Intermediate Course Study Material (Modules 1 to 3)

PAPER: 5

ADVANCED ACCOUNTING

MODULE - 3



BOARD OF STUDIES THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Study Material has been prepared by the faculty of the Board of Studies. The objective of the study material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the study material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© The Institute of Chartered Accountants of India

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Revised Edition : July, 2019

Website : <u>www.icai.org</u>

E-mail : bos@icai.in

Committee/ : Board of Studies

Department

ISBN No. :

Price(All Modules):

Published by : The Publication Department on behalf of The Institute of

Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

Printed by :

SIGNIFICANT CHANGES IN 2019 EDITION OVER 2017 EDITION

	Sections/Sub Sections wherein major Additions/ Deletions have been done
	Chapter on Mutual Funds (Chapter 12 in 2017 Edition) deleted consequent to change in syllabus.
	Chapter on Valuation of Goodwill (Chapter 13 in 2017 Edition) deleted consequent to change in syllabus.
Chapter 8 on Banking Companies	Chapter amended.
Chapter 10 on Consolidated Financial Statements	Chapter modified.

CONTENTS

MODULE - 1

Chapter 1: Application of Accounting Standards

Chapter 2: Partnership Accounts

MODULE - 2

Chapter 3: Accounting for Employee Stock Option Plans

Chapter 4: Buy Back of Securities and Equity Shares with Differential Rights

Chapter 5: Amalgamation of Companies

Chapter 6: Accounting for Reconstruction of Companies

Chapter 7: Accounting for Liquidation of Companies

MODULE - 3

Chapter 8: Banking Companies

Chapter 9: Non-Banking Financial Companies

Chapter 10: Consolidated Financial Statements

DETAILED CONTENTS: MODULE – 3

CHAF	PTER 8: FINANCIAL STATEMENTS OF BANKING COMPANIES	8.1 – 8.172
Chap	ter overview	8.1
Unit-	1: Some Relevant Provisions of The Banking Regulations Ac	ct, 1949
Learn	ing Outcomes	8.2
1.1	Meaning of Banking	8.3
1.2	Prohibition of Trading (Section 8)	8.8
1.3	Disposal of Non-Banking Assets (Section 9)	8.8
1.4	Management (Section 10)	8.8
1.5	Capital and Reserve	8.9
1.6	Reserve Funds (Section 17)	8.11
1.7	Restriction as to Payment of Dividend (Section 15)	8.11
1.8	Cash Reserve (Section 18)	8.12
1.9	Licensing of Banking Companies (Section 22)	8.13
1.10	Liquidity Norms (Section 24)	8.14
1.11	Restriction on Acquisition of Shares in other Company	8.16
1.12	Restriction on Loans and Advances	8.17
1.13	Prohibition of Charge on Unpaid Capital and floating charge on Assets	8 17
1.14	Unclaimed Deposits	
1.15	Accounts	8.18
1.16 I	Resolution of stressed assets (section 35AA and 35AB)	8.18
Unit-	2: Books of Accounts, Returns and Forms of	8.19
Learn	ing Outcomes	8.19
2.1	Main Characteristics of a Bank's Book-Keeping System	8.19

2.2	Principal Books of Accounts	8.22
2.3	Subsidiary Books	8.23
2.4	Other Subsidiary Registers	8.24
2.5	Departmental Journals	8.24
2.6	Other Memorandum Books	8.25
2.7	Statistical Books	8.27
2.8	Forms of Balance Sheet and Profit and Loss Account	8.27
2.9	Notes on Accounts	8.30
2.10	Disclosure of Accounting Policies	8.36
Unit	– 3 : Capital Adequacy Norms	8.37
Learr	ning Outcomes	8.37
3.1	Capital Framework of Banks Functioning in India	8.37
3.2	Capital Funds	8.39
3.3	Tier-I and Tier-II Capital for Indian Banks	8.39
3.4	Ratio of Tier II Capital to Tier I Capital	8.43
3.5	Tier I and Tier II Capital for Foreign Banks	8.44
3.6	Risk-adjusted Assets	8.44
3.7	Reporting for Capital Adequacy Norms	8.46
Unit	 4: Income Recognition, Classification of Assets and 	
	Provisions	8.49
Learr	ning Outcomes	8.49
4.1	Income Recognition	8.50
4.2	Classification of Bank Advances on basis of Performance	8.57
4.3	Provisions	8.62
4.4	Classification of Investments	8.70
4.5	Shifting among Categories of Investments	8.72
4.6	Valuation of Investments	8.73

4.7	Investment Fluctuation Reserve	8.74
4.8	Disclosure Requirements on Advances Restructured by Banks and Financial Institutions	8.76
Unit	: – 5 : Some Special Transactions of Banks	8.78
Lear	Learning Outcomes	
5.1	Discounting, Collection & Acceptance of Bills	8.78
Unit	: – 6: Preparation of Financial Statements of Banks	8.93
Lear	ning Outcomes	8.93
6.1	Introduction	8.93
Sum	mary	8.117
Test	Your Knowledge	8.118
Ann	exure-I	8.132
Ann	exure-II	8.138
Ann	exure-III	8.140
Ann	exure-IV	8.159
СНА	PTER 9 : NON-BANKING FINANCIAL COMPANIES9.	.1 – 9.52
Lear	ning Outcomes	9.1
Cha	oter Overview	9.2
1.	Introduction	9.2
2.	Definition of NBFC	9.2
3.	Registration of every NBFC with RBI	9.4
4.	Distinction Between an NBFC and a Bank	9.4
5.	Classification of NBFC	9.5
6.	Registration and Regulation of NBFC	9.11
7.	Residuary Non-Banking Companies (RNBCs)	9.12
8.	Minimum Net owned Fund	9.13
9.	Liquid Asset Requirements	9.13

10.	Categories of NBFCS	9.14
11.	Prudential Accounting Norms	9.15
12.	Important Definitions	9.16
13.	Income Recognition	9.18
14.	Income from Investment	9.18
15.	Accounting for Investments	9.19
16.	Applicability of Prudential Norms	9.21
17.	Asset Classification	9.21
18.	Non-Performing Asset (NPA)	9.23
19.	Provisioning Requirements	9.24
20.	Disclosure in the Balance Sheet	9.28
21.	Accounting Year	9.29
22.	Preparation of Financial Statements of NBFCS	9.29
23.	Requirement as to capital adequacy	9.30
24.	Asset-Liability Management (ALM)	9.39
Sumi	mary	9.43
Test	Your Knowledge	9.49
СНА	PTER 10 : CONSOLIDATED FINANCIAL STATEMENTS10.1	- 10.61
Learr	ning Outcomes	10.1
Chap	ter Overview	10.2
1.	Concept of Group, holding company and subsidiary company	10.2
2.	Wholly owned and partly owned subsidiaries	10.5
3.	Purpose of Preparing the consolidated Financial Statements	10.5
4.	Scope of AS 21	10.7
5.	Control	10.8
6.	Exclusion from Preparation of consolidated Financial Statements	10.9
7.	Advantages of consolidated Financial Statements	10.10

8.	Components of consolidated Financial Statements	10.11
9.	Consolidation Procedures	10.13
10.	Calculation of Goodwill/Capital Reserve (Cost of Control)	10.14
11.	Minority Interests	10.16
12.	Profit or Loss of subsidiary company	10.17
13.	Revaluation of assets of subsidiary Company	10.17
14.	Dividend received from subsidiary Companies	10.18
15.	Preparation of consolidated Balance Sheet	10.28
16.	Elimination of Intra-Group transactions	10.32
17.	Preparation of consolidated Profit and Loss Account	10.36
18.	Preparation of consolidated Cash Flow Statement	10.40
19.	Uniform Accounting Policies	10.41
20.	Treatment of subsidiary company having preference Share Capital	10.45
21.	Alignment of Reporting Dates	
Summ	nary	10.46
Test Y	our Knowledge	10.47