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**CORE CONCEPT OF**

# FINANCIAL ACCOUNTING

***Meaning*** *Control* is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it. *A joint venture* is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. *The equity method* is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post acquisition change in the venturer's share of net assets of the jointly controlled entity. *The profit or loss* of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity. *An investor* in a joint venture is a party to a joint venture and does not have joint control over that joint venture. *Joint control* is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). *Proportionate consolidation* is a method of accounting whereby venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements. *Separate financial statements* are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. *Significant influence* is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.

## Ind AS 32: Financial Instruments: Presentation

***Objectives*** The purpose of this Standard is to establish principles for presenting financial instruments as liabilities or equities and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset while presenting financial statements.

***Meaning*** A financial *instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial *asset* is any asset that is (i) cash; (ii) an equity instrument of another entity; (iii) a contractual right to receive cash or another financial asset from another entity. A financial *liability* is any liability that is (i) a contractual obligation to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity. An equity *instrument* is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. *Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A *puttable instrument* is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

## Ind AS 33: Earning per Share

***Objectives*** The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.

**Meaning** A *contingent share agreement* is an agreement to issue shares that is dependent on the satisfaction of specified conditions. *Contingently issuable* ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement. *Dilution* is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions. A *potential ordinary share* is a financial instrument or other contract that may entitle its holder to ordinary shares. *Basic earnings per share* shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. *Diluted earnings per share* is to be calculated by adjusting profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

## Ind AS 34: Interim Financial Reporting

**Objective** The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

**Meaning** *Interim period* is a financial reporting period shorter than a full financial year. *Interim financial report* means a financial report containing either a complete set of financial statements as described in Ind AS 1 – Presentation of Financial Statements or a set of condensed financial statements as described in this Standard for an interim period. *An interim financial report* shall include, at a minimum, (a) a condensed balance sheet, (b) a condensed statement of profit and loss, (c) a condensed statement of cash flows; and (d) selected explanatory notes.

## Ind AS 36: Impairment of Assets

**Objectives** This standard prescribes the procedures that an entity should follow while presenting its assets in the financial statements. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

**Meaning** *Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and impairment loss thereon. A cash-*generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. *Corporate assets* are the assets other than goodwill that contribute to the future cash flows of both, cash-generating unit under review and other cash-generating units. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense. *Depreciable amount* is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. *Depreciation* (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life. *Fair value* less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment *loss* is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable *amount* of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.