

CA FINAL
FINANCIAL
REPORTING

[DIGEST]

VOLUME-1



For CA FINAL
FINANCIAL REPORTING
DIGEST

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Telegram Channel (@aakashkandoi_FR)
Youtube Channel (CA Aakash Kandoi)*

Edition - 7

KEY FEATURES:

- ✓ Based on Institute's Revised Module (As per New Syllabus)
- ✓ Simple and Lucid Language
- ✓ Complex Theories Presented via Simplified Charts
- ✓ Great for Regular Reading and Last Day Revision

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For CA Final

Financial Reporting

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We express our sincere thanks to all our readers, authors and business associates for helping us in our mission of producing quality books for quality education. We wish all our young readers a brilliant success in various examinations and a bright future.

- Publisher

Preface

It gives me immense pleasure to present the Seventh Edition of C.A. Final Financial Reporting. This edition has updated syllabus which is applicable from May / Nov 2024 & 2025 Exam & onwards.

This book has everything which a student requires to understand & remember. Efforts have been made to keep the book in simplest form to understand without compromising on the coverage.

Students need to understand the concepts and logical reasoning of the Chapter. Only mugging-up shall not suffice to score in this subject. Also, students should practice as many illustrations as possible.

The More you Practice, the Better you Become.

For all revisions, updates and notes, students are requested to join the Telegram Channel & Youtube Channel:

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Every effort has been made to avoid any errors and omissions in this book. Despite all the effort we believe some errors might have crept in. The students are welcome to point out any errors/suggestions.

Best wishes,

- Aakash Kandoi
(FRwithAK@gmail.com)

ACKNOWLEDGEMENT

I would like to acknowledge my Parents (Biharilal & Sunita), Gopal (My Brother), Jeenal (My Sister-in-Law) for all their support towards my studies, career, & various aspects of my life.

A Special Thank You to My Wife "Murnali Shinde" for her constant support, encouragement & motivation in all aspects of my life.

I am grateful & thankful for priceless guidance & support provided by Bhanwar Borana Sir & Shubham Keswani Sir.

Above all, A big Thank You to all my students, you are my inspiration & guiding force.

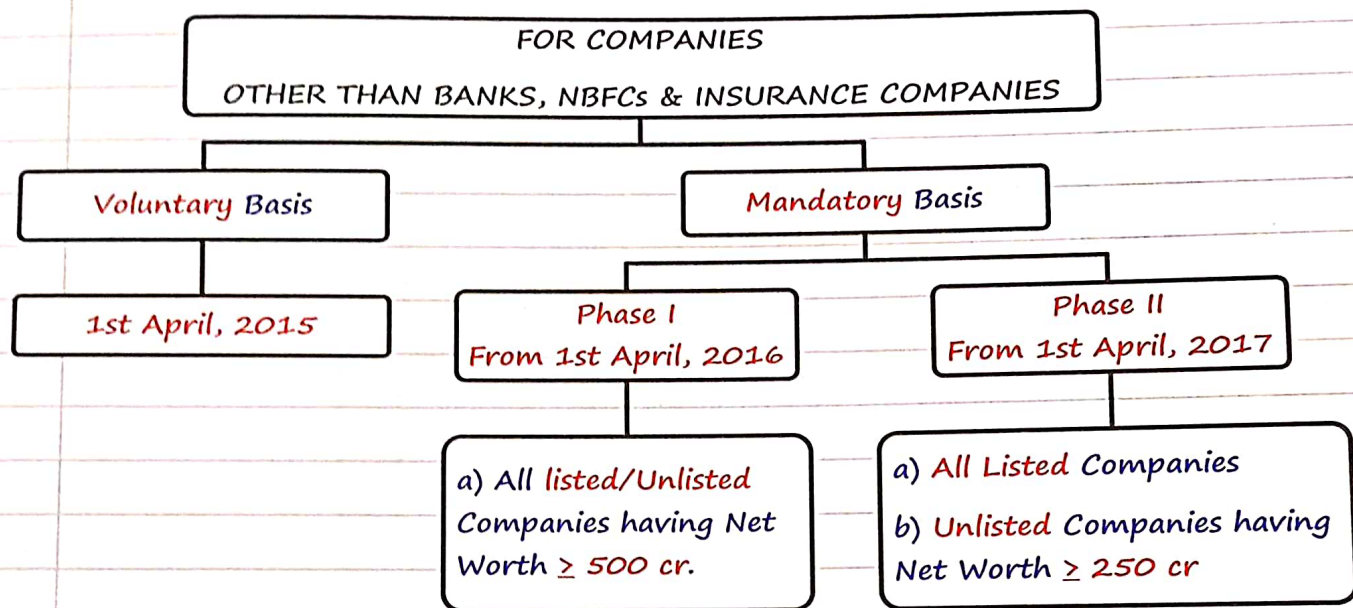


FINANCIAL REPORTING

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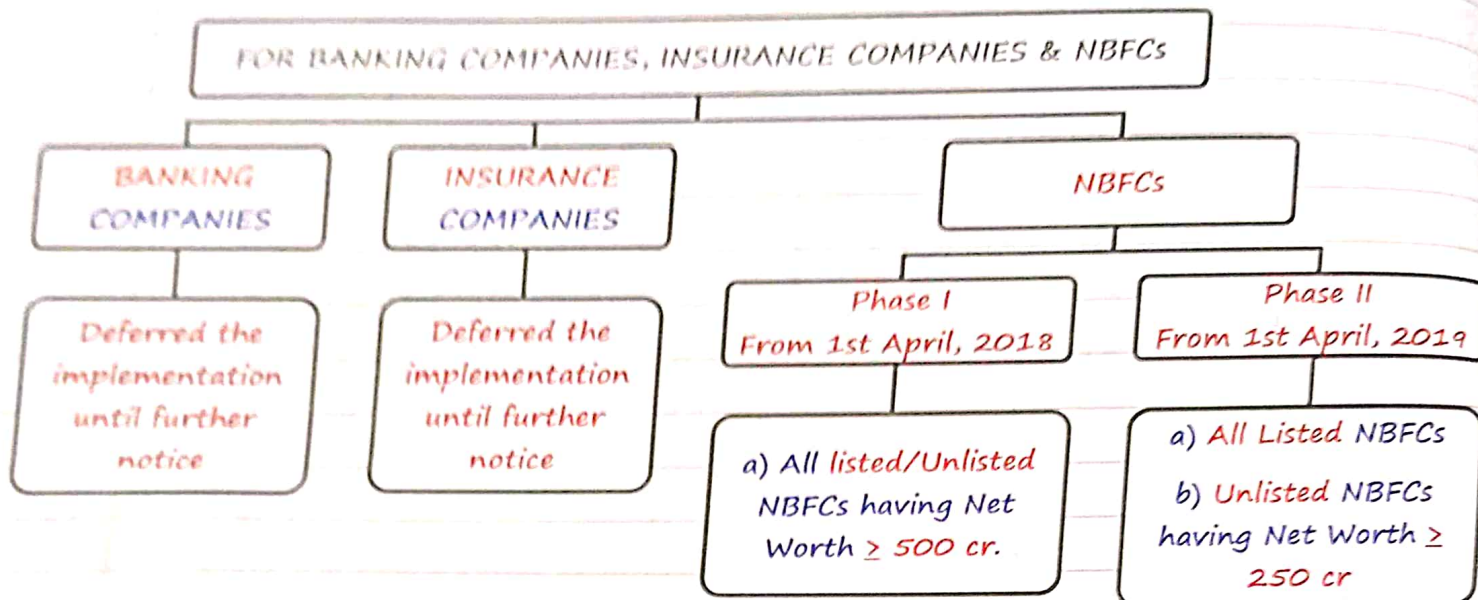
1. APPLICABILITY & IMPLEMENTATION OF IND AS



NOTE:

- i) Net worth in case of companies shall be checked from 31.03.14 & thereafter.
(Co. meeting specified threshold for first time at end of any accounting year shall apply IND AS from immediate next accounting year with comparatives.)
If any Co. does not meet applicability criteria as on cut-off date (31.03.14), they will have to reassess IND AS applicability criteria at each balance sheet date.)
- ii) IND AS once applicable, always applicable
- iii) An entity covered under IND-AS as per above will make its Parent, Subsidiary, Associate & Joint Venture also covered under IND AS
- iv) Application of Ind AS is for both standalone as well as consolidated financial statements.
- v) If Parent, Subsidiary, Associate & Joint Venture is Bank/Insurance/NBFC, then IND AS to such companies is applicable from their respective date (i.e. Dates Applicable to Banks/Insurance/NBFCs)
- vi) Companies listed on SME exchange not required to apply IND AS
- vii) Comparatives shall also be presented as per IND AS (Eg: A Co. adopted Ind AS from 1st

- April, 20X4 for X4-X5. Hence it will be required to prepare its first Ind AS FS for X4-X5 with comparative year X3-X4, and date of transition to Ind AS will be 1st April X3)
- viii) Companies not covered above shall continue to apply Accounting Standards (AS)



NOTE:

- i) Net worth in case of NBFCs shall be checked from 31.03.16 & thereafter.
- ii) Voluntary adoption of IND AS is not allowed in case of Banks, Insurance & NBFCs
- iii) Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.
- iv) Holding, Subsidiary, JV and Associate companies of above Banks, Insurance, NBFC other than those already covered under corporate roadmap shall also apply IND AS from said date.
- v) Comparatives shall also be presented as per IND AS.

❖ Ind AS Roadmap for Mutual Funds

SEBI vide a notification issued, FS of MF schemes will be prepared in accordance with Ind AS. And also issued certain guidelines with respect to Ind AS for MFs.

The circular also provides specific formats of FS for MF schemes under Ind AS. The requirements of the circular will become applicable from 1 Apr'23.

❖ $\text{Net Worth} = \text{Paid up Share Capital} + \text{All Reserves created out of profits} + \text{Securities Premium} - \text{Accumulated losses} - \text{Deferred Expenditure} - \text{Miscellaneous expenditure not written off.}$

BUT Net worth DOES NOT include reserves created out of revaluation of assets, write back of depreciation, Amalgamation Reserve.

PART I - BALANCE SHEET

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
(1)	NON - CURRENT ASSETS			
	a) Property, Plant and Equipment b) Capital work-in-progress c) Investment Property d) Goodwill e) Other Intangible assets f) Intangible assets under development g) Biological Assets other than bearer plants h) Financial Assets i) Investments ii) Trade receivables iii) Loans i) Deferred tax assets (net) j) Other non-current assets			
(2)	Current assets			
	a) Inventories b) Financial Assets i) Investments ii) Trade receivables iii) Cash and cash equivalents iv) Bank balances other than (iii) above v) Loans vi) Others (to be specified) c) Current Tax Assets (Net) d) Other current assets			

	TOTAL ASSETS			
	EQUITY & LIABILITIES			
	EQUITY			
	a) Equity Share capital			
	b) Other Equity			
	LIABILITIES			
(1)	Non-current liabilities			
	a) Financial Liabilities			
	i) Borrowings			
	ii) Trade Payables			
	(A) total outstanding dues of micro enterprises and small enterprises; and			
	(B) total outstanding dues of creditors other than micro enterprises			
	iii) Other financial liabilities (other than those specified in item (b), to be specified)			
	b) Provisions			
	c) Deferred tax liabilities (Net)			
	d) Other non-current liabilities			
(2)	Current liabilities			
	a) Financial Liabilities			
	ii) Borrowings			
	iii) Trade payables			
	(A) total outstanding dues of micro enterprises and small enterprises; and			
	(B) total outstanding dues of creditors other than micro enterprises			
	iv) Other financial liabilities (other than those specified in item (c))			
	b) Other current liabilities			
	c) Provisions			
	d) Current Tax Liabilities (Net)			
	TOTAL EQUITY & LIABILITIES			

STATEMENT OF CHANGES IN EQUITY

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application on money pending allotment	Equity component of compound financial instrument	Reserve and Surplus				Debt Instrument through other Comprehensive Income	Equity Instrument through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange difference on translating the FS	Other items of Other Comprehensive Income (Specify nature)	Money received against share capital	Total
			Capital Reserve	Securities Premium	Other Reserve (Specify nature)	Retained Earning								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

PART II - STATEMENT OF PROFIT AND LOSS

	Particulars	Note No.	Figures as at the end of current reporting period	Figures for the previous reporting period
I	Revenue from operations			
II	Other Income			
III	Total Income (I + II)			
IV	EXPENSES			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in - Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and Amortization Expenses			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I-IV)			
VI	Exceptional Items			
VII	Profit/ (loss) before tax(V-VI)			
VIII	Tax expense: 1) Current tax 2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII - VIII)			
X	Profit (Loss) from dis-continued operations			
XI	Tax expenses of discontinued operations			
XII	Profit/(loss) from Discontinued operations (after tax) (X-XI)			
XIII	Profit/(loss) for the period (IX+XII)			
XIV	OTHER COMPREHENSIVE INCOME			
	A.			
	i) Items that will not be reclassified to profit or loss			

	ii) Income tax relating to items that will not be reclassified to profit or loss B. i) Items that will be reclassified to profit or loss ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV) (Comprising Profit (Loss) and Other comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted			
XVIII	Earning per equity share (for discontinued & continuing operation) (1) Basic (2) Diluted			

❖ OTHER COMPREHENSIVE INCOME SHALL BE CLASSIFIED INTO:

A. Items that will **NOT be reclassified** to profit or loss:

- i) Changes in revaluation surplus;
- ii) Re-measurements of the defined benefit plans;
- iii) Equity Instruments through Other Comprehensive Income;
- iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;
- v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
- vi) Others (specify nature).

B. Items that **will be reclassified** to profit or loss:

- i) Exchange differences in translating the financial statements of a foreign operation;
- ii) Debt instruments through Other Comprehensive Income;
- iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;
- iv) Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and
- v) Others (specify nature)

❖ Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

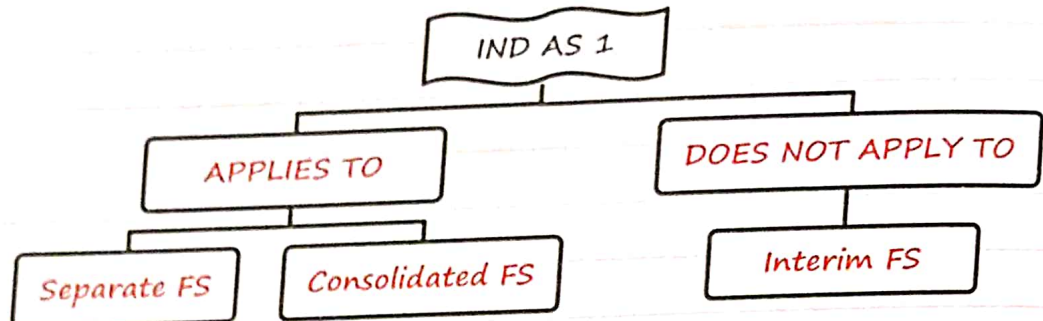
Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

"Believe you can, and you're halfway there"

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING UNDER IND AS

*For this chapter, students are advised to directly refer ICAI Study Material for Concepts.
(As this chapter covers the basic concepts of Accounting)*

1. SCOPE



NOTE:

- ☛ If NPO's (Section 8 companies) apply this Standard, they may need to amend the descriptions used for particular line items in the FS.
- ☛ In case of conflict between Companies Act & IND AS – Follow Companies Act
- In case of Conflict between Sch III & IND AS – Follow IND AS

2. COMPLETE SET OF FS

- I. Balance Sheet
- II. Statement of P&L (In 2 Sections – 1st P&L & 2nd OCI)
- III. Statement of Changes in Equity
- IV. Statement of Cash Flows
- V. Notes (comprising accounting policies and other explanatory information)
- VI. Comparative Information in respect of the preceding period
- VII. Balance Sheet as at the beginning of the preceding period (Refer Note a)

NOTE:

- A B/S as at the beginning of the preceding period is to be PREPARED ONLY WHEN an entity applies an accounting policy retrospectively OR makes a retrospective restatement of items in its FS OR when it reclassifies items in its FS.
- An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.
- Reports and statements presented outside financial statements (generally in annual reports) such as financial reviews by management, environmental reports, and value-added statement are outside the scope of Ind AS.

I. BALANCE SHEET

- To be prepared as per Schedule III of Companies Act.
- An entity shall present Current & Non-Current Assets, and Current & Non-Current Liabilities, as separate classifications in its B/S.

A. CURRENT ASSETS

Classify an asset as Current only when ANY of the 4 conditions are satisfied:

- It is Expected to be realised OR intended to be sold or consumed in Normal Operating Cycle*; OR
- It is Expected to be realised in 12 months after the reporting period; OR
- It is Held for Trading in ordinary course of business; OR
- It is Cash & Cash Equivalent (As per IND AS 7) UNLESS it is restricted of being exchanged or used for settlement for at least 12 months from reporting date

*OPERATING CYCLE

The operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

B. NON-CURRENT ASSETS

All other assets shall be classified as non-current assets.

C. CURRENT LIABILITY

The sum of above is "Total Comprehensive Income"

☞ When an entity is required to prepare CFS, it shall present:

- a) Profit or Loss for the period attributable to:
 - non-controlling interests, and
 - owners of the parent.
- b) Total Comprehensive Income for the period attributable to:
 - non-controlling interests, and
 - owners of the parent.

III. STATEMENT OF CHANGES IN EQUITY

☞ The statement of changes in equity shall reconcile between the opening & closing amount for each component of equity, by separately disclosing changes resulting from:

- Profit or Loss;
- Each item of Other Comprehensive Income;
- Effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;
- Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and
- Any item recognised directly in equity (such as amount recognised directly in equity as capital reserve with Ind AS 103)

IV. STATEMENT OF CASH FLOWS

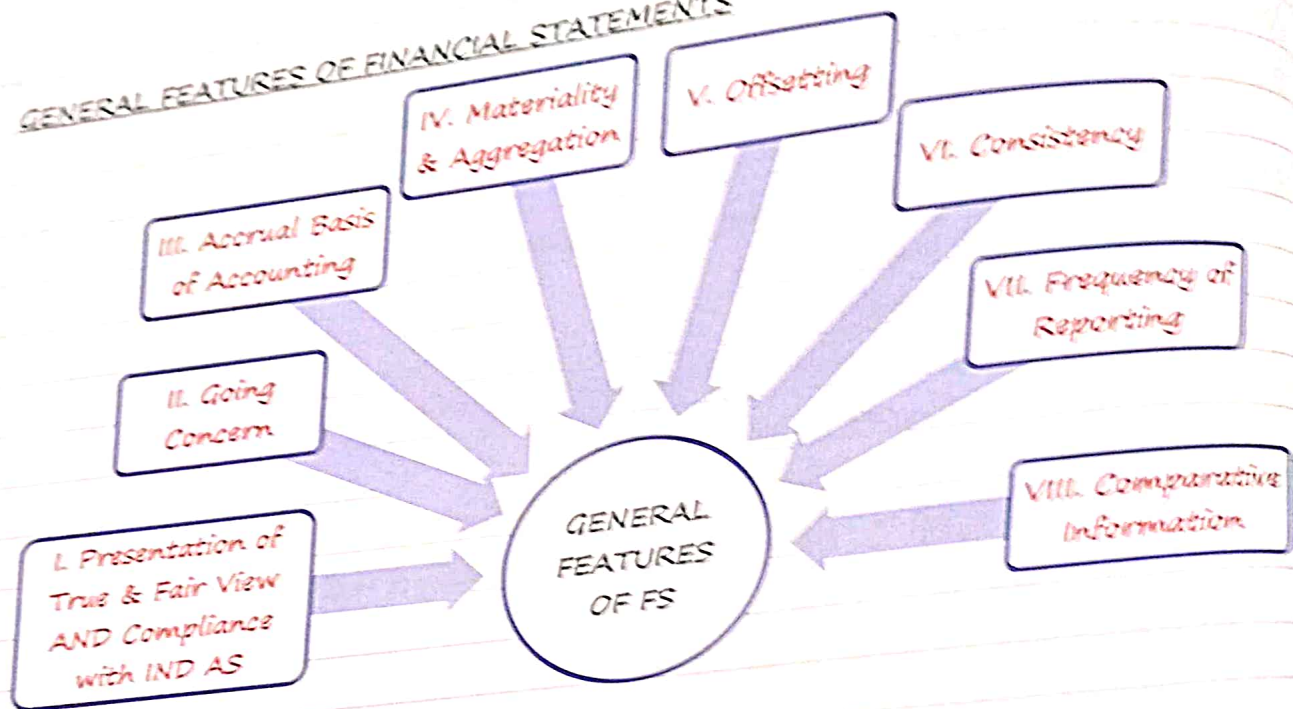
☞ To be prepared in accordance with IND AS 7

V. NOTES

☞ The notes shall disclose:

- Statement of compliance with Ind AS;
- Information about the basis of preparation of FS & Significant accounting policies applied;
- Supporting information for items presented in B/S, P&L, SOCIE and Cash Flows, in the order in which each statement and each line item is presented.
- Other disclosure required by IND AS.

3. GENERAL FEATURES OF FINANCIAL STATEMENTS



I. PRESENTATION OF TRUE & FAIR VIEW AND COMPLIANCE WITH IND AS

- ☞ In virtually all circumstances, presentation of a True & Fair view is achieved by compliance with applicable Ind AS.
- ☞ An entity whose FS comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes.
- ☞ An entity **CANNOT** rectify inappropriate accounting policies just by disclosing it. (i.e. Disclosure is NOT a remedy for wrong accounting)

NOTE:

There may be disagreement of the Company with the auditor on applicability of any Ind AS or particular requirement of any Ind AS and accordingly auditor may qualify the audit report. Even in such a situation, the financial statements will be assumed to be Ind AS compliant.

❖ DEPARTURE FROM REQUIREMENTS OF AN IND AS — WHETHER PERMISSIBLE?

In extremely rare circumstances, the entity may have to depart from a requirement in an IND AS because it would conflict with the objective of FS set out in the Framework

Relevant Regulatory Framework DOES NOT PROHIBIT such a Departure

IND AS Permits such departure and it shall disclose:

- That FS give a True & Fair view as per management conclusion;
- That Complied with all IND AS EXCEPT the departure
- Title of IND AS departed, Nature & Reason for Departure & Treatment Adopted
- Financial Effect of departure on all periods presented.

Relevant Regulatory Framework PROHIBITS such a Departure

IND AS DOES NOT permit such departure BUT to reduce the perceived misleading aspects of compliance, it can disclose the following:

- Title of IND AS in question, Nature & Reason why management thinks that complying with the requirement is in conflict with objective of FS
- Financial Effect that would be necessary on all periods presented if the entity had departed

II. GOING CONCERN

- FS should be prepared on a going concern basis unless management either intends to liquidate or to cease trading, or has no realistic alternative but to do so.
- If FS are NOT prepared on a going concern basis, disclose the basis of preparation of FS and also the reason why the entity is not regarded as a going concern.
- If management has significant doubt of the entity's ability to continue as a going concern the uncertainties should be disclosed.

III. ACCRUAL BASIS OF ACCOUNTING

- An entity shall prepare its FS using the accrual basis of accounting, EXCEPT for cash flow information.

IV. MATERIALITY & AGGREGATION

- ☞ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions of users.
- Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- ☞ An entity shall present separately each material class of similar items, items of a dissimilar nature or function UNLESS they are immaterial, EXCEPT when required by law. (i.e. Even if items are immaterial, they shall be presented separately when it is required by law)

V. OFFSETTING

- ☞ An entity shall NOT offset Assets & Liabilities OR Income & Expenses, UNLESS required or permitted by an Ind AS.
- ☞ An entity presents on a net basis gains & losses arising from a group of similar transactions. (Example, Foreign exchange gains and losses or gains and losses arising on financial instruments held for trading).
- However, an entity presents such gains and losses separately if they are material.

NOTE:

- ☞ Measuring assets net of valuation allowances is NOT offsetting. (Example, obsolescence allowances on inventories and doubtful debts allowances on receivables)

VI. CONSISTENCY

- ☞ An entity shall retain the presentation and classification of items in the FS from one period to the next UNLESS:
- Another presentation or classification would be more appropriate;
 - OR
 - An Ind AS requires a change in presentation.
- ☞ When making such changes in presentation, an entity reclassifies its comparative amounts UNLESS reclassification is impracticable.
- When the entity reclassifies comparative amounts, Disclose - Nature, Amount & Reason for the reclassification.
 - When it is impracticable to reclassify comparative amounts, Disclose - the reason for not reclassifying the amounts, and the nature of the adjustments that would have been