

# INDIAN ACCOUNTING STANDARD 101: FIRST-TIME ADOPTION OF IND AS

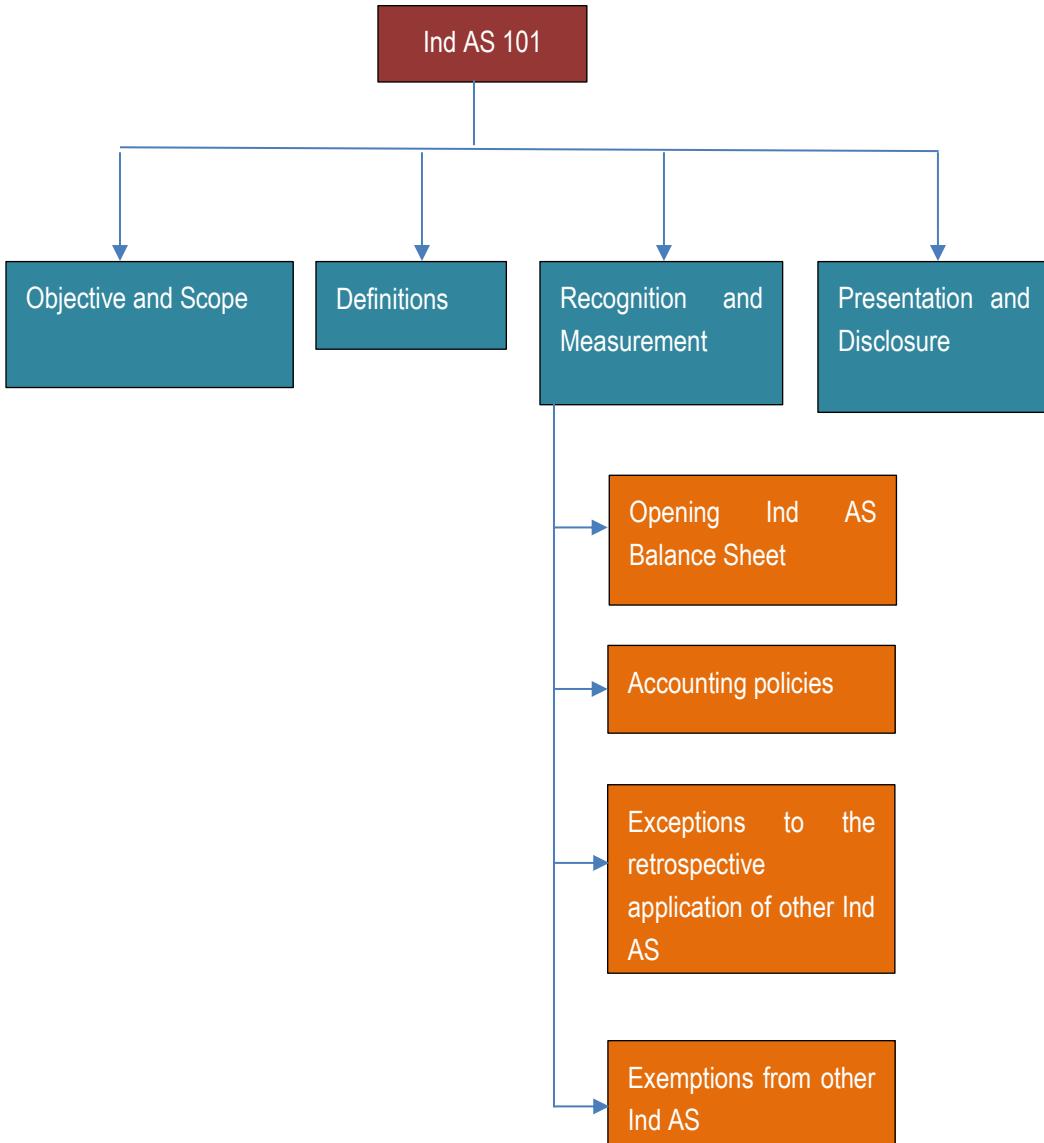


## LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the objective for issuing this standard
- Appreciate the applicability and non-applicability of this standard
- Define the relevant terms like 'First Ind AS Financial Statements', 'First –time adopter', 'Opening Ind AS Balance sheet', 'Date of Transition to Ind AS', 'First Ind AS reporting period', 'Deemed cost' and 'Previous GAAP'
- Apply the recognition and measurement principles in the preparation of opening Ind AS Balance Sheets
- Evaluate the mandatory exceptions in which Ind AS prohibits retrospective application of Ind AS
- Examine when Ind AS 101 grants voluntary exemptions from some specific requirements of other Ind AS
- Know the carve outs in Ind AS 101 from IFRS 1

## CHAPTER OVERVIEW





## 1. INTRODUCTION

Ind AS 101 prescribes the accounting principles for first - time adoption of Ind AS. It lays down various ‘transition’ requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS.

Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, Ind AS 101 grants limited **exemptions** from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. Ind AS 101 also prohibits retrospective application of Ind AS in some areas (called **exceptions**), particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

Ind AS 101 also prescribes presentation and disclosure requirements to explain the transition to the users of financial statements including explaining how the transition from Indian GAAP to Ind AS affected the company’s financial position, financial performance and cash flows.

Ind AS 101 does not provide any exemption from the disclosure requirements in other Ind AS.



## 2. OBJECTIVE

The objective of this Ind AS is to ensure that an entity’s first Ind-AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- is transparent for users and comparable;
- provides a suitable starting point; and
- at a cost that does not exceed the benefits.



## 3. DEFINITIONS

### 1. First Ind AS Financial Statements

- The first annual financial statements in which an entity adopts Ind AS, by an explicit and unreserved statement of compliance with Ind AS.

- This means compliance with ALL Ind-AS, partial compliance is not enough to make entity Ind AS compliant.

## 2. First –time adopter

An entity that presents its first Ind AS financial statements, that entity is known as first time adopter

## 3. Opening Ind AS Balance sheet

An entity's balance sheet at the date of transition to Ind AS

## 4. Date of Transition to Ind AS

The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS Financial statements.

### Illustration 1

*X Ltd. is required to adopt Ind AS from April 1, 20X1, with comparatives for one year, i.e., for 20X0-20X1.*

*What will be its date of transition?*

### Solution

The date of transition for X Ltd. will be April 1, 20X0 being the beginning of the earliest comparative period presented. To explain it further, X Ltd. is required to adopt an Ind AS from April 1, 20X1 (i.e. year 20X1-20X2), and it will give comparatives as per Ind AS for 20X0-20X1. Accordingly, the beginning of the comparative period will be April 1, 20X0 which will be considered as date of transition.

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## 5. First Ind AS reporting period

- The latest reporting period covered by an entity's first Ind AS financial statements

### Example 1

XYZ Ltd. is a BSE listed company having net worth of ₹ 100 cr. XYZ Ltd. has to prepare financial statements as per Ind AS from 1<sup>st</sup> April 20X1.

The first Ind AS Financial Statements would be for period ending as on 31.3.20X2

First-time adopter - "XYZ Ltd" with effect from 1.4.20X1

Opening Ind AS Balance sheet – 1.4.20X0

Date of Transition to Ind AS – 1.4.20X0

First Ind AS reporting period – 1.4.20X1 to 31.3.20X2

The financial statements for the period 1.4.20X0 to 31.3.20X1 shall be the comparative period for the first Ind AS reporting period.

## 6. Deemed cost

An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost. This definition will be used in measurement, at the date of transition to Ind AS, of

- (i) investments in subsidiaries, joint ventures and associates
- (ii) property, plant and equipment, an investment property, an intangible asset or a right-of-use asset
- (iii) assets acquired and liabilities assumed in a business combination when the exemption under Ind AS 101 is availed.

## 7. Previous GAAP

The basis of accounting that a first-time adopter used for its statutory reporting requirements in India immediately before adopting Ind AS. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, shall consider those financial statements as previous GAAP financial statements. Those previous GAAP financial statements were prepared as per the Companies (Accounting Standards) Rules, 2006 and hence such accounting standards are the “Previous GAAP” for those companies in India.

### Illustration 2

*Company B is a foreign subsidiary of Company A and has adopted IFRS as issued by IASB as its primary GAAP for its local financial reporting purposes. Company B prepares its financial statements as per Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 for the purpose of consolidation with Company A.*

*On transition of Company A to Ind-AS, what would be the previous GAAP of the foreign subsidiary Company B for its financial statements prepared for consolidation with Company A?*

### Solution

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its statutory reporting requirements in India (**emphasis added**) immediately before adopting Ind AS. For instance, companies preparing their financial statements in accordance with the Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 shall consider those financial statements as previous GAAP financial statements.

Accordingly, the previous GAAP of the foreign subsidiary for the purpose of consolidation under Ind AS with the parent company would be accounting standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 and not the IFRS as issued by the IASB since the first time adoption has to be considered in the context of India only.

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## 4. SCOPE

Ind AS 101 applies to:

- First Ind AS financial statements
- Each interim financial report for part of the period covered by its first Ind AS financial statements. For example, if the period covered by the first Ind AS financial statements is year ended 31 March 20X2 and the company prepares quarterly financial results (i.e. interim financial report) for each quarter of that year, Ind AS 101 shall be applied in preparation of those financial results.

However, it does not apply to:

- Changes in accounting policies made by an entity that already applied Ind AS.

**Illustration 3**

*E Ltd. is required to first time adopt Indian Accounting Standards (Ind AS) from 1 April 20X1. The management of E Ltd. has prepared its financial statements in accordance with Ind AS and an explicit and unreserved statement of compliance with Ind AS has been given by the management. However, there is a disagreement on application of one Ind AS between the management and the auditor.*

*Can such financial statements of E Ltd. be treated as first Ind AS financial statements?*

**Solution**

Ind AS 101 defines first Ind AS financial statements as "The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind AS), by an explicit and unreserved statement of compliance with Ind AS." In accordance with the above definition, if an explicit and unreserved statement of compliance with Ind AS has been given in the financial statements, even if the auditor's report contains a qualification because of disagreement on application of Indian Accounting Standard(s), it would be considered that E Ltd. has done the first time adoption of Ind AS. In such a case, exemptions given under Ind AS 101 cannot be availed again. If, however, the unreserved statement of compliance with Ind AS is not given in the financial statements, such financial statements would not be considered to be first Ind AS financial statements.

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## 5. RECOGNITION AND MEASUREMENT

### 5.1 Opening Ind AS Balance Sheet

An entity shall prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

### 5.2 Accounting policies

Entity uses the same accounting policies in its opening Ind AS Balance Sheet and through all periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to:

- Mandatory exceptions and
- Optional exemptions

### **Example 2: Consistent application of latest version of Ind AS**

The end of entity A's first Ind AS reporting period is 31 March 20X2. Entity A decides to present comparative information in those financial statements for one year only. Therefore, its date of transition to Ind AS is the beginning of business on 1 April 20X0 (or, equivalently, close of business on 31 March 20X0).

Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 20X1.

#### **Application of requirements:**

Entity A is required to apply the Ind AS effective for periods ending on 31 March 20X2 in:

- a) preparing and presenting its opening Ind AS balance sheet at 1 April 20X0; and
- b) preparing and presenting its balance sheet for 31 March 20X2 (including comparative amounts for the year ended 31 March 20X1), statement of profit and loss, statement of changes in equity and statement of cash flows for the year to 31 March 20X2 (including comparative amounts for the year ended 31 March 20X1) and disclosures (including comparative information for the year ended 31 March 20X1).

If a new Ind AS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that Ind AS in its first Ind AS financial statements.

### **The general principle of Ind AS 101**

It may be noted that the way Ind AS 101 is structured, it first lays down the general principle that all Ind AS, as effective for the first Ind AS reporting period, should be applied retrospectively i.e. at the starting point, which is the opening Ind AS balance sheet, should carry the balances as if Ind AS has always been applied by the company in the past.

Once the general principle has been specified, Ind AS 101 then talks about certain (a) exemptions and (b) exceptions, the former being voluntary and the latter being mandatory, as mentioned above.

So lets talk of the general principle first - an entity shall, in its opening Ind AS Balance sheet:

- Recognise all assets and liabilities whose recognition is required by Ind AS. For example, recognition of derivative assets and liabilities for which a different guidance was followed under Indian GAAP or intangible assets arising in a business combination, which were not carried in the books of the acquiree entity under Indian GAAP;
- Not recognise items as assets or liabilities if Ind AS do not permit such recognition. For example, Ind AS 115, Revenue from Contracts with Customers, has different thresholds for

- revenue recognition as compared to AS 9 under Indian GAAP and hence an item that is recognized as a trade receivable in Indian GAAP, may not be so recognized under Ind AS;
- Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS. For example, Ind AS requires classification of assets given on operating lease as investment property whereas the same are presented as property, plant and equipment under Indian GAAP; and
  - Apply Ind AS in measuring all recognised assets and liabilities. For example, Ind AS has well-defined measurement principles for financial assets and liabilities, like certain investments are measured at fair value under Ind AS, whereas the same are measured at lower of cost and fair value under Indian GAAP.



## 6. EXCEPTIONS/ EXEMPTIONS

There are two categories of provisions in Ind AS 101 under which the general principle mentioned above is applied in a modified manner:

1. Mandatory exceptions to the retrospective application of other Ind AS
2. Optional exemptions from retrospective application of other Ind AS

### 6.1 Mandatory exceptions to the retrospective application of other Ind AS

#### 1. Estimates

An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Step 1 Estimates required by previous GAAP? If yes, then go to Step 2 otherwise Step 3.

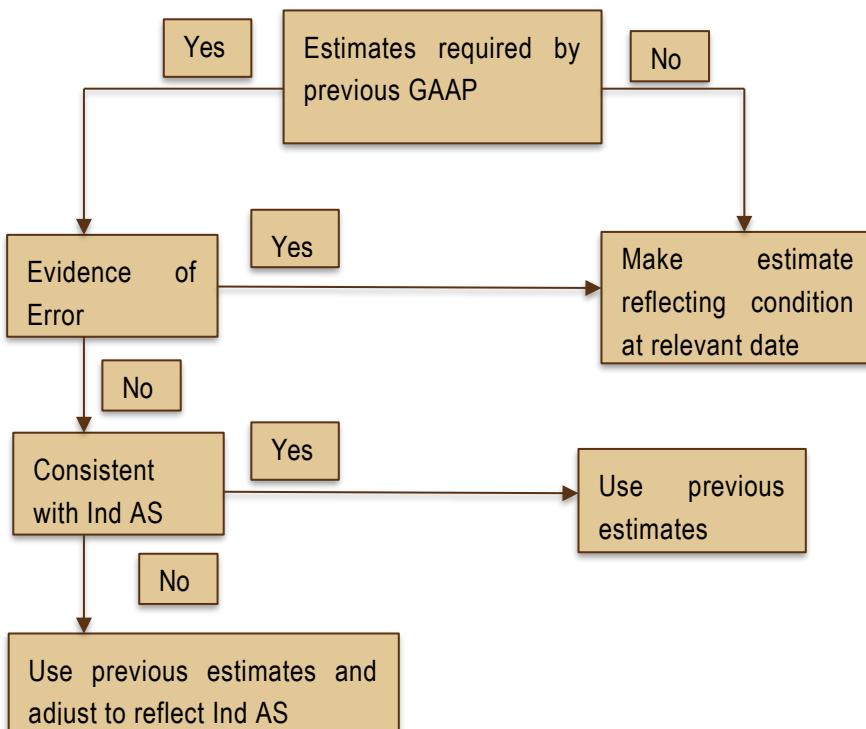
Step 2 Evidence of Error? If yes then go to Step 3 otherwise Step 4.

Step 3 Make estimate reflecting condition at relevant date i.e. the date to which the estimate relates.

Step 4 Consistent with Ind AS? If yes then go to step 5 otherwise Step 6

Step 5 Use previous estimates

Step 6 Use previous estimates and adjust to reflect Ind AS.



## 2. Derecognition of financial assets and liabilities

A first-time adopter shall apply the derecognition requirements in Ind AS 109 **prospectively** for transactions occurring on or after the date of transition to Ind AS.

### Example 3

If a first time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to Ind AS, it shall not recognise those assets and liabilities in accordance with Ind AS (unless they qualify for recognition as a result of a later transaction or event). A practical example of such financial assets could be securitization of a loan portfolio by a NBFC to a Trust before the date of transition resulting in derecognition of the same from books under Indian GAAP, whereas under Ind AS, the derecognition criteria may not have been met.

An entity may apply the derecognition requirements in Ind AS 109 **retrospectively** from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

### 3. Hedge accounting

At the date of transition to Ind AS an entity shall:

- (a) measure all derivatives at fair value; and
- (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

An entity shall not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). In other words, if the hedge relationship:

- (A) is of a type that qualifies for hedge accounting (i.e. hedge relationship consists of eligible hedging instruments and eligible hedged items as per Ind AS 109), and
- (B) is designated under Indian GAAP

then:

- (1) the hedge relationship is required to be reflected in the opening Ind AS Balance Sheet, irrespective of whether other conditions for applying hedge accounting (i.e. documentation and effectiveness) are met; and
- (2) if those conditions are not met, requirements of Ind AS 109 with respect to discontinuance of hedge accounting are applied subsequently.

As a corollary to this principle, if either of (A) or (B) above are not met, barring a specific exception (dealt with in subsequent paragraph), the hedge relationship is required to be removed from the opening Ind AS Balance Sheet.

If an entity designated a net position as a hedged item in accordance with previous GAAP, which is not a qualifying hedged item otherwise under Ind AS 109, it may designate as a hedged item in accordance with Ind AS an individual item within that net position, or a net position if that meets the requirements in Ind AS 109, provided that it does so no later than the date of transition to Ind AS.

Hedge accounting is followed only from the date the qualifying criteria are met, irrespective of the conditions stated at (A) and (B) above. Transactions entered into before the date of transition to Ind AS shall not be retrospectively designated as hedges.

#### 4. Non-controlling interests

A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind AS:

- (a) Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- (b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- (c) Accounting for a loss of control over a subsidiary, and the related requirements of Ind AS 105, Non-current Assets Held for Sale and Discontinued operations i.e. classification of all the assets and liabilities of that subsidiary as held for sale.

However, if a first-time adopter elects to apply Ind AS 103 retrospectively to past business combinations, it shall also apply Ind AS 110 from that date.

#### Illustration 4

*Ind AS requires allocation of losses to the non-controlling interest, which may ultimately lead to a debit balance in non-controlling interests, even if there is no contract with the non-controlling interest holders to contribute assets to the Company to fund the losses.*

*Whether this adjustment is required or permitted to be made retrospectively?*

#### Solution

In case an entity elects not to restate past business combinations, Ind AS 101 requires the measurement of non-controlling interests (NCI) to follow from the measurement of other assets and liabilities on transition to Ind AS. However, Ind AS 101 contains a mandatory exception that prohibits retrospective allocation of accumulated profits between the owners of the parent and the NCI. In case an entity elects not to restate past business combinations, the previous GAAP carrying value of NCI is not changed other than for adjustments made (remeasurement of the assets and liabilities subsequent to the business combination) as part of the transition to Ind AS. As such, the carrying value of NCI in the opening Ind AS balance sheet cannot have a deficit balance on

account of recognition of the losses attributable to the non-controlling interest, which was not recognised under the previous GAAP as part of NCI in the absence of contract to contribute assets to fund such a deficit.

However, the NCI could have a deficit balance due to remeasurement of the assets and liabilities subsequent to the business combination as part of the transition to Ind AS.

In case an entity restates past business combination, Ind AS 101 requires that the balance in NCI as at the date of transition shall be determined retrospectively in accordance with Ind AS, taking into account the impact of other elections made as part of the adoption of Ind AS.

As such, the NCI could have a deficit balance on account of losses attributable to the NCI, even if there is no obligation on the holders of NCI to contribute assets to fund such a deficit.

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## 5. Classification and measurement of financial instruments

Ind AS 109 contains principles for classification of a financial asset as at (a) amortised cost or (b) fair value through other comprehensive income or (c) fair value through profit or loss. Such classification depends on assessment of features of the financial asset on the date of its initial recognition.

Ind AS 101 provides an exception to this general principle by requiring that such assessment should be done on the date of transition to Ind AS.

Ind AS 101 further provides that if it is impracticable to assess the below mentioned features of a financial asset as at the date of transition to Ind AS, the “contractual cash flow characteristics test” shall be done without taking into account those features:

- ◆ Modified time value of money element
- ◆ Significance of the fair value of a prepayment feature

An entity shall disclose the carrying amount of such financial assets until those financial assets are derecognized.

Ind AS 109 requires the measurement of amortised cost of a financial asset or a financial liability using effective interest method. As an exception to this general measurement principle, Ind AS 101 provides that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of

the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

## 6. Impairment of financial assets

An entity shall apply the impairment requirements of Ind AS 109 retrospectively subject to the below:

- ◆ At the date of transition to Ind AS, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised.
- ◆ An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind AS, whether there have been significant increases in credit risk since initial recognition.
- ◆ If, at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised, unless that financial instrument is low credit risk at a reporting date.

## 7. Embedded derivatives

A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of (a) the date it first became a party to the contract and (b) the date a reassessment is required by Ind AS 109 i.e. when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

## 8. Government loans

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation.

A first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, **prospectively** to government loans existing at the date of transition to Ind AS and **shall not recognise the corresponding benefit** of the government loan at a below-market rate of interest **as a government grant**.

**Example 4**

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility.

Company A's date of transition to Ind AS is 1 April 20X5.

In 20X2, Company A had received a loan of ₹ 1 crore at a below-market rate of interest from the government. Under Indian GAAP, Company A accounted for the loan as equity and the carrying amount was ₹ 1 crore at the date of transition. The amount repayable at 31 March 20X9 will be ₹ 1.25 crore.

The loan meets the definition of financial liability in accordance with Ind AS 32. Company A therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet. It calculates the annual effective interest rate (EIR) starting 1 April 20X5 as below:

$$\text{EIR} = \text{Amount} / \text{Principal}^{(1/t)} \text{ i.e. } 1.25/1^{(1/4)} \text{ i.e. } 5.74\% \text{ approx.}$$

At this rate, ₹ 1 crore will accrete to ₹ 1.25 crore as at 31 March 20X9.

During the next 4 years, the interest expense charged to statement of profit and loss shall be:

<b>Year ended</b>	<b>Opening amortised cost (₹)</b>	<b>Interest expense for the year (₹) @ 5.74% p.a. approx.</b>	<b>Closing amortised cost (₹)</b>
31 March 20X6	1,00,00,000	5,73,713	1,05,73,713
31 March 20X7	1,05,73,713	6,06,627	1,11,80,340
31 March 20X8	1,11,80,340	6,41,430	1,18,21,770
31 March 20X9	1,18,21,770	6,78,230	1,25,00,000

Calculations have been done on full scale calculator. However, in case calculations are done taking EIR as exact 5.74%, then there will be difference of a few ₹ due to rounding off.

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

## 6.2 Optional exemptions from retrospective application of other Ind AS

### 1. Business combination

Ind AS 103 need not be applied to business combinations before date of transition. But, if one business combination is restated to comply with Ind AS 103, all subsequent business combinations are restated.

When the exemption is used:

- ◆ There won't be any change in classification from previous GAAP.

For **example**, if the “pooling of interests” method is applied as per AS 14, the balances of assets and liabilities arising therefrom shall be carried forward.

Another **example** is regarding the identification of the acquirer – irrespective of the fact that a business combination could have been a reverse acquisition as per Ind AS 103, the accounting adopted in previous GAAP shall be continued.

#### ❖ Recognition exemptions:

The table below summarises the provisions of paragraph C4(b) and (c) of Ind AS 101:

Case	Asset / liability recognised in previous GAAP	Asset / liability qualifies for recognition in Ind AS	Is the change an intangible asset?	Result: whether asset or liability recognised in opening Ind AS Balance Sheet?	How is the resulting change accounted for?
1	No	No		Not Applicable	
2	No	Yes	No	Yes*	Retained Earnings
3	No	Yes	Yes	Yes	Goodwill
4	Yes	No	Yes	No	Goodwill**
5	Yes	No	No	No	Retained Earnings

\* Unless a financial asset or financial liability was derecognised in previous GAAP (refer mandatory exception below)

\*\* Including any resulting changes to deferred tax and non-controlling interests

❖ **Measurement exemptions:**

- If an asset acquired or liability assumed was not recognized in previous GAAP but would have been recognised in Ind AS, it shall not have a deemed cost of zero and shall be measured at the amount at which Ind AS would require it to be measured. The resulting change is recognised in retained earnings.
- If an asset acquired or liability assumed was recognized in previous GAAP but Ind AS would require its subsequent measurement at other than original cost (for example, investments in certain equity instruments as per Ind AS 109), it shall be measured at such basis and not its original cost. The resulting change is recognised in retained earnings. Refer Example 5 below.

In all other cases, no measurement adjustment shall be made to the carrying amounts of the assets acquired and liabilities assumed.

- Therefore, it should be evident that the balance of goodwill or capital reserve as per previous GAAP is not adjusted for any reason other than:
  - Recognition of an intangible asset that was earlier subsumed in goodwill or capital reserve but Ind AS requires it to be recognised separately; or
  - Vice versa, an asset that was recognised as an intangible asset under previous GAAP but is not permitted to be recognised as an asset under Ind AS.
- ◆ Regardless of whether there is any indication that the goodwill may be impaired, the goodwill has to be tested for impairment at the date of transition to Ind AS and any resulting impairment loss is to be recognised in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test is based on conditions at the date of transition to Ind AS.

**Example 5**

If the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as Ind AS 116, would require the acquiree to do in its Ind AS Balance Sheet.

Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to Ind AS, the acquirer shall recognise that contingent liability at that date unless Ind AS 37 would prohibit its recognition in the financial statements of the acquiree.

As discussed in the chapter on consolidation, Ind AS 110 requires an entity to be consolidated based on assessment of “control”. This assessment may sometimes result in consolidation of entities which were not consolidated in the previous GAAP financial statements.

Let's understand the implications of this in the context of first Ind AS financial statements through an illustration.

#### Illustration 5

*A Ltd. had made certain investments in B Ltd.'s convertible debt instruments. The conversion rights are substantive rights and would provide A Ltd. with control over B Ltd. A Ltd. has evaluated that B Ltd. would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS consolidated financial statements. B Ltd. was not considered as a subsidiary, associate or a joint venture under previous GAAP.*

*How should B Ltd. be consolidated on transition to Ind AS assuming that A Ltd. has opted to avail the exemption from retrospective restatement of past business combinations?*

#### Solution

Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition. For this purpose, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after applying the relevant first-time adoption mandatory exceptions and voluntary exemptions. In other words, the parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind AS would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

- (a) the parent's interest in those adjusted carrying amounts; and
- (b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP.

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#### Illustration 6

*A Ltd. has a subsidiary B Ltd. On first time adoption of Ind AS by B Ltd., it availed the optional exemption of not restating its past business combinations. However, A Ltd. in its consolidated financial statements has decided to restate all its past business combinations.*

*Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated financial statements of A Ltd. considering that A Ltd. does not avail the business combination exemption? Will the answer be different if A Ltd. adopts Ind AS after B Ltd?*

#### Solution

As per Ind AS 101: “A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.

For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X0, it shall restate all business combinations that occurred between 30 June 20X0 and the date of transition to Ind AS, and it shall also apply Ind AS 110 from 30 June 20X0.” Based on the above, if A Ltd. restates past business combinations, it would

have to be applied to all business combinations of the group including those by subsidiary B Ltd. for the purpose of Consolidated Financial Statements. Ind AS 101 states, "However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary." Thus, in case where the parent adopts Ind AS later than the subsidiary (for example, if the parent is a non-banking financial company and the subsidiary is a trading or manufacturing company) then it does not change the amounts already recognised by the subsidiary.

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## 2. Insurance contracts

Ind AS 104 will apply for annual periods beginning on or after date of transition to Ind AS.

If an insurer changes its accounting policies for insurance liabilities, it is permitted to reclassify some or all of its financial assets as FVTPL (fair value through profit or loss).

## 3. Share based payment transactions

A first-time adopter is encouraged, but not required, to apply Ind AS 102, Share-based Payment, to equity instruments that vested before date of transition to Ind AS.

However, a first-time adopter may apply Ind AS 102 to equity instruments, if it has disclosed publicly the fair value of those equity instruments, determined at the measurement date.

It is encouraged to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind AS.

### Illustration 7

*X Ltd. is a first-time adopter of Ind AS. The date of transition is April 1, 20X1. It has given 200 stock options to its employees. Out of these, 75 options have vested on November 30, 20X0 and the remaining 125 will vest on November 30, 20X1.*

*What are the options available to X Ltd. at the date of transition?*

### Solution

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind AS. However, if a first-time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

Having regard to the above, X Ltd. has the following options:

- ◆ For 75 options that vested before the date of transition:
  - (a) To apply Ind AS 102 and account for the same accordingly, provided it has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.
  - (b) Not to apply Ind AS 102.

However, for all grants of equity instruments to which Ind AS 102 has not been applied, i.e., equity instruments vested but not settled before date of transition to Ind AS, X Ltd. would still need to disclose the information.

- ◆ For 125 options that will vest after the date of transition: X Ltd. will need to account for the same as per Ind AS 102.

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### 4. Deemed cost for PPE, intangible assets and right of use assets

An entity has the following options with respect to measurement of its property, plant and equipment (Ind AS 16), intangible assets (Ind AS 38) and right of use assets (Ind AS 116) in the opening Ind AS balance sheet:

- ◆ Measurement basis as per the respective standards applied retrospectively. This measurement option can be applied on an item-by-item basis. For example, Plant A can be measured applying Ind AS 16 retrospectively and Plant B can be measured applying the "fair value" or "revaluation" options mentioned below.
- ◆ Fair value at the date of transition to Ind AS. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.
- ◆ Previous GAAP revaluation, if such revaluation was, at the date of revaluation, broadly comparable to (a) fair value or (b) cost or depreciated cost in accordance with other Ind AS adjusted to reflect changes in general or specific price index.

This measurement option can be applied on an item-by-item basis in similar fashion as explained above.

- ◆ Previous GAAP carrying amounts (provided there is no change in functional currency). This measurement option can be applied only if applied to “all” of the assets classes and items therein. In addition, this measurement option can be applied to investment property (Ind AS 40) as well.

### **For Investment Property**

Ind AS 40, Investment Property permits only the cost model. Therefore, option of availing fair value as deemed cost for investment property is not available for first time adopters of Ind AS for its financial statements.

#### **Illustration 8**

*X Ltd. is the holding company of Y Ltd. X Ltd. is required to adopt Ind AS from April 1, 20X1. X Ltd. wants to avail the optional exemption of using the previous GAAP carrying values in respect of its property, plant and equipment whereas Y Ltd. wants to use fair value of its property, plant and equipment as its deemed cost on the date of transition.*

*Examine whether X Ltd. can do so for its consolidated financial statements. Also, examine whether different entities in a group can use different basis for arriving at deemed cost for property, plant and equipment in their respective standalone financial statements*

#### **Solution**

Where there is no change in its functional currency on the date of transition to Ind AS, a first-time adopter to Ind AS may elect to continue with the carrying value of all of its property, plant and equipment as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition after making necessary adjustments. If a first-time adopter chooses this option then the option of applying this on selective basis to some of the items of property, plant and equipment and using fair value for others is not available. Nothing prevents different entities within a group to choose different basis for arriving at deemed cost for the standalone financial statements. However, in Consolidated Financial Statements, the entire group should be treated as one reporting entity. Accordingly, it will not be permissible to use different basis for arriving at the deemed cost of property, plant and equipment on the date of transition by different entities of the group for the purpose of preparing Consolidated Financial Statements.

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**Illustration 9**

*For the purpose of deemed cost on the date of transition, an entity has the option of using the carrying value as the deemed cost.*

*In this context, suggest which carrying value is to be considered as deemed cost: original cost or net book value? Also examine whether this would have any impact on future depreciation charge?*

**Solution**

For the purpose of deemed cost on the date of transition, if an entity uses the carrying value as the deemed cost, then it should consider the net book value on the date of transition as the deemed cost and not the original cost because carrying value here means net book value. The future depreciation charge will be based on the net book value and the remaining useful life on the date of transition. Further, as per the requirements of Ind AS 16, the depreciation method, residual value and useful life need to be reviewed atleast annually. As a result of this, the depreciation charge may or may not be the same as the depreciation charge under the previous GAAP.

\*\*\*\*\*

**Illustration 10**

*Is it possible for an entity to allocate cost as per the previous GAAP to a component based on its fair value on the date of transition even when it does not have the component-wise historical cost?*

**Solution**

Yes, an entity can allocate cost to a component based on its fair value on the date of transition. This is permissible even when the entity does not have component-wise historical cost.

\*\*\*\*\*

**Illustration 11**

*Revaluation under previous GAAP can be considered as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to fair value or cost or depreciated cost of assets in accordance with Ind AS, adjusted to reflect, e.g., changes in a general or specific price index.*

*What is the acceptable time gap of such revaluation from the date of transition? Can adjustments be made to take effects of events subsequent to revaluation?*

### Solution

There are no specific guidelines in Ind AS 101 to indicate the acceptable time gap of such revaluation from the date of transition. The management of an entity needs to exercise judgement in this regard. However, generally, a period of 2–3 years may be treated as an acceptable time gap of such revaluation from the date of transition. In any case, adjustments should be made to reflect the effect of material events subsequent to revaluation.

\*\*\*\*\*

## 5. Cumulative translation difference

### No need to:

- ◆ Recognise some translation differences in other comprehensive income.
- ◆ Reclassify cumulative translation differences for foreign operation from entity to profit or loss as part of gain or loss on its disposal

### If first time adopter uses this exemption:

- ◆ Cumulative translation differences set to zero for all foreign operations.
- ◆ Gain / loss on subsequent disposal of a foreign operation shall exclude these differences that arose before transition

## 6. Long-term foreign currency monetary items

Paragraph 46A of AS 11 notified under the Companies (Accounting Standards) Rules, 2006 permitted companies to recognise foreign currency exchange gain / loss arising on long-term foreign currency monetary items in either of the following ways:

- ◆ In profit or loss
- ◆ If such monetary item was entered into to acquire property, plant and equipment or intangible asset - in the cost thereof
- ◆ If such monetary item was entered into for any other purpose – accumulated in foreign currency monetary item translation difference account (FCMITDA)

A first time adopter may continue the accounting policy adopted for accounting for exchange differences arising from long term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period, as per previous GAAP.

To be clear, this exemption is not a permanent exemption from the requirements of Ind AS 21. It is available only for those long-term foreign currency monetary items which are recognised before the first Ind AS reporting period began. For example, if the transition date is 1 April 20X5, the first reporting period will be 1 April 20X6 to 31 March 20X7. Therefore, this exemption is available only if such monetary items were recognised in the last previous GAAP financial statements i.e. financial statements for the year ended 31 March 20X6.

### Illustration 12

*Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X1. On the date of transition, there is a long- term foreign currency monetary liability of ₹ 60 crores (US \$ 10 million converted at an exchange rate of US \$ 1 = ₹ 21.60). The accumulated exchange difference on the date of transition is nil since Y Ltd. was following AS 11 notified under the Companies (Accounting Standards) Rules, 2006 and has not exercised the option provided in paragraph 46/46A of AS 11. The Company wants to avail the option under paragraph 46A of AS 11 prospectively or retrospectively on the date of transition to Ind AS.*

*How should it account for the translation differences in respect of this item under Ind AS 101?*

### Solution

Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

#### If the Company wants to avail the option prospectively

The Company cannot avail the exemption given in Ind AS 101 and cannot exercise option under paragraph 46/46A of AS 11, prospectively, on the date of transition to Ind AS in respect of Long term foreign currency monetary liability existing on the date of transition as the company has not availed the option under paragraph 46/46A earlier. Therefore, the Company need to recognise the exchange differences in accordance with the requirements of Ind AS 21, The Effects of Changes in Foreign Exchange Rates which requires all foreign exchange differences to be recognised in profit or loss, except such foreign exchange differences which are accounted for as an adjustment to borrowing costs in accordance with Ind AS 23.

### If the Company wants to avail the option retrospectively

The Company cannot avail the exemption given in Ind AS 101 and cannot exercise the option under paragraph 46/46A of AS 11 retrospectively on the date of transition to Ind AS in respect of long-term foreign currency monetary liability that existed on the date of transition since the option is available only if it is in continuation of the accounting policy followed in accordance with the previous GAAP. Y Ltd. has not been using the option provided in Para 46/ 46A of AS 11, hence, it will not be permitted to use the option given in Ind AS 101 retrospectively.

\*\*\*\*\*

### Illustration 13

*Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X5. On April 1, 20X1, it obtained a 7 year US\$ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition, the company wants to continue the same accounting policy with regard to amortising exchange differences.*

*Whether the Company is permitted to do so?*

### Solution

Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. In view of the above, the Company can continue to follow the existing accounting policy of amortising the exchange differences in respect of this loan over the balance period of such long-term liability.

\*\*\*\*\*

## 7. Investment in subsidiaries, joint ventures and associates

Ind AS 27 requires measurement of investments in subsidiaries, joint ventures and associates either at (a) cost or (b) in accordance with Ind AS 109 (i.e. at fair value, either through other comprehensive income or through profit or loss).

Ind AS 101 permits a first-time adopter to measure such investments at:

- ◆ Cost determined in accordance with Ind AS 27 (as above) or
- ◆ Deemed cost:
  - Fair value at the date of transition; or
  - Previous GAAP carrying amount at the date of transition.

#### Illustration 14

*A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable). A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption.*

*In that case, does the carrying amount of investment required to be adjusted for this transaction?*

#### Solution

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

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#### 8. Compound financial instruments

A first time adopter need not split the compound financial instruments into separate liability and equity component, if liability component is not outstanding as at transition date.

#### Illustration 15

*On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31 March 20X5 or these may be converted into ordinary shares at the option of the*

holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1 April 20X3.

Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition. The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

<b>End of year</b>	<b>6%</b>	<b>10%</b>
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

### Solution

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ₹ 31,50,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/4)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 ie under previous GAAP on straight-line basis.

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	(₹)
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment for years 1 to 4 ( $6 \times 3.17$ ) (Note 1)	19.02
PV of principal repayment (including premium) $110 \times 0.68$ (Note 2)	74.80
Total liability component per debenture	93.82
Equity component per debenture (Balancing figure)	6.18
Face value of debentures	100.00
Total equity component for 30,000 debentures	1,85,400
<b>Total debt amount (<math>30,000 \times 93.82</math>)</b>	<b>28,14,600</b>

Thus, on the date of initial recognition, the amount of ₹ 30,00,000 being the amount of debentures will be split as under:

Debt	₹ 28,14,600
Equity	₹ 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	Opening balance	Finance cost @ 10%	Interest paid	Closing balance
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, Sigma Ltd. shall –

- recognise the carrying amount of convertible debentures at ₹ 30,27,666;
- recognise equity component of compound financial instrument of ₹ 1,85,400;
- debit ₹ 63,066 to retained earnings being the difference between the previous GAAP amount of ₹ 31,50,000 and ₹ 30,27,666 and the equity component of compound financial instrument of ₹ 1,85,400; and
- derecognise the debenture liability in previous GAAP of ₹ 31,50,000.

#### Notes:

- 3.17 is present value of annuity factor of ₹ 1 at a discount rate of 10% for 4 years.
- On maturity, ₹ 110 will be paid (₹ 100 as principal payment + ₹ 10 as premium)

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## 9. Fair value measurement of financial assets or financial liabilities

As per Ind AS 109, if:

- ◆ the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, and
- ◆ such fair value is not based on:
  - Level 1 inputs (refer Ind AS 113), or
  - Valuation technique that uses only data from observable markets

then, such difference (referred to in first bullet above) is deferred and amortised in profit or loss on the basis stated in Ind AS 109.

Ind AS 101 permits an entity to apply this requirement of Ind AS 109 prospectively to transactions entered into on or after the date of transition.

## 10. Decommissioning liabilities included in Property, Plant and Equipment

Appendix 'A' to Ind AS 16 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

An entity need not comply with this requirement for changes in such liabilities that occurred before the date of transition. If an entity avails of this exemption, it shall:

- ◆ Measure the liability as at the transition date as per Ind AS 37 i.e. based on the facts and circumstances, including the risk-adjusted discount rate, as at the transition date,
- ◆ If the liability is in the scope of Appendix A to Ind AS 16, roll-back that liability to the date that liability first arose using best estimate of historical risk-adjusted discount rate and include it in the cost of the asset, and
- ◆ Calculate accumulated depreciation on the transition date on the basis of estimated useful life as at that date.

## 11. Designation of previously recognised financial instruments

All financial instruments are initially measured at fair value. As regards subsequent measurement, Ind AS 109 permits that upon initial recognition, an entity may designate

financial instruments as subsequently measured at fair value if certain criteria are met. Ind AS 101 exempts an entity from retrospective designation of financial instruments and permits that such designation be done on the basis of the facts and circumstances that exist at the date of transition to Ind AS. In particular the exemption is provided for below mentioned financial instruments:

- ◆ Designation of any financial liability or asset at fair value through profit or loss
- ◆ Designation of investment in an equity instrument at fair value through other comprehensive income

## 12. Extinguishing financial liabilities with equity instruments

Appendix D of Ind AS 109 provides for accounting principles to be applied when an entity's equity instruments are issued to extinguish all or part of its financial liability. A first time adopter may apply Appendix D of Ind AS 109 from the date of transition to Ind AS.

## 13. Severe Hyperinflation

In hyperinflationary economy, when an entity's date of transition to Ind AS, is on, or after, the functional currency normalization date, then all assets and liabilities held before the functional currency normalization date may be measured at fair value on the date of transition.

This fair value may be used as deemed cost of those assets and liabilities in the opening Ind AS statement of financial position.

When the functional currency normalisation date falls within a 12- month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of Ind AS 1) is provided for that shorter period.

## 14. Leases

A first time adopter may determine whether an arrangement existing at the date of transition to Ind AS contain a lease (including classification by a lessor of each land and building element as finance or an operating lease) on the basis of facts and circumstances existing on the date of transition.

A lessee which is a first-time adopter of Ind AS shall recognise lease liabilities and right-of-use assets, by applying the following approach to all of its leases at the date of transition to Ind AS:

- (a) measure a lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS;
- (b) measure a right-of-use asset on a lease-by-lease basis either at:
  - (i) its carrying amount as if Ind AS 116 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS; or
  - (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition to Ind AS.
- (c) apply Ind AS 36 to right-of-use assets.

A first-time adopter that is a lessee may do one or more of the following at the date of transition to Ind AS, applied on a lease-by lease basis:

- (1) apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (2) elect not to apply the above requirements given in (a) to (c) to leases for which the lease term ends within 12 months of the date of transition to Ind AS. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted as per Ind AS 116.
- (3) elect not to apply the above requirements given in (a) to (c) to leases for which the underlying asset is of low value. Instead, the entity shall account for (including disclosure of information about) these leases as per Ind AS 116.
- (4) exclude initial direct costs from the measurement of the right-of-use asset at the date of transition to Ind AS.
- (5) use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

## **15. Financial asset or intangible assets accounted for in accordance with Appendix D to Ind AS 115, Service Concession Arrangements**

Change in accounting policy pursuant to the requirements of this Appendix to be accounted for retrospectively except for amortization policy for intangible assets relating to toll roads adopted as per previous GAAP.

If impracticable for an operator to apply the requirements of the Ind AS retrospectively at the date of transition to Ind AS, it shall recognise financial assets and intangible assets that existed at the date of transition to Ind AS using the previous carrying amounts.

#### 16. Designation of contracts to buy or sell a non-financial item

Ind AS 109 permits some contracts to buy or sell a non-financial item to be designated **at inception** as measured at fair value through profit or loss (see paragraph 2.5 of Ind AS 109). Despite this requirement an entity is permitted to designate, **at the date of transition to Ind AS**, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of Ind AS 109 at that date and the entity designates all similar contracts.

#### 17. Striping costs in the production of surface mine

A first time adopter may apply Appendix B to Ind AS 16, Stripping costs in the production phase of a surface mine, from the date of transition to Ind AS. As at the transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

#### 18. Non-current assets held for sale and discounted operations

A first time adopter can:

- ◆ Measure noncurrent assets held for sale or discontinued operation at the lower carrying value and fair value less cost to sell at the date of transition to Ind AS in accordance with Ind AS 105; and
- ◆ Recognize directly in retain earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity's previous GAAP

#### 19. Assets and liabilities of subsidiaries, associates and joint ventures

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall measure its assets and liabilities at either:

- ◆ The carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS. or

- ◆ The carrying amounts required by Ind AS 101, based on the subsidiary's date of transition to Ind AS.

If an entity becomes first time adopter later than its subsidiary, the entity shall measure the assets and liabilities at the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidy.

## **20. Revenue from Contract with Customers**

Any of the following exemption may be used in applying Ind AS 115 retrospectively:

- ◆ For completed contracts: Need not restate contracts that begin and end within the same annual reporting period;
- ◆ For completed contracts that have variable consideration: Option to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;
- ◆ For all reporting periods presented before the beginning of the first Ind AS reporting period, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

## **21. Joint arrangements:**

Transition from Proportionate Consolidation to Equity Method

- ◆ To measure initial investment at transition date at the aggregate of carrying amount of assets and liabilities that the entity had previously proportionately consolidated including goodwill arising on acquisition.
- ◆ To test the investment for impairment, regardless of whether there are indicators of such impairment. Any resulting impairment shall be recognised as an adjustment to retained earnings at the date of transition to Ind AS.
- ◆ If aggregate of all previously recognized assets/liabilities results in negative asset and if having legal or constructive obligation, then recognize corresponding liability otherwise adjust retained earnings.

Transition from Equity Method to accounting for assets and liabilities

- ◆ To derecognize previous investment and recognize share of each asset and liability in respect of its interest in joint operation.
- ◆ Difference between amount of net assets (including goodwill) as per Ind AS and previously recognized;
  - (a) If carrying amount of previous investment is lower:  
Offset against goodwill relating to investment and thereafter retained earning
  - (b) If carrying amount of previous investment is higher:  
Adjust against retained earning

Transitional provisions in entity's Separate FS

- ◆ To derecognise the investment and recognise assets and liabilities as per transition from equity method to accounting for assets and liabilities
- ◆ Provide reconciliation between amount derecognized, recognized and adjustment to retained earnings.



## 7. PRESENTATION AND DISCLOSURE

### I. Comparative Information

- Ind AS does not require historical summaries to comply with the recognition and measurement requirement of Ind AS.
- In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
  - ◆ Label the previous GAAP information prominently as not being prepared in accordance with Ind AS; and
  - ◆ Disclose the nature of the main adjustments that would make it comply with Ind AS. An entity need not quantify those adjustments.

## II. Explanation of transition to Ind AS

- Reconciliation of
  - (a) Equity from previous GAAP to Ind AS at transition and last year end;
  - (b) Last year's total comprehensive income under previous GAAP to Ind AS.
- Sufficient detail to understand adjustments to each line item.
- Reconciliation to distinguish correction of errors identified during transition from change in accounting policy.
- Fair value as deemed cost and the amount of the adjustment.
- Ind AS 36 disclosures for impairment during transition.
- If adopted first time exemption option, to disclose the fact and accounting policy until such time those PPE, Intangible Assets, investment properties or intangible assets significantly depreciated/impaired/derecognized.
- Interim financial reports to include reconciliation with equity and profit or loss under previous GAAP.
- Further information to comply with Ind AS 34.

### Illustration 16

*H Ltd. has the following assets and liabilities as at March 31, 20X1, prepared in accordance with previous GAAP:*

<b>Particulars</b>	<b>Notes</b>	<b>Amount (₹)</b>
<i>Property, Plant &amp; Equipment</i>	1	1,34,50,000
<i>Investments in S. Ltd.</i>	2	48,00,000
<i>Trade Receivables</i>		2,00,000
<i>Advances for purchase of inventory</i>		50,00,000
<i>Inventory</i>		8,00,000
<i>Cash</i>		<u>49,000</u>
<i>Total assets</i>		<u>2,42,99,000</u>
<i>VAT deferral loan</i>	3	60,00,000
<i>Creditors</i>		30,00,000
<i>Short term borrowing</i>		8,00,000
<i>Provisions</i>		<u>12,00,000</u>
<i>Total liabilities</i>		<u>1,10,00,000</u>

<i>Share capital</i>		1,30,00,000
<i>Reserves:</i>		2,99,000
<i>Cumulative translation difference</i>	4	1,00,000
<i>ESOP reserve</i>	4	20,000
<i>Retained earnings</i>		<u>1,79,000</u>
<i>Total equity</i>		<u>1,32,99,000</u>
<i>Total equity and liabilities</i>		<u>2,42,99,000</u>

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 20X1:

1. In relation to property, plant and equipment, the following adjustments were identified:
  - ◆ Property, plant and equipment comprise land held for capital appreciation purposes costing ₹ 4,50,000 and was classified as investment property as per Ind AS 40.
  - ◆ Exchange differences of ₹ 1,00,000 were capitalised to depreciable property, plant and equipment on which accumulated depreciation of ₹ 40,000 was recognised.
  - ◆ There were no asset retirement obligations.
  - ◆ The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.
2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for ₹ 48,00,000 that carried a fair value of ₹ 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.
3. Financial instruments:
  - ◆ **VAT deferral loan ₹ 60,00,000 :**  
The VAT deferral loan of ₹ 60,00,000 was obtained on March 31, 20X1, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 20X1, is ₹ 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of

*Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for VAT deferral loan*

4. *The retained earnings of the Company contained the following:*

- ◆ **ESOP reserve of ₹ 20,000:**

*The Company had granted 1,000 options to employees out of which 800 have already vested. The Company followed an intrinsic value method for recognition of ESOP charge and recognised ₹ 12,000 towards the vested options and ₹ 8,000 over a period of time as ESOP charge and a corresponding reserve. If fair value method had been followed in accordance with Ind AS 102, the corresponding charge would have been ₹ 15,000 and ₹ 9,000 for the vested and unvested shares respectively. The Company intends to avail Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.*

- ◆ **Cumulative translation difference :**

*The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.*

*Prepare transition date Ind AS balance sheet of Company H showing adjustments to the values of assets and liabilities.*

### Solution

Adjustments for opening balance sheet as per Ind AS 101

1. **Property, Plant & Equipment:** As the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately. As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values. As such, the past capitalised exchange differences require no adjustment in this case.

2. **Investment in subsidiary:** On first time adoption of Ind AS, a parent company has an option to carry its investment in subsidiary at fair value as at the date of transition in its separate financial statements. As such, the company can recognise such investment at a value of ₹ 68,00,000.
3. **Financial instruments:** As the VAT deferral loan is a financial liability under Ind AS 109, that liability should be recognised at its present value discounted at an appropriate discounting factor. Consequently, the VAT deferral loan should be recognised at ₹ 37,25,528 and the remaining ₹ 22,74,472 would be recognised as deferred government grant.
4. **ESOPs:** Ind AS 101 provides an exemption of not restating the accounting as per the previous GAAP in accordance with Ind AS 102 for all options that have vested by the transition date. Accordingly, out of 1000 ESOPs granted, the first-time adoption exemption is available on 800 options that have already vested. As such, its accounting need not be restated. However, the 200 options that are not vested as at the transition date, need to be restated in accordance with Ind AS 102. As such, the additional impact of ₹ 1,000 (i.e., 9,000 less 8,000) would be recognised in the opening Ind AS balance sheet.
5. **Cumulative translation difference :** As per paragraph D12 of Ind AS 101, the first-time adopter can avail an exemption regarding requirements of Ind AS 21 in context of cumulative translation differences. If a first-time adopter uses this exemption the cumulative translation differences for all foreign operation are deemed to be zero as at the transition date. In that case, the balance is transferred to retained earnings. As such, the balance of ₹ 1,00,000 should be transferred to retained earnings

#### 6. Retained earnings:

	₹
Increase in fair value of investment in subsidiary (note 2)	20,00,000
Additional ESOP charge on unvested options (note 4)	(1,000)
Transfer of cumulative translation difference balance to retained earnings (note 5)	<u>1,00,000</u>
<b>Increase in Retained Earnings</b>	<b>20,99,000</b>

The transition date Ind AS Balance Sheet after the above adjustments in the carrying values of assets and liabilities is as under:

Transition date Ind AS Balance Sheet of H Ltd. as at 1<sup>st</sup> April, 20X1

Particular	Notes	Previous GAAP	Adjustments	Ind AS GAAP
Non-Current Assets				
Property, Plant & Equipment	1	1,34,50,000	(4,50,000)	1,30,00,000
Investment property	1	0	4,50,000	4,50,000
Current Assets				
Inventory		8,00,000		8,00,000
Financial assets:				
Investment in S Ltd.	2	48,00,000	20,00,000	68,00,000
Trade Receivables		2,00,000		2,00,000
Cash		49,000		49,000
Other current asset – (Advances for purchase of inventory)		50,00,000		50,00,000
Total assets		<u>2,42,99,000</u>	<u>20,00,000</u>	<u>2,62,99,000</u>
Share capital		1,30,00,000		1,30,00,000
Other Equity:				
Cumulative translation difference	5	1,00,000	(1,00,000)	0
ESOP reserve	4	20,000	1,000	21,000
Retained earnings	6	<u>1,79,000</u>	<u>20,99,000</u>	<u>22,78,000</u>
Total equity		<u>1,32,99,000</u>	<u>20,00,000</u>	<u>1,52,99,000</u>
Non-current Liabilities				
Financial liability:				
VAT deferral loan	3	60,00,000	(22,74,472)	37,25,528
Deferred government grant	3	0	22,74,472	22,74,472
Current Liabilities				
Financial Liabilities				
Trade payables		30,00,000		30,00,000
Short term borrowings		8,00,000		8,00,000
Provisions		12,00,000		12,00,000
Total liabilities		<u>1,10,00,000</u>	<u>                </u>	<u>1,10,00,000</u>
Total equity and liabilities		<u>2,42,99,000</u>	<u>20,00,000</u>	<u>2,62,99,000</u>

\*\*\*\*\*

**Illustration 17**

Shaurya Limited is the company having its registered and corporate office at New Delhi. 60% of Shaurya Limited's shares are held by the Government of India and rest by other investors.

This is the first time that Shaurya limited would be applying Ind AS for the preparation of its financials for the current financial year 20X3-20X4. Following balance sheet is prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

**Balance Sheet as at 31 March 20X2**

(All figures are in '000, unless otherwise specified)

<b>Particulars</b>	<b>Amount</b>
<b>EQUITY AND LIABILITIES</b>	
(1) Shareholders' Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred tax liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000
<b>TOTAL</b>	85,00,000
<b>ASSETS</b>	
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000
(b) Intangible assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-current Investments	5,00,000
(e) Long Term Loans and Advances	1,50,000
(f) Other Non-Current Assets	2,00,000

(2) <i>Current Assets</i>		
(a) <i>Current Investments</i>		18,00,000
(b) <i>Inventories</i>		12,50,000
(c) <i>Trade Receivables</i>		9,00,000
(d) <i>Cash and Bank Balances</i>		10,00,000
(e) <i>Other Current Assets</i>		4,00,000
<b>TOTAL</b>		<b>85,00,000</b>

**Additional Information (All figures are in '000) :**

1. Other current liabilities include ₹ 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹ 60,000 are statutory government dues.
2. Long term loans and advances include ₹ 40,000 loan and the remaining amount consists of Advance to staff of ₹ 1,10,000.
3. Other non-current assets of ₹ 2,00,000 consists of Capital advances to suppliers.
4. Other current assets include ₹ 3,50,000 current assets receivable in cash and Prepaid expenses of ₹ 50,000.
5. Short term provisions include Dividend payable of ₹ 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 20X1-20X2 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief financial officer of Shaurya Limited has also presented the following information against corresponding relevant items in the balance sheet:

- a) Property, Plant & Equipment consists of a class of assets as office buildings whose carrying amount is ₹ 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹ 15,00,000. The company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.
- b) The fair value of Intangible assets as on the date of transition is estimated to be ₹ 2,50,000. However, the management is reluctant to incorporate the fair value changes in the books of account.
- c) Shaurya Ltd. had acquired 80% shares in a company, Excel Private Limited few years ago thereby acquiring the control upon it at that time. Shaurya Ltd.

recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

- d) Trade receivables include an amount of ₹ 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates using hindsight, the provision needs to be revised to ₹ 25,000.
- e) Company had given a loan of ₹ 1,00,000 to an entity for the term of 10 years six years ago. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7%. The principal amount is to be repaid in equal installments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 50,000 as against the carrying amount of loan which at present amounts to ₹ 40,000. However, Ind AS 109 mandates to recognise the interest income as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.
- f) In the long-term borrowings, ₹ 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4%, however the prevailing rate in the market at present is 8%. The fair market value of loan stands at ₹ 4,20,000 as on the relevant date.
- g) Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 2,00,000 as included in 'current investment'. However, the fair value of mutual funds as on the date of transition is ₹ 2,30,000.
- h) Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹ 50,000 on account of Ind AS transition adjustments.

**Requirements:**

- Prepare transition date balance sheet of Shaurya Limited as per Indian Accounting Standards
- Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

**Solution**

**Transition date (opening) IND-AS Balance Sheet of Shaurya Limited  
As at 1 April 20X2**  
(All figures are in '000, unless otherwise specified)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance Sheet
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment (Note 1)	20,00,000	5,00,000	25,00,000
Goodwill (Note 2)	1,00,000	-	1,00,000
Other Intangible assets (Note 3)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investment (Note 5)	18,00,000	30,000	18,30,000
Trade receivables (Note 6)	9,00,000	-	9,00,000
Cash and cash equivalents/Bank	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	<u>50,000</u>	<u>-</u>	<u>50,000</u>
<b>TOTAL ASSETS</b>	<b><u>85,00,000</u></b>	<b><u>5,40,000</u></b>	<b><u>90,40,000</u></b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	7,90,000	32,90,000

Non-current liabilities			
Financial liabilities			
Borrowings (Note-7)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note-8)	<u>12,00,000</u>	<u>(2,00,000)</u>	<u>10,00,000</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>85,00,000</u></b>	<b><u>5,40,000</u></b>	<b><u>90,40,000</u></b>

**OTHER EQUITY**

	Retained Earnings (₹)	Fair value reserve	Total
As at 31 March, 20X2	27,90,000 (W.N.1)	5,00,000	32,90,000

**Working Note 1:**

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	<u>2,00,000</u>
<b>Total</b>	<b><u>27,90,000</u></b>

**Disclosure forming part of financial statements:**

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not be recognized as liability as at the Balance Sheet date.

### **Note 1: Property, plant & Equipment:**

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Para D7AA has to be applied for all items of property, plant and equipment. So, if D5 exemption is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date, it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of ₹ 10 lakhs.

### **Note 2: Goodwill:**

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

### **Note 3: Intangible assets:**

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) Fair value; or
- (b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

### **Note 4: Loan:**

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial

asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.

#### **Note 5: Mutual Funds:**

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19A states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

#### **Note 6: Trade receivables:**

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states that an entity may receive information after the date of transition to Ind AS about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 March 20X3.

#### **Note 7: Government Grant:**

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of

interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, *prospectively* to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

#### **Note 8: Dividend**

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

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## **8. CARVE OUTS IN IND AS 101 FROM IFRS 1**

### **(i) Definition of previous GAAP under Ind AS 101**

#### **As per IFRS**

IFRS 1 defines previous GAAP as the basis of accounting that a first - time adopter used immediately before adopting IFRS.

#### **Carve out**

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS. The change made it mandatory for Indian entities to consider the financial statements

prepared in accordance with notified Accounting Standards as was applicable to them as previous GAAP when it transitions to Ind AS.

#### **Reason**

The change makes it mandatory for Indian companies to consider the financial statements prepared in accordance with Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 as previous GAAP when it transitions to Ind AS as the law prevailing in India recognises only the financial statements prepared in accordance with the Companies Act, 2013.

- (ii) **Allowing the use of carrying cost of Property, Plant and Equipment (PPE) on the date of transition of Ind AS 101**

#### **As per IFRS**

IFRS 1 *First time Adoption of International Accounting Standards* provides that on the date of transition, either the items of Property, Plant and Equipment shall be determined by applying IAS 16 *Property, Plant and Equipment* retrospectively or the same should be recorded at fair value or a previous GAAP revaluation, subject to certain requirements.

#### **Carve out**

Paragraph D7AA of Ind AS 101 provides an additional option to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

#### **Reason**

In the case of old companies, retrospective application of Ind AS 16 or fair values at the date of transition to determine deemed cost may not be possible for old assets. Accordingly, Ind AS 101 provides relief to an entity to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

- (iii) **Long Term Foreign Currency Monetary Items**

#### **As per IFRS**

No provision in IFRS 1.

#### **Carve out**

Paragraph D13AA of Appendix D to Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an

entity has opted for the exemption given in paragraph D13AA of Appendix D to Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

#### **Reason**

Para 46A of AS 11 provides an option to recognise long term foreign currency monetary items as a part of the cost of property, plant and equipment or to defer its recognition in the statement of profit and loss over the period of loan in case the loan is not related to acquisition of fixed assets. To provide transitional relief, such entities have been given an option to continue the capitalisation or deferment of exchange differences, as the case may be, on foreign currency borrowings obtained before the beginning of first Ind AS reporting period.

- (iv) **Intangible assets arising from service concession arrangements related to toll roads accounted for in accordance with Appendix D, Service Concession Arrangements to Ind AS 115, Revenue from Contracts with Customers**

#### **As per IFRS**

No provision in IFRS 1.

#### **Carve Out**

Ind AS 101 permits a first-time adopter to continue with the policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

As a consequence to the above, paragraph 7AA has been inserted in Ind AS 38 to scope out the entity, to apply amortisation method, that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101.

#### **Reason**

Schedule II to the Companies Act, 2013, allows companies to use revenue based amortisation of intangible assets arising from service concession arrangements related to toll roads while Ind AS 38, Intangible Assets, allows revenue based amortisation only in the circumstances in which the predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold. In order to provide relief to such entities,

Ind AS 38 and Ind AS 101 have been amended to allow the entities to continue to use the accounting policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial statements. In other words, Ind AS 38 would be applicable to the amortisation of intangible assets arising from service concession arrangements related to toll roads entered into after the implementation of Ind AS.

**(v) Land and building element in lease contracts**

**As per IFRS**

No provisions under IFRS 1.

**Carve Out**

Paragraph D9AA provides that an entity which is a lessor can use the transition date facts and circumstances for lease arrangements which includes both land and building elements to assess the classification of each element as finance or an operating lease at the transition date to Ind AS. Also, if there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; any difference between those fair values is recognised in retained earnings.

**Reason**

This aspect is quite common in the Indian environment and it was felt that the first time adopters may face hardship if they were to retrospectively assess the two elements of the contract.

**FOR SHORTCUT TO IND AS WISDOM: SCAN ME!****TEST YOUR KNOWLEDGE****Questions**

1. Company A intends to restate its past business combinations with effect from 30 June 20X0 (being a date prior to the transition date).

If business combinations are restated, whether certain other exemptions, such as the deemed cost exemption for property, plant and equipment (PPE), can be adopted?

2. X Ltd. was using cost model for its property, plant and equipment till March 31, 20X2 under previous GAAP. The Ind AS become applicable to the company for financial year beginning April 1, 20X2. On April 1, 20X1, i.e., the date of its transition to Ind AS, it used fair value as the deemed cost in respect of its property, plant and equipment. X Ltd. wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.

Whether use of fair values as deemed cost on the date of transition and use of revaluation model in the first annual Ind AS financial statements would amount to a change in accounting policy?

3. Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X5. On April 1, 20X0, it obtained a 7 year US \$ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition to Ind AS, Y Ltd. wants to discontinue the accounting policy as per the previous GAAP and

follow the requirements of Ind AS 21 with respect to recognition of foreign exchange differences.

Whether the Company is permitted to do so?

4. A company has chosen to elect the deemed cost exemption in accordance with Ind AS 101. However, it does not wish to continue with its existing policy of capitalising exchange fluctuation on long term foreign currency monetary items to property, plant and equipment i.e. it does not want to elect the exemption available as per Ind AS 101.

In such a case, how would the company be required to adjust the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP?

5. XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntarily adopt Ind AS w.e.f 1<sup>st</sup> April, 20X2 with a transition date of 1<sup>st</sup> April, 20X1.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The consolidated financial statements of the Company under Indian GAAP are as under:

#### Consolidated Financial Statements

(₹ in Lakhs)

Particulars	31.03.20X2	31.03.20X1
<b>Shareholder's Funds</b>		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
<b>Non-Current Liabilities</b>		
Long-term Borrowings	1,000	1,000
Long-term Provisions	1,101	691
Other Long-term Liabilities	5,202	5,904
<b>Current Liabilities</b>		
Trade Payables	9,905	8,455
Short-term Provisions	500	475
<b>Total</b>	<b>42,208</b>	<b>41,075</b>

<b>Non-Current Assets</b>			
Property Plant & Equipment		21,488	22,288
Goodwill on Consolidation of subsidiary and JV		1,507	1,507
Investment Property		5,245	5,245
Long-term Loans & Advances		6,350	6,350
<b>Current Assets</b>			
Trade Receivables		4,801	1,818
Investments		1,263	3,763
Other Current Assets		1,554	104
<b>Total</b>		<b>42,208</b>	<b>41,075</b>

#### **Additional Information:**

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	₹ in Lakhs
Property, Plant & Equipment	1,200
Long-term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short-term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

Suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1<sup>st</sup> April, 20X1.

- Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31<sup>st</sup> March, 20X3. The transition date is 1<sup>st</sup> April, 20X1.

The following adjustments were made upon transition to Ind AS:

- The Company opted to fair value its land as on the date on transition.

The fair value of the land as on 1<sup>st</sup> April, 20X1 was ₹ 10 crores. The carrying amount as on 1<sup>st</sup> April, 20X1 under the existing GAAP was ₹ 4.5 crores.

- (b) The Company has recognised a provision for proposed dividend of ₹ 60 lacs and related dividend distribution tax of ₹ 18 lacs during the year ended 31<sup>st</sup> March, 20X1. It was written back as on opening balance sheet date.
- (c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is ₹ 75 lacs.
- (d) The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.
- (e) The reserves and surplus as on 1<sup>st</sup> April, 20X1 before transition to Ind AS was ₹ 95 crores representing ₹ 40 crores of general reserve and ₹ 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.
- (f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1<sup>st</sup> April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1<sup>st</sup> April, 20X1.

Ignore deferred tax impact.

## Answers

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- Ind-AS 101 prescribes that an entity may elect to use one or more of the exemptions of the Standard. As such, an entity may choose to adopt a combination of optional exemptions in relation to the underlying account balances.

When the past business combinations after a particular date (30 June 20X0 in the given case) are restated, it requires retrospective adjustments to the carrying amounts of acquiree's assets and liabilities on account of initial acquisition accounting of the acquiree's net assets, the effects of subsequent measurement of those net assets (including amortisation of non-current assets that were recognised at its fair value), goodwill on consolidation and the consolidation adjustments. Therefore, the goodwill and equity (including non-controlling interest (NCI)) cannot be computed by considering the deemed cost exemption for PPE. However, the entity may adopt the deemed cost exemption for its property, plant and equipment other than those acquired through business combinations.

2. In the instant case, X Ltd. is using revaluation model for property, plant and equipment for the first annual Ind AS financial statements and using fair value of property, plant and equipment on the date of the transition, as deemed cost. Since the entity is using fair value at the transition date as well as in the first Ind AS financial statements, there is no change in accounting policy and mere use of the term 'deemed cost' would not mean that there is a change in accounting policy.
3. Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Ind AS 101 gives an option to continue the existing accounting policy. Hence, Y Ltd. may opt for discontinuation of accounting policy as per previous GAAP and follow the requirements of Ind AS 21. The cumulative amount lying in the Foreign Currency Monetary Item Translation Difference Account (FCMITDA) as per AS 11 should be derecognised by an adjustment against retained earnings on the date of transition.
4. Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment. Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment. In such a case, in the given case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP) but for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long term foreign currency borrowings that arose after the transition date would be recognised in the statement of profit and loss.
5. As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the **relative** carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

**Accordingly, the deemed cost of the investment will be**

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	<u>50</u>
Total Assets	2,054
<i>Less: Trade Payables</i>	75
Short Term Provisions	<u>35</u>
<b>Deemed cost of the investment in JV</b>	<b>1,944</b>

**Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.**

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	<u>104</u>
Total Assets	32,067
<i>Less: Trade Payables</i>	8,455
Short Term Provisions	<u>475</u>
	<b>23,137</b>

**Note:** Only those assets and liabilities have been taken into account for calculation of 'proportionate goodwill share of Joint Venture', which were given in the question as 'proportionate share of assts and liabilities of ABC Ltd. added to XYZ Ltd.'

### Proportionate Goodwill of Joint Venture

$$\begin{aligned}
 &= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) \times Net\ asset\\
 &\quad of JV] \\
 &= (1507 / 23,137) \times 1825 = 119 \text{ (approx.)}
 \end{aligned}$$

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.20X1 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.20X1.

Adjustments made in previous GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

### Transition Date Ind AS Balance Sheet of XYZ Pvt. Ltd. as at 1st April, 20X1

Particulars	Previous GAAP	Ind AS Adjustment	Ind AS GAAP
<b>Non-Current Assets</b>			
Property, Plant & Equipment	22,288	(1,200)	21,088
Investment Property	5,245	-	5,245
Intangible assets - Goodwill on Consolidation	1,507	(119)	1,388
Financial Assets			
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,944	1,944
<b>Current Assets</b>			
Financial Assets			
Investments	3,763	-	3,763
Trade Receivables	1,818	(280)	1,538
Other Current Assets	104	(50)	54
<b>Total</b>	<b>41,075</b>	<b>(110)</b>	<b>40,965</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share Capital	7,953	-	7,953
Other equity	16,597	-	16,597
<b>Non-Current Liabilities</b>			
Financial Liabilities			
Borrowings	1,000		1,000

Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
<b>Current Liabilities</b>			
Financial Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	<u>475</u>	<u>(35)</u>	<u>440</u>
<b>Total</b>	<b><u>41,075</u></b>	<b><u>(110)</u></b>	<b><u>40,965</u></b>

**6. Computation of balance total equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS**

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)		5.5	
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	<u>0.75</u>	<u>57.03</u>	<u>102.03</u>
<b>Balance total equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS</b>			<b><u>182.03</u></b>

**Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1<sup>st</sup> April, 20X1**

	₹ in crore
Equity share capital	80
Redeemable Preference share capital	<u>25</u>
	105
Reserves and Surplus	<u>95</u>
Total Equity as per AS	200
<b>Adjustment due to reclassification</b>	
Preference share capital classified as financial liability	(25)
<b>Adjustment due to derecognition</b>	

Proposed Dividend not considered as liability as on 1 <sup>st</sup> April 20X1		0.78
<b>Adjustment due to remeasurement</b>		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
<b>Equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS</b>		<u>182.03</u>