B.Com Honours | Semester III | Calicut University

CORPORATE FINANCIAL STATEMENTS

Course Code: COM3MN203 • Module 1 Notes

Module I: Accounting Standards for Assets (Ind AS)

Indian Accounting Standards (Ind AS) govern the recognition, measurement, presentation, and disclosure of tangible and intangible corporate assets to ensure international comparability and transparency.

Unit 1: Accounting for Inventories (Ind AS 2) – Objective, Scope, Recognition, & Valuation

1. Scope & Valuation Rule: Ind AS 2 mandates that inventories must be valued at the lower of Cost and Net Realizable Value (NRV).

NRV = Estimated Selling Price - Estimated Costs of Completion - Estimated Costs to Make Sale

2. Cost Determination: Costs of purchase, conversion costs, and other costs incurred in bringing inventories to their present location and condition. Excludes abnormal waste, storage costs, and selling expenses.

Unit 2: Property, Plant, and Equipment (Ind AS 16) – Recognition, Measurement, & Depreciation

1. Initial Measurement: Recognized at purchase cost including import duties, non-refundable taxes, site preparation, installation, and initial estimate of dismantling/decommissioning costs.
2. Subsequent Measurement: Choice between *Cost Model* (Cost less accumulated depreciation & impairment) and *Revaluation Model* (Fair value revaluation).
3. Component Depreciation: Each part of an item of PPE with a cost significant in relation to total cost must be depreciated separately over its useful life.

Unit 3: Intangible Assets (Ind AS 38) – Recognition, Amortization, & R&D Accounting

An identifiable non-monetary asset without physical substance.
1. Research phase expenditure: Charged immediately as an expense in Profit & Loss (cannot be capitalized).
2. Development phase expenditure: Capitalized as an Intangible Asset only if technical feasibility, intention to complete, ability to generate future economic benefits, and reliable cost measurement are demonstrated.

Practical Problem 1 (Ind AS 2 Inventory NRV Valuation & Ind AS 16 Component Depreciation):
Part A (Inventory): Stellar Ltd. holds 1,000 units of finished goods. Cost of production = Rs. 500 per unit. Estimated selling price = Rs. 480 per unit. Selling commission = 5% of selling price. Calculate inventory valuation under Ind AS 2.
Part B (PPE Component Depreciation): Heavy Machinery Ltd. acquires a plant for Rs. 1,00,00,000. Engine

component cost = Rs. 30,00,000 (useful life 5 years). Remaining structural plant cost = Rs. 70,00,000 (useful life 20 years). Calculate total annual depreciation under Ind AS 16.

Step-by-Step Solved Computations:

- **Part A (Inventory Valuation):**
  Net Realizable Value (NRV) per unit = (480 - (5% imes 480) = 480 - 24 = ext{Rs. 456}).
  Valuation Rule: Lower of Cost (Rs. 500) and NRV (Rs. 456).

  > **Total Inventory Value = 1,000 units × Rs. 456 = Rs. 4,56,000**

  P&L Inventory Write-down Expense: (1,000 imes (500 - 456) = ext{Rs. 44,000}).
- **Part B (Component Depreciation under Ind AS 16):**
  Engine Component Depreciation: (30,00,000 / 5 ext{ years} = ext{Rs. 6,00,000}).
  Structure Plant Depreciation: (70,00,000 / 20 ext{ years} = ext{Rs. 3,50,000}).

  > **Total Annual Component Depreciation = 6,00,000 + 3,50,000 = Rs. 9,50,000**