

Final Course Study Material (Modules 1 to 5)

Paper 1

Financial Reporting

Module – 3

(Relevant for May, 2026 Examination)



**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
Reprint	:	August, 2025
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 3 vis-à-vis Module 3 of April, 2023 edition 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)

Chapter/Unit	Chapter name (Ind AS)	Details
6	Ind AS on Liabilities of the Financial Statements	In the previous Module 3, this was Chapter 8. However, in this Module 3, this chapter has been renumbered as Chapter 6.
6 Unit 1	Ind AS 19 "Employee Benefits"	Questions 7, 8 and 9 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1, 2 and 3 respectively. Additionally, three new questions numbered 4, 5 and 6 have been introduced under the "Practice Questions" section.
6 Unit 2	Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets"	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.
7	Ind AS on Items impacting the Financial Statements	In the previous Module 3, this was Chapter 9. However, in this Module 3, this chapter has been renumbered as Chapter 7.
7 Unit 1	Ind AS 12 "Income Taxes"	Questions 8, 9 and 10 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1, 2 and 3 respectively. Additionally, four new questions numbered 4, 5, 6 and 7 have been

		introduced under the "Practice Questions" section.
7 Unit 2	Ind AS 21 "The Effects of Changes in Foreign Exchange Rates"	Questions 6, 7 and 8 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1, 2 and 3 respectively. Additionally, one new question numbered 4 has been introduced under the "Practice Questions" section.
8	Ind AS on Disclosures in the Financial Statements	In the previous Module 3, this was Chapter 10. However, in this Module 3, this chapter has been renumbered as Chapter 8.
8 Unit 1	Ind AS 24 "Related Party Disclosures"	Questions 6 and 7 from the "Test Your Knowledge" section have been relocated to the "Practice Questions" section as Questions 1 and 2 respectively. Additionally, one new question numbered 3 has been introduced under the "Practice Questions" section.
8 Unit 2	Ind AS 33 "Earnings per Share"	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.
8 Unit 3	Ind AS 108 "Operating Segments"	Question 4 from the "Test Your Knowledge" section has been relocated to the "Practice Questions" section as Question 1. Additionally, one new question numbered 2 has been introduced under the "Practice Questions" section.
Chapter on Accounting and Reporting of Financial Instruments		This chapter has been shifted to Module 4

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 – 3

CHAPTER 6- IND AS ON LIABILITIES OF THE FINANCIAL STATEMENTS

Unit 1: Indian Accounting Standard 19: Employee Benefits

Learning Outcomes	6.1
Unit Overview.....	6.3
Contents:	
1.1 Objective of Ind AS 19.....	6.4
1.2 Scope.....	6.5
1.3 Employee Benefits	6.5
1.4 Definitions	6.7
1.4.1 Definitions of employee benefits.....	6.7
1.4.2 Definitions relating to classification of plans	6.8
1.4.3 Definitions relating to the net defined benefit liability (asset)	6.9
1.4.4 Definitions relating to defined benefit cost.....	6.11
1.5 Short term employee benefits	6.12
1.5.1 Recognition and Measurement of short-term benefits	6.13
1.5.2 Short-term paid absences	6.13
1.5.3 Profit-sharing and Bonus plans.....	6.21
1.5.4 Disclosure	6.24
1.6 Post-employment benefits	6.25
1.6.1 Classification of post-employment benefit plans into Defined Contribution Plan vs. Defined Benefit Plans.....	6.25
1.6.2 Multi-employer plans.....	6.28
1.6.3 Group Administration plans	6.30
1.6.4 Defined benefits plans that share risks between entities under common control	6.31
1.6.5 State plans.....	6.32

1.6.6	Insured benefits.....	6.32
1.7	Accounting for defined contribution plans	6.33
1.7.1	Recognition and Measurement	6.33
1.7.2	Disclosure.....	6.34
1.8	Accounting for defined benefit plans	6.35
1.8.1	Recognition and Measurement	6.36
1.8.2	Accounting for the constructive obligation	6.39
1.8.3	Balance sheet	6.39
1.9	Recognition and measurement: Present value of defined benefit obligations and current service cost	6.42
1.9.1	Actuarial valuation method	6.42
1.9.2	Attributing benefit to periods of service	6.45
1.9.3	Actuarial assumptions.....	6.51
1.10	Recognition and Measurement: Plan Assets.....	6.58
1.10.1	Fair value of plan assets.....	6.58
1.10.2	Reimbursements	6.58
1.11	Components of defined benefit cost	6.59
1.11.1	Net interest on the net defined benefit liability (asset).....	6.60
1.11.2	Remeasurements of the net defined benefit liability (asset).....	6.61
1.12	Presentation	6.66
1.12.1	Offset.....	6.66
1.12.2	Current/Non-current distinction.....	6.66
1.12.3	Components of defined benefit costs	6.66
1.13	Disclosure	6.67
1.13.1	General.....	6.67
1.13.2	Characteristics of defined benefit plans and risks associated with them	6.67
1.13.3	Explanation of amounts in the financial statements	6.68
1.13.4	Amount, timing and uncertainty of future cash flows	6.70
1.13.5	Multi-employer plans.....	6.71

1.13.6	Defined benefit plan that share risks between entities under common control.....	6.72
1.13.7	Disclosure requirements in other Ind AS	6.72
1.14	Other long-term employee benefits	6.73
1.14.1	Recognition and Measurement	6.73
1.14.2	Disclosure.....	6.74
1.15	Termination benefits.....	6.74
1.15.1	Recognition.....	6.75
1.15.2	Measurement	6.76
1.15.3	Disclosure.....	6.77
1.16	Ind AS 19-The limit on a defined benefits asset, minimum funding requirements and their interaction.....	6.78
1.16.1	Background.....	6.78
1.16.2	Scope	6.78
1.16.3	Issues	6.78
1.16.4	Principles.....	6.79
1.17	Extracts of financial statements of listed entity.....	6.82
1.18	Significant differences in Ind AS 19 vis-à-vis AS 15	6.84
Shortcut to Ind AS Wisdom	6.88
Test Your Knowledge	6.88
Questions	6.88	
Answers.....	6.90	
Unit 2: Indian Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets		
Learning Outcomes	6.93	
Unit overview	6.94	
Contents:		
2.1	Objective	6.94
2.2	Scope.....	6.95

2.2.1	Executory Contracts	6.96
2.2.2	Provisions when relate to the recognition of revenue or expense/losses	6.97
2.3	Definitions	6.97
2.4	Provisions and other liabilities	6.100
2.5	Relationship between provisions and contingent liabilities	6.102
2.6	Recognition	6.103
2.6.1	Provisions	6.103
2.6.2	Contingent liabilities	6.114
2.6.3	Contingent assets.....	6.115
2.7	Measurement	6.117
2.7.1	Best estimate	6.117
2.7.2	Risks and uncertainties.....	6.119
2.7.3	Present value	6.120
2.7.4	Future Events.....	6.121
2.7.5	Expected disposal of assets	6.123
2.8	Reimbursements	6.123
2.9	Change in provisions.....	6.125
2.10	Use of provisions	6.126
2.11	Application of the recognition and measurement rules.....	6.127
2.11.1	Future operating losses	6.127
2.11.2	Onerous contracts	6.128
2.11.3	Restructuring	6.130
2.12	Disclosure	6.134
2.13	Levies (Appendix C of Ind AS 37)	6.136
2.13.1	Appendix C deals with	6.136
2.13.2	Appendix C does not deal with	6.137
2.13.3	What is a levy?	6.137
2.13.4	Accounting principles.....	6.137

2.14	Extracts of financial statements of listed entity.....	6.139
2.15	Significant differences in Ind AS 37 <i>vis-a-vis</i> AS 29	6.140
Shortcut to Ind AS Wisdom		6.142
Test Your Knowledge		6.142
Questions		6.142
Answers.....		6.144

CHAPTER 7- IND AS ON ITEMS IMPACTING THE FINANCIAL STATEMENTS

Unit 1: Indian Accounting Standard 12: Income Taxes

Learning Outcomes	7.1
Unit Overview.....	7.3

Contents:

1.1	Objective	7.4
1.2	Scope.....	7.6
1.3	Definitions	7.9
1.4	Part A: Tax expense (Tax Income).....	7.10
1.5	Part B: Current tax, its recognition, measurement and presentation	7.11
1.5.1	Current tax.....	7.11
1.5.2	Recognition.....	7.11
1.5.3	Measurement	7.11
1.5.4	Accounting of current tax effects	7.13
1.5.5	Offsetting current tax assets and current tax liabilities	7.13
1.6	Part C: Deferred tax, its recognition, measurement and presentation	7.18
1.6.1	Step 1: Compute carrying amount	7.18
1.6.2	Step 2: Compute tax base.....	7.19
1.6.3	Step 3: Compute temporary differences	7.26
1.6.4	Step 4: Classify temporary differences.....	7.30
1.6.5	Step 5: Identify exceptions	7.38

1.6.6	Step 6: Assess (also reassess) deductible temporary differences, tax losses and tax credits	7.46
1.6.7	Step 7: Determine the tax rate (law)	7.54
1.6.8	Step 8: Calculate and recognise deferred tax	7.57
1.6.9	Step 9: Accounting of deferred tax.....	7.58
1.6.10	Step 10: Offsetting deferred tax assets and deferred tax liabilities.....	7.59
1.7	Part D: Practical application.....	7.61
1.7.1	Deferred tax arising from a business combination	7.61
1.7.2	Current and deferred tax arising from Share based payment transactions....	7.63
1.7.3	Change in tax status of an entity or its shareholders.....	7.65
1.8	Part E: Disclosures	7.66
1.8.1	Disclosure 1: Disclose components of tax expenses (Income).....	7.66
1.8.2	Disclosure 2: Tax related to items charged directly to equity	7.67
1.8.3	Disclosure 3: Tax related to items recognized in statement of other comprehensive income.....	7.68
1.8.4	Disclosure 4: Explanation of the relationship between Tax expense (income) and accounting profit.....	7.68
1.8.5	Disclosure 5: Change in tax rates	7.74
1.8.6	Disclosure 6: Unrecognised deductible temporary differences, unused tax losses and unused tax credits	7.74
1.8.7	Disclosure 7: Temporary differences associated with investments in subsidiaries etc.....	7.76
1.8.8	Disclosure 8: Amount of deferred tax liabilities (assets) or income (expenses)	7.77
1.8.9	Disclosure 9: Discontinued operations	7.78
1.8.10	Disclosure 10: Dividend tax.....	7.78
1.8.11	Disclosure 11: In case of business combination	7.78

1.8.12	Disclosure 12: Deferred tax asset and evidence thereto where based on future taxable profits	7.78
1.8.13	Disclosure 13: Tax consequences of distribution of dividend.....	7.79
1.8.14	Disclosure 14: Tax related contingencies	7.80
1.8.15	Disclosure 15: Change in tax rates or tax laws	7.80
1.9	Significant changes in Ind AS 12 vis-à-vis AS 22	7.85
Shortcut to Ind AS Wisdom	7.89
Test Your Knowledge	7.89
Questions	7.89
Answers.....	7.91
Unit 2: Indian Accounting Standard 21: The Effects of changes in Foreign Exchange Rates		
	Learning Outcomes	7.95
	Unit Overview.....	7.96
Contents:		
2.1	Objective	7.97
2.2	Scope.....	7.98
2.3	Functional currency.....	7.98
2.4	Accounting for foreign currency transactions	7.105
2.4.1	Initial recognition at the transaction date.....	7.105
2.4.2	Monetary Vs. Non- Monetary items.....	7.105
2.4.3	Subsequent recognition at the end of each reporting period.....	7.106
2.4.4	Recognition of foreign exchange gains and losses	7.108
2.4.5	Change in functional currency	7.111
2.5	Use of a presentation currency other than the Functional currency	7.112
2.5.1	Translation to the presentation currency	7.112
2.6	Translation of foreign operations.....	7.114
2.7	Difference in the reporting dates	7.114
2.8	Intra – group transactions.....	7.115

2.8.1	Dividends	7.119
2.9	Goodwill and fair value adjustments arising from a business combination	7.120
2.10	Disposal or partial disposal of foreign operations	7.120
2.10.1	Full disposal.....	7.120
2.10.2	Partial disposal.....	7.121
2.11	Tax effect of all exchange differences	7.122
2.12	Disclosures.....	7.122
2.13	Extracts of financial statements of listed entity.....	7.123
2.14	Significant differences in Ind AS 21 vis-à-vis AS 11	7.123
	Shortcut to Ind AS Wisdom	7.126
	Test Your Knowledge.....	7.126
	Questions	7.126
	Answers.....	7.128

CHAPTER 8-IND AS ON DISCLOSURES IN THE FINANCIAL STATEMENTS

Unit 1: Indian Accounting Standard 24: Related Party Disclosures

Learning Outcomes	8.1
Unit Overview.....	8.2

Contents:

1.1	Introduction	8.2
1.2	Objective	8.3
1.3	Scope.....	8.4
1.4	Definitions	8.5
1.4.1	Understanding relationship between the reporting entity and a person(s)	8.5
1.4.2	Understanding relationship between the reporting entity and another entity/entities	8.6
1.4.3	Understanding who are not related parties	8.9
1.4.4	Understanding related party transactions	8.11
1.4.5	Other important definitions	8.12
1.5	Disclosures.....	8.13

1.5.1	Disclosure-Relationships between parent and subsidiaries	8.13
1.5.2	Category 2 Disclosure.....	8.14
1.6	Exemption to government-related entities.....	8.19
1.7	Significant differences in Ind AS 24 vis-à-vis AS 18	8.21
Shortcut to Ind AS Wisdom	8.29
Test Your Knowledge	8.29
Questions	8.29
Answers.....	8.31
Unit 2: Indian Accounting Standard 33: Earnings Per Share		
Learning Outcomes	8.34
Unit Overview.....	8.35
Contents:		
2.1	Introduction	8.36
2.2	Objective	8.36
2.2.1	Limitation of EPS.....	8.36
2.3	Scope.....	8.37
2.4	Definitions	8.37
2.5	Measurement	8.39
2.6	Measurement of basic earnings per share	8.40
2.6.1	Meaning and formula	8.40
2.6.2	Measurement of earnings.....	8.41
2.6.3	Shares	8.47
2.7	Diluted earnings per share.....	8.58
2.7.1	Scope, meaning and formula	8.58
2.7.2	Earnings	8.58
2.7.3	Shares	8.60
2.8	Retrospective adjustments.....	8.76
2.9	Presentation	8.77

2.10	Disclosure	8.78
2.11	Additional Topics	8.79
	2.11.1 Participating equity instruments and two-class ordinary shares	8.79
	2.11.2 Partly paid shares.....	8.83
2.12	Extracts of financial statements of listed entities	8.84
2.13	Significant differences between Ind AS 33 and AS 20	8.88
	Shortcut to Ind AS Wisdom	8.89
	Test Your Knowledge.....	8.89
	Questions	8.89
	Answers.....	8.91
	Unit 3: Indian Accounting Standard 108: Operating Segments	
	Learning Outcomes	8.95
	Unit Overview.....	8.96
	Contents:	
3.1	Core principle	8.97
3.2	Scope.....	8.97
3.3	Operating segments.....	8.98
	3.3.1 Functions that are integral to business.....	8.99
	3.3.2 Discontinued operations – whether an operating segment.....	8.100
3.4	Reportable segments	8.103
3.5	Aggregation criteria.....	8.104
3.6	Quantitative thresholds.....	8.108
3.7	Disclosure	8.111
	3.7.1 General information	8.112
	3.7.2 Information about profit or loss, assets and liabilities.....	8.113
3.8	Measurement.....	8.117
	3.8.1 Reconciliations	8.119
3.9	Restatement of previously reported information	8.121
3.10	Entity – wide disclosures	8.122

3.10.1	Information about products and services.....	8.122
3.10.2	Information about geographical areas.....	8.123
3.10.3	Information about major customers.....	8.124
3.11	Significant differences between Ind AS 108 and AS 17	8.126
Shortcut to Ind AS Wisdom		8.128
Test Your Knowledge.....		8.128
Questions		8.128
Answers.....		8.130
PRACTICE QUESTIONS		PQ 1 – PQ55
IND AS PUZZLERS: TEST YOUR ACCOUNTING ACUMEN		(1) – (5)