Final Course
(Revised Scheme of Education and Training)

Study Material
(Modules 1 to 7)

Paper 1

Financial Reporting

Module - 5

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

© 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 clarification or have any suggestion 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.

Edition : August, 2017

Website : www.icai.org

E-mail : bosnoida@icai.in

Committee/ Department : Board of Studies


Price : ₹ 1100/- (For 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 : Sahitya Bhawan Publications, Hospital Road, Agra -282 003 August/2017/P2147 (New)

© The Institute of Chartered Accountants of India
CONTENTS

MODULE – 1

Chapter 1: Application of Accounting Standards

Unit 1: AS 15 “Employee Benefits”
Unit 2: AS 25 “Interim Financial Reporting”
Unit 3: AS 28 “Impairment of Assets”
Unit 4: AS 21 “Consolidated Financial Statements”
Unit 5: AS 23 “Accounting for Investments in Associates in Consolidated Financial Statements”
Unit 6: AS 27 “Financial Reporting of Interests in Joint Ventures”

Chapter 2: Application of Guidance Notes

MODULE – 2

Chapter 3: Framework for Preparation and Presentation of Financial Statements

Application of Indian Accounting Standards (Ind AS)

Chapter 4: Ind AS on Presentation of Items in the Financial Statements

Unit 1: Ind AS 1 “Presentation of Financial Statements”
Unit 2: Ind AS 34 “Interim Financial Reporting”
Unit 3: Ind AS 7 “Statement of Cash Flows”

Chapter 5: Ind AS on Recognition of Revenue in the Financial Statements

Unit 1: Ind AS 11 “Construction Contracts”
Unit 2: Ind AS 18 “Revenue”

Chapter 6: Ind AS on Measurement based on Accounting Policies

Unit 1: Ind AS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”
Unit 2: Ind AS 10 “Events after the Reporting Period”
Unit 3: Ind AS 113 “Fair Value Measurement”

Chapter 7: Other Ind AS

Unit 1: Ind AS 20 “Accounting for Government Grants and Disclosure of Government Assistance”

Unit 2: Ind AS 114 “Regulatory Deferral Accounts”

Chapter 8: Ind AS 101 “First-time Adoption of Indian Accounting Standards”

MODULE – 3

Chapter 9: Ind AS on Assets of the Financial Statements

Unit 1: Ind AS 2 “Inventories”

Unit 2: Ind AS 16 “Property, Plant and Equipment”

Unit 3: Ind AS 17 “Leases”

Unit 4: Ind AS 23 “Borrowing Costs”

Unit 5: Ind AS 36 “Impairment of Assets”

Unit 6: Ind AS 38 “Intangible Assets”

Unit 7: Ind AS 40 “Investment Property”

Unit 8: Ind AS 105 “Non-current Assets Held for Sale and Discontinued Operations”

MODULE – 4

Chapter 10: Ind AS on Liabilities of the Financial Statements

Unit 1: Ind AS 19 “Employee Benefits”

Unit 2: Ind AS 37 “Provisions, Contingent Liabilities and Contingent Assets”

Chapter 11: Ind AS on Items impacting the Financial Statements

Unit 1: Ind AS 12 “Income Taxes”

Unit 2: Ind AS 21 “The Effects of Changes in Foreign Exchange Rates”
Chapter 12: Ind AS on Disclosures in the Financial Statements

Unit 1:  Ind AS 24 “Related Party Disclosures”
Unit 2:  Ind AS 33 “Earnings per Share”
Unit 3:  Ind AS 108 “Operating Segments”

MODULE – 5

Chapter 13: Consolidated and Separate Financial Statements

Unit 1:  Introduction to Consolidated Financial Statements
Unit 2:  Important Definitions
Unit 3:  Separate Financial Statements
Unit 4:  Consolidated Financial Statements
Unit 5:  Consolidated Financial Statements: Accounting of Subsidiaries
Unit 6:  Joint Arrangements
Unit 7:  Investment in Associates & Joint Ventures
Unit 8:  Disclosures

Test Your Knowledge

Chapter 14: Industry Specific Ind AS

Unit 1:  Ind AS 41 “Agriculture”
Unit 2:  Ind AS 104 “Insurance Contracts”
Unit 3:  Ind AS 106 “Exploration for and Evaluation of Mineral Resources”
MODULE – 6

Chapter 15: Business Combinations and Corporate Restructuring

Chapter 16: Accounting and Reporting of Financial Instruments

Unit 1: Financial Instruments: Scope and Definitions

Unit 2: Financial Instruments: Equity and Financial Liabilities

Unit 3: Classification and Measurement of Financial Assets and Financial Liabilities

Unit 4: Recognition and Derecognition of Financial Instruments

Unit 5: Derivatives and Embedded Derivatives

Unit 6: Disclosures

Unit 7: Hedge Accounting

Chapter 17: Accounting for Share Based Payment

MODULE – 7

Chapter 18: Analysis of Financial Statements

Chapter 19: Accounting for Carbon Credits

Chapter 20: Accounting for E-commerce Business

Emerging trends in Reporting

Chapter 21: Integrated Reporting

Chapter 22: Corporate Social Responsibility Reporting

Chapter 23: Human Resource Reporting

Chapter 24: Value Added Statement
CHAPTER 13 –CONSOLIDATED FINANCIAL STATEMENTS

Learning Outcomes ........................................................................................................... 13.1
Chapter Overview .............................................................................................................. 13.2

Contents:

Unit 1: Introduction to Consolidated Financial Statements
1.1 Introduction ................................................................................................................ 13.5
1.2 Purpose .................................................................................................................... 13.6
1.3 From AS to Ind AS .................................................................................................. 13.6
1.4 Significant differences in Ind AS vis-à-vis existing AS ............................................. 13.8
   1.4.1 Ind AS 27 on ‘Separate Financial Statements’ vs. AS ....................................... 13.8
   1.4.2 Ind AS 110 on ‘Consolidated Financial Statements’ vs. AS 21 ...................... 13.9
   1.4.3 Ind AS 28 on ‘Investments in Associates and Joint Ventures’ vs. AS 23 ......... 13.11
   1.4.4 Ind AS 111 on ‘Joint Arrangements’ vs. AS 27 on ‘Financial Reporting of Interests in Joint Venture’ ......................................................... 13.12

Unit 2: Important definitions ............................................................................................ 13.14

Unit 3: Separate Financial Statements
3.1 Introduction ............................................................................................................ 13.18
3.2 Preparation of Separate Financial Statements ....................................................... 13.19

Unit 4: Consolidated Financial Statements
4.1 Objective ............................................................................................................... 13.22
4.2 Scope ...................................................................................................................... 13.22
4.3 Concept of Control ................................................................................................. 13.24
4.4 Assessment of Control ........................................................................................................ 13.27

4.4.1  Step 1: Purpose of the Investee ........................................................................ 13.27

4.4.2  Step 2: Design of the Investee .......................................................................... 13.27

4.4.3  Step 3: Relevant activities of the Investee that significantly affect its returns .... 13.27

4.4.4  Step 4: Examining the decision making process for the relevant activities ...... 13.28

4.4.5  Step 5: Whether the decision maker is empowered
and has the right to take those decisions? .......................................... 13.29

4.4.6  Step 6: Whether investor has exposure, or rights, to variable returns
from an investee? ................................................................................ 13.40

4.4.7  Step 7: Is there a link between power & returns?............................................. 13.40

4.5 Comparison of Ind AS with the Companies Act, 2013 ............................................ 13.45

4.6 Consolidated Financial Statements - Investment Entities ........................................ 13.47

4.6.1  Identification ..................................................................................................... 13.47

4.6.2  Reassessing Status of an Entity (investment entity or not) .............................. 13.52

4.6.3  Consolidation not required ............................................................................... 13.52

Unit 5: Consolidated Financial Statements: Accounting of Subsidiaries

5.1 Statutory Requirements ..................................................................................... 13.53

5.1.1  The Companies Act, 2013 requirements ......................................................... 13.53

5.1.2  The Companies (Accounts) Rules, 2014 ........................................................ 13.53

5.2 Components of Consolidated Financial Statements ............................................ 13.54

5.3 Consolidation procedures ...................................................................................... 13.55

5.3.1  Process ........................................................................................................... 13.55

5.3.2  Calculation of Goodwill/Capital Reserve ........................................................ 13.55

5.3.3  Acquisition of interest in subsidiaries at different dates ................................... 13.63

5.3.4  Acquisition of interest in subsidiaries without consideration .......................... 13.65

5.4 Uniform Accounting Policies .............................................................................. 13.66

5.5 Measurement ........................................................................................................ 13.67

5.5.1  Profit or loss of subsidiary companies ............................................................ 13.67

5.5.2  Potential voting rights ..................................................................................... 13.69
5.5.3 Dividend received from subsidiary companies ................................................ 13.69
5.5.4 Preparation of Consolidated Balance Sheet ................................................... 13.78
5.5.5 Elimination of intra-group transactions .......................................................... 13.82
5.5.6 Preparation of consolidated profit & loss ....................................................... 13.85
5.5.7 Preparation of consolidated cash flows ........................................................... 13.86
5.5.8 Chain holdings ............................................................................................ 13.101
5.5.9 Reporting date ............................................................................................ 13.106
5.5.10 Non controlling interests ........................................................................... 13.107
5.5.11 Loss of control ........................................................................................... 13.112

Unit 6- Joint Arrangements
6.1 Introduction ..................................................................................................... 13.120
6.2 Scope ............................................................................................................... 13.120
6.3 Concept of Joint Control .................................................................................. 13.120
6.4 Features of Joint Arrangements ...................................................................... 13.124
6.4.1 Contractual Arrangement ........................................................................... 13.124
6.4.2 Joint Control ............................................................................................... 13.124
6.5 Types of Joint Arrangements ........................................................................... 13.125
6.5.1 Joint Operations ......................................................................................... 13.125
6.5.2 Joint Ventures ............................................................................................ 13.126
6.6 Classification of Joint Arrangements .............................................................. 13.127
6.6.1 Structure of the Joint Arrangement ......................................................... 13.127
6.6.2 Assessing the terms of the Contractual Arrangement .............................. 13.128
6.6.3 Assessing other facts and circumstances ................................................ 13.129
6.7 Financial Statement of parties to a Joint Arrangement ..................................... 13.132
6.7.1 Joint Operations ......................................................................................... 13.132
6.7.2 Joint Venture ............................................................................................. 13.133

Unit 7: Investment in Associates & Joint Ventures
7.1 Introduction ..................................................................................................... 13.136
7.2 Scope ............................................................................................................... 13.136
7.3 Significant influence ................................................................. 13.136
7.4 Potential voting rights ................................................................. 13.140
7.5 Equity Method ............................................................................. 13.140
7.6 Application of Equity Method .................................................... 13.142
    7.6.1 Exemption from applying the Equity Method ....................... 13.142
    7.6.2 Discontinuing of Equity Method ......................................... 13.143
    7.6.3 Equity Method Procedures ................................................. 13.143
    7.6.4 Impairment Losses .............................................................. 13.146

Unit 8: Disclosures
8.1 In Separate Financial Statements ............................................ 13.148
8.2 In Consolidated Financial Statement ......................................... 13.149

Test Your Knowledge ........................................................................ 13.154
Practical Questions .............................................................................. 13.154
Answers to Practical Questions ......................................................... 13.161

CHAPTER 14- INDUSTRY SPECIFIC IND AS
UNIT 1: Indian Accounting Standard 41: Agriculture
Learning Outcomes ............................................................................. 14.1
Unit Overview ..................................................................................... 14.2

Contents:
1.1 Introduction and objective .......................................................... 14.3
1.2 Scope ......................................................................................... 14.3
1.3 Relevant definitions ..................................................................... 14.5
1.4 Recognition of assets ................................................................. 14.6
1.5 Measurement .............................................................................. 14.7
1.6 Gains and Losses ....................................................................... 14.9
1.7 Government Grants ................................................................. 14.10
1.8 Disclosure .................................................................................. 14.11

Test Your Knowledge ........................................................................ 14.16

© The Institute of Chartered Accountants of India
Unit 2: Indian Accounting Standard 104: Insurance Contracts

Learning Outcomes ......................................................................................................... 14.17
Unit Overview .................................................................................................................. 14.18

Contents:

2.1 Objective ............................................................................................................ 14.19
2.2 Scope ................................................................................................................. 14.19
2.3 Definitions .......................................................................................................... 14.21
2.4 Definition of an insurance contract ....................................................................... 14.23
2.5 Embedded derivatives ......................................................................................... 14.31
2.6 Unbundling of deposit components ..................................................................... 14.34
2.7 Recognition and measurement ............................................................................ 14.40
  2.7.1 Temporary exemptions from Ind AS 8 ......................................................... 14.40
  2.7.2 No exemption from Ind AS 8 ....................................................................... 14.40
  2.7.3 Liquidity adequacy test .............................................................................. 14.40
  2.7.4 Impairment of reinsurance assets ............................................................... 14.42
  2.7.5 Changes in accounting policies ................................................................. 14.42
  2.7.6 Insurance contracts acquired in a business Combination or portfolio transfer... 14.45
  2.7.7 Discretionary participation features ............................................................. 14.46
2.8 Disclosure requirements ...................................................................................... 14.48
  2.8.1 Explanation of recognized amounts ............................................................ 14.48
  2.8.2 Nature and extent of risks arising from insurance contracts...................... 14.48

Summary ........................................................................................................................ 14.50

Test Your Knowledge ..................................................................................................... 14.52
Practical Questions .......................................................................................................... 14.52
Answers to Practical Questions ........................................................................................ 14.53

Unit 3: Indian Accounting Standard 106: Exploration for and Evaluation of Mineral Resources

Learning Outcomes ......................................................................................................... 14.56
Unit Overview.................................................................................................................. 14.57

Contents:
3.1 Objective ............................................................................................................ 14.58
3.2 Scope................................................................................................................. 14.58
3.3 Exclusions from other standards ...................................................................... 14.60
3.4 Initial recognition and measurement of E&E assets ........................................ 14.61
3.5 Expenses that can be included in E&E assets ...................................................... 14.61
   3.5.1 Specific cost .............................................................................................. 14.61
   3.5.2 Administrative and other general overhead costs ........................................ 14.63
   3.5.3 License acquisition costs ........................................................................... 14.64
   3.5.4 Borrowing costs ......................................................................................... 14.64
   3.5.5 Decommissioning/Site restoration liability ................................................... 14.64
3.6 Classification of E&E assets ................................................................................ 14.65
3.7 Measurement after recognition ........................................................................ 14.66
3.8 Changes in accounting policies ........................................................................ 14.67
3.9 Reclassification of exploration and evaluation assets ........................................ 14.68
3.10 Impairment ...................................................................................................... 14.68
3.11 Level at which impairment is assessed .............................................................. 14.69
3.12 Disclosure ........................................................................................................ 14.69

Test Your Knowledge................................................................................................. 14.70

Practical Question .................................................................................................... 14.70

Answer to Practical Question .................................................................................. 14.70

© The Institute of Chartered Accountants of India