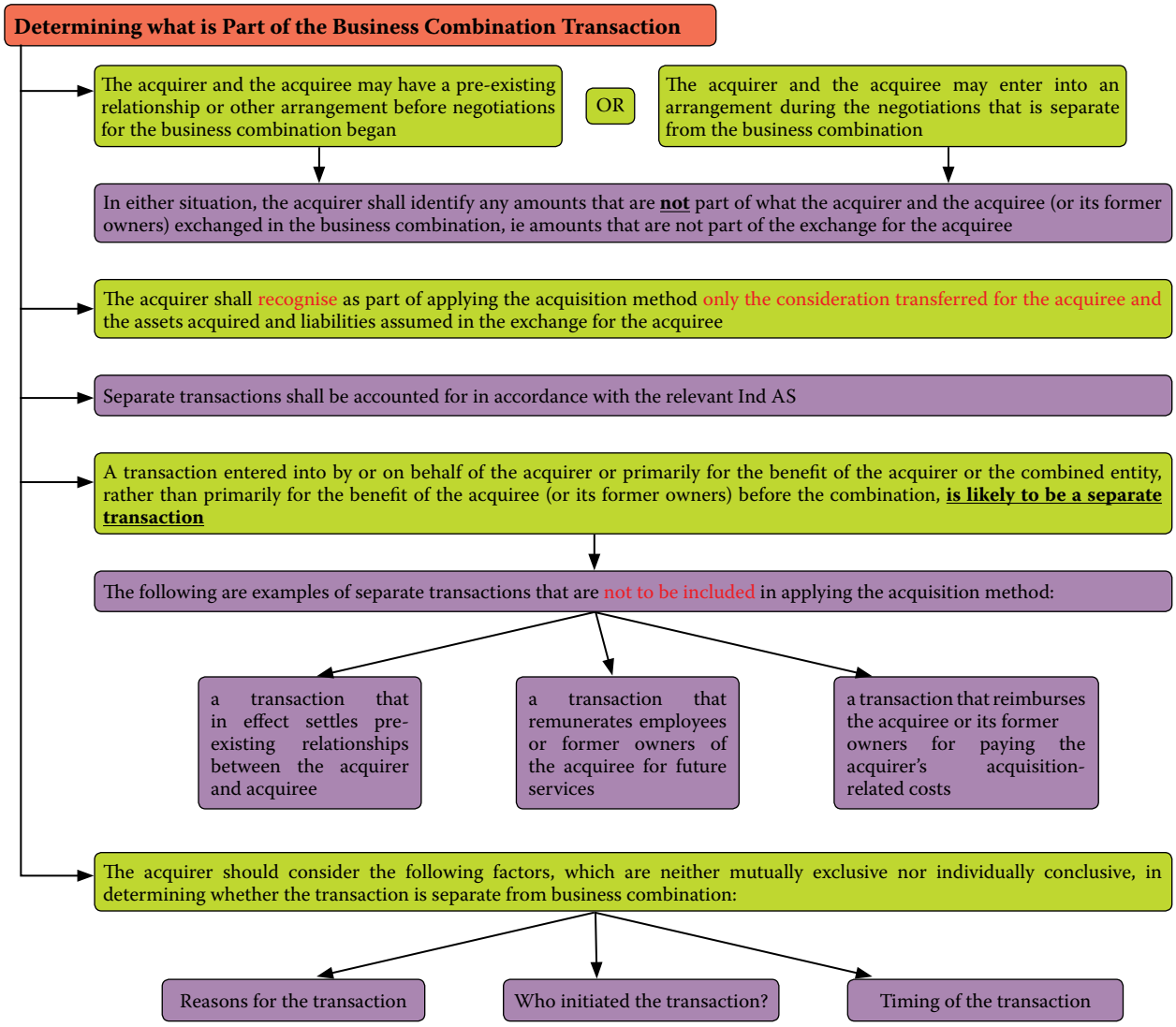

Contingent Consideration
It is the obligation by the acquirer to transfer additional assets or equity interest, if specified future events occur or conditions are met
Initial recognition at fair value
For changes occurred during the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date
Equity
Other contingent consideration
Not re-measured
Subsequent settlement is accounted for within equity
Within the scope of Ind AS 109
Not within the scope of Ind AS 109
Measured at fair value at each reporting date
Changes in fair value is recognised in profit or loss
Measured at fair value at each reporting date
Changes in fair value is recognised in profit or loss

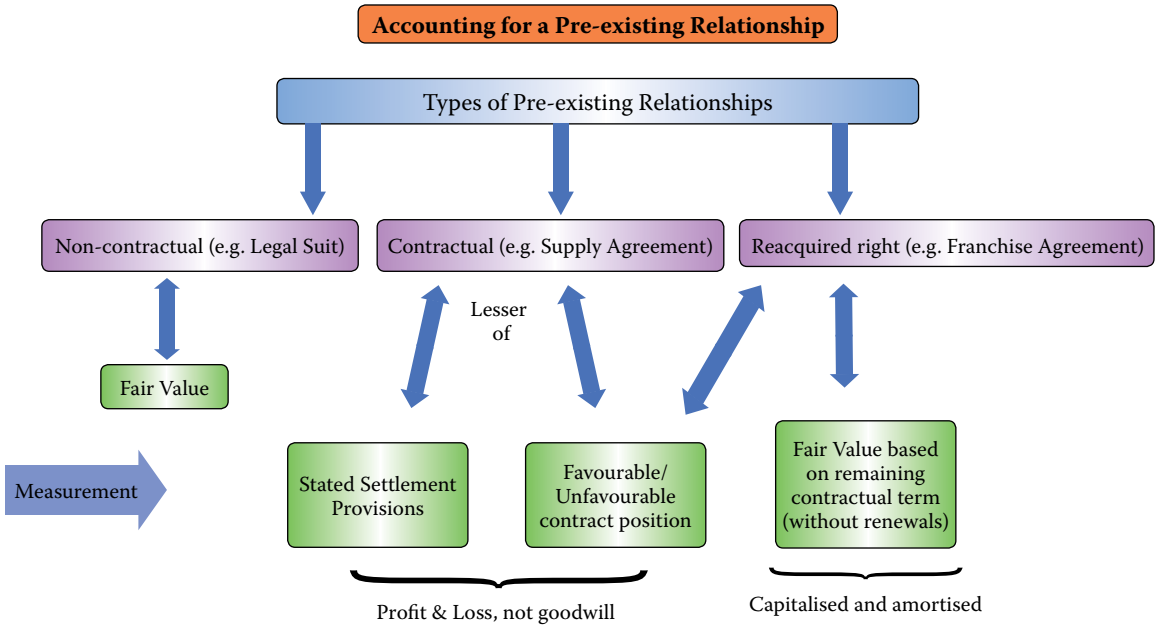

A Business Combination Achieved in Stages
An acquirer may obtain the control of an acquiree in stages, by successive purchases of shares (commonly referred to as a 'step acquisition')
When a party to a joint arrangement obtains control of a business that is a joint operation and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages
The acquirer shall remeasure its entire previously held interest in the joint operation as follows:
If the acquirer holds a non-controlling equity investment in the acquiree immediately before obtaining control:
Remeasure investment to fair value as at the date of gaining control
Recognise any gain or loss on remeasurement in profit or loss or OCI, as appropriate
In prior periods, whether the acquirer had recognised changes in the value of the equity interest in OCI?
Yes
No
Amount that was recognised in OCI should be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest
Any resulting gain or loss is recognised in profit or loss

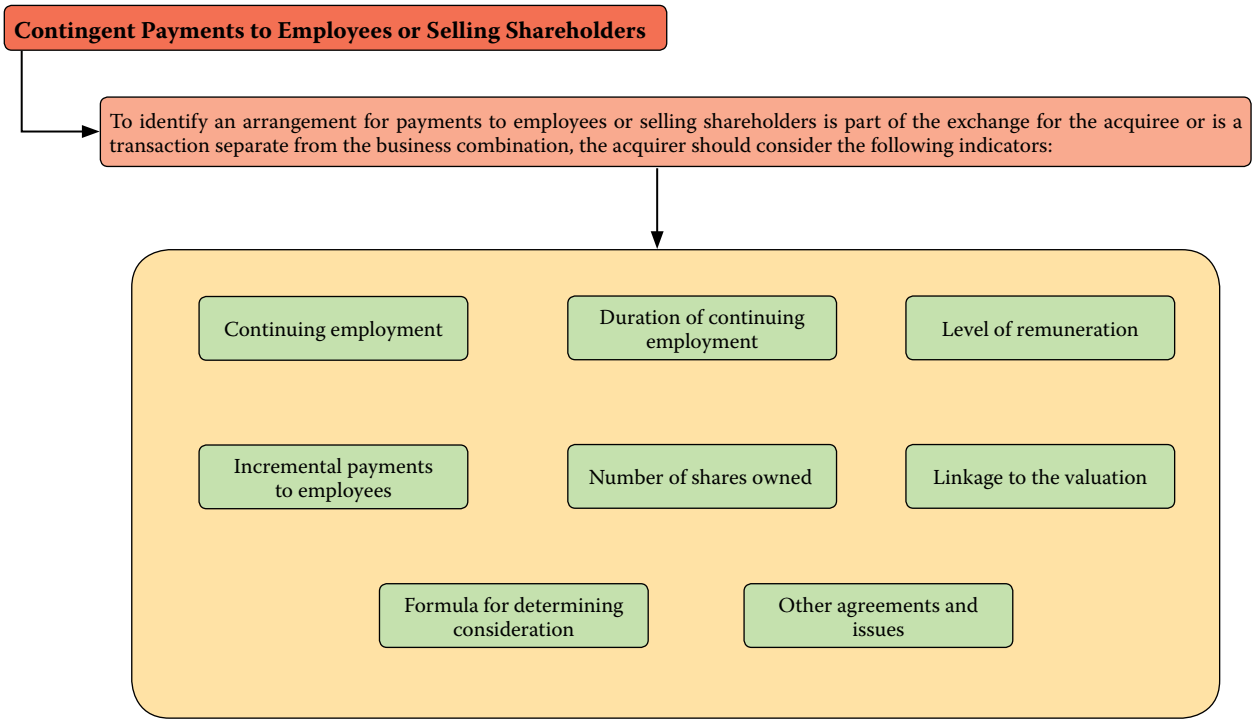

A Business Combination Achieved Without the Transfer of Consideration
The acquisition method of accounting applies to such business combinations
It includes following circumstances:
The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control
Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights
The acquirer and acquiree agree to combine their businesses by contract alone
Example: Bringing two businesses together in a stapling arrangement or forming a dual listed corporation
The equity interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest


Measurement Period
Definition
It is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination
Duration
It ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable
Note: The measurement period shall not exceed one year from the acquisition date
Time of occurrence of information and its accounting/ adjustment
Information that existed at the acquisition date
Accounting / Adjustment:
Retrospectively adjust the provisional amounts
Recognise new assets/liabilities to reflect the new information
Adjust the goodwill accordingly
Information occurred during the measurement period
Accounting / Adjustment:
Include adjustments for such developments after the acquisition date but during the measurement period only (like changes in estimates)
Prospectively adjust the provisional amounts to reflect new information arising after the acquisition date
No adjustment to goodwill
Correct the errors retrospectively in accordance with Ind AS 8
Post-measurement period information
Accounting / Adjustment:
No adjustment to the accounting for the business combination
Accounting for a business combination is amended only to correct an error as per Ind AS 8


Measurement Period Review
Whether conditions existed on acquisition date?
Yes
No
Whether information pertaining to business acquisition obtained within 1 year of acquisition date?
No
Recognise increase/decrease in asset or liability as error as per applicable Ind AS.
Yes
Then recognise increase/decrease in identifiable asset or liability by giving corresponding effect in Goodwill.


Determining what is Part of the Business Combination Transaction
The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the business combination began
OR
The acquirer and the acquiree may enter into an arrangement during the negotiations that is separate from the business combination
In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination, ie amounts that are not part of the exchange for the acquiree
The acquirer shall recognise as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree
Separate transactions shall be accounted for in accordance with the relevant Ind AS
A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction
The following are examples of separate transactions that are not to be included in applying the acquisition method:
a transaction that in effect settles pre-existing relationships between the acquirer and acquiree
a transaction that remunerates employees or former owners of the acquiree for future services
a transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs
The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, in determining whether the transaction is separate from business combination:
Reasons for the transaction
Who initiated the transaction?
Timing of the transaction


Accounting for a Pre-existing Relationship
Types of Pre-existing Relationships
Non-contractual (e.g. Legal Suit)
Contractual (e.g. Supply Agreement)
Reacquired right (e.g. Franchise Agreement)
Lesser of
Fair Value
Measurement
Stated Settlement Provisions
Favourable/ Unfavourable contract position
Fair Value based on remaining contractual term (without renewals)
Profit & Loss, not goodwill
Capitalised and amortised


Contingent Payments to Employees or Selling Shareholders
To identify an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators:
Continuing employment
Duration of continuing employment
Level of remuneration
Incremental payments to employees
Number of shares owned
Linkage to the valuation
Formula for determining consideration
Other agreements and issues

Acquirer Share Based Payment Awards Exchanged for Awards Held by the Acquiree's Employees

Business combination transaction → An acquirer may exchange its share-based payment awards (replacement awards) for awards held by employees of the acquiree

Nature of awards → The above share based payment awards will include vested and unvested shares

Type of Accounting → Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards as per Ind AS 102

Objective of Accounting → *To allocate the replacement award's value* between the amounts attributable to:

- pre-combination service (treated as part of consideration transferred)
- post-combination service (accounted for as compensation expense in the post combination financial statements)

Accounting

Pre-combination period service cost = Market-based measure of the acquiree award × (Completed vesting period as on the acquisition date ÷ Greater of total original vesting period or total revised vesting period)

Post-combination period service cost = Market based measure of the replacement award − Amount attributed to pre combination service

Market based measure means that awards will be re-measured on the acquisition date as per the requirements of Ind AS 102

Important Notes

- The acquirer shall attribute a portion of a replacement award to post combination service if it requires post combination service, regardless of whether employees had rendered all of the service required for their acquiree awards to vest before the acquistion date
- Changes in the estimated number of replacement awards expected to vest are reflected in remuneration cost for the periods in which the changes or forfeitures occur not as adjustments to the consideration transferred in the business combination.
- The effects of other events, such as modifications or the ultimate outcome of awards with performance conditions, that occur after the acquisition date are accounted for as per Ind AS 102 in determining remuneration cost for the period in which an event occurs
- Requirements for determining the portions of a replacement award attributable to pre-combination and post-combination service apply regardless of whether a replacement award is classified as a liability or as an equity instrument as per Ind AS 102
- The income tax effects of replacement awards of share-based payments shall be recognised as per Ind AS 12

Equity-Settled Share-Based Payment Transactions of the Acquiree

- Acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions
- Acquiree's existing award will be settled in its own shares and the consequential shareholders will become the Non-controlling shareholders
- Accounting
  - Vested shares
    - Measured at their market-based measure and the value credited to Share based payment reserve
    - Such acquiree share-based payment transactions are part of NCI
  - Unvested shares
    - Pre-combination period
      - Considered as a part of NCI
      - Market-based measure of the acquiree award × Completed vesting period as on the acquisition date ÷ Greater of total original vesting period or total revised vesting period
    - Post-combination period
      - Debited as employee cost and credited to NCI in the balance sheet
      - Market based measure of the replacement award − Amount attributed to pre combination service

Subsequent Measurement and Accounting

An acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business *combination in accordance with other applicable Ind AS*

Exception: Ind AS 103 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination

- Reacquired rights
  - Recognised as an intangible asset
  - Amortised over the remaining contractual period of the contract in which the right was granted
  - **On subsequent selling** to a third party, acquirer shall include the carrying amount of the intangible asset in determining the gain or loss on the sale
- Contingent liabilities recognised as of the acquisition date
  - After initial recognition and until the liability is settled, cancelled or expired, the acquirer shall measure it at the higher of
    - The amount that would be recognised as per Ind AS 37
    - The amount initially recognised less the cumulative amount of income recognised as per Ind AS 115
- Indemnification assets
  - It results when the seller in a business combination contractually indemnifies the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability
  - In each subsequent reporting period, the acquirer shall
    - Measure an indemnification asset on the same basis as the indemnified liability or asset
    - For an indemnification asset that is not subsequently measured at its fair value, management needs to do assessment of its collectability
    - Derecognise the indemnification asset only when it collects the asset, sells it, or otherwise loses the right to it
- Contingent consideration
  - Refer chart given earlier in this chapter on contingent consideration

Other Ind AS that Provide Guidance on Subsequent Measurement and Accounting in a Business Combination

- Ind AS 38 prescribes the accounting for identifiable intangible assets acquired in a business combination
- The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. Ind AS 36 prescribes the accounting for impairment losses

Ind AS 104 provides guidance on the subsequent accounting for an insurance contract acquired in a business combination

Ind AS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in a business combination

Ind AS 102 provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees' future services

Ind AS 110 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained

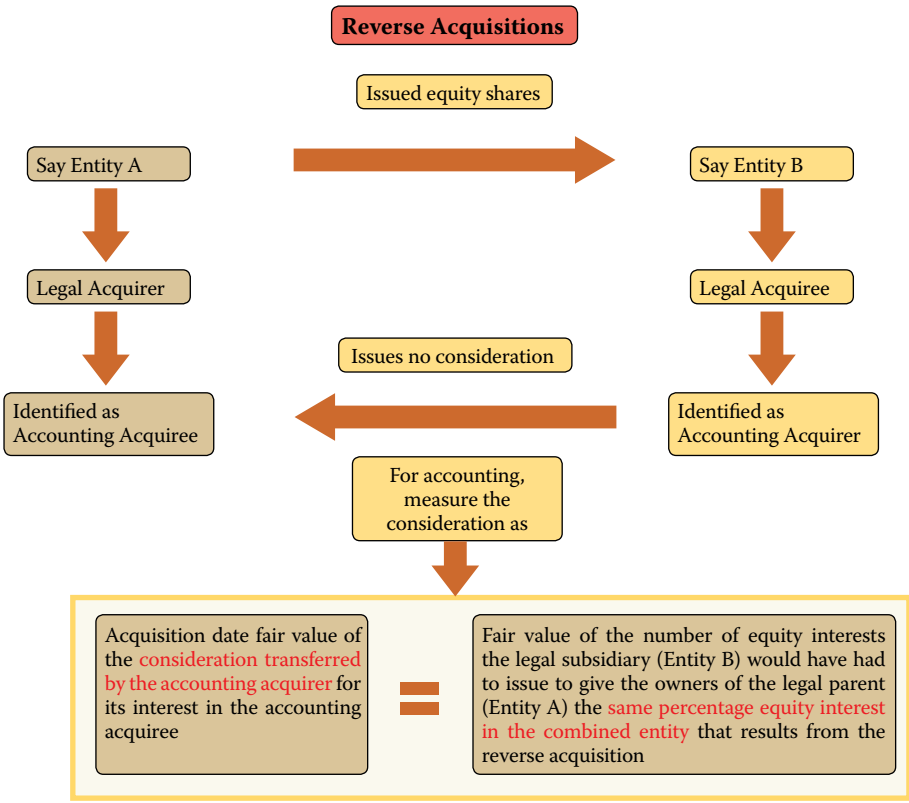
Common Control Business Combinations

Applicable pronouncement	Appendix C of Ind AS 103 deals with accounting for business combinations of entities or businesses under common control
Definition	It is a business combination involving entities or businesses in which all the combining entities or businesses are ultimately CONTROLLED by the SAME party or parties both BEFORE and AFTER the business combination, and that control is not transitory
Inclusion	Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group
Role of NCI	• The extent of NCI in each of the combining entities before and after the business combinations is not relevant to determine whether a combination involves entities under common control • Partially owned subsidiary is always under the control of the parent entity
Scope	It is not necessary that combining entities are included as part of the same CFS A group of individuals shall be considered as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory
Accounting	Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interests method

Method of Accounting for Common Control Business Combinations

- Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interests method
- Assets and liabilities of the combining entities are reflected at their carrying amounts
  - Only adjustments that are made are to harmonise accounting policies
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities
- No 'new' goodwill is recognized as a result of the combination
- Any expenses of the combination are written off immediately in the P&L
- Financial information in financial statements in respect of prior periods should be restated as if business combination had occurred from beginning of preceding period in financial statements, irrespective of actual date of combination
  - However, if business combination had occurred after that date, prior period information shall be restated only from that date
- Consideration for business combination may consist of securities, cash or other assets
  - Securities shall be recorded at nominal value
  - Assets other than cash shall be considered at their fair values
- Identity of reserves shall be preserved and shall appear in financial statements of transferee in same form in which they appeared in financial statements of transferor
  - General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the business combination would also be available for distribution as dividend after the business combination.
- Difference, if any, between amount recorded as share capital issued plus any additional consideration in form of cash or other assets and amount of share capital of transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes

Summary of Accounting for Common Control Business Combination		
S. No.	**Particular**	**Treatment**
1.	Method of accounting	Pooling of interests method
2.	Assets and liabilities of transferor company taken over by the transferee company	At carrying values
3.	Adjustments in accounting of business combination	Adjustments are made only to harmonise the accounting policies
4.	Financial information in financial statements in respect of prior periods	Restated as if business combination had occurred from beginning of preceding period in financial statements, irrespective of actual date of combination. However, if business combination had occurred after that date, prior period information shall be restated only from that date.
5.	Reserves of transferor company	Identities are preserved and shall appear in financial statements of transferee in same form in which they appeared in financial statements of transferor company
6.	Goodwill	Not recognised
7.	Expenses incurred on combination of business	Written off immediately in the Profit and Loss account
8.	Purchase Consideration (PC)	Consists of securities, cash or other assets
9.	Securities given under purchase consideration	Recorded at nominal value
10.	Assets other than cash given under purchase consideration	Considered at their fair values
11.	Cash given under purchase consideration	Actual value
12.	Difference, if any, between amount recorded as share capital issued plus any additional consideration in form of cash or other assets and amount of share capital of transferor	Transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes



Preparation and Presentation of Consolidated Financial Statements (Reverse Acquisitions)

Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree)

But it is described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree).

Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:

(a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.

(b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured in accordance with this Ind AS.

(c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.

(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree).

(e) in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets *even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.*

In a reverse acquisition, some of the owners of the legal acquiree (the accounting acquirer) might not exchange their equity interests for equity interests of the legal parent (the accounting acquiree).
Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition.

For Earnings per Share for the current period

In calculating the weighted average number of ordinary shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:

(a) the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and

(b) the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.

For Earnings per Share for the comparative period

The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be **calculated by dividing**:

(a) the profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by

(b) the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement

Main Disclosures

- General information on the business combination
- Assets acquired and liabilities assumed
- Goodwill or a gain on bargain purchase
- Transactions that are not part of the business combination;
- In which the acquirer holds less than 100 percent of the acquiree;
- Business combinations achieved in stages, i.e., step acquisitions;
- Pro forma information about revenue and profit or loss; and
- Measurement period adjustments and contingent consideration adjustments.
- Revenue and profit or loss of combined entity for current reporting period as though acquisition date for all business combinations that occurred during the year had been as of beginning of annual reporting period
- Reconciliation of movements in goodwill:
  - Opening amounts for gross goodwill and impairment losses
  - Additional goodwill recognised in the period
  - Adjustments from recognition of deferred tax assets
  - Movements in goodwill of a 'disposal group' under Ind AS 105
  - Impairment losses recognised in the period
  - Net exchange differences arising in the period
  - Any other changes arising in the period
  - Closing amounts for gross goodwill and impairment losses
- Other disclosures as prescribed in the standard

Carve-Out in Ind As 103 From IFRS 3

As Per IFRS

IFRS 3 requires bargain purchase gain arising on business combination to be recognised in **profit or loss** as income

Carve-Out

Ind AS 103 requires the bargain purchase gain to be recognised in **other comprehensive income** and accumulated in equity as **capital reserve**

Unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as **capital reserve**

Reason for Carve-Out

- Bargain purchase gain occurs at the time of acquiring a business
- Recognition of such gains in profit or loss would result into recognition of unrealized gains, which may get distributed in the form of dividends
- Such a treatment may lead to structuring through acquisitions, which may not be in the interest of the stakeholders of the company

Carve-In in Ind As 103 From IFRS 3

As Per IFRS

IFRS 3 excludes from its scope- business combinations of entities under common control

Carve-In

Appendix C of Ind AS 103, *Business Combinations* gives guidance on business combinations of entities under common control

CA INTERMEDIATE - PAPER 7B - STRATEGIC MANAGEMENT

Chartered Accountants who are expected to reach high in the corporate ladder need to be sound in the concepts and principles of strategic management. The Capsule for quick recap of IIPCC/Intermediate Paper 7B: Strategic Management broadly covers the topics of strategic management discussed in detail in Chapter 3 of the Study Material.

It may be kept in mind that the capsule is not the replacement of the Study Material. Reading of Study Material is absolutely essential. This capsule is intended to assist you in the process of revision of concepts discussed in the Study Material.

CHAPTER 3: STRATEGIC MANAGEMENT PROCESS

STRATEGIC PLANNING

Strategic Planning

Strategic Planning is the process of arriving at a set of interactive and overlapping decisions regarding the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources and formulation of a strategy that would enable the firm to outperform its own aspirations/ competition.

Corporate planning

- Strategic planning
- Operational planning

Characteristics of Strategic planning

- Shapes the organisation and its resources.
- Assesses the impact of environmental variables.
- Takes a holistic view of the organisation.
- Develops overall objectives and strategies.
- Is concerned with the long-term success of the organisation.
- Is a senior management responsibility.

Characteristics of Operational planning

- Deals with current deployment of resources.
- Develops tactics rather than strategy.
- Projects current operations into the future.
- Makes modifications to the business functions but not fundamental changes.
- Is the responsibility of functional managers.

STRATEGIC DECISION MAKING

Strategic Decision Making

"Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives."

The major dimensions of strategic decisions are as follows:

- *Involvement of top management*
- *Substantial resource commitment*
- *Consideration of factors in the external environment*
- *Significant impact on the long-term prosperity of the firm*
- *Future oriented- high degree of futurity*
- *Multifunctional and multi-business implications*

STRATEGIC INTENT

Strategic Intent

Strategic intent is a commitment to carrying out an action or actions in the future. It involves mental activities such as planning and forethought. It may be expressed in such broad terms as vision and mission or more specifically as goals and objectives.

The elements of strategic intent are:

Vision

It depicts the organisation's aspirations and provides a glimpse of what the organization would like to become in future.

Mission

A mission is an answer to the basic question 'what business are we in and what we do.'

Business Definition

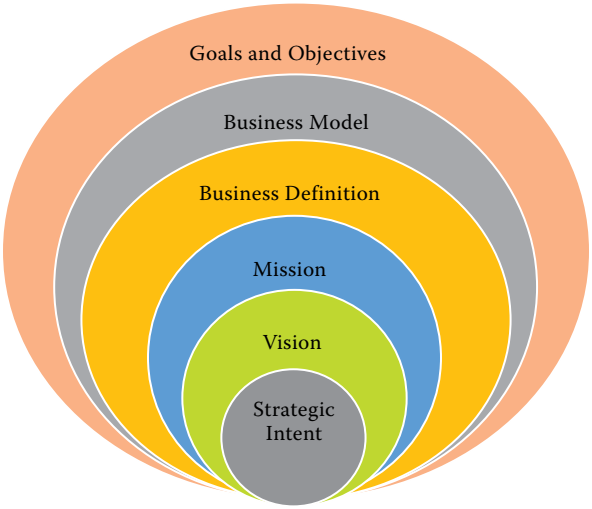
It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies.

Business Model

Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details.

Goals and Objectives

These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.



VISION

A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The essentials of a strategic vision are:

Essentials of Strategic Vision

- Challenge in developing a strategic vision that is creative and future directed.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm in organisation.
- Vision statement illuminates the direction in which organization is headed.

MISSION

A company's mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Points must be considered while writing a mission statement of a company are:

To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.

Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.

Good mission statements should be unique to the organisation for which they are developed.

The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

GOALS AND OBJECTIVES

Goals

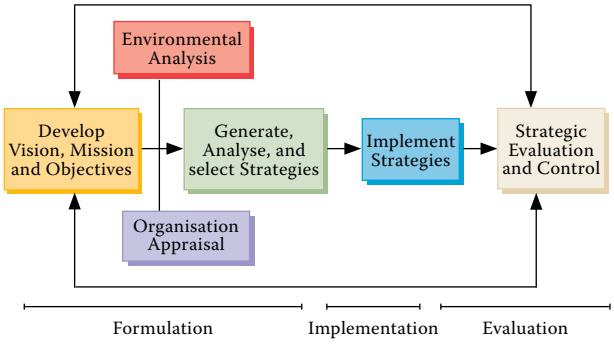
Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective.

Objectives

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Objectives are short-term and long-term. Long term objectives are subdivided into short term such as monthly, weekly or daily objectives.

STRATEGIC MANAGEMENT MODEL

The strategic management process is dynamic and continuous. It involves strategy formulation, implementation, and evaluation. The major components of the strategic management process are shown in the model.



Strategic Management Model

STAGES IN STRATEGIC MANAGEMENT

The strategic management consists of following stages:

Strategic vision, mission and objective

First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modif y the company's business makeup and the market position. Corporate goals and objectives flow from the mission.

Environ-mental and organizational analysis

The stage would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. Organisational analysis involves a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

Formulating strategy

The stage involves identif ying strategic alternatives, in depth analysis and choosing the most appropriate alternative which will serve as strategy of the firm.

Implemen-tation of strategy

Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

Strategic evaluation and control

Assessing periodically that organisation is moving towards achieving its strategic intent is desirable. The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/ or strategy-execution methods.

ANNOUNCEMENT

Mock Test Papers Series – I for December 2021 CA Examination

Board of Studies of ICAI is commencing Mock Test Papers Series-I from October 4, 2021 for students appearing in CA Foundation, IIPC & Intermediate; Final Old & New December 2021 examination.

The Question Papers for each subject will be uploaded at BoS Knowledge Portal on www.icai.org as per the schedule by 1:30 PM every day during this period. Students are advised to download and attempt these papers in the stipulated time limit designated for the papers. The Answer Key to these papers will be uploaded within 48 hours from the date and time of commencement of the respective paper, as per the schedule. Students can examine their answers with respect to the Answer Keys and self-assess their performance.

Director, Board of Studies

CA FOUNDATION - PAPER 1 - PRINCIPLES AND PRACTICE OF ACCOUNTING

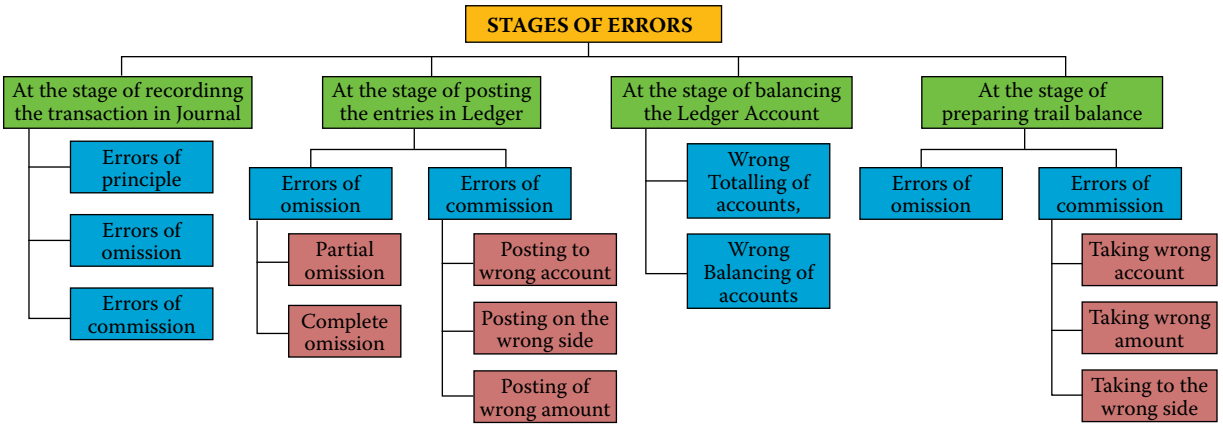
The objective of Paper 1 "Principles and Practice of Accounting" at Foundation level is to develop an understanding of the basic concepts and principles of accounting and apply the same in preparing financial statements and simple problem solving. It has always been the endeavour of Board of Studies to provide quality academic inputs to the students. Keeping with this objective, it has been decided to bring forth a crisp and concise capsule on the topics of Rectification of Errors and Financial Statements of Not for Profit Organisations covered in this paper. At Foundation level, the topic of Rectification of errors largely involve understanding the types and stages of errors and how to rectify the errors whereas Financial Statements of Not for Profit Organisations deals with the preparation of final accounts through Receipt and Payment Account, Income and Expenditure Account and Balance Sheet for Not for profit organisations. The concepts involved in both these topics have been gathered and presented through pictorial presentations in this capsule which will help the students in grasping the intricate practical aspects. This Capsule facilitates the students in undergoing quick revision of Chapter 2 (Unit-6) and Chapter 9 of the study material, under no circumstances, such revision can substitute the detailed study of the material provided by the Board of Studies. Students are advised to refer the Study Material for comprehensive study.

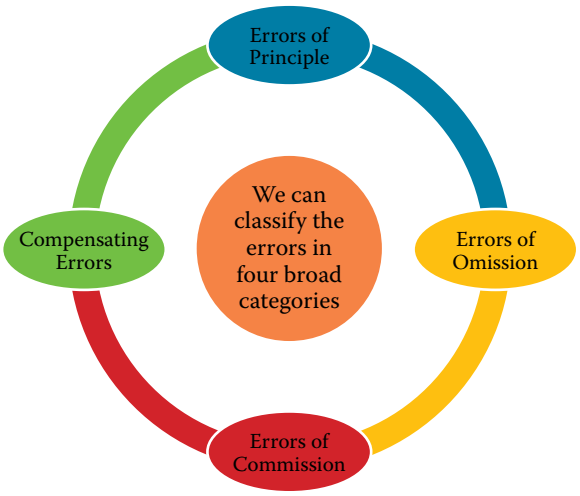
CHAPTER 2 UNIT 6: RECTIFICATION OF ERRORS

There are various unintentional errors that can be committed at the stage of collecting financial information/data on the basis of which financial statements are drawn or at the stage of recording this information. Also errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight. To check the arithmetic accuracy of the journal and ledger accounts, trial balance is prepared. If the trial balance does not tally, then it can be said that there are errors in the accounts which require rectification thereof. Some of these errors may affect the Trial Balance and some of these do not have any impact on the Trial Balance although such errors may affect the determination of profit or loss, assets and liabilities of the business.

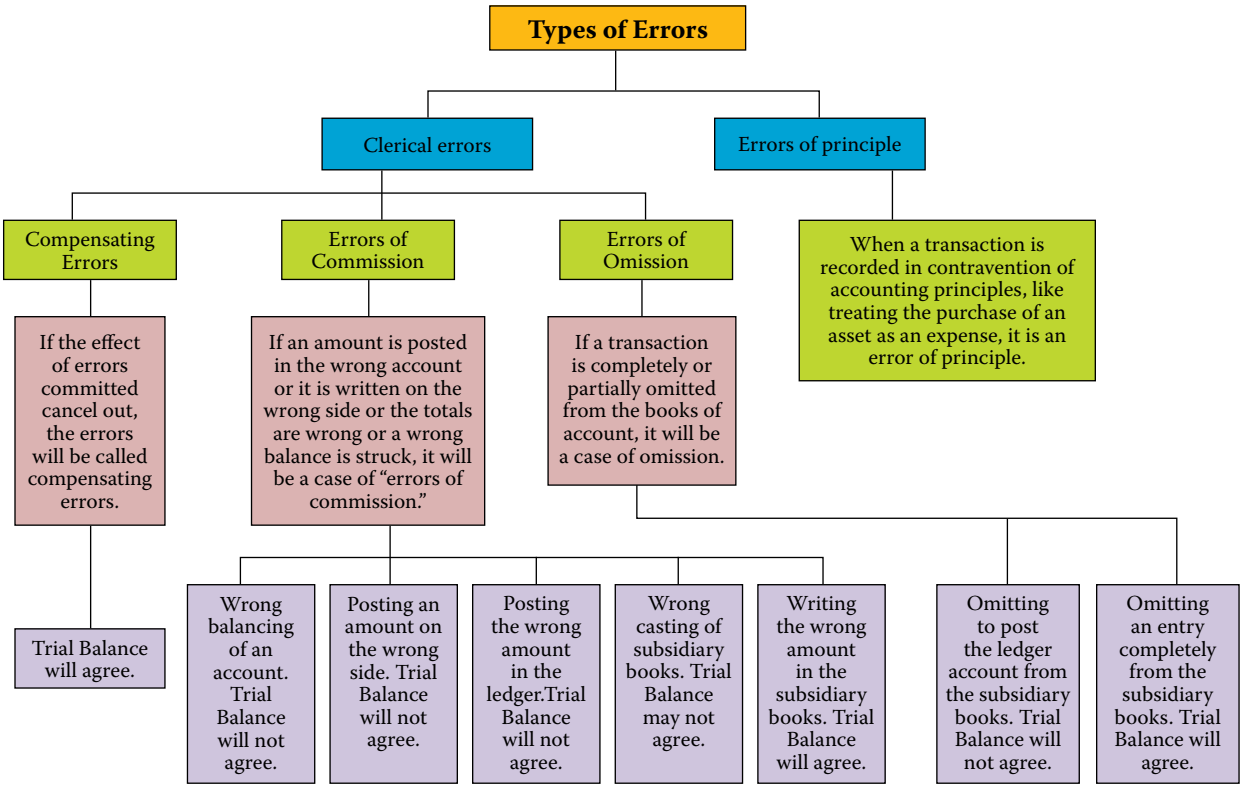
Illustrative Case of Errors and their Nature

Wrong Entry	Wrong entry of the value of transactions and events in the subsidiary books, Journal Proper and Cash Book may occur. **Example :** Credit purchases ₹17,270 are entered in the Purchases Day Book as ₹17,720. Credit sales of ₹15,000 gross less 1% trade discount are wrongly entered in Sales Day Book at ₹15,000.
Wrong casting of subsidiary books	Subsidiary books are totalled periodically and posted to the appropriate ledger accounts. There may arise totalling errors. Totalling errors may arise due to wrong entry or simply these may be independent errors. **Example :** For the month of January, 2020 total of credit sales are ₹1,75,700, this is wrongly totalled as ₹1,76,700 and posted to sales account as ₹1,76,700.
Wrong casting in cash book	Wrong castings result in wrong calculation of the balance carried down.
Wrong posting from subsidiary books	Wrong amount may be posted to the ledger account or the amount may be posted to the wrong side or to the wrong account. **Example :** Purchases from A may be posted to B's account.
Wrong casting of ledger balances	Any ledger account balance may cast wrongly. Obviously wrong postings make the balance wrong; but that is not wrong casting of balances. Whenever there arises independent casting error that is called wrong casting of ledger balances.





Types of Errors



Steps to Locate errors

Even if there is only a very small difference in the trial balance, the errors leading to it must be located and rectified. A small difference may be the result of a number of errors. The following steps will be useful in locating errors :

The two columns of the trial balance should be totalled again. If in place of a number of accounts, only one amount has been written in the trial balance the list of such accounts should be checked and totalled again.

It should be seen that the cash and bank balances have been written in the trial balance.

The exact difference in the trial balance should be established. The ledger should be gone through; it is possible that a balance equal to the difference has been omitted from the trial balance. The difference should also be halved; it is possible that balance equal to half the difference has been written in the wrong column.

The ledger accounts should be balanced again.

The casting of subsidiary books should be checked again, especially if the difference is Rs.100, Rs.1,000 etc.

If the difference is very big, the balance in various accounts should be compared with the corresponding accounts in the previous period. If the figures differ materially the cases should be seen; it is possible that an error has been committed.

Postings of the amounts equal to the difference or half the difference should be checked. It is possible that an amount has been omitted to be posted or has been posted on the wrong side.

If there is still a difference in the trial balance, a complete checking will be necessary. The posting of all the entries including the opening entry should be checked. It may be better to begin with the nominal accounts.

Errors should never be corrected by overwriting. If immediately after making an entry it is clear that an error has been committed, it may be corrected by neatly crossing out the wrong entry and making the correct entry. If however the errors are located after some time, the correction should be made by making another suitable entry, called rectification entry. In fact the rectification of an error depends on the fact that at which stage it is detected. An error can be detected at any one of the following stages:

Errors before preparation of Trial Balance

There are some errors which affect one side of an account or which affect more than one account in such a way that it is not possible to pass a complete rectification entry. It is important to note that such errors may involve only one account or more than one account. This can be explained with the help of following illustrations:

The sales book for November is undercast by Rs. 20,000. Only the Sales Accounts is to be corrected by making an entry for Rs. 20,000 on the credit side: "By undercasting of Sales Book for November Rs. 20,000.

While posting the discount column on the debit side of the cash book the discount of Rs. 1,000 allowed to Ramesh has not been posted. This is done by the entry "By omission of posting of discount ----- Rs.1,000".

Rs. 50,000 was received from Mahesh and entered on the debit side of the cash book but was not posted to his account. This error affects only the account of Mahesh by Rs. 50,000. The rectification will be by the entry. "By Omission of posting Rs. 50,000."

Thus, from the above illustrations it is observed that errors affecting two accounts can always be corrected by a journal entry is not always valid.

After Trial Balance but before Final Accounts

This method of correction of error is appropriate when the errors have been located before the end of the accounting period. Each and every error detected at this stage can only be corrected by a complete journal entry. Those errors for which complete journal entries were not possible in the earlier stage of rectification (i.e., before trial balance) can now be rectified by way of journal entry(s) with the help of suspense account.

Example: The sales book for November, 2020 is cast Rs.15,000 short; as a consequence the trial balance will not agree. To rectify the error the Sales Account will be credited. Since now one error remains, the Suspense Account must be used- it will be debiting the Suspense Account. The entry will be :

Suspense Account	Dr. Rs.15,000	
To Sales Account		Rs. 15,000

(Correction of error of undercasting the sales book for Nov. 2020)

Correction in the next Accounting Period

Rectification of errors discussed so far assumes that it was carried out before the books were closed for the concerned year. However, sometimes, the rectification is carried out in the next year, carrying forward the balance in the Suspense Account or even transferring it to the Capital Account.

Example: The Purchase Book was cast short by Rs.1,000 in December, 2019 and a Suspense Account was opened with the difference in the trial balance. If the error is rectified next year and the entry passed is

Purchase Account Dr. Rs.1,000
To Suspense Account Rs.1,000

It will mean that the Purchases Account for year 2020 will be Rs.1,000 more than the actual amount relating to year 2020 and thus the profit that year 2020 will be less than the actual for that year. Thus, correction of errors in this manner will 'falsify' the Profit and Loss Account.

To avoid the above correction of all amounts concerning nominal accounts, i.e., expenses and incomes should be through "Prior Period Items" or "Profit and Loss Adjustment Account". The balance in the account should be transferred to the Profit and Loss Account. However, these Prior Period Items should be charged after deriving net profit of the current year.

In brief the errors at this stage should be rectified in the same manner as we do in case of errors identified after the preparation of Trial Balance but before Final accounts.

The only difference is that all Nominal accounts in the rectification entries shall be substituted by Profit/Loss Adjustment account.

The balance of Profit and Loss Adjustment account will be transferred to capital account.

CHAPTER 9: FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS

A non-profit organization is a legal accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. Non-profit making organisations such as public hospitals, public educational institutions, clubs, Temples, churches etc., as a part of their final accounts prepare Receipts and Payments Account and Income and Expenditure Account to show periodic performance and Balance Sheet to show financial position at the end of the period.

Financial statements of Not-for-profit-Organisations

- Receipts and Payments Account Equivalent to Cas Book
- Income and Expenditure Account Equivalent to profit and Loss Account
- Balance Sheet

Donations, Entrance and Admission Fees, Subscription, Life Membership Fee are some of the sources of incomes for the non-profit organizations. These items have separate treatment, some being capitalized while others are treated on accrual basis.

Receipts and Payments Account

A Receipts and Payments Account is a summary of the cash book without date column. It is commonly adopted by not for profit making concerns such as hospitals, clubs, societies, Temples, churchs etc., for presenting the result of their working periodically.

It consists of a classified summary of cash/bank receipts and payments over a certain period together with the cash balances at the beginning and close of the period.

The receipts are entered on the left hand side, and payments on the right hand side i.e., same way as they appear in Cash Book.

Features of Receipt and Payment Account

It is the summary of the cash and bank transactions like cash book, all the receipts (capital or revenue) are debited, similarly, all the expenditures (capital or revenue) are credited.

It starts with opening cash and bank balances and also ends with their closing balances.

This account is usually not a part of the double entry system as it includes all cash and bank receipts and payments, whether they are related to current, past or future periods

Surplus or deficit for an accounting period cannot be ascertained from this account, since, it shows only the Cash/Bank position and excludes all non cash items.

Limitations of Receipt and Payment Account

The increase in the cash and bank balances at the end of the year, as compared to those in beginning, does not truly represent the surplus for the year, since it does not consider outstanding subcription or subscription received in advance, etc.

Receipt and Payment account includes items relating to all the periods and all types whether capital or revenue. Hence, it does not ascertain whether for a current year income is sufficient to meet the current expenses.

Due to these drawbacks, the preparation of Receipts and Payments Account is not favoured except where the activities of the organization, the results of which are to be exhibited, are simple and modest.

Income and Expenditure Account

The income and expenditure account is **equivalent** to the Profit and Loss Account of a business enterprise. This account is prepared by following **accrual principle.**

Only items of revenue nature pertaining to the period of account are included therein. This requires adjustment in relevant accounts in respect of outstanding and advance items of Income and Expenditure Account.

It resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern. The only difference is profit is termed as surplus and loss is termed as deficit.

Non-profit organizations registered under section 8 of the Companies Act, 2013 are required to prepare their Income and Expenditure account and Balance Sheet as per the Schedule III to the Companies Act, 2013.

Features of Income and Expenditure Account

- It is a **revenue account** prepared at the end of the accounting period for finding out the surplus or deficit of that period.
- It is prepared by matching expenses against the revenue of that period concerned.
- Both cash and non-cash items, such as depreciation, are taken into consideration.
- All capital expenditures and incomes are excluded.
- Only **current years'** income and expenses are considered. The surplus/deficit is takan to the Balance Sheet and is added/deducted respectively with the capital fund.

Main Sources of Income

These are subscriptions, ordinary donations, membership fees or entrances fees (if the amount is normal or provided according to bye-laws of the society), recurring grants from local authorities and income from investments, etc.	Any amount raised for a special activity, e.g. on sale of match tickets, is deducted from the expenditure of that activity and net amount is shown in the income and expenditure account.	Any receipt of capital nature shall not be shown as income but will be credited to the Capital Fund or special purpose fund.

It may be noted that after various accounts have been adjusted and all the revenue accounts have been closed off by transfer to the Income and Expenditure Account, there will still be a number of balances left over. These are included in the Balance Sheet.

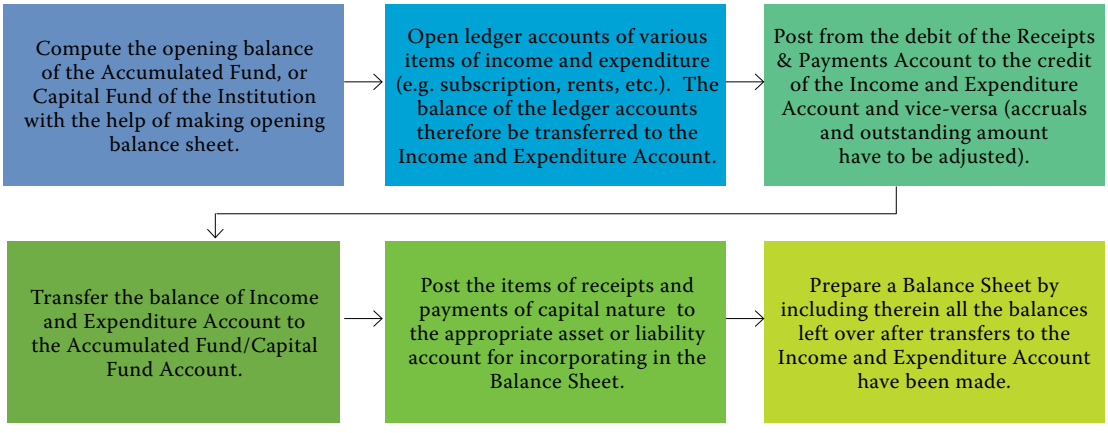
Distinction between Receipts and Payments Account and Income and Expenditure Account

The distinguishing features of Receipt and Payment Account and Income and Expenditure Account can be summarized as:

Receipt and Payment Account	Income and Expenditure Account
This account consist of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period.	This Account **resembles a Profit and Loss Account** and serves the same function in respect of a non-profit making concern. Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account.
Receipts and payments includes items relating to all the periods whether of revenue or capital nature.	Income and Expenditure Account contains all incomes and expenditures relevant to the current period only, whether received or paid out as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded.
The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.	The closing balance represents the amount by which the income exceeds the expenditure only or vice versa.

Preparation of Income and Expenditure Account from Receipts and Payments Account

Situations may require compilation of Income and Expenditure Account and the Balance Sheet from the Receipts and Payments Account after making adjustments in respect of Income accrued but not collected and expenses outstanding. The preparation of Balance Sheet in such a case is also necessary since an Income and Expenditure Account must always be accompanied by a Balance Sheet. The procedure which should be followed in this regard is briefly outlined below.



Balance Sheet

A Balance Sheet is the statement of assets and liabilities of an accounting unit at a given date. It is classified summary of the ledger balances left over, after accounts of all the revenue items have been closed off by transfer to the Income and Expenditure Account.

In not for profit organizations, the excess of total assets over total outside liabilities is known as Capital Fund. The Capital fund represents the amount contributed by members, legacies, special donations, entrance fees and accumulated surplus over the years.

The surplus or deficit, if any, on the year's working as disclosed by the Income and Expenditure Account is shown either as an addition to or deduction from the Capital / Accumulated Fund brought forward from the previous period.

Preparation of Balance Sheet

Preparation of opening balance sheet and calculation of surplus	If capital fund or accumulated surplus in the beginning of the year is not given, it is calculated by deducting liabilities from assets in the beginning of year. While calculating opening capital fund, prepaid expenses and accrued incomes should be included as assets and outstanding expenses and advance incomes as liabilities. Any surplus earned / deficit suffered during the year is to be added to / deducted from the opening capital fund.
Cash and bank balance	Closing cash and bank balance is shown in the assets side of Balance Sheet. Bank overdraft is to be shown on the liabilities side of the balance sheet.
Fixed assets	Opening balances of Fixed Assets(Furniture, building, equipment, etc.) are increased by the amount of purchases and reduced by sales of the same and depreciation on the same.
Liabilities	Opening balances of liabilities should be adjusted for any increase or decrease in the same.

Accounting Treatment of Some Special Items

Donations

These may have been raised either for meeting some revenue or capital expenditure and are credited directly to the Income and Expenditure Account but if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account.

Entrance and Admission Fees

Such fees which are payable by a member on admission to club or society are normally considered capital receipts and credited to Capital Fund. Where the amount is small, it could be treated as income and can be included in the Income and Expenditure Account. If the question is silent then always take it to be capital receipt.

Subscription

Subscriptions being an income should be allocated over the period of their accrual. If some subscriptions is received in advance, their amount is also indicated. In such cases, it is always desirable to set up a Subscription Account for determining the amount of subscription pertaining for the period for which accounts are being prepared.

NEWS UPDATES

ECONOMIC UPDATES

- The FI-Index has been conceptualised as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators. The FI-Index will be published annually in July every year
  Source:*https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR7033B7A01D0DF9D459D9FF992B53A5538C1.PDF*

- Union Finance Minister has launched the National monetisation pipeline. NMP aims to provide a medium-term roadmap of the programme for public asset owners, along with visibility on potential assets to private sector.
  Source:*https://pib.gov.in/PressReleseDetail.aspx?PRID=1748297*

- Union Cabinet has approved several structural and process reforms in the Telecom sector i.e. Rationalization of Adjusted Gross Revenue, Bank Guarantees rationalized, Spectrum Tenure &To encourage investment, 100% Foreign Direct Investment (FDI) under automatic route permitted in Telecom Sector etc.
  Source:*https://pib.gov.in/PressReleseDetail.aspx?PRID=1755086*

- Economic data play an influential role in decision making process as well as comparative analysis and policy formulation. The CII data base can be helpful in analysing different sectors in the economy.
  Source:*https://www.cii.in/pdf/Economy-Dashboard_August-2021.pdf*

- The global economy is expected largely on strong rebounds from a few major economies. However, many emerging market and developing economies continue to struggle with the COVID-19 pandemic and its aftermath, the World Bank says in its June 2021 Global Economic Prospects.
  Source:*https://www.worldbank.org/en/news/press-release/2021/06/08/world-bank-global-economic-prospects-2021*

ANNOUNCEMENT

The Next Advanced ICITSS - Adv. IT Test – in **Computer Based Mode (CBM)** will be conducted as per following date.

Test Dates	**23-October-2021**
Eligibility Criteria i.e., Advanced ICITSS – Advanced IT course to be completed on/before	**23-September-2021**
Commencement of submission of examination application form	**30-September-2021**
Last date for submission of online examination application form	**04-October-2021**

The test will be conducted both for AICITSS – IT Old and New Course.
Please visit https://resource.cdn.icai.org/65638exam52962.pdf for further details.

Additional Secretary (Examinations)

ANNOUNCEMENT

ASK YOUR QUERY additional feature in mobile app

ASK YOUR QUERY feature of Mobile app has been made operational in which students may raise their queries for each subject such as Content discussed in the Study Material, MCQs in the Booklet on Case Scenarios and MCQs, Case Studies in the Case Study Digest, Q&A in the latest Revision Test Paper (RTP) ,Q&A in the latest Mock Test Paper Series (MTP) etc. through mobile app relating to the latest edition of the publications or Study material which are webhosted at BoS knowledge portal.

Director, Board of Studies

Corrigendum

The italicized line i.e. *'Confirmation of registration is subject to submission of the grade XII marksheet by the 10th of the current month.'* has been inadvertently included in the message of President, ICAI published in the September, 2021 edition of Students' Journal under the main heading "Relaxation extended to CA Aspirants" and the sub-heading "CA Foundation". The same has been **deleted and said correction has been made in the soft copy of the Students' Journal.**

Director, Board of Studies

CROSSWORD SOLUTION – SEPTEMBER 2021

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Congratulations!

FROM ICAI TO ALL THOSE WHO CLEARED THE JULY 2021 CHARTERED ACCOUNTANCY EXAM

Toppers of CA Examination July 2021

FINAL NEW SCHEME

AIR-1

NANDINI AGRAWAL
MORENA

AIR-2

SAKHSHI AIRAN
INDORE

AIR-3

BAGRECHA SAKSHI RAJENDRAKUMAR
BENGALURU

FINAL OLD SCHEME

AIR-1

RUTH CLARE DSILVA
MANGALURU

AIR-2

MALAVIKA R KRISHNAN
PALAKKAD

INTERMEDIATE (IPC) SCHEME

AIR-1

PRITI NANDAN KAMAT
MUMBAI

INTERMEDIATE NEW SCHEME

AIR-1

ARJUN MEHRA
NEW DELHI

AIR-2

MAHIN NAIM
DELHI

AIR-3

SUDEEPTA BENYA
BENGALURU

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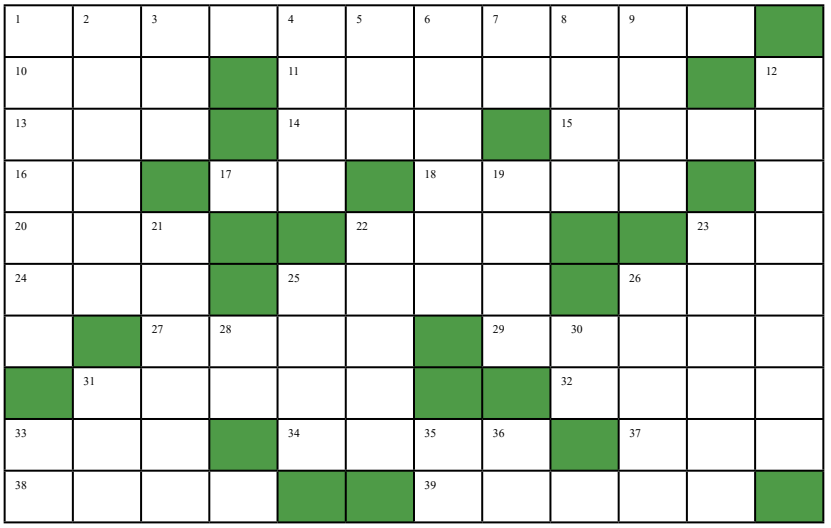
CROSSWORD - OCTOBER 2021



ACROSS

1. When one company purchases most or all of another company's shares to gain control of that company.
10. Government owned engineering company based in India.
11. An invitation to bid for a project or accept a formal offer such as a takeover bid.
13. An Australian resource and mineral processing technology company
14. __ is a digital eBook file format developed by Amazon for its Kindle devices
15. The third largest country in South America, after Brazil and Argentina
16. __ light is measured in microwatts of ultraviolet radiation per lumen of visible light.
17. Provides communications services to consumer and business sectors worldwide
18. A financial measure used to estimate the value of a real estate investment trust.
20. A document that certain employers must prepare annually to help them identify and remove barriers limiting the employment of people in these demographic groups.
22. Refers to a type of software that organisations use to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations.
23. One of the largest professional services networks in the world.
24. A treaty between two or more governments that defines the rules of trade for all signatories.
25. The apex decision-making body in matters of income tax
26 The chemical name for the molecule that carries genetic instructions in all living things.
27. The regulatory body for securities and commodity market in India under the jurisdiction of Ministry of Finance
29. _____is a standard DATA Element within the SAP ABAP dictionary and is associated with fields that store Purchasing Document information.
31. Abbre: National Council for Accreditation of Education and Therapies.
32. Known as consumer-packaged goods _____ are products that are sold quickly and at a relatively low cost.
33. _____is a type of allowance given to the employee by employers for travel.
34. _____ratio of a bank is the ratio of deposits in current and saving accounts to total deposits.
37. A 2015 British documentary film about the life and death of British singer-songwriter Amy Winehouse.
38. A protein coding gene.
39. The free trade arrangement of the South Asian Association for Regional Cooperation.

DOWNWARD

1. An ____ is a business professional who deals with the measurement and management of risk and uncertainty
2. _____is a part of India's central excise framework which reduces the consumer's tax burden when purchasing any product and offers a transparent picture of tax liabilities at every stage of production.
3. Abbre: Quantum Loop Gravity
4. A quasi-judicial institution set up in January, 1941 and specialises in dealing with appeals under the Direct Taxes Acts.
5. Supply of goods to or by an ___ unit is treated as inter-state supply of goods under GST law.
6. A digital wellness platform that uses AI to produce personalised, evidence-based guided programs to elevate your wellbeing.
7. Also known as 'fixed deposit' is a deposit that is held at a financial institution for a fixed term.
8. _____is for promotion of investors' awareness and protection of the interests of investors.
9. _____is a sandwich cookie consisting of two wafers or biscuits with a sweet crème filling.
12 The tendency of an object to float in a fluid.
19. Under ___ system, a candidate who gets one vote more than the other candidate (who comes second) is declared as winner.
21. The unit of pressure or stress in the International System of Units (SI).
22. _____is a measure of company profitability used by investors.
23. Device used by the German military to encode strategic messages before and during World War II.
25. The nodal national agency responsible for administering Customs, GST, Central Excise, Service Tax & Narcotics in India.
26. A ___ account is an account to hold financial securities in electronic form.
28. _____is a tax professional authorised by the United States government to represent taxpayers in matters regarding the Internal Revenue Service.
30. Abbre: Mutual Fund
31. A Japanese telecommunications company headquartered in Tokyo.
33. The __ curve shows the combinations of interest rates and levels of real income for which the money market is in equilibrium.
35. _____ Industries is a manufacturer of world-class cricket equipment.
36. _____is a fellowship of men and women who share their experience, strength and hope with each other that they may solve their common problem.

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