CA FINAL
FINANCIAL REPORTING

NEW COURSE

CA Sarthak Jain

Notebook style multicoloured Book penned by CA SJ

Brahmastra

Self Study Book. Explains all Concepts Simplifies all Concepts...

- Introduction & Roadmap
- Conceptual Framework
- IndAS 1 and Schedule III
- Financial Instruments
- Consolidation
- Business Combination
- Share Based Payments

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CA FINAL- FINANCIAL REPORTING (NEW SYLLABUS)

(1) **Relevant for Students :** CA FINAL / CMA

(2) **CA Final Course Scope**

Ind AS, at the Final level, involves understanding, application and analysing of the concepts and testing of the same.

Certain portion of Ind AS and Ind AS have been excluded from syllabus (Ind AS 29, 104, 108 and 114) considering its relevance.

(3) **Objective**

(a) To acquire the ability to integrate and solve problems in practical scenarios on Indian Accounting Standards (Ind AS) 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 (Ind AS) while preparing and presenting the financial statements.

(c) To develop the expertise to prepare financial statements of group entities which includes subsidiaries, associates and joint arrangements based on Indian Accounting Standards (Ind AS).

(d) To develop understanding of certain Accounting Standards and solve problems in practical scenarios where treatment is different in both the standards.

(4) **Syllabus Overview:**

- Roadmap, Schedule III, Ind AS 1 and Conceptual Framework
- Financial Instruments
- Consolidation and Business Combination
- Revenue from Contract with Customer (Ind AS 115) and Leases (Ind AS 116)
- Share Based Payments (Ind AS 102)
- Ind AS (other than above)
- **Others :** Analysis of FS, Professional & Ethical Duty of a CA, Accounting & Technology
- Comparisons between Ind AS and Specified AS.

(5) **ICAI Material on Ind AS:**

- **ICAI Students –** Study Material + MTP + RTP + Past Exam Paper (PE)
- **ICAI Members & Others –** Compedium of Ind AS notified by MCA, Education material (EM)and Clarification Bulletins by ITFG (Ind AS Technical Facilitation Group)
- **IASB Material on IFRS –** IAS and IFRS, SIC, IFRIC & Background Material.

(6) **FAST Material Covers:** All of ICAI SM+ MTP+ RTP + PE + Selectively Covers EM + Clarifications + IFRS/ACCA + Additional Question (AD)+ Concept builder (CB) (Fast Exclusive)

(7) **How to write answers to objective questions/case study based questions:**

Para 1: Relevant Provision

- Quote the Name and Number of Ind AS or Section or Act or rules
- Quote only relevant part of the provison
- Avoid any interpretations

Para 2: Relate facts of the question to provison and interpret it

- Start with facts of the case
- Relate facts to provision given in the answer above (no need to repeat provision)
- Provide Interpretation

Para 3: Conclusion with assumption or if's/but's if any

- Conclusion para to specifically answer the questions asked in the question
- Make sure assumptions if used in making conclusions are well disclosed
- In case of Conditional Answers first give the most obvious answer

(8) **Sequence to Study:**

Same as followed in the class. Start with Roadmap ⇨ Fundamentals ⇨ Schedule III & Ind AS 1 ⇨ Financial Instruments ⇨ Consolidation ⇨ Business Combination ⇨ Share Based Payments ⇨ all other Ind AS ⇨ Other Topics

Introduction to Ind AS

1. INTRODUCTION TO IND AS

ASB (Accounting Standard Board) of ICAI established in 1977 is the standard setting arm of ICAI discharging the role of national standard setter. Exposure Draft by ASB → Public comments → Final Draft recommended to NFRA → then Government of India and MCA notifies AS for corporate entities and ICAI issues for non-corporate entities, is the brief process of issuing AS (and Ind AS) is India.

2. INDIAN SCENARIO PRIOR TO INTRODUCTION OF IND AS IN INDIA

Prior to introduction of Indian Accounting Standards (Ind AS) which are Accounting Standards duly **converged** with International Financial Reporting Standards (IFRS), ASB has issued various AS.

These AS are applicable to

- (a) Companies other than those following Ind AS,
- (b) SMCs and
- (c) Non-corporate entities.

Companies not adopting Ind AS :

- **Companies (Ind AS) Rules, 2015 :** Companies not covered under roadmap of Ind AS have to follow AS as prescribed in Companies (Accounting Standard) Rules, 2006.

Applicability of Ind AS and AS : Companies (AS) Rules,2006

- AS 1 to 29 to be followed by all companies.
- Except SMC's to be exempted from certain AS.
- SMC Classification as per Companies (AS) Rules:

Bases	Non-SMC	SMC
Turnover (P.Y.), or	>250 Cr.	Remaining
Borrowings (Any time in P.Y.), or	>50 Cr.	
Nature of Entity, or	Bank, F.I. or Insurance company	
Listing, or	Listed or to be Listed	
Group	Holding or Subsidiary of above	

Exemption	SMC	Non-Corporate Entities : SME Classification*			
		L1	L2	L3	L4
Completely Exempt	17	-	3, 17, 20, 21, 23, 25, 27	3, 17, 18, 20, 21, 23, 24, 25, 27	3, 14, 17, 18, 20, 21, 23, 24, 25, 27, 28
Exempted from certain accounting & disclosure requirements	12, 25, 28	-	15	15	15, 22
Exempted from certain disclosure requirement	19, 20, 29	-	19, 28, 29	10, 11, 19, 28, 29	10, 11, 13, 19, 26, 29

*Small Medium Enterprieses classification is prescribed by ICAI where non-corporate entities are classified under 4 levels.

- **Ind AS, if applicable/adopted,** provides no such entity specific exemptions as given in AS hence all Ind AS are mandatory to be followed (if relevant), if entities following Ind AS
- Ind AS 1 prescribess Companies following Ind AS to:
  a) Follow all Ind AS (and no option to follow Ind AS selectively); and
  b) Make an "Explicit Unreserved Statement" that it is following Ind AS for preparing & presenting F.S.

3. LIMITATIONS OF ACCOUNTING STANDARDS

Few rising complexities were not explicitly and comprehensive dealt by AS:

a) Capital being raised in the form of **complex financial instruments** like optionally convertible/ compulsorily convertible shares / debentures etc.

b) Various **derivative instruments embedded** in the foreign currency bonds / equity instruments , commodity derivatives etc.

c) Group **restructuring,** business **acquisitions, mergers, demergers, slump sale** etc.

d) **Complex revenue arrangements** and business models with innovating emerging **digital economy**

e) Diverse **stock-based compensation** with innovative remuneration models for C-suite

f) **Complex tax provisions** and impact thereof in determination of current and deferred t ax

g) Different ways to provide shareholders' return and various modes of shareholder's investments in kind in the event of group **reorganisation.**

Further, a need was felt to have comprehensive **disclosures** in the financial statements.

4. EMERGENCE OF GLOBAL ACCOUNTING STANDARDS

- In 1973, International Accounting Standards Committee **(IASC)** was formed
- The main goal of the committee was to harmonize different financial reporting practices.
- International Accounting Standards Board **(IASB)** was formed on 1st July 2000.
- IASB members are responsible for the development and publication of International Financial Accounting Standards **(IFRS)**.
- International Organisation of Securities Commissions **(IOSCO)**, in May 2000 announced that it had completed its assessment of 30 accounting standards of the International Accounting Standards Committee (IASC 2000 standards) and recommended that its members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings, as supplemented by reconciliation, disclosure and interpretation
- On 19th July 2002, a regulation was passed and all **EU listed companies** were required to prepare their financial statements following **IFRS from 2005.** This has led to IFRS being considered as one of the major unified GAAP in the world.
- So with this, **two prominent and widely adopted accounting standards** have emerged:

  1) Accounting Standards set up by US Financial Accounting Standards Board (FASB) (widely known as **"US GAAP"**) and
  2) **IFRS**
     - The "Group of 20" (G20) is made up of the finance ministers and central bank governors of 19 countries and the European Union:
     - The G20 has for some time called for the global convergence of accounting standards and has supported the IASB-FASB convergence process.
- The joint convergence project was launched in 2002 by the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB).
- The scope of the overall **IASB-FASB convergence project** has evolved over time and is currently under progress.
- So, IFRS is now, together with US GAAP, one of the two globally recognised financial reporting frameworks. presently, **167 jurisdictions require the use of IFRS Accounting Standards** for all or most publicly listed companies, whilst a **further 12 jurisdictions permit its use.**

5. NEED FOR GLOBAL ACCOUNTING STANDARDS IN INDIA

- Modern economies rely on **cross-border transactions** and the free flow of international capital.
- Applying **local accounting standards led to a totally different basis** for amounts appearing in financial statements.
- **International investors** were apprehensive to rely on the financial information of Indian Companies due to their limited understanding of accounting framework in India
- Considering above, **India made a commitment** towards the convergence of Indian accounting standards with **IFRS at the G20 summit in 2009.**

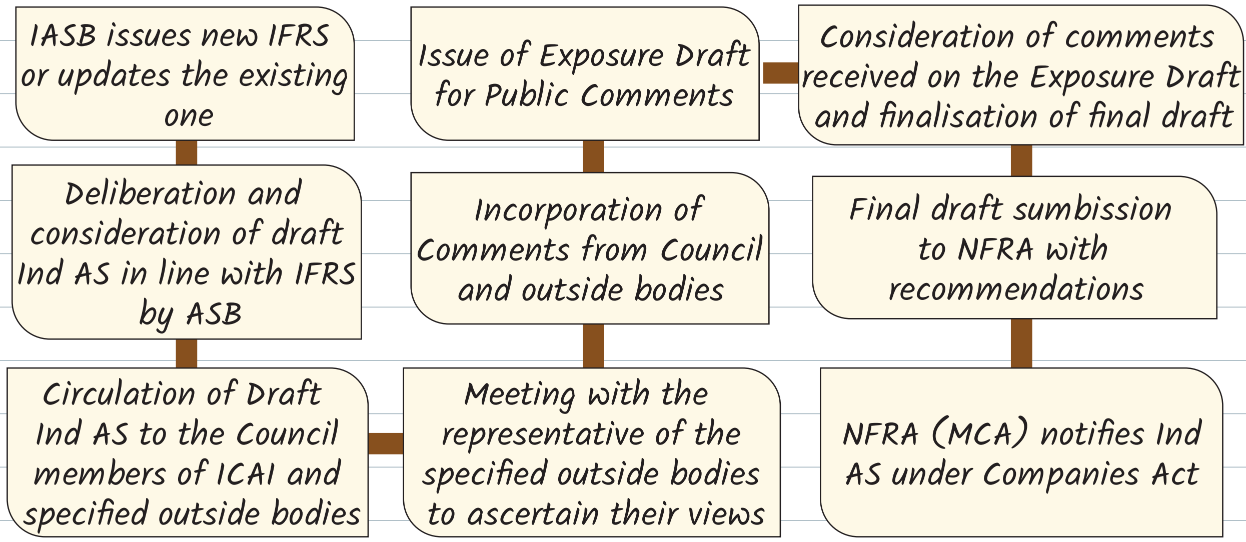
6. BENEFITS OF GLOBAL ACCOUNTING STANDARDS

1. Transparency, accountability and efficiency to financial markets around the world
2. Enhancing the international comparability and quality of financial information, enabling informed economic decisions.
3. Strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money.
4. Vital important regulators around the world.
5. Contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation
6. Single, trusted accounting language lowers the cost of capital and reduces international reporting costs.
7. Increased investment in jurisdictions adopting IFRS
8. Company which has operations in multiple countries, it became easy for them to consolidate their operations, track operational key performance indicators, and reduce the number of different reporting systems.

7. CONVERGENCE VS ADOPTION OF IFRS

Adoption of IFRS, means 100% compliant with the guidelines issued by IASB. Convergence "to move towards each other or meet at the same point from different directions", means the national accounting standards setter would work with IASB to develop high quality Accounting Standards over the time. **"Converged with IFRS" means adopted IFRS with some exceptions termed as Carve-Ins and Carve-Outs,** and work with IASB towards those exceptions to reach at a point wherein there are no differences left. An entity that applies IFRS as amended by a local authority cannot assert compliance with IFRS. Countries like Canada, Bahrain, Cambodia etc have adopted IFRS while countries like India, China, Hongkong etc have converged with IFRS.

8. PROCESS OF DEVELOPMENT AND FINALISATION OF INDIAN ACCOUNTING STANDARDS



9. TRANSITION FROM AS TO IND AS

MCA has notified the Companies (Indian Accounting Standards) Rules 2015 vide its G.S.R dated 16th February 2015. Notified 39 Ind AS and has laid down Ind AS transition roadmap for companies and non-banking finance companies excluding banking companies and insurance companies.

1 About Indian Accounting Standards

- Ind AS are the IFRS converged standards.
- Similar to IFRS they are **principles-based standards,** but substantially different from Indian GAAP.

2 How Ind AS have been numbered?

- Ind AS are numbered in a similar manner as compared to IFRS.
- **Numbers for IAS are retained.**
- For **IFRS, a new series starting after 100 was used.**
- IFRS Interpretations Committee (IFRIC) is the interpretative body of the IASB that issues.
- IFRS Interpretations, which are eventually approved by the IASB. Titled **'IFRIC'** and numbered as IFRIC 1,2 etc. Interpretations issued before 2003 were titled **'SIC'**
- IFRIC and SICs are included in Ind AS as part of Appendix in relevant Ind AS.
  - Total reporting standards issued under IFRS are 41. Total reporting standards issued under Ind AS are 39. IFRS 17 Insurance Contracts and IAS 26 Accounting and Reporting by Retirement Benefit Plans are yet not notified in India as Ind AS.
  - Total interpretations under IFRS (IFRIC + SIC) are 18. Total interpretation included under Ind AS (Appendix to relevant standards) are 17. IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments and

SIC -7 Introduction of the Euro are neither included under Ind AS nor notified. However, Appendix C to Ind AS 103 – Business Combinations was developed and additionally included in India for which no corresponding IFRIC or SIC is available.

3 How Ind AS have been structured?

AS retained the paragraph numbers of IFRS and IAS

Ind AS have following components:

1) **Objective –** What is the main purpose for which the Ind AS is formed
2) **Scope –** It defines specifically what it intends not to cover.
3) **Definitions –** It includes definitions of various terms used in the standards.
4) **Content of the Standard –** It generally contains principle of recognition, measurement, subsequent measurement along with any other standard specific contents
5) **Disclosure –** qualitative / quantitative information required to be disclosed in financial statements pertaining to the matter covered in the standard. It also contains how a particular asset / liability / income / expense should be presented in financial statements.
6) **Transitional provisions and effective date –** Under Ind AS, transitional provisions are mentioned mainly at two places. Firstly, it is broadly mentioned in Ind AS 101 and secondly in the individual Ind AS wherever applicable. The transitional provisions mentioned in Ind AS 101 are applicable to first time adopter of Ind AS. The transitional provisions mentioned in individual standards are applicable to entities that have already applied Ind AS.
7) **Appendices –** Ind AS also has appendices which are integral part of the standard. They mainly consist of:
   a. Explanation on industry specific issues which require detailed guidance. For e.g.: Appendix to Ind AS 16 contains treatment of stripping costs in the production phase of a surface mine
   b. **Application Guidance –** These are mainly in standards which are converged from International Financial Reporting Standards (Ind AS 101 and onwards). It contains detailed guidance in applying the principles mentioned in the standard
   c. **Defined terms –** It mentions definition of terms mentioned in the standard
   d. **References to matters contained in other Ind AS –** It lists the appendix which is a part of another Indian Accounting Standard and makes reference to the particular standard.
   e. **Comparison with IFRS –** Differences with IFRS are explained in this section
   f. IFRIC and SIC applicable and relevant for the respective Ind AS

In each Ind AS the text in bold mentions the principle while the text in plain mentions its application guidance / other explanation. Paragraphs set in bold type and plain type, have equal authority.

10. Roadmap for Applicability of Ind AS: Companies (Ind AS) Rules, 2015 (RULE 4)

Companies (and its Holding, subsidiaries, JV or Associate Companies)

(1) Phase I : 01.04.2016 – Net Worth ≥ 500 Cr. (listed or unlisted)

(2) Phase II : 01.04.2017 – All Listed (Debt or Equity - listed or to be listed - In Stock Exchange in or outside India Except SME Exchange or ITP without IPO) and, Unlisted Company - Net Worth ≥ 250 cr.

Exceptions:

(1) Banking Companies – ~~01.04.2018~~ ~~01.04.2019~~ → Deferred till further notice

(2) Insurance Companies – ~~01.04.2018~~ ~~01.04.2020~~ → Deferred till further notice

(3) NBFCs – Phase I : 01.04.2018 – Net worth ≥ 500Cr. (Listed or Unlisted)

Phase II : 01.04.2019 – Listed and

- Unlisted having Net worth ≥ 250 Cr.

Other companies to continue to follow AS.

Q. Is Voluntarily early adoption of Ind AS Possible ?

Ans: Yes, but not before 01.04.2015

And for – Banks : ~~01.04.2019~~ : Not earlier of the earliest application date

- Insurance Companies : ~~01.04.2020~~ : Not earlier of the earliest application date

- NBFCs : Voluntary adoption is not permitted

Note : An entity covered under Ind AS as per above will make its H/S/JV/A also covered under Ind AS. This also applies to entity that voluntarily follows Ind- AS However in no case Banking/Insurance/NBFC will be covered under Ind- AS prior to the date When Ind AS have been mandated for them.

Q. Application of Ind AS to non-finance company whose parent is NBFC

Tata Capital ltd. (Stock Broker) not before 01.04.2018

↓ Parent of

Tata BPO (listed Co.) Ind AS applicability on 01.04.2016 as Net worth ≥ 500 cr.

↓

Tata BPO to prepare alternate FS as per ~~Ind AS~~ AS till 31.03.2018 to facilitate preparation of Consolidated F.S. by Tata Capital using same accounting policies as that of Parent

10.1.1 Key Matters on Transition

1) **Comparative Financial Information**

All companies applying Ind AS are required to present comparative information as per Ind AS for one year. To comply with this requirement, Ind AS will be applicable from the beginning of the previous period.

Example

A company adopted Ind AS from 1st April, 2024 for its accounting period 2024-2025. Hence it will be required to prepare its first Ind AS financial statements for financial year 2024-2025 with comparatives for financial year 2023-2024, and the date of transition to Ind AS will be considered as 1st April 2023.

2) **Ind AS applicability**

Companies to which (Ind AS) are applicable, shall prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period, i.e. 31 march 2025 in above example.

3) **Consistent Application of Ind AS**

Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specifie d, it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in the Rules does not subsequently apply to it.

4) **Ind AS Applicability for Indian Group Companies**

If Ind AS is applicable to a company due to threshold or listing or voluntary choice, it would also be applicable to its holding company,subsidiary company, associate company and joint venture.

5) **Ind AS Applicability for Overseas Group Companies**

As per clause 5 of the Companies (Indian Accounting Standards) Rules, 2015 issued by MCA, overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction, provided that such Indian company shall prepare its consolidated financial statements in accordance with the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily as per the criteria as specified in the Rules.

6) **Ind AS Applicability for Standalone and Consolidated Financial Statements**

As per clause 3 of the notification issued by MCA, Ind AS once required to be complied with in accordance with these rules, shall apply to both stand-alone financial statements and consolidated financial statements.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