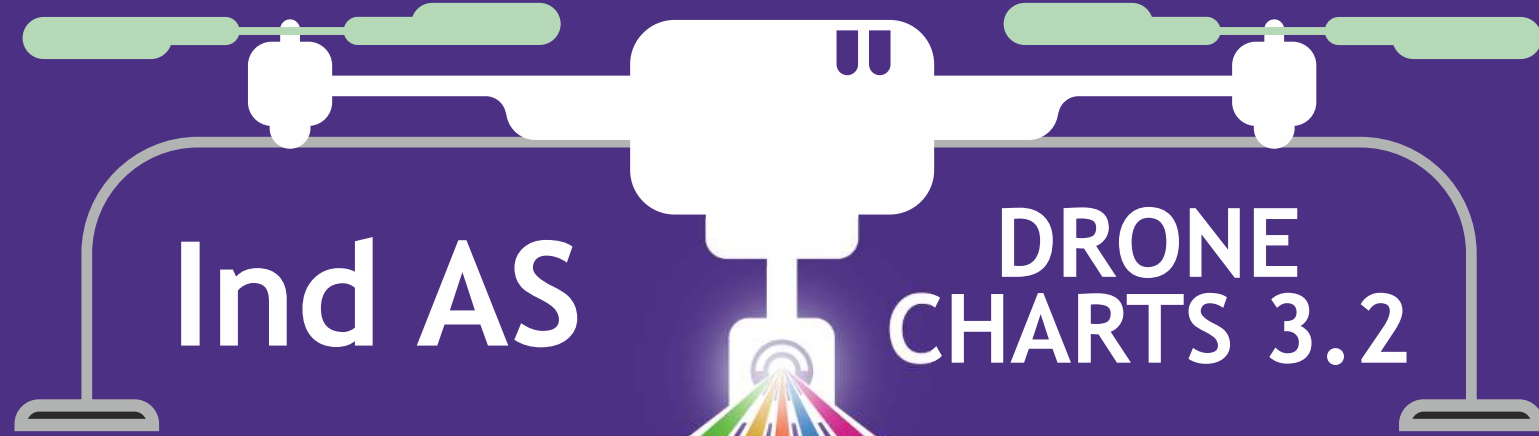


CA FINAL FINANCIAL REPORTING



Ind AS

DRONE CHARTS 3.2

Covers:

Companies (Ind AS)
Amendment Rules, 2022,
Schedule 3 Amendments, 2021,
SM 2022 &
All Ind AS (Except Ind AS on FI,
Business Combination,
Consolidation, SBP covered
in Brahmastra).

Covers:

Other Topics of CA Final:
Integrated Reporting &
Corporate Social
Responsibility (Amended)

Pictorial presentation of all concepts. These are not summary charts but Drone Charts - Comprehensive & Concise

Covers "Ind AS & Other Topics" with SJ's conceptual clarity and coverage

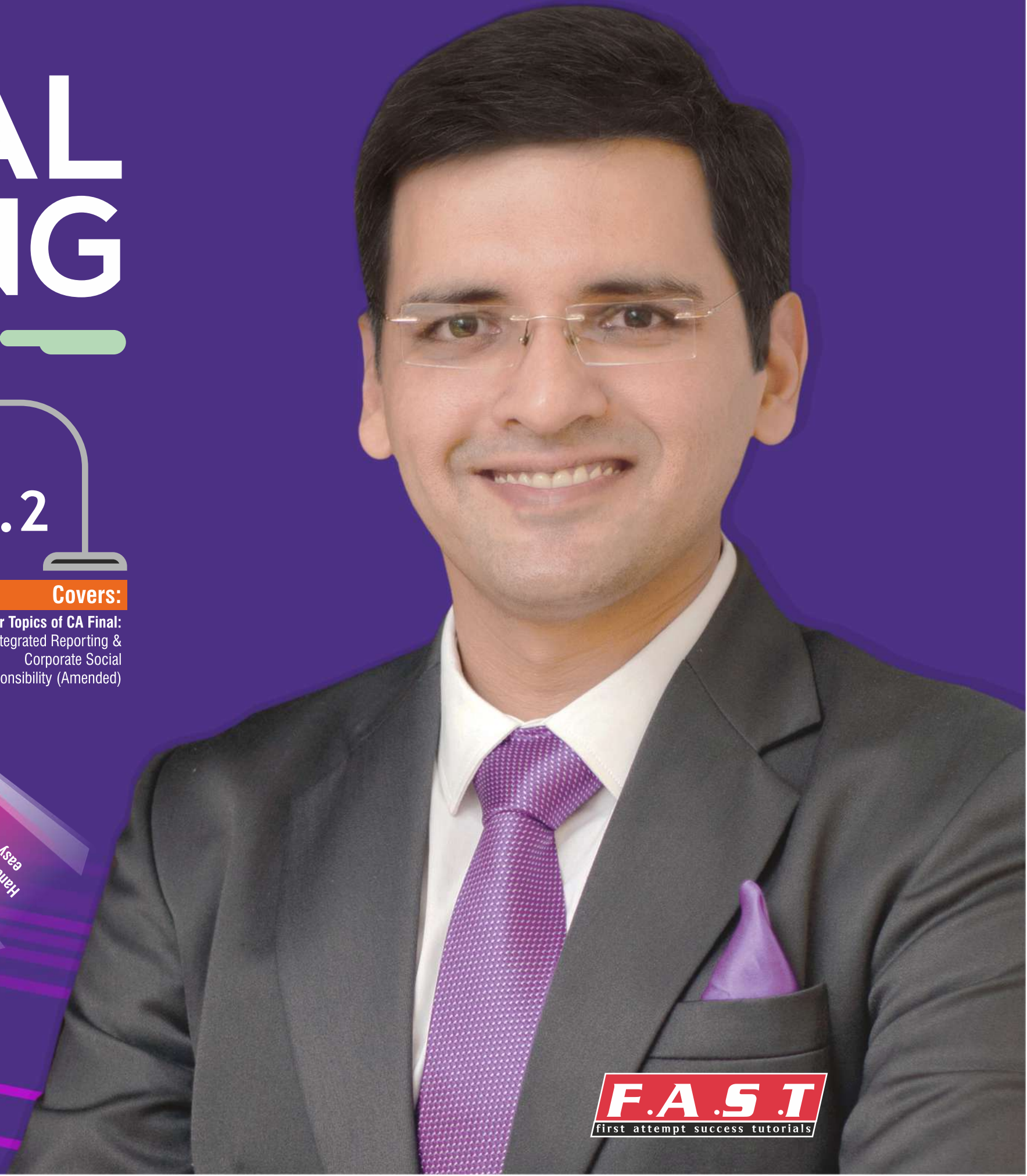
Innovative and colorful infographics for quick revision and better conceptual understanding of "Ind AS & Other Topics"

Relevant for professionals and students

Handcrafted book which makes "Ind AS & Other Topics" easy to understand & revise one day before exams

Crafted By:

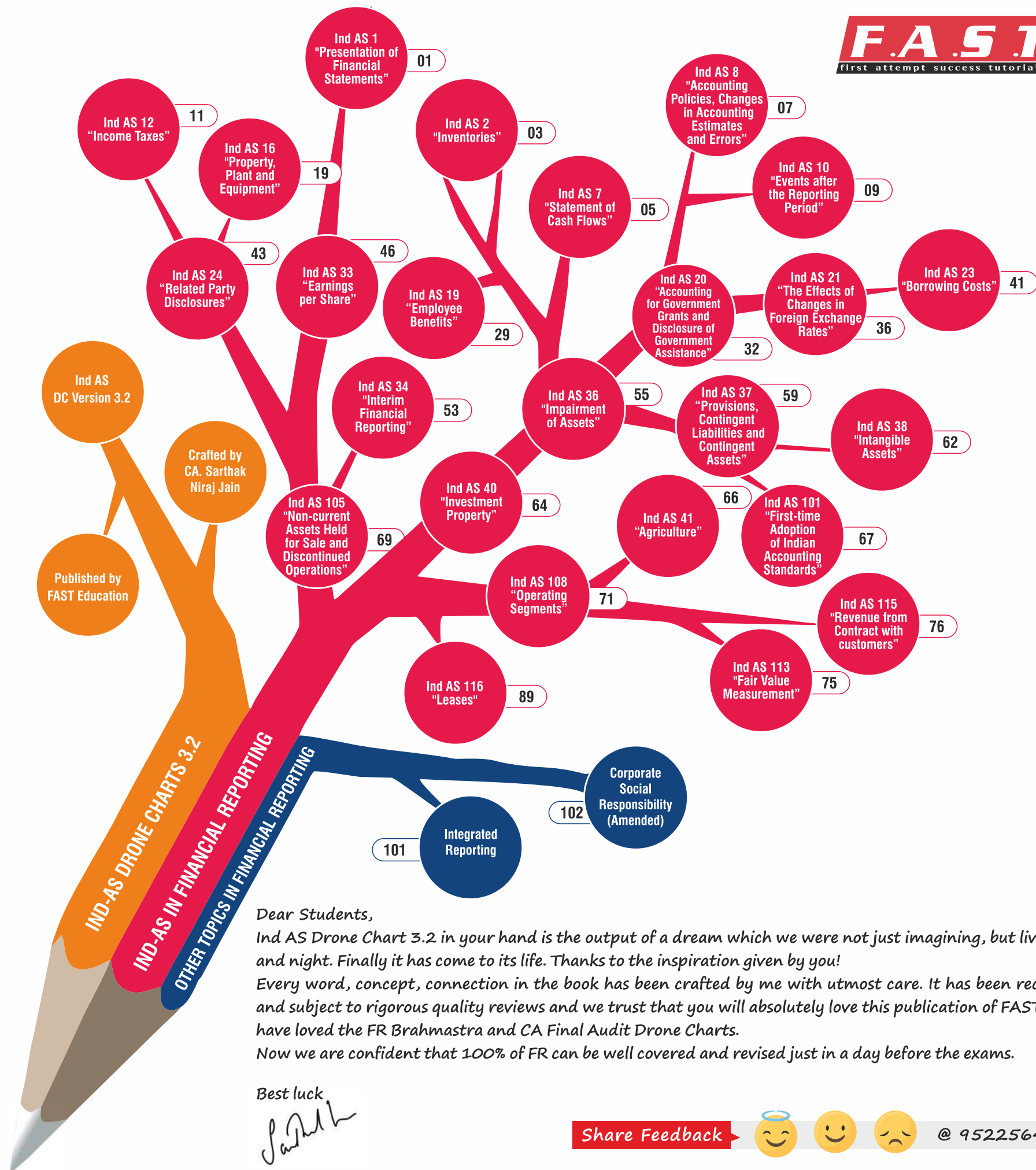
CA. Sarthak Niraj Jain (All India CA Ranker)



CA FINAL - FR - DRONE CHARTS
INDEX

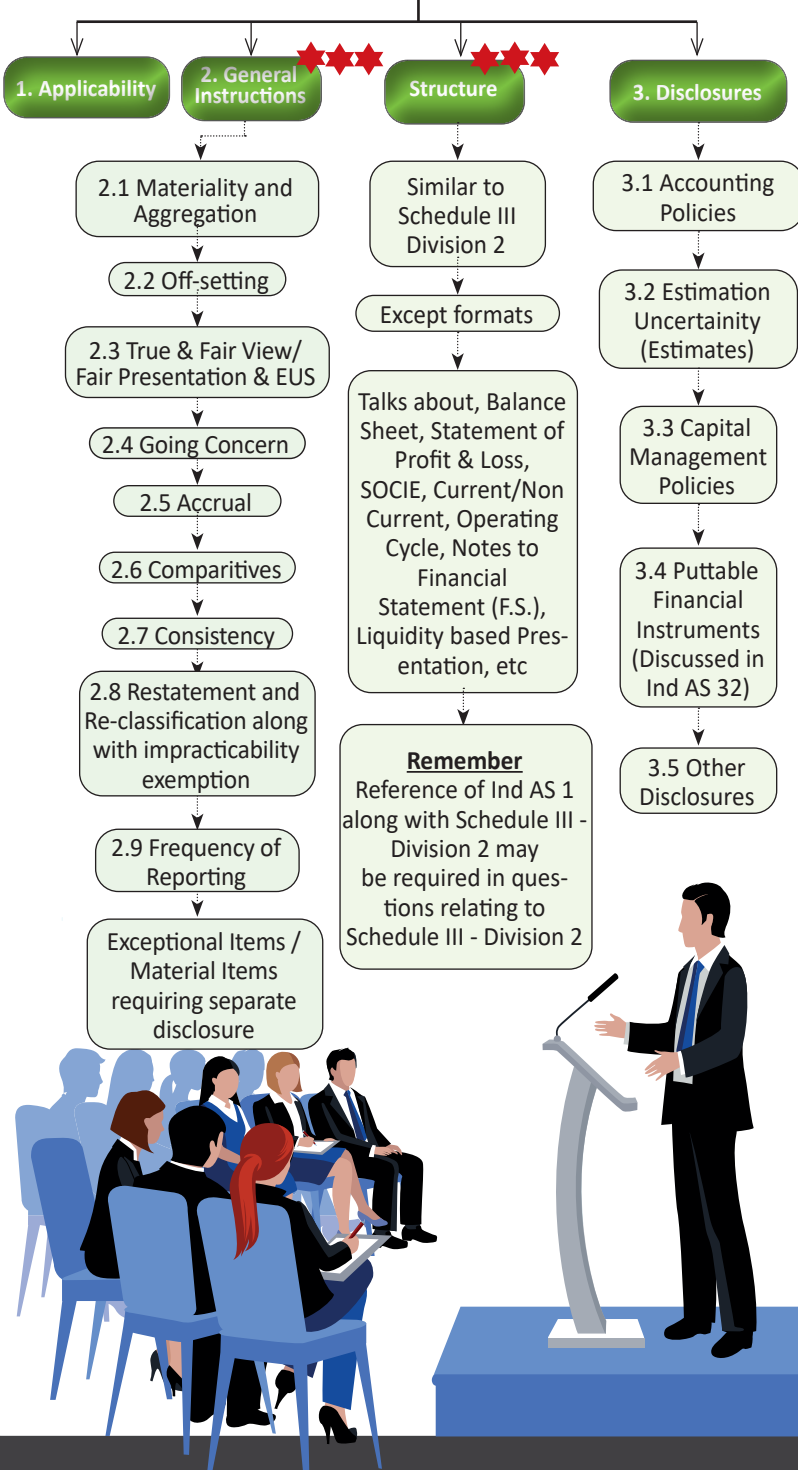


Author : CA. Sarthak Niraj Jain



Dear Students,
 Ind AS Drone Chart 3.2 in your hand is the output of a dream which we were not just imagining, but living day and night. Finally it has come to its life. Thanks to the inspiration given by you!
 Every word, concept, connection in the book has been crafted by me with utmost care. It has been rechecked and subject to rigorous quality reviews and we trust that you will absolutely love this publication of FAST as you have loved the FR Brahmastra and CA Final Audit Drone Charts.
 Now we are confident that 100% of FR can be well covered and revised just in a day before the exams.

Best luck
Sarthak

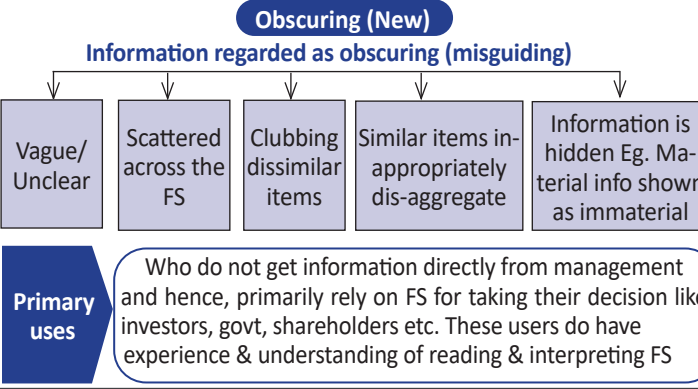


1. Applicability

- Ind AS applies to Standalone/Separate and Consolidated F.S.
 - Standalone F.S.
 - Separate F.S.
 - F.S. of company that has no subsidiary
 - Individual F.S. of holding company
- Section 8** Companies etc. also to follow Ind AS with flexibility to change "Nomenclature of items" (E.g. Profit-Surplus, SPL- SIE etc)
- Interim F.S.** (Condensed format)- Ind AS 1 not applicable
- Ind AS applies on **General Purpose Financial Statements**

2. General Instructions

- 2.1 Materiality & Aggregation : Ind AS Amendment Rules, 2020**
- Definition of Materiality:** Transaction or other events and Information is material if omitting misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statement (**FS for generic users and not for specific use of any user**) make on the basis of those financial statements, which provide financial information about a specific reporting entity.
 - Materiality is based on **magnitude and/or nature of transaction** or other events and conditions judged in surrounding circumstances
 - Ind AS 1 requires that: Items of **dissimilar nature** (e.g. CSR & Donation); or Items of **similar nature, different class** (Donation to political & non-political parties); Should not be aggregated to obscure material information being presented/disclosed to users of financial statements (Except if required by Law)
 - Ind AS 1 also states that company should not combine **immaterial information with material information**
 - Dis-aggregate information** of material items may be given on **Face of F.S. or Notes to F.S.**



2.2 Off-Setting (Netting-Off) :

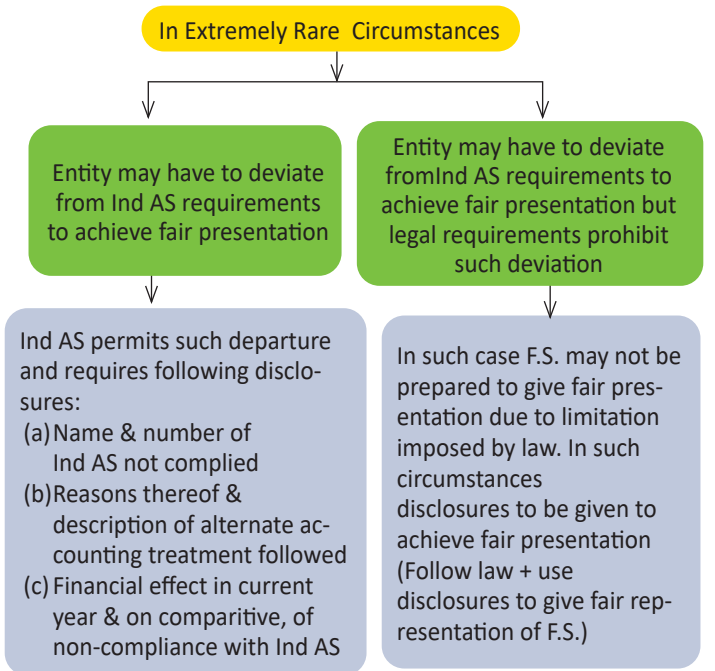
- Meaning:** Netting off income & expense or asset & liability while presenting financial information.
- Ind AS 1:**
 - Rule (i):** Off setting is permitted only when any **Ind AS requires** (E.g. Ind AS 32, Financial Instruments: Presentation, requires that a **Financial Asset and Financial Liability** should be off-set if:
 - » Entity has a **legal right to off-set it;** and
 - » It **intends to off-set it** or realise the asset & settle the liability simultaneously).
 - Rule (ii):** Setting off 'Provision on Assets' with carrying amount of asset is not off-setting (E.g. Trade receivables and Provision for Bad Debts, Property, Plant and Equipment and Provision for Depreciation)
 - Rule (iii):** Off-Setting is required when it **represents substance of transactions** (E.g. Reimbursement for payments on behalf of 3rd parties, Setting-off contingent asset with liabilities [Ind AS 37], Setting-off insurance claim with loss)
 - Rule (iv):** **As a practice** information like foreign exchange gain/loss, profit/loss on sale of investment/PPE etc. are presented on net basis, unless the information is material in which case it should be presented separately

SJ Tips (Cash Flow off-setting : Refer Ind AS 7)

2.3 Fair Presentation and EUS:

- Transaction or other events and conditions are presented fairly as per the framework for preparation of financial statements.
- Disclosure of inappropriate accounting treatments would not be a basis for achieving fair presentation.
- Explicit Unreserved Statement (EUS) :**
 - a) Entity complying with Ind AS to make an EUS of the fact that F.S. are prepared as per Ind AS (**No choice of selective application of Ind AS**)

In Extremely Rare Circumstances :

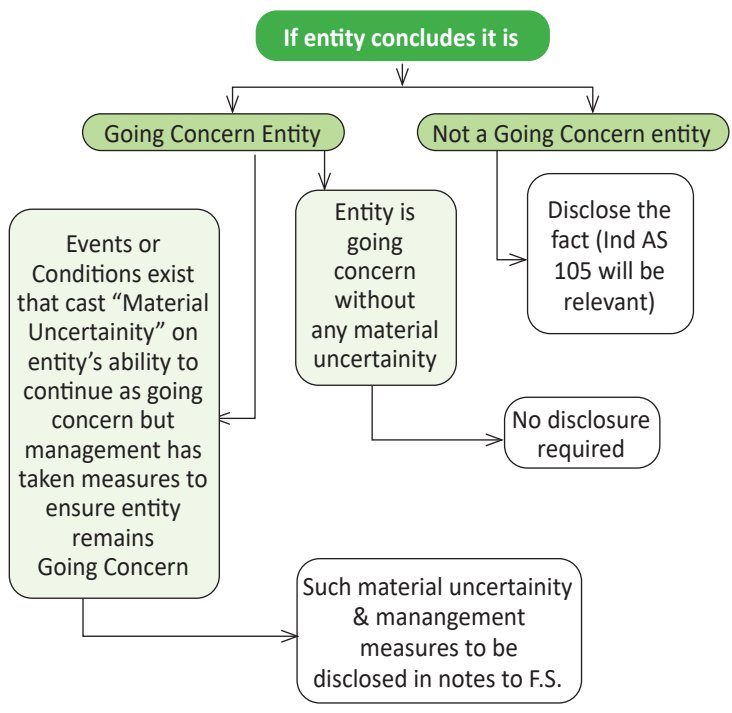


2.4 Going Concern :

- Business/Entity will continue till foreseeable future.
- Entity is required to test whether it is a going concern, as disclosed.
- Ind AS 10 & 105 also relevant

Q.1 Company makes a statement in financial statement that it has complied with all Ind AS except Ind AS 7 cash flow statements, comment.
Hint: In such case it will be considered company has not adopted Ind AS, as it is selectively applying Ind AS. Hence F.S. will not be considered to be prepared as per Ind AS.

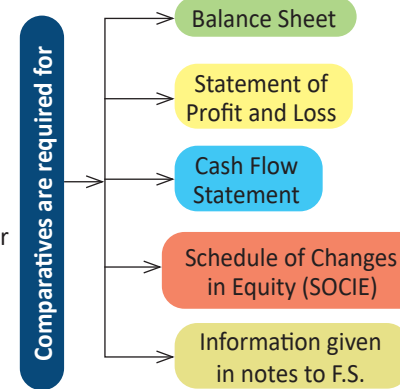
Q.2 Company makes a statement in financial statement that it has 'Prepared & presented financial statement as per Ind AS', while doing audit, you found cash flow statement is not prepared as per Ind AS
Hint: Financial Statements will be considered to be prepared as per Ind AS & auditor would qualify his report w.r.t cash flow statements.



2.5 Accrual : Entities following Ind AS to follow accrual basis of accounting only (Section 128 of Companies Act, 2013 requires books of account to be prepared as per accrual basis)

2.6 Comparatives :

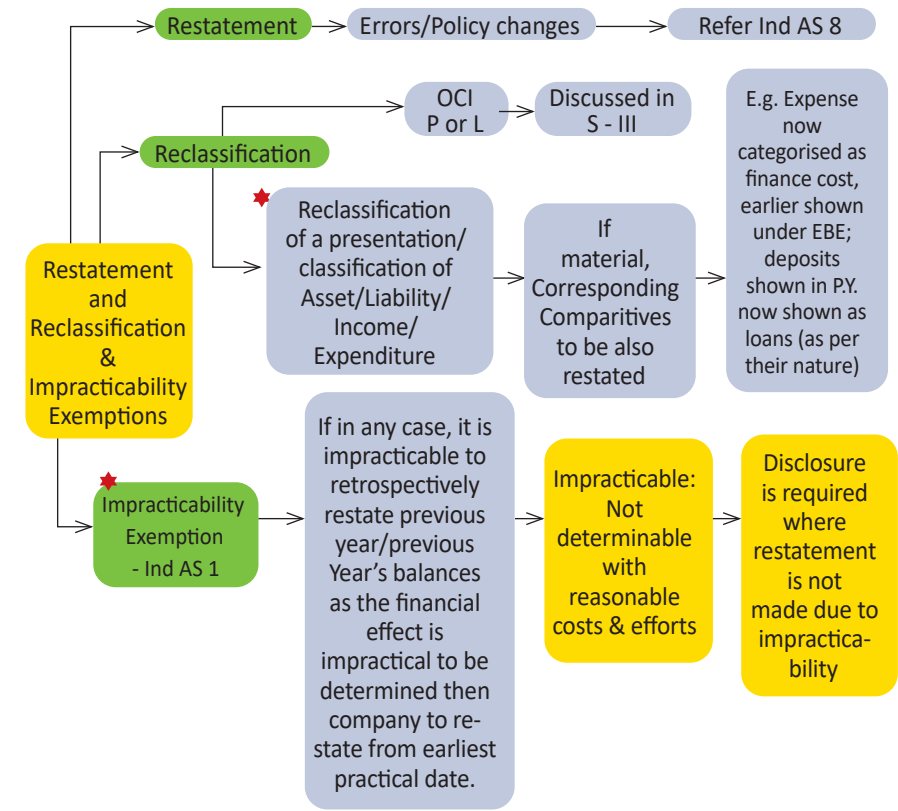
- Minimum 1 year + in case of First time adoption and restatement (retrospective) having material effect – Previous year opening balance sheet also presented.
- Entity can disclose comparatives for > 1 year as per Ind AS 1;
- Entity may also give > 1 year comparative for Statement for Profit and Loss & 1-year comparative for Balance Sheet and Cash flow Statement or Vice Versa.



2.7 Consistency

- Company to use consistent basis of accounting for similar items or items of similar class.
- Changes to be made only if:
 - Provides better presentation; or
 - Change in nature of operations; or
 - Required by any Ind AS
- Disclosures are required for changes in accounting policies giving the financial effect.

2.8 Restatement and Reclassification & Impracticability Exemptions



2.9 Frequency of Reporting:

- At least **Annually**; or
- If Reporting period is > 12 months or < 12 months; then disclose:
 - The reporting period; and
 - Fact that current year figures are not entirely comparable with previous year figures

3. Disclosures under Ind AS 1 (in brief)

3.1 Accounting Policies

- Disclose significant accounting policies regarding:
 - Bases of measurement (Cost/ Fair Value/Else); and
 - Other accounting policies
- Changes in accounting policies (See Consistency)
- Deviations from Ind AS in choice of accounting policies (See fair presentation)
- Significant **judgements of managements** (other than estimates) to be disclosed (E.g. **Materiality, Impracticability, Going Concern** etc.)

3.2 Accounting Estimates

Disclose any material uncertainty/ estimates involving significant uncertainty to be disclosed providing information on:

- Estimates used;
 - Sensitivity involved;
 - Range of possible outcomes; and
 - Basis of selection of estimates.
- E.g. discounting factor, fair values, expected loss on legal cases etc.

3.3 Capital Management Policies

- Qualitative aspects of capital;
- Quantitative aspects of capital;
- Management of both the above aspects;

- Externally imposed restrictions on capital; and
- Any violations of those restrictions during the year.

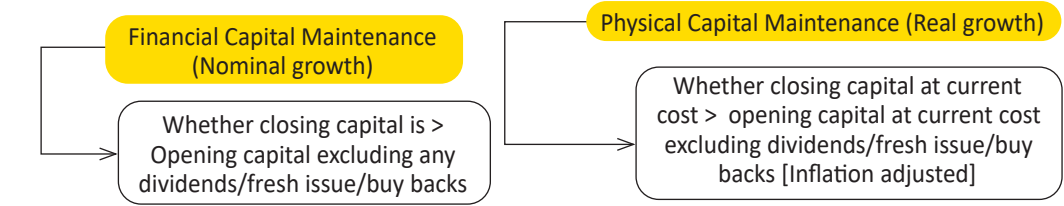
3.4 Puttable Financial Instruments : Discussed in Ind AS 32

3.5 Other Disclosures:

- Proposed dividend;
- Arrears of Preference dividend;
- Other:
 - Legal form +Domicile (Registered at) + Registered Address;
 - Holding & ultimate holding company name;
 - Nature of operations;
 - If it has specified life then disclose.

Framework for Preparation & Presentation of Financial Statements

- ICAI has given a framework (i.e. Guideline for preparation & presentation of financial statements)
 - Capital, Income and Expenditure (covered in DC in respective Ind AS)
- Framework covers matters like:**
 - Qualitative characteristics of F.S. (like Understandability, Comparability, Relevance and Reliability)
 - Provides definitions for Asset, Liability, Measurement basis (Like Cost, Realisable value, NRV, Replacement Cost, Present Value etc.)
 - Underlying assumptions (Accrual & Going Concern) *
- Capital Maintenance:**



E.g.(1)

Opening Capital	₹ 50,000
C.Y.Profits	₹ 5,000
Inflation	12.5%
Whether financial capital maintained?	
Hint: Yes, it has increased by ₹ 5,000	

E.g.(2)

Opening Capital (Restated)	₹ 56,250 (50000x 112.50%)
Closing Capital	₹ 55,000
Whether physical capital maintained?	
Hint: No, Physical capital not maintained as closing capital < opening capital (by ₹ 1250)	

1. Definition

(i) Inventories are assets:

- a) Held for sale in ordinary course of business (Finished goods)
- b) In the process of production for such sale (Work in progress)
- c) In the form of materials or supplies to be consumed in the production process or in the rendering of services (Raw materials)
Packages, Empties, By- products also included inventory specifically.

(ii) Net realizable value (NRV):

- | | |
|---|----------|
| a. Estimated selling price in ordinary course | + |
| b. Estimated cost of completion | (-) |
| c. Estimated cost necessary to make the sale | (-) |
| NRV | ✓ |

(iii) Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Ind AS 113)

2. Scope

Applicable to all inventories, except:

- a) Financial Instruments (accounted under Ind AS 109)
- b) Biological assets related to agriculture activity and agriculture produce at the point of harvest (accounted under Ind AS 41)
- c) Spare parts having life > one period covered under Ind AS-16

Not applicable to the inventories held by:

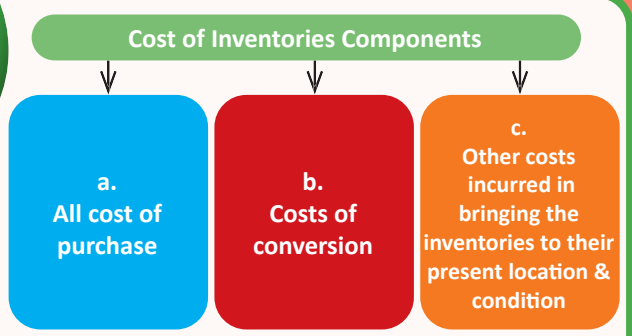
- a) Producers for agriculture & forest products, agriculture produce after harvest and minerals and mineral products, to the extent they are measured at NRV in accordance with industry practices
- b) Commodity broker traders who measure their inventories at fair value less costs to sell

VALUATION OF INVENTORY

Inventories shall be measured at lower of Cost and Net Realisable Value

3. Measurement

4. Cost of Inventory



a. Cost of Purchase includes:

- i) Purchase price
- ii) Import duties and other taxes (Non-recoverable)
- iii) Transport, handling and
- iv) Other cost to bring inventory to present location & condition
- v) Less :- Trade discounts rebates etc.

b. Cost of Conversion:

- i) Direct material
- ii) Direct labour
- iii) Other direct costs
- iv) Systematic allocated fixed & variable overheads incurred for conversion

c. Other Costs:

- Other costs to be included only to the extent that they are incurred in bringing the inventories to present location & condition.
- Borrowing cost as determined on the basis of Ind AS-23

d. Cost to be excluded:

- i) Abnormal costs
- ii) Storage cost (unless necessary in the production process)
- iii) General administrative overheads
- iv) Selling costs
- v) Research cost

5. Joint products & By-product

Joint Products:
Reasonable basis for allocation of costs to joint products to be used like split-off point costing etc.

By-Product:

- Output of manufacturing process with im-material value
- To be valued at NRV, and such value to be reduced from cost of production (conversion cost) [Same logic applies to packages & empties]
- By-product closing stock shown as asset in BS under inventories but at NRV.

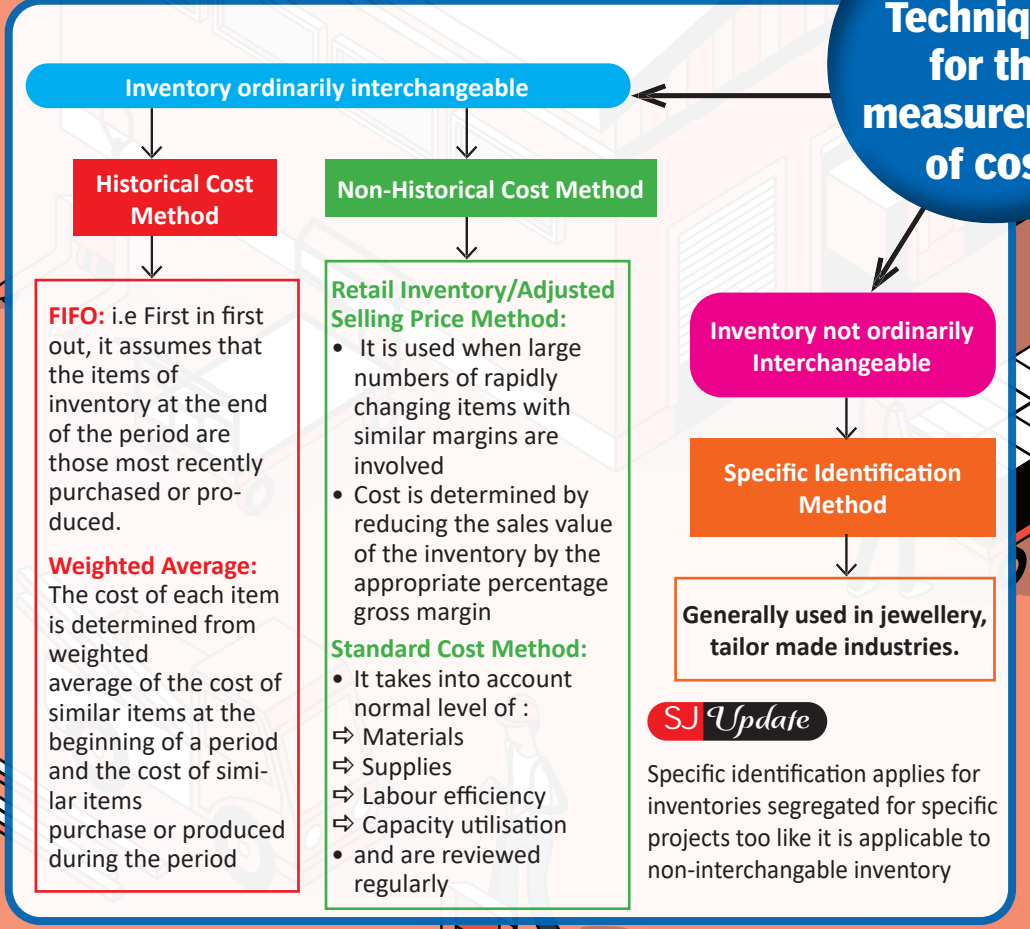
Writing inventories down to NRV : Exception

- Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost
- If FG expected to be sold below cost then value RM at cost or NRV whichever is less.
- Replacement cost i.e. cost to purchase such inventory is NRV.

7. Net realisable value

1. Estimates on NRV are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize.
2. Consideration to be taken while making such estimates:
 - a) Fluctuations of price or cost directly relating to events occurring after the end of the period
 - b) Purpose for which inventory is held
3. Inventories are usually written down to NRV item by item. It is not appropriate to write inventories down on the basis of a classification of inventory

6. Techniques for the measurement of cost



8. Recognition as an expense

Amount of inventories recognized as expense =	
a) Carrying amount of inventories sold in the period in which related revenue is recognised	XXX
b) Add: The amount of any write-down of Inventories to NRV and all losses of Inventories	XX
c) Less: Amount of any reversal in the period of any write-down of inventories	(XX)
Amount of Inventories recognized as expense	XXX

9. Disclosures

- i) Accounting policies
- ii) Analysis of carrying amount in classification appropriate to the entity
- iii) Inventories carried at FV less costs to sell
- iv) Amount recognized in profit or loss
- v) Inventories pledged as security



D Areas to be Spent

D-1 : Permitted Area

- CSR expenditure can be in nature of creation of **capital assets or revenue** in nature
- Schedule VII** prescribes **permitted areas** of spend usually, spend to be made in areas like children (underprivileged) welfare, old age person, women empowerment, sanitation facility, heritage asset protection, development of certain Indian sports etc.
- Contribution only to:
 - PM-National Relief Fund
 - PM-CARES Fund
 - Specified Funds

D-2 : Modes of Spending

- Expenditure may be incurred by company **directly or through contribution to Section 8 companies, Trust or Society** that is either a:
 - Govt. entity (or)
 - Group CSR entity (or)
 - Entity registered for atleast 3 years and is into CSR activities
- Spend to be in areas where **company usually operates** (In India)
- If CSR spend is in form of **free/subsidies supplies** then amount included in CSR will be only **based on cost of free supplies** (net of amount recovered) and not market values.
- Means, concessional sale of goods/services is **not counted as a CSR spend**, unless it is below its cost of purchase/production

These are the permitted spends (**Otherwise expenditure on CSR activities is to be done, donating itself to a fund do not suffice**)



Annual Report + Website : CSR Policy + Spends etc. disclosures

D-3 : Prohibited Spends

- CSR spend, to **not include > 5% spend from admin expenses** (means if company has dedicated team for CSR then salary of the team is included in CSR spends subject to a max. of 5%)
- CSR spends to be not spends made:
 - In ordinary course of business
 - On employees or their family members
- Appropriating funds for CSR is **not counted** as CSR spend, unless the funds are actually spent.
- Companies to form a CSR Committee** who shall made an annual plan for CSR spends (however, if CSR spend ≤ 50 lacs (for a year) then no CSR Committee is required, BOD may decide)

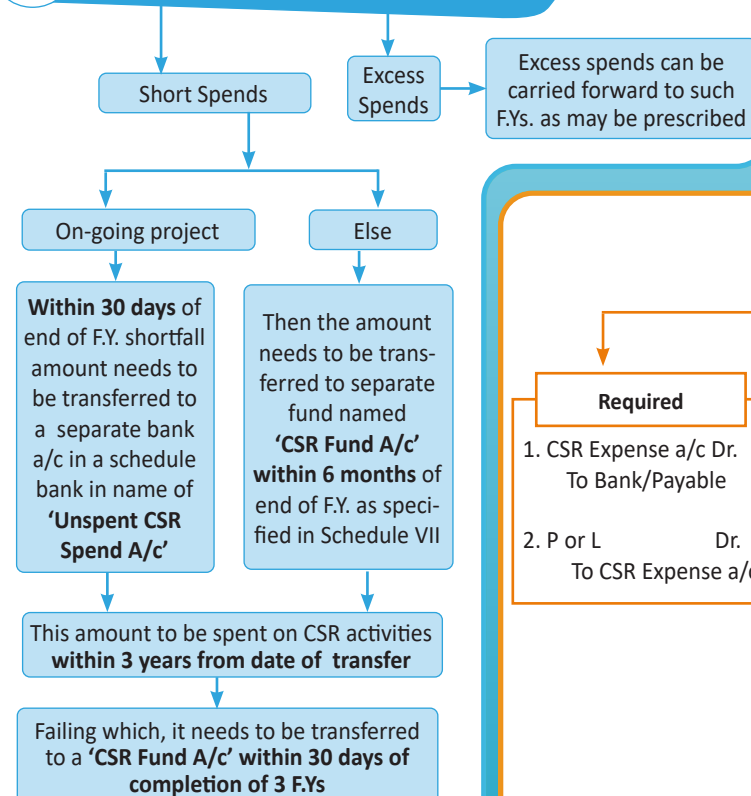
F Surplus of CSR Activities

- If entity generates any surplus (receipts > cost for CSR activities) then:
 - Companies Act prescribes that such surplus **can not** form part of **profits** of the company
 - Hence such surplus is an **obligation of company** that it needs to spend for CSR activity by either:
 - Transfer the amount to **‘Unspent CSR A/c’** in a scheduled bank within **30 days** and spend it as a part of its annual CSR spends of the next year (year next of surplus earned)
 - OR
 - Transfer surplus to fund mentioned under Schedule VII (i.e. **‘CSR Fund’**) within **6 month** from end of F.Y.

Accounting for CSR surplus:

Since company has earned the surplus, it has to be shown in SPL as income, but **since company has obligation to repay/spend it therefore a corresponding expense/liability is to be immediately created**

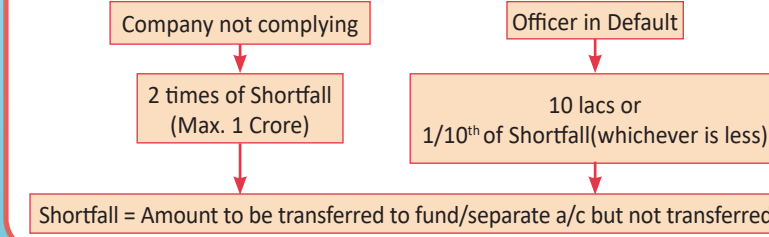
E Short/Excess Spends



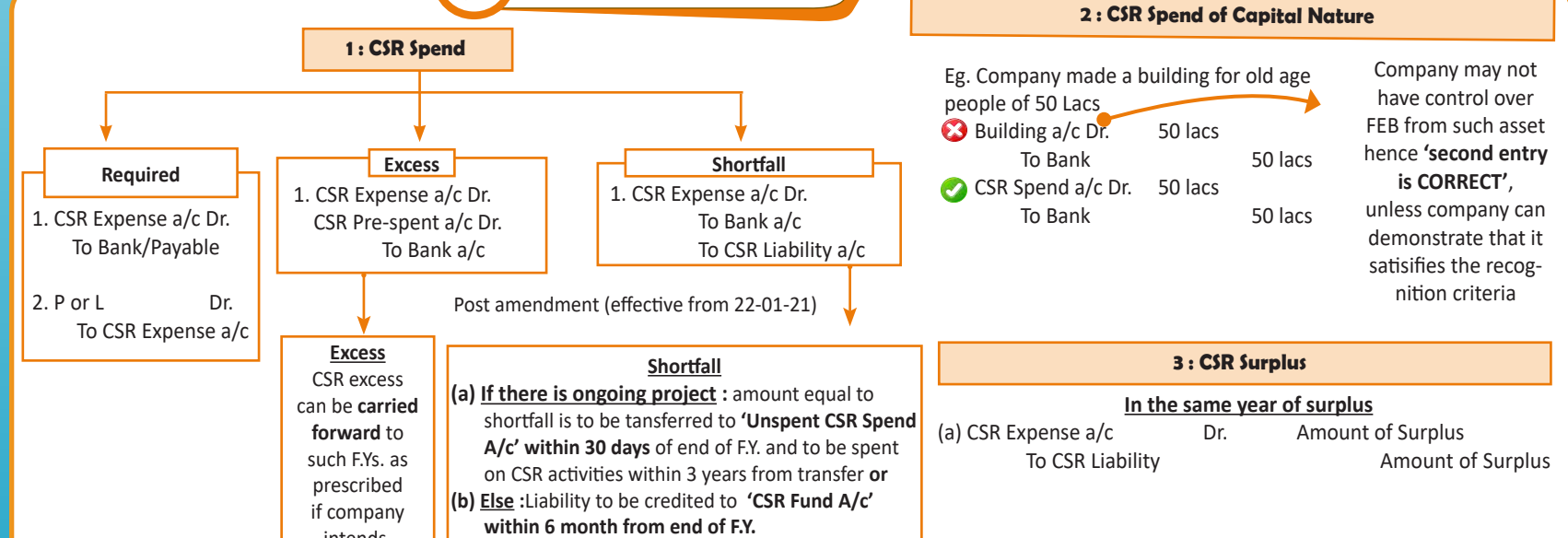
G Tax Effects

- CSR is not an expenditure done to generate business income hence **not claimable as a deduction from profits** under tax laws, unless the CSR spends otherwise qualifies to be an expenditure as given under sections 30-35 of Income-tax Act,1961, then it may be a deductible expense.
- Certain CSR spends may qualify for **section 80G**
- In 2019-20 it was allowed that contribution to PM-Cares Fund, even if made **till June 2020** will be:
 - Counted as CSR of F.Y. 2019-20 and
 - Deductible from income of P.Y. 2019-20; This would lead to creation of **DTL**, as company would not have recognised liability of such expense in 2019-20 (Carrying Amount=Nil) but claimed that under tax laws (Tax Base of Liability could be = amount claimed)

H Penalties



I Accounting



2 : CSR Spend of Capital Nature

Eg. Company made a building for old age people of 50 Lacs

✗ Building a/c Dr.	50 lacs		
To Bank		50 lacs	
✓ CSR Spend a/c Dr.	50 lacs		
To Bank		50 lacs	

Company may not have control over FEB from such asset hence **‘second entry is CORRECT’**, unless company can demonstrate that it satisfies the recognition criteria

3 : CSR Surplus

In the same year of surplus

(a) CSR Expense a/c	Dr.	Amount of Surplus
To CSR Liability		Amount of Surplus



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