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B.COM HONOURS	SEMESTER 2	CALICUT UNIVERSITY	COURSE CODE: COM2MN103

ACCOUNTING STANDARDS FOR FINANCIAL REPORTING

EXAM REVISION NOTES

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MODULE I

INTRODUCTION TO FINANCIAL REPORTING

Financial Statements: Concepts, Taxonomy, Architecture Utility

Schedule III of the Companies Act, 2013: Structural Architecture: Under Section 129 of the Companies Act, 2013, the financial statements of every Indian company must give a true and fair view of the state of affairs and comply with the layout specified in Schedule III.

- **Division I:** ; Companies (Accounting Standards) Rules, 2021 (Traditional AS 1 to AS 29).
- **Division II:** Ind AS Compliant Companies (Listed companies and unlisted companies with Net Worth ≥ Rs.
- **Division III:** ; Tailored specifically for asset financing, microfinance, and investment banking asset-liability liquidity disclosures.

Explanatory Notes, Accounting Policies Contingent Disclosures: A critical canon of financial reporting is that the numeric tables on the face of the Balance Sheet and Statement of Profit and Loss cannot convey the complete economic reality without the Notes to Accounts:

- **Summary of Significant Accounting Policies:** Details the valuation basis of inventories (FIFO vs.
- , pending disputed tax appeals before CIT(Appeals), customer product liability lawsuits, letters of credit, and capital expenditure contracts unexecuted).
- Related Party Disclosures (AS 18 / Ind AS 24): Mandates transparent disclosure of transactions between the enterprise and its promoters, key management personnel (KMP), directors, and sister concerns, eliminating concealed tunneling of corporate funds.
- **Segment Reporting (AS 17 / Ind AS 108):** , enterprise software vs.

Enhancing Qualitative Characteristics

- **1. Comparability:** Enables users to identify similarities and differences across time for the same entity (trend consistency) and across different entities for the same period (cross-sectional consistency).
- **2. Verifiability:** Assures users that information represents the economic phenomena it purports to represent.
- **3. Timeliness:** Having information available to decision-makers in time to influence their strategic choices.
- **4. Understandability:** Classifying, characterizing, and presenting information clearly and concisely for users who possess reasonable business knowledge.

Conceptual Demarcation: Financial Reporting vs. Financial Statements: A critical foundational distinction in modern accounting theory is separating Financial Statements from the broader institutional domain of Financial Reporting.

- **The Core Financial Statements:** Audited Balance Sheet, P amp;L Statement, Cash Flow Statement, Statement of Changes in Equity, and Notes to Accounts.
- Management Discussion and Analysis (MD amp;A): Executive narrative providing insider commentary on industry trends, operational risks, capital resource commitments, and forward-looking strategic challenges.
- **Director's Report:** Statutory report mandated under Section 134 of the Companies Act, detailing corporate performance, dividend recommendations, material changes, internal financial controls, and risk management policies.
- **Corporate Governance Report:** Detailed disclosures on board composition, independent director meetings, committee structures (Audit Committee, Nomination amp; Remuneration Committee), and stakeholder grievance redressal.
- Business Responsibility and Sustainability Report (BRSR): Mandatory reporting framework prescribed by SEBI for top Indian listed companies, disclosing performance across Environmental, Social, and Governance (ESG) parameters.

Ministry of Corporate Affairs (MCA)

Earnings Quality, Creative Accounting Window Dressing: A central concern in financial reporting is evaluating the Quality of Earnings. High-quality earnings reflect true operational cash flow generation and sustainable commercial demand, whereas low-quality earnings stem from aggressive accounting discretion, artificial accruals, or one-time asset liquidations.

- **Premature Revenue Recognition:** ; Surging Accounts Receivable alongside flat operating cash flow; sudden spike in Q4 revenue followed by massive Q1 sales returns.
- **Improper Cost Capitalization:** ; Unusual surge in Capital Work-in-Progress (CWIP) or Intangible Software Development costs without corresponding commercial product launches.
- **"Cookie Jar" Reserve Manipulation:** ; Erratic fluctuations in provisioning percentages disconnected from underlying customer default or product defect trends.
- **Off-Balance Sheet Vehicles:** ; Extensive related-party footnotes; un-audited offshore subsidiary entities; complex cross-corporate guarantees.

Capital Market Efficiency Cost of Capital

Integrated Reporting ()

- Financial Capital (funds)
- Manufactured Capital (buildings/tools)
- Intellectual Capital (IP/code)
- Human Capital (talent/skills)
- Social amp; Relationship Capital (trust)

Module Summary Essential Academic Takeaways

- Financial Statements are the Core Quantitative Subset: Defined under Section 2(40) of the Companies Act 2013 and formatted under Schedule III, financial statements encompass the Balance Sheet, Statement of P amp;L, Cash Flow Statement, Statement of Changes in Equity, and Notes to Accounts.
- Relevance and Faithful Representation are Inviolable: Financial data must make a material difference to decision-makers while remaining complete, neutral, and free from error.
- Financial Reporting Encompasses the Broader Governance Ecosystem: Extending to MD amp;A, Director's Reports, BRSR/ESG metrics, and corporate governance disclosures to communicate total enterprise value creation.
- Multi-Regulator Governance Upholds Credibility: MCA, NFRA, SEBI, and ICAI enforce accounting standards and statutory disclosures, protecting capital markets against fraud and ensuring efficient national resource allocation.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.

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- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

MODULE II

INTRODUCTION TO ACCOUNTING STANDARDS

Accounting Standards: Meaning, Objectives, Scope Significance

Core Objectives of Accounting Standards: The primary economic objective of accounting standards is to eliminate the bewildering diversity of accounting treatments that historically allowed management to produce widely divergent profit figures from identical business facts:

Inter-Firm and Inter-Temporal Comparability

- **Inter-Firm (Cross-Sectional):** Comparing the operational performance of two competing firms in the same industry.
- **Inter-Temporal (Trend):** Comparing a single company's financial results across multiple consecutive fiscal years without distortions caused by arbitrary shifts in accounting policies.

Scope and Applicability of Accounting Standards in India: Accounting standards in India apply to all commercial, industrial, and business enterprises, encompassing both Corporate Entities (companies registered under the Companies Act) and Non-Corporate Entities (sole proprietorships, partnership firms, LLPs, trusts, and Hindu Undivided Families - HUFs).

Strategic Significance of Accounting Standards

- **Lowering Enterprise Cost of Capital:** International capital market research proves that firms adhering strictly to standardized accounting disclosures enjoy lower interest rate risk premiums from lenders and higher price-to-earnings (P/E) multiples from equity investors.
- **Standardizing Statutory Tax Assessments:** In India, the Central Board of Direct Taxes (CBDT) notified Income Computation and Disclosure Standards (ICDS) under Section 145(2) of the Income Tax Act.
- **Benchmarking Statutory Audits:** Under Section 143(3)(e) of the Companies Act 2013, statutory auditors are legally required to state whether, in their professional opinion, the financial statements comply with the accounting standards referred to in Section 133.
- Facilitating Mergers, Acquisitions amp; Global Trade: When acquiring targets or negotiating cross-border joint ventures, standardized accounting ensures due-diligence teams can evaluate financial health without converting bespoke bookkeeping entries.

High Compliance Overhead for MSMEs

Supremacy of Statutory Law

Historical Evolution of Standard-Setting in India: Prior to 1977, financial accounting in India was fragmented, governed primarily by general conventions, uncodified English Common Law precedents, and sparse disclosure schedules under the Companies Act, 1956.

The Standard-Setting Due Process: Step-by-Step Procedure of Issuing an AS: The formulation of an Accounting Standard in India follows an exhaustive, highly transparent, and democratic due process to ensure all stakeholders are consulted before a standard is enacted into law:

- **Stage 1:** Broad Area Identification amp; Prioritization: The ASB identifies emerging priority areas requiring standardization, influenced by regulatory requests, international developments, or corporate controversies.
- **Stage 2:** Constitution of Specialized Study Groups: The ASB forms a dedicated Study Group comprising subject-matter experts, industry representatives, and practitioners to research the area and draft a preliminary concept paper.
- **Stage 3:** Preparation of Discussion Draft: The Study Group prepares a detailed Discussion Paper examining Indian practices, statutory laws, and international standards (IFRS/US GAAP).
- **Stage 4:** Preliminary ASB Review: The ASB evaluates the Study Group's draft and, after rigorous internal debate, formulates a draft Exposure Draft (ED).
- **Stage 5:** External Stakeholder Consultation: The draft Exposure Draft is circulated for preliminary confidential consultation with apex regulatory bodies (RBI, SEBI, MCA, CAG) and industry chambers (CII, FICCI).

Quasi-Judicial Investigative Powers

- Power to investigate professional misconduct of statutory auditors of listed companies and large unlisted public companies.
- Power to discover and inspect books of accounts and Sum of mon witnesses under oath.
- Power to levy crushing financial penalties (minimum Rs.
- Power to debar auditors from practicing for 6 months up to 10 years.

Module Summary Essential Academic Takeaways

- **Standards Eliminate Chaotic Diversity:** Accounting standards restrict managerial discretion, standardizing recognition, measurement, presentation, and disclosure to guarantee inter-firm and inter-temporal comparability.
- The ASB Due Process is Democratic amp; Multi-Stakeholder: Established in 1977, the ASB consults regulators, industry chambers, and the public across 9 rigorous due-process stages before standards are enacted.
- NFRA Represents External Quasi-Judicial Oversight: Created under Section 132 of the Companies Act 2013, NFRA monitors standard compliance, inspects audit files, and exercises civil court powers to discipline auditors of public interest entities.
- **Statutory Compliance is Strictly Mandatory:** Section 129(1), Section 134(5)(a), and Section 143(3)(e) legally bind management and auditors to standard compliance, with non-compliance triggering audit qualifications, regulatory prosecution, and financial penalties.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

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MODULE III

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Financial Reporting Standards (IFRS): Foundations Architecture

Master Inventory: International Financial Reporting Standards (IFRS 1 to IFRS 17)

- **IFRS 1:** First-time Adoption of IFRS; Procedures and deemed cost exemptions for transition to IFRS.
- **IFRS 2:** Share-based Payment; Fair value accounting for employee stock options (ESOPs) and stock appreciation rights.

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- **IFRS 3:** Business Combinations; Acquisition method, purchase price allocation, and goodwill impairment.
- **IFRS 5:** Non-current Assets Held for Sale amp; Discontinued Ops; Measurement at lower of carrying amount and fair value less costs to sell.

Fair Value Orientation

The Fair Value Hierarchy under IFRS 13 / Ind AS 113: To increase consistency and comparability in fair value measurements and related disclosures, IFRS 13 establishes a Three-Level Fair Value Hierarchy that categorizes the inputs used in valuation techniques into three distinct tiers based on market observability:

- **Level 1 Inputs (Highest Priority):** , actively traded equity shares on BSE/NSE, liquid government treasury bonds).
- **Level 2 Inputs:** , quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, interest rate yield curves, implied volatilities).
- **Level 3 Inputs (Lowest Priority):** , internal discounted cash flow - DCF forecasts, proprietary financial models for valuing unlisted startup shares).

IFRS Adoption and Convergence in India: Roadmap Dynamics

IFRS Adoption (Verbatim Enactment)

The Banking Sector Dilemma: Incurred Loss vs. Expected Credit Loss (ECL): A primary technical friction point in Indian convergence has been the transition from the traditional Incurred Loss Model (under RBI prudential IRAC norms) to the forward-looking Expected Credit Loss (ECL) Model mandated by Ind AS 109 / IFRS 9:

- **Stage 1: Performing:** ; 12-Month Expected Credit Loss: Must recognize a loss allowance equal to the lifetime cash shortfall resulting from default events possible within the next 12 months.
- **Stage 2: Underperforming:** ; Lifetime Expected Credit Loss: Must recognize full lifetime expected loss across the entire remaining tenure of the loan facility.
- **Stage 3: Credit-Impaired:** ; Lifetime Expected Credit Loss + Net Interest: Provision for full lifetime losses, and interest revenue is calculated on the net carrying amount (gross loan minus allowance).

Volatility in Reported Financial Results

Statutory and Direct Tax Conflicts

Formal Definition of the Elements of Financial Statements: The Conceptual Framework structures the financial statements around five fundamental building blocks, defined strictly through the lens of economic resources and obligations:

- **Asset:** A present economic resource controlled by the entity as a result of past events.
- **Liability:** ; Three criteria: (1) The entity has an obligation (duty/responsibility it has no practical ability to avoid); (2) The obligation is to transfer an economic resource (cash, goods, services); (3) The obligation exists as a result of past events.
- **Equity:** ; Equity cannot be measured independently.
- **Income:** ; Encompasses both Revenues (arising in the course of ordinary operating activities) and Gains (disposal of fixed assets, unrealized fair value appreciation).

Derecognition Principles

- **For Assets:** , when asset is sold, or rights to cash flows expire).
- **For Liabilities:** , when the obligation is discharged, settled, cancelled, or expires).

Financial Capital Maintenance

- **Nominal Monetary Units:** Historical monetary currency (standard practice).
- **Constant Purchasing Power Units:** Inflation-adjusted general price index.

MODULE IV

ACCOUNTING STANDARDS RELATING TO REVENUE AND DEPRECIATION

Revenue from Contracts with Customers (Ind AS 115 / IFRS 15)

Step 1: Identify the Contract with a Customer

- Parties have approved the contract and are committed to perform.
- Each party's rights regarding goods/services can be identified.
- Payment terms are clearly identifiable.
- The contract possesses commercial substance.
- It is probable that the entity will collect the consideration entitled.

Numerical Problem 1: Bundled Contract Price Allocation under Ind AS 115: Step 1: Contract identified with customer for total price of Rs. 42,000.

- NexTel delivers a 5G Flagship Smartphone to the customer immediately on April 1, 2026.
- NexTel provides 12 months of unlimited voice and cloud data network service over the subsequent 12 months.
- The customer pays a subsidized monthly contract fee of Rs.
- **Standalone Selling Prices (SSP):** If sold separately, NexTel sells the 5G Smartphone for Rs.

Primary Causes of Depreciation

The Straight Line Method (SLM) / Fixed Installment Method: Under the Straight Line Method (SLM), a constant, uniform amount of depreciation is charged to the Statement of Profit and Loss in every accounting period throughout the useful life of the asset.

- **Merits:** , patents, leasehold buildings, office furniture).
- **Demerits:** Unfair total annual charge to the P amp;L in later years.

Machinery Account (Written Down Value Method - WDV at 30%)

- **01-04-2022:** To Bank A/c (Purchase + Costs); 31-03-202331-03-2023; By Depreciation A/c (30%)By Balance c/d; 1,50,0003,50,000
- **01-04-2023:** To Balance b/d; 31-03-202431-03-2024; By Depreciation A/c (30%)By Balance c/d; 1,05,0002,45,000
- **01-04-2024:** To Balance b/d; 31-03-202531-03-2025; By Depreciation A/c (30%)By Balance c/d; 73,5001,71,500
- **01-04-2025:** To Balance b/d; 31-03-202631-03-2026; By Depreciation A/c (30%)By Balance c/d; 51,4501,20,050

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Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

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