

Final Course Study Material (Modules 1 to 5)

Paper 1

Financial Reporting

Module – 2

(Relevant for May, 2025 Examination and onwards)



**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 Joint Director, Board 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.

Basic draft of this publication was prepared by CA. (Dr.) Rashmi Goel

Edition	:	November, 2024
Committee/Department	:	Board of Studies
E-mail	:	bosnoida@icai.in
Website	:	www.icai.org
Price	:	₹ /- (For All Modules)
ISBN No.	:	978-93-48313-35-5
Published by	:	The Publication & CDS Directorate 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	:	

SIGNIFICANT CHANGES

Significant changes in this Module 2 vis-à-vis Module 2 of April, 2023 edition of the Study Material <i>(The amendments made in the respective chapters / units have been highlighted in bold and italics for easy reference except newly added illustrations)</i>		
Chapter/Unit	Chapter name (Ind AS)	Details
5	Ind AS on Assets of the Financial Statements	In the previous edition of the study material this was Chapter 6 which has become Chapter 5 in this edition.
5 Unit 1	Ind AS 2 "Inventories"	Question 6 from the "Test Your Knowledge" section has been relocated to the "Practice Questions" section as Question 1. Additionally, four new questions numbered 2, 3, 4 and 5 have been introduced under the "Practice Questions" section.
5 Unit 2	Ind AS 16 "Property, Plant and Equipment"	Questions 8, 9, 10 and 11 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1, 2, 3 and 4 respectively. Additionally, four new questions numbered 5, 6, 7 and 8 have been introduced under the "Practice Questions" section.
5 Unit 3	Ind AS 23 "Borrowing Costs"	Questions 7 and 8 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1 and 2 respectively. Additionally, four new questions numbered 3, 4, 5 and 6 have been introduced under the "Practice Questions" section.
5 Unit 4	Ind AS 36 "Impairment of Assets"	Questions 8, 9, 10, 11, 12, 13 and 14 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as

		Questions 1, 2, 3, 4, 5, 6 and 7 respectively. Additionally, three new questions numbered 8, 9 and 10 have been introduced under the "Practice Questions" section.
5 Unit 5	Ind AS 38 "Intangible Assets"	Questions 8, 9, 10, 11, 12, 13, 14 and 15 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1, 2, 3, 4, 5, 6, 7 and 8 respectively. Additionally, four new questions numbered 9, 10, 11 and 12 have been introduced under the "Practice Questions" section.
5 Unit 6	Ind AS 40 "Investment Property"	Question 6 from the "Test Your Knowledge" section has been relocated to the "Practice Questions" section as Question 1. Additionally, two new questions numbered 2 and 3 have been introduced under the "Practice Questions" section.
5 Unit 7	Ind AS 105 "Non-current Assets Held for Sale and Discontinued Operations"	Question 6 from the "Test Your Knowledge" section has been relocated to the "Practice Questions" section as Question 1. Additionally, three new questions numbered 2, 3 and 4 have been introduced under the "Practice Questions" section.
5 Unit 8	Ind AS 116 "Leases"	<ul style="list-style-type: none"> • Illustrations 39, 40 and 41 have been deleted • Questions 8 and 9 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1 and 2, respectively. Additionally, five new questions numbered 3, 4, 5, 6 and 7 have been introduced under the "Practice Questions" section.
Chapter on Other Indian Accounting Standards		This chapter has been shifted to Module 4 as Chapter 10.

CONTENTS

MODULE – 1

Chapter 1: Introduction to Indian Accounting Standards

Chapter 2: Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS)

Chapter 3: 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 4: 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”

Annexure: Division II of Schedule III to the Companies Act, 2013

Practice Questions

Ind AS Puzzlers: Test Your Accounting Acumen

MODULE – 2

Chapter 5: 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 23 “Borrowing Costs”

Unit 4: Ind AS 36 “Impairment of Assets”

Unit 5: Ind AS 38 “Intangible Assets”

Unit 6: Ind AS 40 “Investment Property”

Unit 7: Ind AS 105 “Non-current Assets Held for Sale and Discontinued Operations”

Unit 8: Ind AS 116 “Leases”

Practice Questions

Ind AS Puzzlers: Test Your Accounting Acumen

MODULE – 3

Chapter 6: 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 7: 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 8: 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”

Practice Questions

Ind AS Puzzlers: Test Your Accounting Acumen

MODULE – 4

Chapter 9: Ind AS 115 “Revenue from Contracts with Customers”

Chapter 10: Other Indian Accounting Standards

Unit 1: Ind AS 41 “Agriculture”

Unit 2: Ind AS 20 “Accounting for Government Grants and Disclosure of Government Assistance”

Unit 3: Ind AS 102 “Share Based Payment”

Chapter 11: Accounting and Reporting of Financial Instruments

Unit 1: Financial Instruments: Scope and Definitions

- Unit 2: Classification and Measurement of Financial Assets and Financial Liabilities
- Unit 3: Financial Instruments: Equity and Financial Liabilities
- Unit 4 : Derivatives and Embedded Derivatives
- Unit 5: Recognition and Derecognition of Financial Instruments
- Unit 6: Hedge Accounting
- Unit 7: Disclosures

Comprehensive Illustrations

Practice Questions

Ind AS Puzzlers: Test Your Accounting Acumen

MODULE – 5

Chapter 12: Ind AS 103 “Business Combinations”

Chapter 13: Consolidated and Separate Financial Statements of Group Entities

- Unit 1 : Introduction to Consolidated and Separate Financial Statements
- Unit 2 : Important Definitions
- Unit 3 : Consolidated Financial Statements
- Unit 4 : Ind AS 110: Consolidation Procedure for Subsidiaries
- Unit 5 : Ind AS 111: Joint Arrangements
- Unit 6 : Ind AS 28: Investment in Associates & Joint Ventures
- Unit 7 : Ind AS 27: Separate Financial Statements
- Unit 8 : Disclosures

Chapter 14: Ind AS 101 “First-time Adoption of Indian Accounting Standards”

Chapter 15: Analysis of Financial Statements

Chapter 16: Professional and Ethical Duty of a Chartered Accountant

Chapter 17: Accounting and Technology

Practice Questions

Ind AS Puzzlers: Test Your Accounting Acumen

DETAILED CONTENTS: MODULE – 2

CHAPTER 5: IND AS ON ASSETS OF THE FINANCIAL STATEMENTS

Unit 1: Indian Accounting Standard 2: Inventories

Learning Outcomes 5.1

Unit Overview 5.2

Contents:

1.1 Objective 5.2

1.2 Scope 5.3

1.3 Relevant Definitions 5.4

1.4 Measurement of Inventories 5.6

1.5 Recognition as an expense 5.31

1.6 Disclosure 5.32

1.7 Extracts of financial Statements of listed entity 5.33

1.8 Significant differences in Ind AS 2 vis-à-vis AS 2 5.36

Shortcut to Ind AS Wisdom 5.38

Test Your Knowledge 5.38

Questions 5.38

Answers 5.40

Unit 2: Indian Accounting Standard 16: Property, Plant and Equipment

Learning Outcomes 5.44

Unit Overview 5.45

Contents:

2.1 Objective 5.46

2.2 Scope 5.46

2.3 Relevant Definitions 5.46

2.4	Recognition	5.48
2.4.1	General recognition criteria	5.48
2.4.2	Recognition of Spare parts, stand-by equipment and servicing equipment.....	5.49
2.4.3	Unit of Measurement for recognition of PPE and Aggregation of individually insignificant items	5.49
2.4.4	Initial cost	5.49
2.4.5	Subsequent Costs	5.50
2.5	Measurement at Recognition.....	5.52
2.5.1	Measurement at cost	5.52
2.5.2	Element of cost	5.52
2.5.3	Measurement of cost	5.56
2.6	Measurement after Recognition.....	5.60
2.6.1	Alternative bases available for measurement after recognition	5.60
2.6.2	Cost Model	5.60
2.6.3	Revaluation model	5.60
2.6.4	Depreciation	5.66
2.6.5	Impairment	5.71
2.7	Derecognition	5.71
2.7.1	Derecognition-general.....	5.71
2.8	Disclosure	5.73
2.8.1	Disclosure-general.....	5.73
2.8.2	Items stated at revalued amounts.....	5.74
2.8.3	Additional recommended disclosure	5.75
2.9	Changes in existing decommissioning, restoration and similar liabilities (Appendix A)..	5.81
2.9.1	When to apply guidance in Appendix A to Ind AS 16.....	5.81
2.9.2	Issues addressed by Appendix A to Ind AS 16.....	5.81
2.9.3	Accounting Guidance in Appendix A to Ind AS 16.....	5.82
2.10	Extracts of financial Statements of listed entity.....	5.86

2.11	Significant differences in Ind AS 16 vis-à-vis AS 10	5.88
2.12	Carve Out in Ind AS 16 vis-à-vis IAS 16	5.88
	Shortcut to Ind AS Wisdom	5.89
	Test Your Knowledge	5.89
	Questions	5.89
	Answers	5.91
	Unit 3: Indian Accounting Standard 23: Borrowing Costs	
	Learning Outcomes.....	5.97
	Unit Overview	5.98
	Contents:	
3.1	Core principle	5.99
3.2	Scope of the standard.....	5.99
3.3	Key definitions	5.100
3.4	Exchange difference to be included in borrowing costs	5.104
3.5	Recognition	5.107
	3.5.1 Borrowing costs eligible for capitalisation	5.108
	3.5.2 Calculation of capitalisation rate	5.110
	3.5.3 Expenditure to which capitalisation rate is applied	5.113
	3.5.4 Excess of the carrying amount over recoverable amount	5.113
3.6	Period of capitalisation.....	5.113
	3.6.1 Commencement of capitalisation.....	5.113
	3.6.2 Suspension of capitalisation.....	5.115
	3.6.3 Cessation of capitalisation	5.116
3.7	Disclosure	5.117
3.8	Other relevant concepts	5.117
	3.8.1 Dividends payable on shares classified as financial liabilities	5.117
	3.8.2 Capitalising borrowing cost in group financial statements.....	5.118

3.8.3	Cessation of capitalisation for maturing inventories.....	5.118
3.9	Extracts of financial statements of listed entity.....	5.119
3.10	Significant differences in Ind AS 23 vis-à-vis AS 16	5.120
	Shortcut to Ind AS Wisdom.....	5.123
	Test Your Knowledge.....	5.123
	Questions	5.123
	Answers	5.127
	Unit 4: Indian Accounting Standard 36: Impairment of Assets	
	Learning Outcomes.....	5.133
	Unit Overview	5.134
	Contents:	
4.1	Objective	5.135
4.2	Scope.....	5.135
4.3	Relevant definitions	5.136
4.4	Identifying an asset that may be impaired.....	5.137
4.4.1	Identifying an asset that may be impaired-General	5.137
4.4.2	Indications of impairment	5.138
4.5	Requirement for Annual Review	5.141
4.5.1	Items required to be tested for impairment at least annually.....	5.141
4.5.2	Intangible assets required to be tested for impairment at least annually	5.141
4.5.3	Goodwill	5.142
4.6	Measurement of recoverable amount	5.144
4.6.1	Recoverable amount	5.144
4.6.2	Circumstances in which it is not necessary to calculate both an asset's fair value less costs of disposal and its value in use.....	5.145
4.6.3	Circumstances in which recoverable amount is determined in the Context of CGU	5.145
4.7	Fair Value less Costs of Disposal	5.146

4.7.1	Fair value and costs of disposal-definition	5.146
4.7.2	Cost of disposal to be deducted	5.146
4.7.3	Contrasting fair value and value in use	5.146
4.8	Value in Use	5.147
4.8.1	Value in use-general	5.147
4.8.2	Estimation of expected future cash flows	5.147
4.8.3	Discount rate	5.153
4.9	Recognising and measuring an Impairment loss	5.156
4.9.1	Recognition and measurement of an impairment loss-Individual Asset	5.156
4.9.2	Recognition and measurement of an impairment loss for a cash generating unit and goodwill.....	5.159
4.9.3	Two-step approach for goodwill allocated to a group of CGUs.....	5.171
4.10	Reversing an impairment loss	5.172
4.10.1	Reversals of impairment losses-general	5.172
4.10.2	Indications of reversals of impairment loss	5.173
4.10.3	Reversing an impairment loss for an individual asset.....	5.173
4.10.4	Reversing an impairment loss for a cash-generating unit	5.174
4.10.5	Reversing an impairment loss for goodwill not permitted.....	5.174
4.10.6	Non controlling interests – the impact on goodwill impairment testing.....	5.178
4.11	Disclosure	5.181
4.11.1	Disclosure-general.....	5.181
4.11.2	Entities reporting segment information.....	5.181
4.11.3	Impairment losses recognised or reversed in the period.....	5.182
4.11.4	Other impairment losses/reversals material in aggregate to the financial statements	5.183
4.11.5	Unallocated goodwill.....	5.183
4.11.6	Information to be disclosed for CGUs to which significant goodwill or indefinite-life intangible assets have been allocated	5.184

4.11.7	Information to be disclosed for CGUs to which insignificant goodwill or indefinite-life intangible assets have been allocated	5.186
4.12	Extracts of financial statements of listed entity	5.195
4.13	Significant differences in Ind AS 36 vis-a-vis AS 28	5.197
	Shortcut to Ind AS Wisdom	5.199
	Test Your Knowledge	5.199
	Questions	5.199
	Answers	5.202
	Unit 5: Indian Accounting Standard 38: Intangible Assets	
	Learning Outcomes.....	5.208
	Unit Overview	5.209
	Contents:	
5.1	Objective	5.210
5.2	Scope.....	5.210
5.2.1	Applicability	5.210
5.2.2	Intangible assets contained in or on a physical substance.....	5.211
5.2.3	Intangible assets on leases	5.211
5.2.4	Intangible assets used in the extractive and insurance industries	5.211
5.2.5	Amortisation method specified in this standard not to apply to intangible assets arising from service concession arrangements in respect of toll roads.....	5.212
5.3	Relevant definitions	5.212
5.4	Identification of intangible assets.....	5.214
5.4.1	Meaning of intangible asset	5.214
5.4.2	Identifiability.....	5.218
5.4.3	Asset.....	5.219
5.5	Recognition of intangible asset.....	5.222
5.5.1	Recognition of Intangible assets-general principles	5.222

5.6	Measurement of intangible asset.....	5.223
5.6.1	Separate acquisition	5.224
5.6.2	Acquisition as part of a business combination	5.227
5.6.3	Acquisition by way of a government grant	5.228
5.6.4	Exchange of assets.....	5.229
5.6.5	Internally generated goodwill.....	5.231
5.6.6	Internally generated intangible assets	5.231
5.7	Recognition of an expense.....	5.237
5.8	Measurement after recognition.....	5.239
5.8.1	Cost model	5.239
5.8.2	Revaluation model.....	5.239
5.9	Useful life	5.243
5.10	Intangible assets with finite useful lives	5.246
5.10.1	Depreciable amount to be amortised over the asset's useful life.....	5.246
5.10.2	Residual value	5.246
5.10.3	Amortisation period.....	5.247
5.10.4	Amortisation method.....	5.248
5.11	Intangible assets with indefinite useful lives.....	5.253
5.12	Impairment	5.255
5.13	Retirements and disposals	5.255
5.14	Disclosure	5.256
5.15	Extracts of financial statements of listed entity.....	5.263
5.16	Significant differences in Ind AS 38 vis-à-vis AS 26	5.266
	Shortcut to Ind AS Wisdom.....	5.271
	Test Your Knowledge.....	5.271
	Questions.....	5.271
	Answers	5.273

Unit 6: Indian Accounting Standard 40: Investment Property

Learning Outcomes..... 5.275

Unit Overview 5.276

Contents:

6.1 Objective 5.277

6.2 Scope..... 5.277

6.3 Relevant definitions 5.277

6.4 Classification of property as investment property or owner-occupied property 5.278

6.5 Recognition 5.283

6.6 Measurement at recognition 5.285

6.7 Measurement after recognition 5.291

6.8 Transfers 5.294

6.9 Disposals..... 5.296

6.10 Disclosure 5.299

6.11 Extracts of financial statements of listed entity 5.301

Shortcut to Ind AS Wisdom..... 5.304

Test Your Knowledge..... 5.304

Questions 5.304

Answers 5.308

Unit 7: Indian Accounting Standard 105: Non-Current Assets held for Sale and Discontinued Operations

Learning Outcomes..... 5.313

Unit Overview 5.314

Contents:

7.1 Objective 5.315

7.2 Scope..... 5.316

7.3 Relevant definitions 5.317

7.4	Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners	5.319
7.4.1	Available for immediate sale	5.319
7.4.2	Sale must be highly probable	5.320
7.4.3	Other key points	5.321
7.5	Measurement of non-current assets (or disposal groups) classified as held for sale	5.326
7.5.1	Measurement at the lower of carrying amount and fair value value less cost to sell	5.326
7.5.2	Recognition of impairment losses and reversals	5.326
7.5.3	Changes to a plan of sale	5.331
7.6	Presentation and disclosures of a non-current asset (or disposal group) classified as held for sale	5.334
7.6.1	Non-current assets and disposal groups classified as held for sale	5.334
7.6.2	Presentation	5.334
7.6.3	Disclosures.....	5.336
7.7	Discontinued operations.....	5.337
7.7.1	Discontinued operation-definition	5.337
7.7.2	Separate presentation of discontinued operations.....	5.340
7.7.3	Presentation in the statement of profit and loss	5.340
7.7.4	Disclosures in the statement of cash flows	5.341
7.7.5	Disclosures of Earnings per share	5.341
7.7.6	Adjustment to prior period disposals.....	5.341
7.7.7	Change to a plan of sale	5.342
7.7.8	Loss of Control in subsidiary	5.342

7.8	Extracts of financial statements of listed entity	5.343
7.9	Significant differences in Ind AS 105 vis-a-vis AS 24	5.345
	Shortcut to Ind AS Wisdom.....	5.347
	Test Your Knowledge.....	5.347
	Questions	5.347
	Answers	5.351
	Unit 8: Indian Accounting Standard 116: Leases	
	Learning Outcomes.....	5.356
	Unit Overview	5.357
	Contents:	
8.1	Overview	5.358
	8.1.1 Objective	5.358
	8.1.2 Scope.....	5.359
	8.1.3 Recognition Exemptions.....	5.359
8.2	What is a Lease?.....	5.364
	8.2.1 Whether an arrangement contains lease?.....	5.364
	8.2.2 Separation of lease and non-lease components.....	5.381
	8.2.3 Contract combinations	5.387
	8.2.4 Portfolio application	5.388
8.3	Key concepts	5.388
	8.3.1 Inception and commencement of lease.....	5.388
	8.3.2 Lease term	5.390
	8.3.3 Lease payments	5.399
	8.3.4 Lessee involvement before commencement date.....	5.408
	8.3.5 Initial direct costs.....	5.409
	8.3.6 Discount rates	5.410

8.3.7	Economic life	5.412
8.3.8	Fair Value	5.412
8.4	Lessee accounting	5.412
8.4.1	Initial recognition and measurement	5.412
8.4.2	Subsequent measurement	5.417
8.4.3	Remeasurement	5.426
8.4.4	Lease modifications	5.429
8.4.5	Presentation	5.445
8.4.6	Disclosure	5.446
8.4.7	Income tax accounting	5.448
8.5	Lessor accounting	5.448
8.5.1	Lease classification	5.448
8.5.2	Finance leases	5.452
8.5.3	Operating leases	5.461
8.5.4	Lease modifications	5.462
8.5.5	Presentation	5.464
8.5.6	Disclosure	5.464
8.6	Other matters	5.465
8.6.1	Sub-leases	5.465
8.6.2	Sale and leaseback transactions	5.470
8.7	Transition approach	5.476
8.7.1	Definition of a lease	5.476
8.7.2	Transition options for lessees	5.477
8.7.3	Modified retrospective approach	5.477
8.7.4	Disclosure	5.489
8.7.5	Lessors	5.491
8.7.6	Sale and leaseback transactions before the date of initial application	5.491

8.7.7	Amounts previously recognised in respect of business combinations.....	5.492
8.8	Extracts of financial statements of listed entity	5.492
8.9	Key differences between Ind AS 17 and Ind AS 116	5.497
8.10	Key differences between Ind AS 116 and AS 19	5.508
8.11	Major changes under Ind AS 116 from IFRS 16	5.511
	Shortcut to Ind AS Wisdom.....	5.512
	Test Your Knowledge.....	5.512
	Questions	5.512
	Answers	5.514
	Practice Questions.....	PQ 1 – PQ 86
	Ind AS Puzzlers : Test your Accounting Accuracy	(1) – (4)

