IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

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OBJECTIVE: To prescribe the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods and with the financial statements of other entities.

SCOPE: Applies to all general purpose financial statements of all entities.

SC E-LEARNING REMINDER

Financial statements ka presentation clear, consistent aur comparable hona chahiye taa ke users informed decisions le saken.

STEP 1: COMPLETE SET OF FINANCIAL STATEMENTS

Complete set includes:

- Statement of Financial Position (Balance Sheet)
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

STEP 2: FAIR PRESENTATION & COMPLIANCE

- Financial statements shall fairly present the financial position, financial performance and cash flows.
- Compliance with IFRS Standards is mandatory.
- Material departures (agar koi ho) are disclosed, explained and their effect quantified.

STEP 3: GOING CONCERN

- Financial statements are prepared on going concern basis.
- Agar entity going concern nahi hai, to us basis par prepare karo aur note me disclose karo.

STEP 4: ACCRUAL BASIS

- Financial statements are prepared on accrual basis.
- Cash basis par prepare karna allowed nahi hai.

STEP 5: CONSISTENCY OF PRESENTATION AND CLASSIFICATION

- Presentation aur classification period to period consistent ho.
- Change sirf tab karo jab:
  - IAS ka requirement ho; ya
  - Comparability improve hoti ho.
- Change ka nature, reason aur effect disclose karo.

STEP 6: MATERIALITY AND AGGREGATION

- Material items ko alag se present karo.
- Immaterial items ko aggregate karke present kar sakte ho.
- Aggregation misleading nahi honi chahiye.

STEP 7: OFFSETTING

- Assets and liabilities, income and expenses ko offset nahi karo jab tak IAS kisi standard me allow na kare.
- Net amount tabhi present karo jab:
  - Right to set off exist karta ho; aur
  - Net basis par ya ek saath realize/settle karne ka intention ho.

COMPONENTS OF EACH FINANCIAL STATEMENT

Component	Include
Identification	Title of statement
Presentation of items	Each material class of similar items separately
Line items	Subtotal and total amounts as per nature/function
Information	For understanding of what is presented
Comparative information	Figures for preceding period
Consistency	Same presentation & classification
Additional requirements	As per other IFRS standards

ORDER OF FINANCIAL STATEMENTS

Statement of Financial Position (Balance Sheet) → Statement of Profit or Loss and Other Comprehensive Income → Statement of Changes in Equity → Statement of Cash Flows → Notes to the Financial Statements

ADDITIONAL DISCLOSURES (NOTES)

Notes shall include information about:

- Basis of preparation
- Significant accounting policies
- Judgments and estimates
- Financial risk management
- Related party transactions
- Events after the reporting period
- Comparative information
- Changes in accounting policies
- Contingent assets and liabilities
- Capital management
- Any other information required by IFRSs

EXAMINER TRAPS

- Cash basis par accounts prepare karna.
- Items ko offset karke present karna.
- Comparative figures omit karna.
- Inconsistent classification/change bina disclose kiye.
- Notes me significant policies disclose na karna.
- Going concern issue ko ignore karna.

ICAP EXAM TIP

- Har statement ki structure clear aur standard format me yaad karo.
- Consistency aur comparability par focus karo.
- Notes me disclosures complete hona chahiye.
- Present, classify aur disclose – teeno equally important hain.

EACH FINANCIAL STATEMENT – KEY POINTS

Statement	Purpose	Key Presentation Points	Basis
Statement of Financial Position (Balance Sheet)	Financial position at a point in time	Assets (current/non-current), Liabilities (current/non-current), Equity	Accrual basis
Statement of Profit or Loss and Other Comprehensive Income	Financial performance for the period	Income, Expenses by nature/function, Profit/Loss, Other Comprehensive Income	Accrual basis
Statement of Changes in Equity	Changes in equity for the period	Opening equity, Total comprehensive income, Transactions with owners, Closing equity	Accrual basis
Statement of Cash Flows	Cash inflows and outflows for the period	Operating, Investing, Financing activities, Net increase/decrease in cash and cash equivalents	Cash basis
Notes to the Financial Statements	Additional information and disclosures	Significant policies, Judgments, Risks, Related parties, etc.	Accrual basis

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IAS 2 INVENTORIES

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OBJECTIVE: To prescribe the accounting treatment for inventories and the amount at which inventories should be recognized in the financial statements.

SCOPE: Applies to all inventories except: Work-in-progress arising under construction contracts (IAS 11) and Financial instruments (IFRS 9).

SC E-LEARNING REMINDER

Inventories ko lower of Cost and Net Realizable Value (NRV) par measure kiya jata hai. Consistency, disclosure aur proper costing bohat important hain!

STEP 1: DEFINITION

Inventories are assets:

- Held for sale in the ordinary course of business;
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

STEP 2: COST OF INVENTORIES

Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

- **Purchase cost:** Purchase price, import duties, non-refundable taxes, transport, handling.
- **Conversion cost:** Direct labor, variable & fixed overheads.
- **Other costs:** Necessary to bring inventory to working condition.

STEP 3: COST FORMULAS

- Specific Identification
- FIFO (First In, First Out)
- Weighted Average Cost

STEP 4: NET REALIZABLE VALUE (NRV)

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory is measured at lower of Cost and NRV.

STEP 5: WRITE-DOWN TO NRV & REVERSAL

- If NRV < Cost → Write down inventory to NRV and recognize loss in Profit or Loss.
- If NRV increases in subsequent periods → Reversal allowed up to the original write-down amount.

STEP 6: DISCLOSURES REQUIRED

- Accounting policies adopted (cost formula used).
- Total carrying amount of inventories.
- Carrying amount of inventories recognized as expense.
- Write-downs to NRV and reversals.
- Any restrictions on title or pledging of inventories as security.

COMPONENTS OF INVENTORY COST

Component	Include in Cost
Purchase Price	Yes
Import Duties & Non-refundable Taxes	Yes
Transport & Handling	Yes
Discounts, Rebates	Deduct
Abnormal Waste	No (Expense)
Selling Costs	No (Expense)
Storage Costs (normal)	Yes
Storage Costs (abnormal)	No (Expense)

EXAMPLE

Goods costing Rs. 100,000 were purchased. Additional costs included:
Freight Rs. 5,000, Import duty Rs. 8,000, Handling Rs. 2,000.
A trade discount of Rs. 3,000 was received.

Inventory Cost = 100,000 + 5,000 + 8,000 + 2,000 – 3,000 = Rs. 112,000

COST FORMULAS EXPLAINED

Formula	Explanation
Specific Identification	Cost of each item is identified and charged to expense when that specific item is sold.
FIFO	First items purchased are assumed to be the first sold. Closing inventory at the cost of latest purchases.
Weighted Average	Average cost is calculated and applied to cost of goods sold and closing inventory.

EXAMINER TRAPS

- Abnormal spoilage ko cost mein include karna.
- Selling & administrative expenses ko inventory cost mein include karna.
- NRV ko sirf selling price samajhna (costs to complete & sell bhi deduct karo).
- FIFO vs Weighted Average mein difference ignore karna.
- Disclosure requirements ko skip karna.

ICAP EXAM TIP

- ✔ Inventory cost sirf necessary cost tak limit rakho.
- ✔ Lower of Cost and NRV rule hamesha apply karo.
- ✔ Write-downs aur reversals ki entries clear rakho.
- ✔ Cost formulas ke numerical questions practice karo.
- ✔ Disclosures ke points rat lo – 2 marks pakke!

COST FORMULAS – COMPARISON

Basis	Specific Identification	FIFO	Weighted Average
Meaning	Actual cost of each specific item is tracked	First purchased, first sold	Average cost of goods available for sale
Best Suitable For	Unique or high-value items	Perishable goods, inflation period	Large number of similar items
Closing Inventory	At actual cost of remaining items	At cost of latest purchases	At average cost
Cost of Goods Sold	At actual cost of items sold	At cost of earliest purchases	At computed average cost
Complexity	High	Low	Moderate

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IAS 7 STATEMENT OF CASH FLOWS

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OBJECTIVE: To prescribe the information about changes in an entity's cash and cash equivalents during the period by classifying cash flows from operating, investing and financing activities.

SCOPE: Applies to all entities in preparing and presenting a statement of cash flows for a period.

SC E-LEARNING REMINDER

Cash is king! Statement of Cash Flows shows cash generation and cash usage during the period. Focus on correct classification.

STEP 1: CASH AND CASH EQUIVALENTS

Cash includes cash on hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (maturity of three months or less from the date of acquisition).

STEP 2: CLASSIFICATION OF CASH FLOWS

- **Operating Activities** – Principal revenue producing activities.
- **Investing Activities** – Acquisition and disposal of long-term assets and other investments.
- **Financing Activities** – Activities that result in changes in the size and composition of equity and borrowings.

STEP 3: OPERATING ACTIVITIES

Principal revenue producing activities and other activities that are not investing or financing activities.
Examples: Receipts from customers, payments to suppliers and employees, cash generated from operations.

STEP 4: INVESTING ACTIVITIES

Acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Examples: Purchase/sale of property, plant and equipment, intangible assets, investment in shares, loans to other entities.

STEP 5: FINANCING ACTIVITIES

Activities that result in changes in size and composition of equity and borrowings.
Examples: Issue of shares, repayment of borrowings, payment of dividends, interest paid.

STEP 6: CASH FLOWS – DIRECT METHOD

Major classes of gross cash receipts and gross cash payments are disclosed.
Provides more relevant information.

STEP 7: CASH FLOWS – INDIRECT METHOD

Profit before tax is adjusted for non-cash items, changes in working capital and other items to arrive at cash generated from operations. Permitted by IAS 7.

PRESENTATION – STATEMENT OF CASH FLOWS (EXAMPLE FORMAT)

Particulars	Note	Amount (Rs.)
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations		xxxx
Interest paid		(xxxx)
Income tax paid		(xxxx)
Net cash from operating activities (A)		xxxx
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment		(xxxx)
Proceeds from sale of equipment		xxxx
Investment in shares		(xxxx)
Net cash used in investing activities (B)		(xxxx)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		xxxx
Repayment of borrowings		(xxxx)
Dividend paid		(xxxx)
Net cash from financing activities (C)		xxxx
Net increase / (decrease) in cash and cash equivalents (A + B + C)		xxxx
Cash and cash equivalents at beginning of the period		xxxx
Cash and cash equivalents at end of the period		**xxxx**

INDIRECT METHOD – ADJUSTMENTS EXPLAINED

Add (Non-Cash Expenses & Losses)	Less (Non-Cash Incomes & Gains)
✔ Depreciation, Amortization	✔ Gain on disposal of assets
✔ Loss on disposal of assets	✔ Dividend received
✔ Provision for doubtful debts	✔ Interest received
Operating profit before working capital changes	**Operating profit before working capital changes**

Then adjust for changes in Working Capital:

Item	Increase	Decrease
Trade Receivables	Deduct	Add
Inventories	Deduct	Add
Trade Payables	Add	Deduct
Prepayments & Other Current Assets	Deduct	Add
Accrued Expenses & Other Current Liabilities	Add	Deduct

EXAMINER TRAPS

- Interest paid → Operating (Wrong, it is Financing)
- Dividend received → Investing (Wrong, it is Operating)
- Proceeds from issue of shares → Operating (Wrong, it is Financing)
- Purchase of asset → Operating (Wrong, it is Investing)
- Ignoring non-cash items in Indirect Method
- Wrong adjustment of working capital changes

ICAP EXAM TIPS

- ✔ Learn classification rules by heart.
- ✔ Practice both Direct and Indirect methods.
- ✔ Always show calculations and workings.
- ✔ Follow the format strictly.
- ✔ Check the signs: **Inflows** (+), **Outflows** (–).
- ✔ Reconcile: Opening + Net Change = Closing cash.

SC E-LEARNING 3-POINT RULE

1 → 2 → 3

1. **IDENTIFY** – Identify the nature of cash flows.
2. **CLASSIFY** – Classify in Operating, Investing or Financing.
3. **PRESENT** – Present in correct format with reconciliation.

IAS 8

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

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OBJECTIVE: To prescribe the accounting policies to be followed in preparing and presenting financial statements and the disclosures relating to changes in accounting policies, accounting estimates and correction of errors.

SCOPE: Applies to all financial statements and entities.

SC E-LEARNING REMINDER

Consistency in policies + Proper disclosure = Comparability & Reliability of financial statements.

STEP 1: KEY DEFINITIONS

Accounting Policy:
Specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.
Examples: FIFO, Cost model, Straight-line depreciation.

Accounting Estimate:
Monetary amounts in financial statements that are subject to measurement uncertainty.
Examples: Useful life of PPE, Bad debt allowance, Provision for warranty.

Prior Period Error:
Omissions from or misstatements in the entity's financial statements for one or more prior periods arising from failure to use, or misuse of, reliable information that was available when financial statements were authorized for issue.
Examples: Mathematical mistakes, Wrong classification, Oversight.

STEP 2: SELECTION OF ACCOUNTING POLICY

Is there an IFRS / IAS that specifically applies?

- **YES** → Apply that IFRS / IAS.
- **NO** → Use management judgement and consider the following, in order:
  1. IFRS Standards dealing with similar and related issues.
  2. Definitions, recognition criteria and measurement concepts in the Conceptual Framework.
  3. Other accounting literature and industry practice, if consistent with IFRS.

Consistency: An entity shall apply the same accounting policy to similar transactions and other events unless an IFRS requires or permits a different treatment.

STEP 3: CHANGE IN ACCOUNTING POLICY

A change in accounting policy is permitted only when:

- It is required by a new IFRS, or
- It results in financial statements providing more reliable and relevant information.

Examples:

- Change from FIFO to Weighted Average.
- Change from Cost Model to Revaluation
- Model (when permitted).

STEP 4: CHANGE IN ACCOUNTING ESTIMATE

A change in accounting estimate results from new information, new experience or new developments.

Examples:

- Revision in useful life of an asset.
- Revision in warranty provision.
- Revision in expected credit loss.
- Change in residual value.

STEP 5: PRIOR PERIOD ERROR

An error is a misstatement or omission in the financial statements of one or more prior periods.

Examples:

- Wrong depreciation calculation.
- Inventory incorrectly valued / incorrectly fraud discovered.
- Mathematical mistakes.

STEP 6: ACCOUNTING TREATMENT – CHANGE IN ACCOUNTING POLICY

GENERAL RULE: RETROSPECTIVE APPLICATION

Apply the new policy as if it had always been applied.

Adjust:

- Opening retained earnings.
- Comparative information for prior periods.

EXCEPTION:
IF retrospective application is impracticable, apply from the earliest practicable date.

STEP 7: ACCOUNTING TREATMENT – CHANGE IN ACCOUNTING ESTIMATE

GENERAL RULE: PROSPECTIVE APPLICATION

Recognize the effect of the change:

- In the current period only, if applicable; or
- In the current and future periods.

Do not restate prior period figures.

EXAMPLE:
If useful life of machinery is revised, change depreciation expense from the current period onwards.

STEP 8: ACCOUNTING TREATMENT – PRIOR PERIOD ERROR

GENERAL RULE: RETROSPECTIVE RESTATEMENT

Correct the error by restating comparative information.

Adjust:

- Opening retained earnings.
- Comparative figures for prior periods.

EXCEPTION:
If retrospective restatement is impracticable, correct from the earliest practicable date.

STEP 9: SUMMARY COMPARISON

Particulars	Change in Accounting Policy	Change in Accounting Estimate	Prior Period Error
Reason	New IFRS or results in more reliable and relevant information.	New information / experience / developments.	Mistake, oversight, fraud, or misuse of information.
Nature	Choice of accounting principle or method.	Management judgement / estimation uncertainty.	Error in recording, calculation or application.
Accounting Treatment	Retrospective	Prospective	Retrospective
Comparative Information	Restated	Not restated	Restated
Opening Retained Earnings	Adjaated	Not restated	Adjusted
Disclosure Required	Yes (nature, reason, amount of adjustment & effect)	Yes (nature of change and effect on current & future periods)	Yes (nature of error, amount of correction & affected periods)

STEP 10: DISCLOSURE REQUIREMENTS

Change in Accounting Policy	Nature of change, reason, amount and adjustment for each item affected and each period.
Change in Accounting Estimate	Nature of change, effect on current and effect on future periods, if practicable.
Prior Period Error	Nature of error, amount of correction for each prior period and reason for correction.

STEP 11: MEMORY TRICK

POLICY = PRINCIPLE	Example: FIFO, Cost Model, Depreciation Method Treatment: RETROSPECTIVE
ESTIMATE = JUDGMENT	Example: Useful Life, Warranty, ECL, Residual Value Treatment: PROSPECTIVE
ERROR = MISTAKE	Example: Wrong calculation, Fraud, Omission Treatment: RETROSPECTIVE

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IAS 16 PROPERTY, PLANT AND EQUIPMENT

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OBJECTIVE:
Prescribe the accounting treatment for property, plant and equipment so users understand recognition, measurement, depreciation and derecognition.

SCOPE:
Applies to tangible items held for use in production, supply of goods/services, rental to others, or administrative purposes, expected to be used for more than one period.

SC E-LEARNING REMINDER
PPE company ki operations ki backbone hota hai. Recognition, cost, depreciation aur revaluation ko sahi samajhna hi exam success ki key hai. Concept clear, presentation neat, marks pakke!

STEP 1: IDENTIFY PPE

- Tangible asset
- Used in business operations
- More than one accounting period
- Not ordinary inventory

STEP 2: RECOGNITION CRITERIA

- Future economic benefits probable from the asset.
- Cost can be measured reliably.

STEP 3: INITIAL COST OF PPE

INCLUDE (Add to Cost)	EXCLUDE (Do NOT Add)
Purchase price (net of discounts)	General admin overheads
Import duties & non-refundable taxes	Training cost
Directly attributable costs	Abnormal wastage
Site preparation & delivery	Opening ceremony / advertising
Installation & assembly	Initial operating losses
Testing (net of proceeds from testing)	Relocation/Start-up costs
Professional fees	
Dismantling, removal & restoration obligation (present value)	

STEP 4: SUBSEQUENT EXPENDITURE

- Capitalize replacements and major inspections when recognition criteria (benefits probable & cost measurable) are met.
- Routine repairs and maintenance → Expense in P/L.
- Derecognize the replaced part (remove carrying amount).

STEP 5: DEPRECIATION

- Depreciable amount = Cost (or revalued amount) – Residual value.
- Depreciation starts when asset is available for use.
- Methods: Straight line, Reducing balance, Units of production.
- Review useful life, residual value and method at least annually and adjust prospectively.

STEP 6: MEASUREMENT AFTER RECOGNITION

Two models allowed:

Cost Model	Cost – Accumulated Depreciation – Impairment Losses.
Revaluation Model	Fair Value – Subsequent Depreciation – Impairment Losses.

- Revaluation surplus → generally to OCI (Equity).
- Revaluation loss → generally to P/L unless it reverses a previous surplus for the same asset.

STEP 7: DERECOGNITION / DISPOSAL

- Remove from books on disposal or when no future economic benefits are expected from its use or disposal.
- Gain / Loss = Proceeds from disposal – Carrying amount.
- Recognize gain or loss in Profit or Loss.
- Any revaluation surplus related to the asset → transfer to Retained Earnings when asset is derecognized (if required by policy).

10 COMPONENT ACCOUNTING / MAJOR INSPECTION

- Significant parts with different useful lives or consumption patterns are accounted for as separate components.
- Each component depreciated separately.
- Major inspection cost may be capitalized when criteria met.
- Upon replacement/inspection, the old component's carrying amount is derecognized.

11 QUICK SUMMARY TABLE – IAS 16 AT A GLANCE

Area	Key Points
Recognition	Tangible, used in operations, > 1 period, not inventory. Future benefits probable + Cost measurable reliably.
Initial Measurement	Include all costs directly attributable to bring asset to location & condition for use. Exclude admin, training, abnormal wastage, advertising, initial losses.
Subsequent Measurement	Cost Model: Cost – Acc. Dep. – Impairment. Revaluation Model: Fair Value – Dep. – Impairment.
Depreciation	Depreciable amount = Cost (or revalued amt.) – Residual. Starts when available for use. Use SL / RB / UOP. Review annually & adjust prospectively.
Disposal	Derecognize on disposal or no future benefits. Gain/Loss = Proceeds – Carrying amount. Recognize in Profit or Loss.

EXAMINER TRAPS – AVOID THESE PITFALLS!

- Capitalizing repairs and maintenance costs incorrectly.
- Starting depreciation before the asset is available for use.
- Ignoring component accounting / major inspection treatment.
- Wrong revaluation treatment – taking all gains/losses to P/L.
- Not derecognizing old parts on replacement.
- Forgetting dismantling / restoration obligation in cost.

ICAP EXAM TIP

"PPE questions mein cost + depreciation + revaluation + disposal working clean honi chahiye."

14 SC E-LEARNING 3-POINT RULE

1 Identify PPE → 2 Measure correct cost → 3 Apply depreciation / disposal correctly

15 SC E-LEARNING REMINDER

- Concepts ko samjho, examples se connect karo.
- Numbers ko neat aur logical presentation ke sath likho.
- Practice = Confidence = High Marks.
- Stay consistent, stay ahead!

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IAS 20 Government Assistance and Government Grants

CAF 1 FAR | ICAP Exam Framework

1. OBJECTIVE

Prescribe the accounting treatment and disclosure of government grants and government assistance.

2. SCOPE

Applies to grants and assistance involving transfer of resources by government in return for compliance with conditions.

- **Examples:** Cash grant, land grant, subsidy, forgivable loan
- **Non-examples:** Free technical advice, general infrastructure, supportive procurement policy

SC E-Learning Reminder: Not every government benefit is a grant.

3. STEP 1: IDENTIFY THE BENEFIT

Ask: is there a transfer of resources from government?

- If yes, possible grant.
- If no, may be assistance only.

4. STEP 2: CLASSIFY THE GRANT

Asset-related grant: for purchase, construction or acquisition of long-term asset.

Income-related grant: grant other than asset grant; e.g. salary support, expense reimbursement, loss compensation.

5. STEP 3: RECOGNITION CRITERIA

- Reasonable assurance that conditions will be complied with
- Reasonable assurance that grant will be received

SC E-Learning 3-Point Rule: Resource transfer + Conditions + Matching with related cost

6. STEP 4: ACCOUNTING TREATMENT

Asset-related grant — Method 1: Deferred income method

Dr Bank	Cr Deferred Government Grant
Dr Deferred Government Grant	Cr Grant Income

Recognize in P/L over useful life of related asset.

Asset-related grant — Method 2: Deduct from asset cost

Grant deducted from carrying amount; depreciation on net amount.

SC E-Learning Tip: Match grant income with depreciation or related expense.

7. STEP 5: INCOME-RELATED GRANT

Recognize in profit or loss over the period of related expenses.

Presentation:
Other income OR Deduct from related expense.

8. STEP 6: NON-MONETARY GRANT

Government land/asset given free or at concession: usually record asset at fair value with corresponding grant; nominal value alternative may be used.

9. STEP 7: REPAYMENT OF GRANT

Income-related grant: reduce deferred income first; excess to P/L expense.

Asset-related grant: if deducted from asset, increase carrying amount and recognize extra depreciation immediately.

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10. COMMON EXAMINER TRAPS

1. Recognizing full grant as immediate income
2. Ignoring reasonable assurance
3. Mixing asset and income grants
4. Not matching grant income with depreciation/expense
5. Treating supportive policies as grants
6. Treating repayment as prior period error

11. FINAL EXAM TIP

Always answer in this order:
Nature of grant → Recognition criteria → Matching treatment.

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IAS 23 BORROWING COSTS

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OBJECTIVE: To prescribe the accounting treatment for borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset.

SCOPE: Apply IAS 23 to borrowing costs directly attributable to acquisition, construction or production of a qualifying asset.

SC E-LEARNING REMINDER

Borrowing ka purpose important nahi, use of borrowing important hai. Capitalization sirf "qualifying asset" ke liye allowed hai!

STEP 1: IDENTIFY QUALIFYING ASSET

Qualifying asset wo asset hai jisko ready for intended use ya sale karne ke liye substantial time lagta hai.

Examples: Factory building, Plant, Power plant, Bridge, Ship, Machinery (custom-built), Intangible asset with long development period.

STEP 2: IDENTIFY BORROWING COSTS

- Interest and other costs that entity incurs in connection with the borrowing of funds.
- Includes effective cost of finance lease liability.
- Excludes exchange differences arising from foreign currency borrowings (IAS 21 applies).

STEP 3: DETERMINE CAPITALIZABLE COSTS

- Borrowing costs eligible for capitalization are ONLY those that are directly attributable to the acquisition, construction or production of a qualifying asset.
- Other borrowing costs are expensed in the period.

STEP 4: COMMENCEMENT OF CAPITALIZATION

Borrowing costs are capitalized from the date when:

- Expenditure is being incurred for the asset
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress

STEP 5: SUSPENSION OF CAPITALIZATION

Capitalization is suspended during extended periods in which active development is interrupted.

Example: Waiting for government approval / design change / delay beyond normal construction period.

STEP 6: CEASE OF CAPITALIZATION

Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

STEP 7: GENERAL BORROWINGS

If specific borrowing is used → capitalize actual borrowing costs.
If general borrowing is used → apply a capitalization rate to expenditures on the qualifying asset.

$$\text{Capitalization rate} = \frac{\text{Total borrowing costs eligible for capitalization}}{\text{Total borrowing costs}}$$

CALCULATION OF CAPITALIZABLE AMOUNT

1. **Specific Borrowings:**
   - Actual borrowing costs – Investment income earned on temporary investment of those borrowings.
2. **General Borrowings:**
   - Apply capitalisation rate to expenditures on qualifying asset.

$$\text{Capitalisation Rate} = \frac{\text{Total borrowing costs eligible for capitalization}}{\text{Total borrowing costs}}$$

SC E-LEARNING REMINDER

Investment income earned on specific borrowings must be deducted.
General borrowings: Use capitalisation rate, not actual interest.

JOURNAL ENTRIES

A. Capitalization of Borrowing Costs (Specific or General)

Dr.	Cr.
Qualifying Asset (Add borrowing cost)	Borrowings Payable / Bank (To capitalize borrowing cost)

B. When Capitalization Ceases

Dr.	Cr.
Finance Cost (P&L) (Expense in P&L)	Borrowings Payable / Bank (To record interest)

C. Investment Income on Temporary Investments

Dr.	Cr.
Bank (Investment income earned)	Finance Cost (P&L) (To recognize income)

EXAMINER TRAPS

- Interest on drawings / overdraft → Not capitalize
- Loan for trading activity → Expense
- Delay due to inefficiency → Expense
- Foreign exchange differences → IAS 21
- Capitalization after asset ready for use → Wrong
- Investment income not deducted → Wrong
- Using actual interest for general borrowing → Wrong

QUICK SUMMARY TABLE

Aspect	Treatment
Qualifying Asset	Yes / No
Borrowing Costs (Interest)	Deduct
Exchange Differences	Do not include
Specific Borrowing	Actual cost
General Borrowing	Capitalisation rate
Capitalization Period	Start to Cease

SC E-LEARNING 3-POINT RULE

- ✓ Identify Qualifying Asset
- ✓ Find Capitalizable Borrowing Costs
- ✓ Apply Correct Treatment & Timing

SC E-LEARNING FINAL EXAM TIP

IAS 23 questions mein "timing" bohat important hota hai. Start date, suspend date aur cease date clearly identify karo, wrong period ki wajah se full marks chalaay jate hain.

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IAS 36 IMPAIRMENT OF ASSETS

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OBJECTIVE: To ensure that assets are not carried at amounts higher than their recoverable amount.

SCOPE: Applies to all assets except inventories, deferred tax assets, financial assets measured at fair value and assets held for sale (IFRS 5).

SC E-LEARNING REMINDER

Impairment loss tab recognize karo jab asset ka Carrying Amount us ke Recoverable Amount se zyada ho.

Recoverable Amount = higher of:
- ☑ Fair Value less Costs of Disposal (FVLCD)
- ☑ Value in Use (VIU)

STEP 1: IDENTIFY ASSET

- Identify asset or Cash-Generating Unit (CGU).
- Goodwill is tested for impairment annually and whenever there is an indication.

STEP 2: INDICATION OF IMPAIRMENT

Impairment test required only if there is an indication:
- Internal sources: Obsolescence, damage, poor performance, restructuring, etc.
- External sources: Market decline, legal/regulatory changes, economic conditions, interest rates, etc.

STEP 3: MEASURE RECOVERABLE AMOUNT

Recoverable Amount = higher of:
- Fair Value less Costs of Disposal (FVLCD)
- Value in Use (VIU)

Use appropriate assumptions and discount rate (pre-tax) for VIU calculations.

STEP 4: COMPARE

- If Carrying Amount > Recoverable Amount → Impairment Loss.
- If Carrying Amount ≤ Recoverable Amount → No impairment.

STEP 5: RECOGNIZE IMPAIRMENT LOSS

- Reduce the asset (or CGU) to its Recoverable Amount.
- Recognize loss immediately in Profit or Loss.

STEP 6: REVERSAL OF IMPAIRMENT LOSS

- Reversal allowed only for assets other than goodwill.
- When indications no longer exist.
- Increase carrying amount up to revised recoverable amount (not more than what it would have been without impairment). Recognize in Profit or Loss.

KEY CONCEPTS

Concept	Explanation
Carrying Amount	Amount at which an asset is recognized in the Statement of Financial Position after deducting depreciation/amortization and impairment losses.
Recoverable Amount	Higher of (FVLCD) and (VIU).
Fair Value less Costs of Disposal (FVLCD)	Amount obtainable from sale in an arm's length transaction less costs directly attributable to disposal.
Value in Use (VIU)	Present value of future cash flows expected to be derived from the asset or CGU.
Cash-Generating Unit (CGU)	Smallest identifiable group of assets that generates cash inflows largely independent of other assets.
Impairment Loss	Amount by which the asset's (or CGU's) carrying amount exceeds its recoverable amount.
Reversal of Impairment	Increase in carrying amount when reasons for impairment no longer exist (except goodwill).

EXAMPLE

PL has a machine with the following:
- Carrying Amount (CA) Rs. 120 million
- Fair Value less Costs of Disposal Rs. 90 million
- Value in Use (VIU) Rs. 100 million

Recoverable Amount = higher of 90m and 100m = Rs. 100 million

Since CA (120m) > Recoverable Amount (100m)

Impairment Loss = 120m – 100m = Rs. 20 million

Recognize Rs. 20 million in Profit or Loss.

Journal Entry

Impairment Loss A/c	Dr.	20,000,000	
To Machine A/c			20,000,000
(To record impairment loss on machine)			

Reversal Example

If in future Recoverable Amount increases to Rs. 115 million.

New carrying amount = Min (115m, original CA 120m) = Rs. 115 million

Reversal = 115m – 100m = Rs. 15 million

Recognize reversal in Profit or Loss.

INDICATORS OF IMPAIRMENT

Internal Indicators	External Indicators
✓ Significant decline in asset's performance	✓ Market value decline
✓ Obsolescence or physical damage	✓ Technological changes
✓ Restructuring or discontinuation of operation	✓ Legal or regulatory changes
✓ Cash flows lower than expected	✓ Increase in market interest rates
✓ Poor financial performance	✓ Economic conditions decline

EXAMINER TRAPS

- Testing all assets instead of CGU when required.
- Using post-tax discount rate for VIU.
- Ignoring costs of disposal in FVLCD.
- Not identifying indicators of impairment.
- Not reversing impairment when allowed.
- Wrong journal entry or disclosure.

ICAP EXAM TIPS

- ✓ First, identify CGU and indicators.
- ✓ Calculate both FVLCD and VIU.
- ✓ Use pre-tax cash flows and discount rate.
- ✓ Compare carefully and show workings clearly.
- ✓ Reversal only when indicators no longer exist.
- ✓ Disclosures are important – don't skip.

SC E-LEARNING 3-POINT RULE

1 **IDENTIFY** → 2 **MEASURE** → 3 **COMPARE & ACT**

1. IDENTIFY: Check indicators and identify asset or CGU.
2. MEASURE: Calculate Recoverable Amount (higher of FVLCD and VIU).
3. COMPARE & ACT: Compare with Carrying Amount and recognize loss or reversal.

IAS 40 INVESTMENT PROPERTY

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OBJECTIVE: To prescribe the accounting treatment for investment property and the disclosures required.

SCOPE: Applies to all investment property as defined in IAS 40.

SC E-LEARNING REMINDER
Investment property is property (land or a building—or part of a building—or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in production or supply of goods/services, or
- administrative purposes, or
- sale in the ordinary course of business.

STEP 1: IDENTIFY INVESTMENT PROPERTY

- Property is investment property if it is held to earn rentals or for capital appreciation or both.
- Initial recognition at Cost.

STEP 2: CHOOSE A MEASUREMENT MODEL

Choose and apply one of the following models to all investment property:

1. **Cost Model**
   Carry at Cost less any Accumulated Depreciation and any Impairment Losses.
2. **Fair Value Model**
   Carry at Fair Value. Changes in Fair Value are recognized in Profit or Loss.

Model chosen must be applied to all investment property (e.g., cannot use Cost Model for one property and Fair Value Model for another).

STEP 3: SUBSEQUENT MEASUREMENT

Cost Model
- Depreciate the property over its useful life.
- Test for impairment whenever there is an indication.

Fair Value Model
- Measure at fair value at each reporting date.
- Recognize any gain or loss in Profit or Loss.

STEP 4: TRANSFER TO / FROM INVESTMENT PROPERTY

Transfer to Investment Property:
When property starts earning rentals or for capital appreciation.
Measure at Fair Value on the date of transfer.

Transfer from Investment Property:
When property is owner-occupied or for sale.
- Measure at Fair Value on the date of transfer.
- Subsequent accounting in accordance with the new classification.

STEP 5: DISPOSAL OF INVESTMENT PROPERTY

- Derecognize on disposal or when no future economic benefits are expected.
- Any gain or loss = Sale proceeds – Carrying amount, recognized in Profit or Loss.

COST MODEL vs FAIR VALUE MODEL

	Cost Model	Fair Value Model
Initial Measurement	Cost	Cost
Subsequent Measurement	Cost less Depreciation & Impairment	Fair Value
Depreciation	Yes	No
Impairment Test	Yes (when indication exists)	Not required
Gain / Loss on Revaluation	Not applicable	Recognize in Profit or Loss
Changes in Value	Not recognized (except impairment loss)	Recognized in Profit or Loss
Model Choice	One model for all investment property	

EXAMPLES

Cost Model Example

Building purchased on 1 Jan 2022 for Rs. 50 million.
Useful life: 20 years, residual value: Rs. 5 million.
On 31 Dec 2022, no indication of impairment.

Depreciation for 2022
= (50m – 5m) / 20 = **Rs. 2.25 million**

Carrying amount (31 Dec 2022)
= 50m – 2.25m = **Rs. 47.75 million**

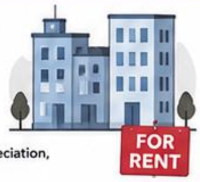
Fair Value Model Example

Building purchased on 1 Jan 2022 for Rs. 50 million.
Fair value on 31 Dec 2022 = Rs. 56 million.

Gain = 56m – 50m = Rs. 6 million
(Recognized in Profit or Loss)

DISCLOSURES REQUIRED (IAS 40)

- The measurement basis used.
- Fair value of investment property.
- Rental income from investment property.
- Direct operating expenses that generated rental income.
- Gains or losses arising from changes in fair value.
- Reconciliation of carrying amount at beginning and end of period (showing additions, disposals, transfers, revaluation gains/losses, depreciation, impairment losses).



EXAMINER TRAPS

- Model change during the period – not allowed.
- Using fair value model for some and cost model for others.
- Not transferring at fair value on the date of change in use.
- Depreciating under fair value model.
- Not disclosing required information.

ICAP EXAM TIPS

- First, decide the nature: Is it held to earn rentals or for capital appreciation?
- Identify the model clearly and stick to it.
- Transfers = Fair Value on transfer date.
- Fair value changes go to Profit or Loss.
- Master disclosures – easy marks!

SC E-LEARNING 3-POINT RULE

1. **IDENTIFY** → Is the property held to earn rentals or for capital appreciation or both?
2. **MEASURE** → Apply Cost Model or Fair Value Model consistently to all investment property.
3. **DISCLOSE** → Provide complete and relevant disclosures as per IAS 40.

INTERPRETATION OF FINANCIAL STATEMENTS

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OBJECTIVE: Financial statement interpretation helps users assess performance, financial position, liquidity, solvency, efficiency and profitability of an entity for informed decisions.

SCOPE: Analysis and interpretation of Statement of Financial Position, Statement of Profit or Loss, Cash Flow Statement and related notes and accounting information.

STEP 1: IDENTIFY FINANCIAL STATEMENTS

- Identify the financial statements to be analyzed and gather relevant data from the statements and notes.

STEP 2: UNDERSTAND PURPOSE

- Ratio analysis converts raw numbers into meaningful relationships to help assess performance, position, liquidity, solvency, efficiency and profitability.

STEP 3: CLASSIFY RATIOS

- Classify ratios into key categories: Profitability, Liquidity, Efficiency/Activity and Solvency/Investor style measures.

KEY FINANCIAL RATIOS

Category	Ratio	Formula	Use / What it Shows
PROFITABILITY RATIOS	1. Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	Profit earned from core operations before operating expenses.
	2. Net Profit Margin	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	Overall profit after all expenses and tax.
	3. Return on Capital Employed (ROCE)	$\frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$	Return generated on total funds employed (by owners + lenders).
LIQUIDITY RATIOS	4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Short-term paying ability with current assets.
	5. Quick Ratio (Acid Test)	$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$	Stricter test of liquidity excluding inventories.
EFFICIENCY / ACTIVITY RATIOS	6. Inventory Holding Period (Days)	$\frac{\text{Average Inventory} \times 365}{\text{Cost of Sales}}$	Average number of days inventory is held.
	7. Trade Receivables Collection Period (Days)	$\frac{\text{Average Trade Receivables} \times 365}{\text{Credit Sales}}$	Average number of days to collect receivables.
	8. Trade Payables Payment Period (Days)	$\frac{\text{Average Trade Payables} \times 365}{\text{Credit Purchases}}$	Average number of days to pay suppliers.
	9. Total Asset Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	Efficiency in using total assets to generate sales.
SOLVENCY / INVESTOR STYLE RATIOS	10. Gearing / Debt-to-Equity Ratio	$\frac{\text{Total Debt}}{\text{Equity}}$	Extent of financing from debt vs. owners' funds.
	11. Interest Cover Ratio	$\frac{\text{EBIT}}{\text{Finance Cost}}$	Ability to meet interest obligations comfortably.

HOW TO INTERPRET RESULTS

- ✓ Higher or lower value ka matlab samjhein (ratio wise).
- ✓ Compare with previous years (trend analysis).
- ✓ Compare with industry averages / benchmarks.
- ✓ Read related notes for reasons and disclosures.
- ✓ Consider both numerator and denominator.
- ✓ Use multiple ratios together for strong conclusion.

COMMON REASONS FOR RATIO CHANGES

- Change in sales mix or product profitability.
- Change in pricing, discounts or cost control.
- Increase / decrease in inventory levels.
- Change in credit policy to customers.
- Change in asset utilization or capacity.
- Change in financing structure (debt vs equity).

EXAMINER TRAPS

- ✗ Wrong formula or components used.
- ✗ Mixing opening and closing balances.
- ✗ Calculating ratio but no interpretation.
- ✗ No workings / steps shown.
- ✗ Only isolated analysis (one ratio only).
- ✗ Ignoring limitations of ratios.
- ✗ Arithmetic or sign errors.

ICAP EXAM TIPS

- ✓ Answer must have: Trend + Reason + Implication.
- ✓ Write clearly: Ratio → Interpretation → Conclusion.
- ✓ Use simple bullets, headings and logical flow.
- ✓ Support with figures & reference to notes.
- ✓ Quality of comments > Quantity of ratios.

SC E-LEARNING 3-POINT RULE

1 **IDENTIFY** → 2 **CALCULATE** → 3 **INTERPRET**

1. **IDENTIFY** – Identify statements, figures and key ratios relevant to question.
2. **CALCULATE** – Calculate ratios correctly with proper workings and accuracy.
3. **INTERPRET** – Interpret results with reasons and implications clearly and logically.

FINAL EXAM TIB

Marks are not for formula only. Interpretation, logical comments and implications are essential.

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NON-PROFIT ORGANIZATIONS (NPOs)

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OBJECTIVE: To prescribe the financial reporting requirements for Non-Profit Organizations.

SCOPE: Applies to NPOs in the preparation and presentation of their financial statements.

SC E-LEARNING REMINDER

NPOs ka main objective profit earn karna nahi hota, **balkay members ya public ko service provide karna hota hai. Surplus bhi hota hai lekin owners/members mein distribute nahi hota.**

STEP 1: IDENTIFY NPO

An entity is an NPO if:

- It is established for providing goods or services to members or to the public rather than to earn profit; and
- Any surplus is used to further the objectives of the entity.

Examples:
Clubs, Associations, Societies, Trusts, Welfare organizations, Educational institutions, Charitable organizations.

STEP 2: FUND ACCOUNTING

Funds are classified based on purpose of receipt:

- **General Fund** (Unrestricted Fund): For general operations.
- **Restricted Fund:** For a specific purpose imposed by donor.
- **Endowment Fund:** Principal amount is maintained permanently and only income is used.

STEP 3: ACCOUNTING FOR RECEIPTS

Receipts are recorded on cash basis.

- Voluntary receipts (Donations, Grants, Contributions)
- Income from investments
- Membership fees, Entrance fees
- Receipts for specific events (if any)

All receipts are credited to respective funds.

STEP 4: ACCOUNTING FOR PAYMENTS

Payments are also recorded on cash basis.

- Expenses for object / activities
- Administrative & general expenses
- Expenses are charged to the respective fund.

STEP 5: TREATMENT OF SURPLUS / DEFICIT

- Surplus of a fund is transferred to that fund's balance.
- Deficit is met from the same fund or other funds as per rules.
- Surplus is not distributed among members.

STEP 6: INVESTMENTS

Investments are classified as:

- Specific / Restricted Investments (e.g., Endowment Fund)
- General Investments

Investments are stated at cost (or fair value if required by law or donor condition).

STEP 7: FINANCIAL STATEMENTS OF NPOs

Main Financial Statements:

1. **Statement of Financial Position (Balance Sheet)**
   Shows assets, liabilities and fund balances.
2. **Statement of Income and Expenditure**
   Shows surplus / deficit for the period.
3. **Statement of Receipts and Payments**
   Shows cash inflows and outflows.
4. **Notes to the Financial Statements**
   Significant accounting policies and other explanatory information.

Fund Balances in Statement of Financial Position

Fund	Shown As
General Fund	Unrestricted fund balance
Restricted Fund	Restricted fund balance
Endowment Fund	Endowment fund balance
Total	**Total Fund Balance**

DIFFERENCE: NPOs vs FOR-PROFIT ENTITIES

Particulars	NPOs	For-Profit Entities
Objective	Service motive	Profit motive
Surplus	Not distributed, used for objectives	Distributed among owners / shareholders
Accounting Basis	Cash basis	Accrual basis
Funds	General, Restricted, Endowment	No funds concept
Financial Statements	Receipts & Payments, Income & Expenditure, Balance Sheet	Statement of Profit or Loss, Balance Sheet
Tax Status	Usually exempt (subject to law)	Subject to income tax

ICAP EXAM TIP

- Fund concept ko hamesha dhyan mein rakho.
- Receipts & Payments zaroor prepare karo jab question mein mangein.
- Income & Expenditure se surplus / deficit nikalna seekho.
- Restricted fund ki conditions ko samajh kar treat karo.

EXAMINER TRAPS

- Accrual basis use karna NPOs mein.
- General & Restricted funds ko mix karna.
- Endowment fund ke principal ko income treat karna.
- Surplus ko members mein distribute karna assume karna.
- Receipts & Payments aur Income & Expenditure mein difference samajh na karna.

RECEIPTS & PAYMENTS vs INCOME & EXPENDITURE

Receipts & Payments	Income & Expenditure
• Cash basis statement hai. • Sirf cash inflows aur outflows dikhta hai. • Opening & Closing cash balance hota hai. • Non-cash items include nahi hote.	• Surplus / deficit batata hai. • Accrual basis elements include hote hain (e.g., Outstanding / Prepaid items). • Membership fees received in advance income nahi hota.