Final Course
(Revised Scheme of Education and Training)
Study Material
(Modules 1 to 7)

Paper 1
Financial Reporting
Module - 1

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 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
BEFORE WE BEGIN ...

The role of a chartered accountant is evolving continually to assume newer responsibilities in a dynamic environment. There has been a notable shift towards strategic decision making and entrepreneurial roles that add value beyond traditional accounting and auditing. The causative factors for the change include globalisation leading to increase in cross border transactions and consequent business complexities, significant developments in information and technology and financial scams underlining the need for a stringent regulatory set up. These factors necessitate an increase in the competence level of chartered accountants to bridge the gap in competence acquired and competence expected from stakeholders. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being stepped up to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Concurrent Practical Training along with academic education: Key to achieving the desired level of Professional Competence

Under the Revised Scheme of Education and Training, at the Final Level, you are expected to apply the professional knowledge acquired through academic education and the practical exposure gained during articleship training in addressing issues and solving practical problems. The integrated process of learning through academic education and practical training should also help you inculcate the requisite technical competence, professional skills and professional values, ethics and attitudes necessary for achieving the desired level of professional competence.

Indian Accounting Standards (Ind AS): High Standards of Financial Reporting

Consistent, comparable and understandable financial reporting is essential to develop a robust economy. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential. These changes have been made considering various factors, such as, various terminology related changes have been made to make it consistent with the terminology used in law, e.g., ‘statement of profit and loss’ in place of ‘statement of comprehensive income’ and ‘balance sheet’ in place of ‘statement of financial
position'. Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

Thereafter, the Ministry of Corporate Affairs (MCA) had notified IFRS-converged Indian Accounting Standards (Ind AS) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and also the roadmap for the applicability of Ind AS for certain class of companies from financial year 2016-17. With the beginning of financial year 2016-17, the era of implementation of Ind AS in India has also begun for the companies falling under Phase I of the MCA roadmap for implementation of Ind AS. The MCA has also laid down roadmap for implementation of Ind AS for banks, NBFCs and Insurance Companies from the financial year 2018-19/2020-21 onwards. These developments are a significant step in achieving international benchmarks of financial reporting.

Ind AS, at the Final level, involves understanding, application and analysing of the concepts and testing of the same. The nitty-gritties of this new standard coupled with its inherent dynamism, makes the learning, understanding and application of the standards in problem solving very interesting and challenging.

Know your Syllabus

Accounts being the core competence areas of chartered accountants, at Final level, the syllabus of Financial Reporting covers select Accounting Standards, Guidance Notes, Indian Accounting Standards and contemporary topics in Accounting and Reporting. The syllabus of Financial Reporting is broadly based on Indian Accounting Standards. However, for understanding the coverage of syllabus, it is important to read the Study Material as the content therein has been developed keeping in mind the extent of coverage of various topics in commensuration with 100 marks allotted to the paper. Certain Ind AS / portion of Ind AS or Guidance Notes are excluded from the study material, keeping in view the relevancy of the content in the Indian scenario and also to avoid the volume of the study material. However, while discussing the relevant applicable provisions, a reference may have been made to some of these excluded Ind AS / portion of Ind AS or Guidance Notes at certain places.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. The concept of Study Guidelines is being introduced in the Revised Scheme of Education and Training in this subject, in line with international best practices, to specify the topic-wise exclusions from the syllabus. Therefore, the Study Guidelines, contain the detailed topic-wise exclusions from the syllabus.

Know your Study Material

Efforts have been made to present the multifaceted AS and Ind AS in a lucid manner. The Study Material carries 24 chapters. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students. Ind AS have been grouped under various categories to make you understand the areas of relevancy and application of Ind AS. The chapters have been numbered based on those categories and Ind AS falling in the same category are included in that chapter. Therefore, certain chapters on Ind AS, contain several units each unit dedicated to
one Ind AS. However, for bare text of Indian Accounting standards, students are advised to refer
the notified Indian Accounting Standards uploaded on the website at the link

For Accounting Standards and Guidance Notes forming part of the syllabus, the bare text of the
pronouncements has been uploaded on the website alongwith the respective chapters for
reference of the students. Also Schedule III to the Companies Act, 2013, for formats of financial
statements as per AS (Refer Division I) and Ind AS (Refer Division II), has been uploaded on the
website.

With respect to accounting of certain contemporary topics, forming part of the syllabus, accounting
both as per AS and Ind AS have been discussed, wherever possible.

The various chapters/units of this subject have been structured uniformly and comprise of the
following components:

<table>
<thead>
<tr>
<th>Components of each Chapter</th>
<th>About the component</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Learning Outcomes</strong></td>
<td>Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes will help you to achieve the desired level of technical competence.</td>
</tr>
<tr>
<td><strong>2. Chapter / Unit Overview</strong></td>
<td>As the name suggests, the flow chart/table/diagram given at the beginning of each chapter will give a broad outline of the contents covered in the chapter.</td>
</tr>
</tbody>
</table>
| **3. Content** | The AS / GN / Ind AS have been explained by following a systematic approach of first discussing the objective, then the scope of the pronouncement and then extracting the underlying concepts. The concepts and provisions of AS / GN / Ind AS are explained in student-friendly manner with the aid of examples/illustrations/diagrams/flow charts. Diagrams and flow charts will help you understand and retain the concept/provision learnt in a better manner. Examples and illustrations will help you understand the application of concepts/provisions.

Later, in the topics of Ind AS, the significant differences vis-à-vis AS has also been incorporated so that students appreciate and recapitulate their learning done at Intermediate level and might not face difficulty in problem solving of questions based on AS, if asked in the examination at Final level.

These value additions will, thus, help you develop conceptual clarity and get a good grasp of the topic.
4. Illustrations involving conceptual understanding

Illustrations would help the students to understand the application of concepts/provisions of accounting standards/guidance notes. In effect, it would test understanding of concepts/provisions as well as ability to apply the concepts/provisions learnt in solving problems and addressing issues.

5. Test Your Knowledge

Questions

This section comprises of variety of questions which will help you to apply what you have learnt in problem solving, and, thus, sharpen your application skills. In effect, it will test your understanding of concepts as well as your ability to apply the concepts learnt in solving problems and addressing issues.

Answers

After you work out the problems/questions given under the section “Test Your Knowledge”, you can verify your answers with the answers given under this section. This way you can self-assess your level of understanding of the concepts of a chapter.

Though all efforts have been taken in developing this Study Material, the possibilities of errors/omissions cannot be ruled out. You may bring such errors/omissions, if any, to our notice so that the necessary corrective action can be taken.

We hope that the new student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application skills.

Happy Reading and Best Wishes!
SYLLABUS

PAPER – 1: FINANCIAL REPORTING

(One paper – Three hours – 100 Marks)

Objectives:

(a) To acquire the ability to integrate and solve problems in practical scenarios on Accounting Standards, Guidance Notes and Indian Accounting Standards for deciding the appropriate accounting treatment and formulating suitable accounting policies.

(b) To develop an understanding of the various forms of reporting (other than financial statements) and accounting for special transactions, and apply such knowledge in problem solving.

Contents:

1. Application of Existing Accounting Standards 15, 21, 23, 25, 27 and 28. (The students will also be required to apply other Accounting Standards if applicable in any of the questions).


3. Framework for Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards (Ind AS).

4. Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements

5. Consolidated and Separate Financial Statements (as per Ind AS)

6. Application of Industry specific and Transaction Specific Indian Accounting Standards (other than Business Combination, Financial Instruments and Share Based Payment)

7. Business Combinations and Accounting for Corporate Restructuring (including demerger) (as per Ind AS)

8. Accounting and Reporting of Financial Instruments (as per Ind AS)

9. Accounting for Share Based Payment (as per Ind AS)

10. Analysis of Financial Statements

        Common defects in financial statements of corporate entities

11. Accounting for Carbon Credits

12. Accounting for E-commerce
13. Emerging trends in Reporting

(i) Integrated Reporting

(ii) Corporate Social Responsibility Reporting

(iii) Human Resource Reporting

(iv) Value Added Statement

Notes:

1. If either a new Indian Accounting Standard (Ind AS) or Accounting Standard (AS) or Announcements and Limited Revisions to Ind AS / AS are issued or the earlier one are withdrawn or new Ind AS / AS, Announcements and Limited Revisions to Ind AS / AS are issued in place of existing Ind AS / AS, Announcements and Limited Revisions to Ind AS / AS, the syllabus will accordingly include / exclude such new developments in the place of the existing ones with effect from the date to be notified by the Institute.

2. The specific inclusions/exclusions in any topic covered in the syllabus will be effected every year by way of Study Guidelines. The list of Guidance Notes in Accounting and significant Expert Advisory Opinions, wherever applicable, will also form part of the Study Guidelines.
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
# Detailed Contents

## Chapter 1—Accounting Standards

### Unit 1- Accounting Standard 15: Employee Benefits

<table>
<thead>
<tr>
<th>Learning Outcomes</th>
<th>1.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Overview</td>
<td>1.2</td>
</tr>
</tbody>
</table>

### Contents:

- **1.1 Introduction** ................................................................. 1.3
- **1.2 Applicability** ................................................................. 1.5
- **1.3 Meaning of the term “Employee Benefits”** ................................. 1.5
- **1.4 Short-term Employee Benefits** ............................................ 1.6
  - **1.4.1 All Short-term employee benefits** .................................. 1.7
  - **1.4.2 Short-term compensated absences** .................................. 1.7
  - **1.4.3 Profit-sharing and Bonus plans** ....................................... 1.9
- **1.5 Post employment benefits: Defined Contribution vs Defined Benefits** 1.11
- **1.6 Is the gratuity scheme a defined contribution** or defined benefit scheme? ................................. 1.12
- **1.7 Other long term employee benefits** ....................................... 1.12
- **1.8 Termination Benefits** ......................................................... 1.12
- **1.9 Accounting Treatment** .......................................................... 1.13
- **1.10 Disclosures** ..................................................................... 1.14
- **1.11 Actuarial Assumptions** .................................................... 1.14
- **1.12 Actuarial Gains and Losses** .............................................. 1.15

### Test Your Knowledge

- **Practical Questions** .......................................................... 1.20
- **Answers to Practical Questions** ............................................ 1.20

© The Institute of Chartered Accountants of India
Unit 2: AS 25: Interim Financial Reporting

Learning Outcomes .................................................................................................................. 1.22
Unit Overview ........................................................................................................................... 1.23

Contents:

2.1 Introduction ...................................................................................................................... 1.24
2.2 Definitions of the terms used under the Accounting Standard ........................................ 1.24
2.3 Content of an Interim Financial Report ......................................................................... 1.24
2.4 Form and content of Interim Financial Statements ....................................................... 1.25
2.5 Selected explanatory notes .............................................................................................. 1.25
2.6 Periods for which Interim Financial Statements are required to be presented ............... 1.26
2.7 Materiality ....................................................................................................................... 1.27
2.8 Disclosure in Annual Financial Statements ..................................................................... 1.29
2.9 Accounting Policies ....................................................................................................... 1.29
  2.9.1 Same Accounting Policies as annual financial statements ..................................... 1.29
  2.9.2 Changes in Accounting Policies .............................................................................. 1.30
2.10 Revenue received seasonally or occasionally ............................................................... 1.31
2.11 Cost incurred unevenly during the financial year ......................................................... 1.31
2.12 Use of estimates ............................................................................................................ 1.31
2.13 Restatement of previously reported interim periods .................................................... 1.31
2.14 Applicability of AS 25 to Interim Financial Results ..................................................... 1.32
2.15 Illustrations .................................................................................................................... 1.32

Test Your Knowledge ............................................................................................................ 1.36
Practical Questions .................................................................................................................. 1.36
Answers to Practical Questions .............................................................................................. 1.37

Unit 3- AS 28: Impairment of Assets

Learning Outcomes .................................................................................................................. 1.39
Unit Overview ........................................................................................................................... 1.40
Contents:

3.1 Introduction ........................................................................................................... 1.41
3.2 Scope .................................................................................................................... 1.41
3.3 Assessment .......................................................................................................... 1.42
3.4 Measurement of recoverable amount ................................................................. 1.43
3.5 Basis for estimates of Future Cash Flows ............................................................. 1.44
3.6 Composition of estimates of future cash flows .................................................... 1.45
3.7 Recognition and measurement of an Impairment Loss .......................................... 1.46
3.8 Identification of the cash-generating unit to which an assets belongs ...................... 1.46
3.9 Recoverable amount and carrying amount of a cash-generating unit ....................... 1.47
3.10 Goodwill ............................................................................................................. 1.48
3.11 Corporate Assets ................................................................................................. 1.48
3.12 Impairment loss for a cash generating unit ......................................................... 1.49
3.13 Reversal of an impairment loss ............................................................................ 1.50
3.14 Reversal of an impairment loss for an individual asset ...................................... 1.51
3.15 Reversal of an impairment loss for a cash-generating unit .................................. 1.51
3.16 Reversal of an impairment loss for goodwill ....................................................... 1.51
3.17 Impairment in cash of discontinuing operations .................................................. 1.52
3.18 Disclosure .......................................................................................................... 1.52
3.19 Illustrations ......................................................................................................... 1.54

Test Your Knowledge .................................................................................................... 1.61

Unit 4 - AS 21: Consolidated Financial Statements

Learning Outcomes ...................................................................................................... 1.65

Unit Overview ................................................................................................................ 1.66
4.15 Accounting for taxes on income in the consolidated financial statements.......................................................... 1.112

Test Your Knowledge ................................................................................................................................................. 1.113
Practical Questions...................................................................................................................................................... 1.113
Answers to Practical Questions .............................................................................................................................. 1.115

Unit 5- AS 23: Accounting for Investments in Associates in Consolidated Financial Statements

Learning Outcomes ..................................................................................................................................................... 1.125
Unit Overview .......................................................................................................................................................... 1.126

Contents:
5.1 Introduction ...................................................................................................................................................... 1.127
5.2 Objective .......................................................................................................................................................... 1.127
5.3 Definitions of the terms used in the accounting standard .................................................................................. 1.127
5.4 Associates Accounted for using the equity method .......................................................................................... 1.129
5.5 Circumstances under which equity method is followed .................................................................................. 1.131
5.6 Application of the equity method .................................................................................................................. 1.131
5.7 Contingencies .................................................................................................................................................. 1.138
5.8 Disclosure ........................................................................................................................................................ 1.138
5.9 Relevant explanations to AS 23 ........................................................................................................................ 1.139

5.9.1 Treatment of proposed dividend in Associates in Consolidated Financial Statements............................... 1.139
5.9.2 Consideration of potential equity shares for determining whether an investee is an Associate.................. 1.139

Test Your Knowledge ................................................................................................................................................. 1.140
Practical Question ..................................................................................................................................................... 1.140
Answer to Practical Question .................................................................................................................................. 1.140

Unit 6- AS 27: Financial Reporting of Interests in Joint Ventures

Learning Outcomes ..................................................................................................................................................... 1.142
Unit Overview .......................................................................................................................................................... 1.143
Contents:

6.1 Introduction ......................................................................................................... 1.144
6.2 Scope .................................................................................................................. 1.144
6.3 Definitions ........................................................................................................... 1.144
6.4 Contractual Arrangement ................................................................................... 1.145
6.5 Forms of Joint Ventures ...................................................................................... 1.146
6.6 Joint Controlled Operations (JCO) ................................................................. 1.146
6.7 Jointly Controlled Assets (JCA) ......................................................................... 1.150
6.8 Jointly Controlled Entities (JCE) ......................................................................... 1.156
6.9 Consolidated Financial Statements of a Venturer ............................................ 1.160
6.10 Transactions between a Venturer and Joint Venture ......................................... 1.167
6.11 Reporting interests in joint ventures in the financial statements of an investor ........................................................................................................ 1.167
6.12 Operators of Joint Ventures ............................................................................ 1.167
6.13 Disclosure .......................................................................................................... 1.167

Test Your Knowledge ................................................................................................. 1.169

CHAPTER 2- GUIDANCE NOTES

Learning Outcomes .................................................................................................... 2.1
Chapter Overview ....................................................................................................... 2.2

Contents:

1. Introduction ........................................................................................................... 2.3
2. Nature of Guidance Notes ................................................................................... 2.3
3. Status of Guidance Notes .................................................................................... 2.4
4. Accounting Standards vis-à-vis Guidance Notes .................................................... 2.4
5. Guidance notes on Accounting aspects ............................................................... 2.5
6. Guidance note on measurement of income tax expense for interim financial reporting in the context of AS 25 ........................................ 2.6
6.1 General principles for recognition and measurement as per AS 25 ................................................................. 2.6
6.2 Measurement of income tax expense ................................................. 2.6

7. Guidance Note on applicability of AS 25 to Interim financial results ........ 2.10
7.1 Applicability of AS 25 to Interim Financial Statements .................. 2.10

8. Guidance note on Accounting for real estate Transactions (for entities to whom Ind AS is applicable) .................. 2.11
8.1 Objective and Scope ........................................................................ 2.11
8.2 Definitions ........................................................................................ 2.12
8.3 Accounting for Real Estate Transactions ........................................ 2.13
8.4 Disclosure ....................................................................................... 2.17

9. Guidance Note on Combined and Carve-Out Financial Statements ...... 2.18
9.1 Applicability of the Guidance Note .................................................. 2.18
9.2 Applicability of the Guidance Note ....................................................... 2.19
9.3 Circumstances in which Combined/ Carve-out Financial Statements are prepared ........................................ 2.19
9.4 Carve out and Combined Financial Statements .................................. 2.20
9.5 Preparation of Combined Financial Statements ................................. 2.20
9.6 Procedure for preparation of Carve-Out Financial Statements .......... 2.21
9.7 Aspects common to Combined/Carve-out Financial Statements ........... 2.22
9.8 Disclosures required in the Combined/ Carve-out Financial Statements .. 2.23

10. Guidance Note on Accounting for Derivative Contracts ...................... 2.25
10.1 Introduction ..................................................................................... 2.25
10.2 Objective and Scope of the Guidance Note ........................................ 2.25
10.3 Definitions ........................................................................................ 2.27
10.4 Key Accounting Principles .............................................................. 2.28
10.5 Synthetic Accounting not permitted .................................................. 2.28
10.6 Recognition of derivatives on the balance sheet date ......................... 2.28
10.7 Hedge Accounting .......................................................................... 2.29
10.8 Types of hedge accounting ............................................................... 2.30
10.9  Formal Documentation at Inception of Hedge ................................................. 2.32
10.10 Presentation in Financial Statements ............................................................... 2.37
10.11 Disclosures in Financial Statements ............................................................... 2.37

Test Your Knowledge ....................................................................................................... 2.40
Practical Question ............................................................................................................ 2.40
Answer to Practical Question ............................................................................................. 2.40

ANNEXURE : SCHEDULE III
Division I ........................................................................................................................ A.1
Division II ....................................................................................................................... A.23