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CA FINAL TREND ANALYSIS MAY 23



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FINANCIAL REPORTING

16. PPE

Includes **Bearer plants** → Life > 12 months
 → Beans agriculture produce



BAMBOO TREE



COCONUT TREE

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INITIAL RECOGNITION

COST

Eg: PPE cost → 90 Site restoration (V₁₀) = 50
 Disc rate = 10%
 Site restoration [PV] (V₀) = 19.28

Yr @ Start PPE a/c dr 109.28
 To Bank 90
 To Prov for site restoration 19.28
 Yr @ End Finance cost a/c dr 1.93
 To Prov for site restoration 1.93

PURCHASE

Purchase price + Non creditable taxes + Direct expenses - Trade disc

DO NOT INCLUDE

- ⊗ Inauguration expenses
- ⊗ Relocation expenses
- ⊗ General OH
- ⊗ Relocation expenses
- ⊗ Cost of staff training
- ⊗ Expenses post ready to use

MANUFACTURE OR CONSTRUCT

DM + DL + VPOH + FPOH + Borrowing cost [QA] + Decommissioning & site restoration at PV + Direct expenses (Includes road, track construction)

- ★ Any **income** from asset before it ready to use → P&L
- ★ Make provision for site restoration even if constructive obligation & not legal
- ★ Calculate depreciation from **ready to use** date

HRS

BARTER

LACKS

COMMERCIAL SUBSTANCE ✓

- i) FV of asset given up
- ii) FV of asset received
- iii) WDV of asset given up

★ Assume commercial substance if Q silent

COMMERCIAL SUBSTANCE X

- i) WDV of asset given up

DEFERRED PAYMENT

Defer > 12m
 Cash price OR PV of installment price

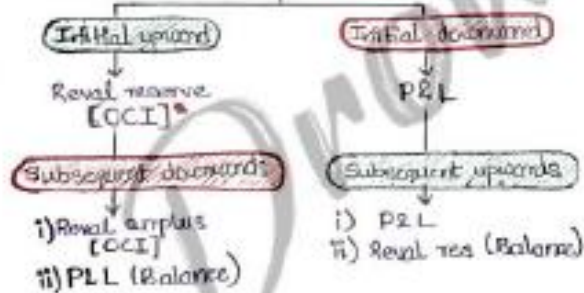
Defer < 12m
 Full value. Disc transferred to P&L

SUBSEQUENT EXPENDITURE

- Day to day repair → P&L
- ↑ Use or ↑ efficiency → Capitalise
- Major repairs → WDV of asset + Cost of new part - WDV of old part
- ★ How to calculate WDV of old part?
 - i) Original cost
 - ii) FV at time of purchase
 - iii) PV at time of purchase taking no part cost - Depreciation

SUBSEQUENT VALUATION

REVALUATION MODEL [FV-Deprec]



COST MODEL

Original cost
 - Accumulated depre
 - WDV

JOURNAL ENTRY

Case: Asset cost → 100
 Depreciation → 60
 WDV 40
 Subsequent valuation at 60

METHOD 1

Asset 80
 To Acc dep 30
 To OCI* 20

METHOD 2

Depre 60
 To Asset 60
 Asset 20
 To OCI* 20

★ Later when asset depreciated transfer proportionate amount from OCI to retained earning.

- ★ Any change in depreciation method or rate → PROSPECTIVE EFFECT ← Any change in provision for decommissioning
- ★ If life of part < Life of asset, depreciate according to life of PART
 life of part > Life of asset, depreciate according to life of ASSET

★ If any asset includes decommissioning obligation & such asset is revalued, to find cost of asset,

STEP 1: Calculate WDV of asset & amount standing in prov for decommissioning expenses [Post finance cost unwinding]
 STEP 2: WDV of asset - Prov for decommissioning exp

ACTUAL WDV OF ASSET

STEP 3: Give necessary effect post comparing step 1 & revalued amount

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STRATEGIC FINANCIAL MANAGEMENT

SFM	M-18	N-18	M-19	N-19	N-20	J-21	Ju-21	D-21	M-22	N-22	Avg	ABC
Derivative Analysis and Valuation	21	12	16	22	8	12	20	20	16	8	15.50	A
Portfolio Management	18	20	8	20	-	18	16	12	16	24	15.20	
Security Valuation	6	16	24	-	15	4	24	16	8	16	12.90	
Foreign Exchange Exposure & Risk Management	8	16	16	8	12	8	8	16	8	16	11.60	
Mutual Funds	10	8	8	10	22	8	12	8	16	8	11.00	
Corporate Valuation	13	12	8	16	12	14	8	8	8	8	10.70	
Mergers, Acquisitions & Corporate Restructuring	8	12	8	8	12	12	8	8	8	8	9.20	
International Financial Management	8	-	-	12	8	16	8	16	12	8	8.80	B
Interest Rate Risk Management	8	8	8	8	16	8	-	-	12	8	7.60	
Start-up Finance	4	4	4	8	7	8	8	8	8	8	6.70	
Securitization	4	4	4	8	4	8	4	4	4	4	4.80	C
Financial Policy & Corporate Strategy	4	-	-	4	-	4	4	-	4	8	2.80	
Risk Management	-	4	4	-	4	4	-	4	4	-	2.40	
Security Analysis	-	-	-	-	4	-	4	4	-	-	1.20	



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AUDITING & PROFESSIONAL ETHICS

4. AUDITING IN AN AUTOMATED ENVIRONMENT (24 pages in ICAI SM)

An automated environment is an ecosystem that combines *people, processes and technology* within an overall business environment.

Category of Business Applications	Used by	Example
Packaged software	Micro and Small business	Tally, QuickBooks
Small ERPs	Small to Medium business	Tally ERP, SAP Business One
ERP applications	Medium to Large companies.	SAP ECC, Oracle Enterprise Business Suite

Layers of automated environment

Networks	Network devices	Databases	OS	Hardware & Storage devices	Physical & env landscape
LAN, WAN	Routers & firewall	Oracle, MS-SQL server	Windows, Linux	Server, Disks, Tape	Data center, CCTV, Biometric system

AUDITING IN REAL TIME ENVIRONMENT

Type of automated environment in which business operations and transactions are initiated, processed and recorded immediately as they happen without delay

REAL TIME ENV COMPONENTS

Applications	Middleware	Networks	Hardware
ERP Application: SAP, Oracle, Core banking app.	Webservers: Apache, Oracle fusion	WAN, LAN	Data centers, backup & storage device

UNDERSTANDING & DOCUMENTING AE

Understanding of AE of a company is required as per SA 315. Understand the following:

- Applications being used by company
- Details of IT infrastructure components for each application
- Organisation structure & governance
- Policies, procedures & process followed
- IT Risk & control

Document understanding as per SA 230

CONSIDERATION OF AE AT EACH PHASE OF AUDIT CYCLE

Audit approach can be classified into 3 phases comprising of **Planning, Execution, and Completion**

- Auditor should consider **risk arising** from the use of IT systems during risk assessment
- Consider **use of IT system & app** when understanding business process & performing walkthrough
- While assessing the entity level controls, the aspects wrt **IT governance** to be reviewed
- Review **pervasive controls** (*segregation of duties, general IT controls & apps*)
- During testing phase, the **results of general IT controls** would impact the **NTE** of testing reports and info produced by the entity (**IPE**) generated through IT systems and apps;
- Completion stage: Evaluation of control deficiencies may require using **data analytics & CAATs**.

Risk assessment	<ul style="list-style-type: none"> • Identify significant account & disclosures • Qualitative & quantitative considerations 	<ul style="list-style-type: none"> • Relevant FS assertions • Identify likely sources of misstatement
Understand & evaluate	<ul style="list-style-type: none"> • Prepare risk & control matrices • General IT control applications 	<ul style="list-style-type: none"> • General IT controls, Application • Process wide consideration for ELC
Test for operating effectiveness	<ul style="list-style-type: none"> • Assess NTE of controls testing • Sample testing 	<ul style="list-style-type: none"> • Assess reliability of source data • Testing of key reports & spreadsheets
Reporting	<ul style="list-style-type: none"> • Evaluate control deficiencies • Auditors report 	<ul style="list-style-type: none"> • Significant deficiencies • Remediation of control weakness



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CORPORATE & ECONOMIC LAWS

Law	M-18	N-18	M-19	N-19	N-20	J-21	Ju-21	D-21	M-22	N-22	Avg	ABC
Appointment and Qualifications of Directors	12	20	16	20	12	4	8	4	8	6	11.00	A
Meetings of Board and its powers	20		10	10	6	14	14	8	11	12	10.50	
The IBC, 2016-	10	10	9	9	9	9	9	9	9	9	9.20	
The PMLA, 2002-	6	6	9	9	9	9	6	9	9	9	8.10	
Appointment and remuneration of Managerial Personnel		12			8	8	4	10	10	8	6.00	
Miscellaneous Provisions	14		8		8	4	4	4	4	8	5.40	
The Securities Exchange Board of India Act, 1992		6	4	4	4	4	4	8	8	8	5.00	
FCRA, 2010	2	6	6	6	3	3	6	4	3	6	4.50	
The Securities Contract (Regulation) Act	15	9	4	4	4	4	4				4.40	B
Compromises, Arrangement and Amalgamations	8		4	4	7		4	4	7	4	4.20	
The FEMA, 1999	6	6			3	3	3	6	6	6	3.90	
Winding Up	6		8	4	4		4	4	4	4	3.80	
Companies incorporated outside India	2	8		8	-	8	-	4	4	4	3.80	
Inspection, inquiry and Investigation		12		4		4	4	4		4	3.20	
National Company Law Tribunal and Appellate Tribunal	15	8				4		4			3.10	C
The Arbitration and Conciliation Act	3	3			3	3	3	3			1.80	
Prevention of Oppression and Mismanagement		3	4		-	4			4		1.50	
Compounding of offences, Adjudication, Special Courts		2			4		8				1.40	
SARFAESI	5	2	6	6	3	3	3	Removed			-	



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SCMPE

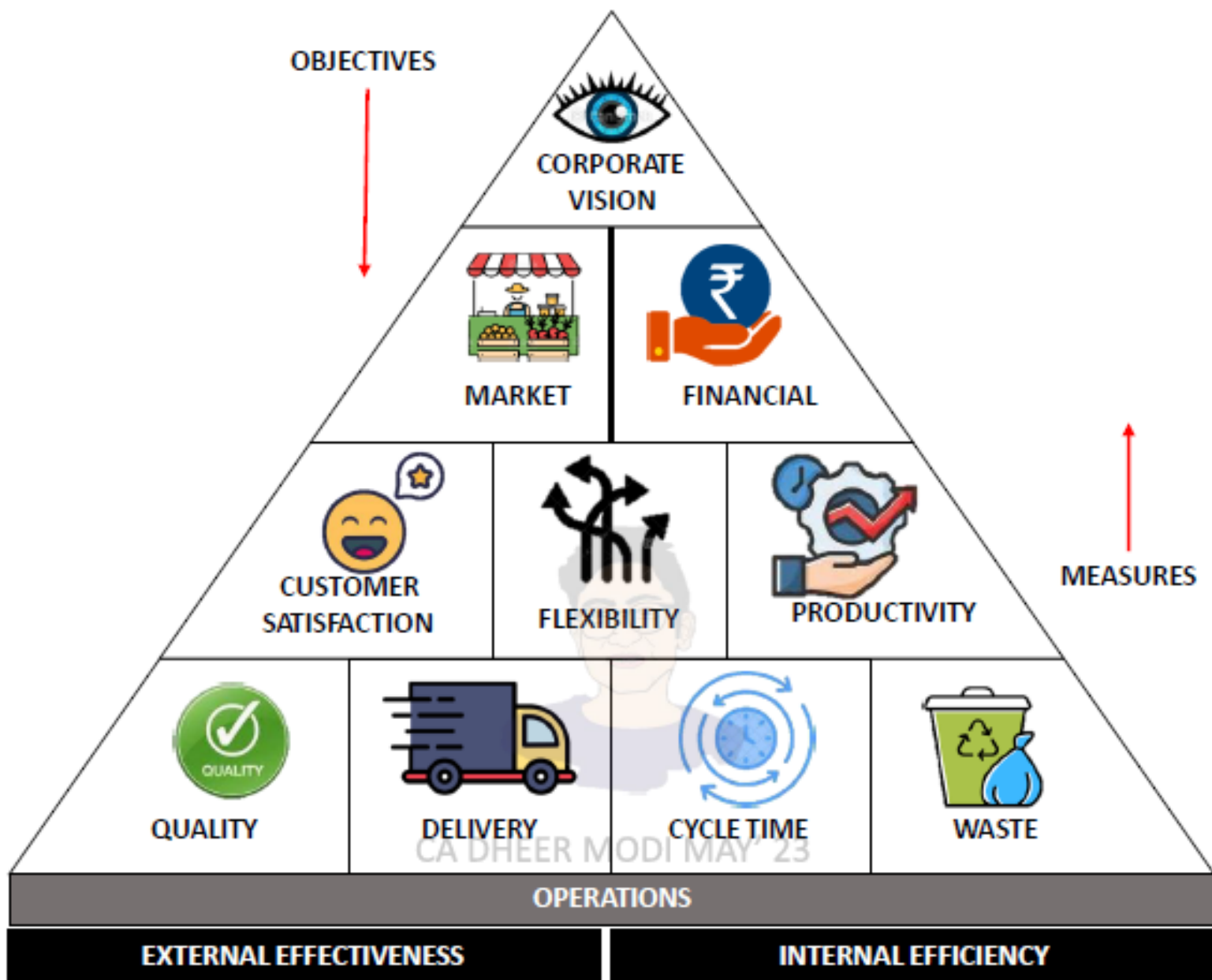
SCMPE	M-18	N-18	M-19	N-19	N-20	J-21	Ju-21	D-21	M-22	N-22	Avg	ABC
Cost Management Techniques	10	40	21	5	20	10	25	20	13		16.40	A
Performance Measurement and Evaluation			10	38	40	10	20	20	5	10	15.30	
Decision Making	30	10		15	15	20	20	15	15	10	15.00	
Standard Costing	20	10	10	10	20	10	10	10	10	20	13.00	
Lean System and Innovation	10	5		30		20		15	16	25	12.10	
Divisional Transfer Pricing	20	10		10	10	20	10	20	10	10	12.00	
Modern Business Environment	20	5			5	20	20	20	19	10	11.90	B
Budgetary Control		10	10	10		10	10		5	35	9.00	
Pricing Decisions		10	40		15	5		5	5	5	8.50	C
Strategic Analysis of Operating Income	10	20	9	7					25		7.10	
Introduction to SCMPE			10				5		2		1.70	
Practical	120	80	74	70	60	54	60	60	36	55	66.90	
Theory	0	40	46	55	65	71	60	65	89	70	56.10	

SCMPE in 75 pages sample

NON FINANCIAL PERFORMANCE MEASURES.... Continued

2] PERFORMANCE PYRAMID

LYNCH AND CROSS





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DIRECT TAX & INTERNATIONAL TAXATION

DT in 50 pages sample (PGBP)

ITEMS NOT ALLOWED / TO BE ADDED

- Under valuation of closing stock
- Over valuation of opening stock
- Ad in brochure of political party } 80 GGB
- Payment to electoral trust by cheque } 80 GGC
- Penalty for delayed filing of return (*Breach of law*)
- Compounding fees (*Breach of law*)
- Direct tax – Tax | Interest | Penalty | Cess **A**
- Expenditure on issue of right share (*Capital in nature*)
- IPO / FPO of shares expense (*Capital in nature*)
- Expense for inc authorised capital (*Capital in nature*)
- Expense on abandoned project (*Capital in nature*)
- Franchisee fees paid
- Tax paid by employer on non monetary benefits
- Loss due destruction of P&M (*To be (-) from P&M Block*)
- Amount paid to employee welfare trust
- Industrial power tariff concession received from Govt
- Provision of any kind (**Unless given in green box**)
- Int payment to co-operative bank post ROI due date
- Interest u/s 234B for short payment of advance tax
- Interest on loan taken for payment of income tax
- Discount given to creditors / waived off
- Excess amount of purchase over market value
- Payment in cash exceeding 10k / Person / Day
- Payment in cash exceeding 35k / Transporter / Day
- Sales tax not refunded to customer out of refund
- Contri to employee pension scheme > 10% (Basic+DA)
- CSR expense
- Development charges paid for capital asset (*+ to block*)
- Expense on transfer of carbon credit
- Expenses not related to business
- 30% of fees paid to NED / ID without TDS deduction
- 4/5th of VRS compensation paid to employees
- Amount spend out of NABARD a/c if not permissible
- Marked to market loss (Not as per ICDS)
- Commission paid to doctors
- Illegal expenditure (In or **O/s India**) **A**
- Additional depreciation if opted for 115 BAA, BAB, BAC
- Retrenchment compensation on closure of business
- STT / CTT paid (If security is capital asset)
- Excess payment made to relatives (Excess to be +)

TDS 40a(ia)

CASE	DISALLOWED	
Deducted but not paid till ROI due date	30% 100%	
Not Deducted nor paid till ROI due date	Recipient GOOD BOY	0%
	Recipient BAD BOY	30% 100%

30% if resident / 100% if NR
GOOD BOY = has furnished return u/s 139(1)
 has included above income in ROI
 has paid tax due on such income

	Taxes	Interest	Penalty
Direct tax			
Indirect Tax	43B	43B	

ITEMS ALLOWED / TO BE SUBTRACTED

- Overvaluation of closing stock
- Undervaluation of opening stock
- Ad in brochure of political party by company
- Franchise fees paid [Depreciation portion @25%]
- Scrap income on sale of P&M which was destroyed
- 1/5th of VRS | 1/5th of amalgamation / demerger exp
- Premium on health insurance of employees in ~~cash~~
- Payment in cash exceeding 10k to fisherman, farmer
- Marked to market loss (*As per ICDS*)
- Income tax refund & interest (*IFOS*)
- Expense on issue of bonus share / Buyback
- Interest on loan taken for capital asset after put to use
- Loss by theft if incidental to business
- Emp^{er} contribution to EPF paid before ROI due date
- Emp^{er} contribution to EPF paid before PF act due date
- [Redemption price-Issue price] ÷ Tenure of ZCB
- Legal fees incurred for defending title of factory
- **Below expenses allowed only if actually paid 43B**
 - = Bonus / Commission paid to employees
 - = Emp^{er} contribution to SPF, RPF, AGF, ASF etc
 - = Interest on loan taken from PFI, SFC, NBFC
 - = Leave encashment
 - = Indirect taxes, duties, cess
 - (43B not applicable if paid upto ROI due date)
- Payment of loan which has been converted from arrears of interest
- Actual gratuity paid
- Provision for payment to workers estimation on wage & reasonable certainty
- Provision for bad debts

INDIAN BANK	FOREIGN BANK
8.5% of GTI + 10% of avg advances by rural banks	5% of GTI

- Commission paid to recovery agent for debt realisation
- Expense disallowed in any PY due to non deduction of TDS, now deducted.
- Payment towards feasibility study conducted for tech advancement related to business
- STT / CTT paid (If security is stock in trade)
- Discount on issue of debenture (Allowed over tenure)
- GST interest on delayed filing of return
- Profit on sale of land (*Capital in nature*)
- Grant received from gov for asset acquisition (- COA)
- Sponsorship fees (If incurred for business promotion)
- Expenses for bringing water to where factory located
- Payment upto 50k in cash to employee on retirement
- Salary (cash) person not at normal place of biz 15 days
- Contribution to national fund for rural development
- Retrenchment compensation on closure of some units
- Bad debts (If written off & was income of some PY)
- Transfer - special reserve- bank or finance corporation
 - ⊕ Actual transfer
 - ⊕ 20% of PGBP
 - ⊖ 200% of (SC + Reserve) – Op bal of special reserve

DT in 50 pages sample (TDS)

Section	Nature	Payer	Payee	Rate	Note
194 Q	Purchase of goods	Buyer	Resident Seller	0.10%	No TDS upto 50 Lacs. TDS only on excess. No TDS if TDS u/s 194O No TDS if TCS u/s 206C(1) / (1F) / (1G) No TDS if traded through RSE
194 IA	Purchase of immovable property	Any	RP	1% (↑ of Cor SDV) ^A	No TDS if consideration & SDV upto 50 Lacs. Includes everything like parking etc ^A
194 O	Payment by Ecommerce	ECO	ECO participant	1% (Gross amount)	No TDS if all satisfied 1. Payee is Individual 2. Gross sale through ECO upto 5 Lacs 3. Payee has furnished PAN to ECO
^A 194 S 1 Jul '22	Transfer of VDA	Any	RP	1%	No TDS upto 10K.
		Any			No TDS upto 50K
194 C	TDS on contract	Any	Ind / HUF	1%	No TDS if a. Single contract upto 30K b. Aggregate contract upto 1 Lac c. Contract for personal purpose 4. Transporter owns 10 or less vehicles
			Other	2%	
194 I	Rent (P&M)	Any	RP	2%	No TDS if rent upto 2.4 Lac
	Rent (L&B, furniture)	Any	Any	10%	
194 N	Cash withdrawal above 1 crore	Bank	Any	2%	If return not filed in last 3 AY, then 20 L < Withdrawal < 1 Cr, 2% on excess 1 Cr < Withdrawal , 5% on excess
194 D	Insurance commission	Insurance company	Agent	5%	No TDS if commission upto 15K p.a.
194 DA	Maturity proceeding of life insurance	Any	Any	5%	No TDS if amount less than 1 Lac TDS only on (Maturity proceeds - premium)
194 G	Commission on sale of lottery ticket	Any	Any	5%	No TDS if commission upto 15K p.a.
194 H	Commission and brokerage	Any	Any	5%	No TDS if commission upto 15K p.a.
194 IB	Rent (Land & building)	Those not covered in 194 I	RP	5%	No TDS if rent upto 50K per month
194 M	Contract/ brokerage/ fees for professional services	Other than 194 C / H / J	RP	5%	No TDS if aggregate sum paid is upto 50 Lac
194 LB	Interest on infrastructure debt fund	Infra debt fund	NR or FC	5%	TDS shall be deducted on gross amount. No expenses to earn interest be subtracted
192 A	Accumulated balance of PF	Any	Employee	10%	No TDS if amount less than 50K
^A 194 R 1 Jul '22	Perq arising from business / Prof	Any	RP	10%	No TDS if perq amount is upto 20K in PY



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INDIRECT TAXATION

7. VALUE OF SUPPLY

PRICE IS SOLE CONSIDERATION

All taxes other than GST form part of taxable value.

Int / Late fee / Penalty included in value when received

Subsidy received from CG/SG will be subtracted from value of supply if included. Else ignore

Discount allowed as deduction ONLY if possibility existed at time of supply & show in invoice.

PRIORITY ORDER

	RULE 27 PRICE IS X SOLE CONSIDERATION	RULE 28 BETWEEN DISTINCT OR RELATED PERSON	RULE 29 PRINCIPAL & AGENT
Open market value	1	1	1 or 90% SP (agent) [Option of supplier]
Cash + MV of kind	2	X	X
Value of like kind & quality supply	3	2	X
Cost × 110% RULE 30	4	3	2
Residual method	5	4	3

NOTE for Rule 28

- ☉ If goods are to be supplied AS SUCH by recipient, option to take VOS as 90% of SP of recipient.
- ☉ If recipient allowed to take full ITC, VOS shall be INVOICE VALUE

LOTTERY



- FV ticket • Official gazette price

HIGHER × 100 ÷ 128

LIFE INSURANCE

POLICY TYPE	TAXABLE VALUE
Dual benefit – Risk coverage & Investment	Gross Prem – Amount allocated for Investment
Single Premium annuity policy	10% of single Prem
Other cases	25% of Prem of 1 st year 12.5% of Prem of next year
Policy with only risk	100% Prem

Life micro insurance with max cover of ₹ 2 lac is **EXEMPT**

FOREIGN EXCHANGE

OPTION 1 RULE 32 (2) (a)

	INR involved	INR X involved
RBI ref rate given ✓	B/S rate - RBI rate	1% of [Lower of FC converted to ₹ using RBI rate]
RBI ref rate NA ✗	1% of ₹ provided	—

OPTION 2 RULE 32 (2) (b)

Currency exchange	Value of supply
Upto 1 lac	↑ 1% of currency converted ₹ 250
1 lac — 10 lac	₹ 1,000 + 0.5% (Amount < 1 lacs)
Above 10 lacs	₹ 5,500 + 0.1% (Amount < 10 lacs) ↓ ₹ 60,000

If opted, can NOT withdraw in same FY

MISCELLANEOUS

- ☉ Betting, gambling, horse racing = 100% of bet value
- ☉ Air travel ticket by travel agent
 - DOMESTIC = 5% of basic fare
 - INTERNATIONAL = 10% of basic fare
- ☉ Purchase of 2nd hand goods by dealer
 - VOS = Sale price - Purchase price (Ignore if -ve)
 - (Should NOT have claimed ITC while purchasing)
- ☉ Goods repossessed from defaulting borrower
 - DB = Registered → Original supply value
 - DB = Registered → Original purchase price of DB – 5% per Q or part there of.
- ☉ Pure agent
 - Incurs additional expense to supply main S / G.
 - Reimburse on actuals. Reimbursement ≠ Supply