Final Course
(Revised Scheme of Education and Training)
Study Material
(Modules 1 to 4)

PAPER 1

Financial Reporting

MODULE – 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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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 our national accounting standards (I GAAP) 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 NBFCs. 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 largely covers Indian Accounting Standards and contemporary topics in Accounting and Reporting. 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 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 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 Ind AS in a lucid manner. The Study Material carries 18 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 [https://www.icai.org/post.html?post_id=15365](https://www.icai.org/post.html?post_id=15365)

With respect to accounting of certain contemporary topic on ‘Corporate Social responsibility Reporting’ 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>
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<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>
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<tr>
<td><strong>3. Content</strong></td>
<td>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 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. These value additions will, thus, help you develop conceptual clarity and get a good grasp of the topic.</td>
</tr>
<tr>
<td><strong>4. Illustrations involving conceptual understanding</strong></td>
<td>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</td>
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5. **Test Your Knowledge**

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<td>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.</td>
</tr>
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<th>Answers</th>
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<td>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.</td>
</tr>
</tbody>
</table>

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 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!*
Objective:
(a) To acquire the ability to integrate and solve problems in practical scenarios on Indian Accounting Standards for deciding the appropriate accounting treatment and formulating suitable accounting policies.
(b) To gain the prowess to recognize and apply disclosure requirements specified in Indian Accounting Standards while preparing and presenting the financial statements.
(c) To develop the skill to prepare financial statements of group entities which includes subsidiaries, associates and joint arrangements based on Indian Accounting Standards.
(d) 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:
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2. Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements
   (i) Ind AS on First time adoption of Indian Accounting Standards
   (ii) Ind AS on Presentation of Items in the Financial Statements
   (iii) Ind AS on Measurement based on Accounting Policies
   (iv) Ind AS on Income Statement
   (v) Ind AS on Assets and Liabilities of the Financial Statements including Industry specific Ind AS
   (vi) Ind AS on Items impacting the Financial Statements
   (vii) Ind AS on Disclosures in the Financial Statements
(viii) Other Ind AS

3. Indian Accounting Standards on Group Accounting
   (i) Business Combinations and Accounting for Corporate Restructuring (including demerger) (as per Ind AS)
   (ii) Consolidated and Separate Financial Statements (as per Ind AS)

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

5. Analysis of Financial Statements

6. Integrated Reporting

7. Corporate Social Responsibility Reporting

Notes:

1. If either a new Indian Accounting Standard (Ind AS) or Announcements and Limited Revisions to Ind AS are issued or the earlier one are withdrawn or new Ind AS, Announcements and Limited Revisions to Ind AS are issued in place of existing Ind AS, Announcements and Limited Revisions to Ind 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.
## Significant Changes

Significant changes in this Module 1 vis a vis November, 2018 edition - Module 2 of the Study Material

*The amendments made in the respective chapters / units have been highlighted in bold and italics for easy reference except newly added illustrations*

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<td>2 unit 1</td>
<td>Ind AS 1 “Presentation of Financial Statements”</td>
<td>Theory of the chapter has been improved upon at several places and Illustrations 4 and 15 have been newly added.</td>
</tr>
<tr>
<td>4 unit 1</td>
<td>Ind AS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”</td>
<td>Illustration 1 to 5, 7-8 and TYK questions 2-5 have been newly added.</td>
</tr>
<tr>
<td>4 unit 2</td>
<td>Ind AS 10 “Events after the Reporting Period”</td>
<td>Illustration 1 to 3, 5, 8-9, 11 and TYK questions 4-9 have been newly added.</td>
</tr>
<tr>
<td>4 unit 1</td>
<td>Ind AS 113 “Fair Value Measurement”</td>
<td>Theory of the chapter has been improved upon at several places and in ‘Test Your Knowledge’ part, questions 3-5 have been newly added.</td>
</tr>
<tr>
<td>6</td>
<td>Ind AS 101 “First-time Adoption of Indian Accounting Standards”</td>
<td>At page 6.17, Para on ‘Deemed cost for PPE and intangible assets’ has been amended</td>
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<tr>
<td></td>
<td></td>
<td>At page 6.23 Para on ‘Leases’ has been amended</td>
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