

**Educational Material on  
Indian Accounting Standard (Ind AS) 101  
First-time Adoption of Indian Accounting Standards**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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Edition : June 2015

Committee/Department : Ind AS (IFRS) Implementation Committee

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Website : [www.icai.org](http://www.icai.org)

Price : Rs. 75/-

ISBN : 978-81-8441-795-1

Published by : The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.

Printed by : Sahitya Bhawan Publications, Hospital Road, Agra - 282 003.  
July/2015/P1774(New)

## Foreword

The Institute of Chartered Accountants of India (ICAI) has always been making efforts for bringing an overall qualitative improvement in the financial reporting in India. Continuing with its endeavour to achieve international benchmarks of accounting, convergence with International Financial Reporting Standards (IFRS) has been decided. Pursuant to the Budget Speech of the Finance Minister in July 2014, the ICAI has taken various steps in order to bring IFRS-converged Indian Accounting Standards (Ind AS) in place. The ICAI has formulated IFRS-converged Ind AS, which have been considered and approved by the National Advisory Committee on Accounting Standards (NACAS). After recommendation of NACAS, these Ind AS have been notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015.

While formulating IFRS-converged Indian Accounting Standards (Ind AS), need has been felt to provide guidance on Ind AS in order to ensure the implementation of these Standards in the same spirit in which these have been formulated. This task of providing guidance has been entrusted to Ind AS (IFRS) Implementation Committee. Accordingly, the Committee is formulating Educational Materials on Ind ASs to provide the required guidance.

Moving forward in this direction, the Committee has formulated Educational Material on Indian Accounting Standard (Ind AS) 101, *First-time Adoption of Indian Accounting Standards*. Ind AS 101 provides the suitable starting point for accounting in accordance with Ind ASs. This Standard provides various exemptions and exceptions to the entities preparing their Ind AS-compliant financial statements for the first time to ensure the smooth transitioning to Ind ASs. The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) on the issues that may be encountered while implementing Ind AS 101 for the purpose of transitioning to Ind AS.

This Educational Material would be of great help as the first time implementation of Ind AS may be a challenge for many entities. Therefore, publication of this Educational Material in a timely manner is a very significant initiative of the Committee. Accordingly, I would like to place on record my deep appreciation to CA. S. B. Zaware, Chairman, CA. Vijay Kumar Gupta, Vice Chairman and other members of the Committee including co-opted members and special invitees for their invaluable inputs and support.

I would also like to thank Dr. Avinash Chander, Technical Director, ICAI, for his technical support and guidance, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee and other officers for their technical and administrative support in bringing out this publication.

I am of the firm belief that this Educational Material will be very useful to those who are getting ready for transition from existing Accounting Standards to Ind AS and those who will audit the financial statements in accordance with Ind AS.

New Delhi  
June 15, 2015

**CA. Manoj Fadnis**  
***President, ICAI***

## Preface

Considering the global developments and expected benefits of convergence with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely recognised as global financial reporting standards, India decided to converge with IFRS. For this purpose, IFRS-converged Indian Accounting Standards corresponding to IFRS considered relevant for Indian entities have been formulated by the ICAI and the same have been notified by the Ministry of Corporate Affairs (MCA) after consideration and recommendation by National Advisory Committee on Accounting Standards (NACAS).

In addition to the formulation of IFRS-converged Ind AS, the ICAI through its Ind AS (IFRS) Implementation Committee is making every possible effort to ensure that these Standards are implemented in the same spirit in which these have been formulated. For this purpose, the Committee is working to provide guidance to the members and other stakeholder by issuing Educational Materials on Ind ASs apart from conducting IFRS Certificate Course, workshops, seminars, awareness programmes, and series of webcasts, etc.

I am glad that the Committee has brought out the Educational Material on Indian Accounting Standard (Ind AS) 101, *First-time Adoption of Indian Accounting Standards*.

The objective of Ind AS 101 is to provide a suitable starting point for accounting in accordance with Ind ASs at a cost that does not exceed the benefits. First Ind AS financial statements are the first annual financial statements in which the entity adopts Ind ASs, and makes an explicit and unreserved statement in those financial statements of compliance with Ind ASs. This Standard grants some mandatory exceptions, and voluntary exemptions from retrospective application of some aspects of other Ind ASs, e.g., exemption relating to business combinations, use of fair value of items of property, plant and equipment as its deemed cost on the date of transition to Ind ASs etc.

This Educational Material contains summary of Ind AS 101 discussing the key requirements of the Standard and the Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard, such as, issues regarding opening Ind AS Balance Sheet, optional exemptions, business combinations and consolidation etc.

I may mention that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I would like to convey my sincere gratitude to our Honourable President CA. Manoj Fadnis and Vice-President CA. M. Devaraja Reddy for providing me this opportunity of bringing out implementation guidance on Ind ASs in the form of Educational Materials. I wish to place on record my sincere appreciation of CA. Sanjiv Kumar Chaudhary, Central Council Member, CA. Sanjeev Singhal, CA. Archana Bhutani, CA. Krishan Kant Tulshan, CA. Sanjay Vasudeva and other members of the Study Group, for preparing the draft of this Educational Material. I would also like to thank all members, co-opted members, special invitees of the Ind AS (IFRS) Implementation Committee for their invaluable suggestions and contributions for finalising this publication.

I sincerely believe that this Educational Material will be of great help in understanding the provisions of Ind AS 101 and in implementation of the same.

New Delhi  
June 15, 2015

**CA. S. B. Zaware**  
**Chairman**  
***Ind AS (IFRS) Implementation Committee***

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# Educational Material on Indian Accounting Standard (Ind AS) 101 First-time Adoption of Indian Accounting Standards

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## I Ind AS 101 - Summary

### 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, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS. The exemptions are broadly categorised into those which are mandatory in nature (i.e., cases where the company is not allowed to apply Ind AS retrospectively) and those which are voluntary in nature (i.e., the company may elect not to apply certain requirements of Ind AS retrospectively). 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.

### Definitions

Ind AS 101 defines various terms used in the Standard. These are contained in Appendix A to Ind AS 101. These definitions are important to understand the requirements of Ind AS 101. Some of the key definitions are given below:

**Date of transition to Ind AS:** The beginning of the earliest period for which an entity presents full comparative information under Ind AS in *first Ind AS financial statements*.

**Deemed cost:** An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the

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entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

**First Ind AS financial statements:** 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.

**First Ind AS reporting period:** The latest reporting period covered by an entity's **first Ind AS financial statements**.

**First-time adopter:** An entity that presents its **first Ind AS financial statements**.

**Opening Ind AS balance sheet:** An entity's balance sheet at the date of transition to Ind AS.

**Previous GAAP:** The basis of accounting that a **first-time adopter** used for its statutory reporting requirements in India immediately before adopting Ind ASs. 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.

## **Objective**

The objective of Ind AS 101 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 over all periods presented;
- provides a suitable starting point for accounting in accordance with Ind ASs; and
- can be generated at a cost that does not exceed the benefits.

## **Scope**

An entity shall apply Ind AS 101 in its first Ind AS financial statements and each interim financial report, if any, that it presents in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements.

## **Recognition and measurement**

### **Opening Ind AS Balance Sheet**

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

### **Accounting policies**

An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout 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, except as specified in Ind AS 101.

An entity shall, in its opening Ind AS Balance Sheet:

- (a) recognise all assets and liabilities whose recognition is required by Ind ASs;
- (b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;
- (c) 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 ASs; and
- (d) apply Ind ASs in measuring all recognised assets and liabilities.

The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs, which shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs.

This Ind AS establishes **two categories of exceptions** to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

- (a) Ind AS 101 prohibits retrospective application of some specific aspects of other Ind ASs.

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- (b) Ind AS 101 grants voluntary exemptions from some specific requirements of other Ind ASs.

## **Presentation and Disclosure**

Ind AS 101 does not provide exemptions from the presentation and disclosure requirements in other Ind ASs. This Ind AS requires that an entity's first Ind AS financial statements shall include at least three balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

## **Explanation of transition to Ind ASs**

Ind AS 101 requires that an entity should explain how the transition from previous GAAP to Ind ASs affected its reported balance sheet, financial performance and cash flows.

## **Exceptions to the retrospective application of other Ind ASs**

Ind AS 101 prohibits retrospective application of some aspects of other Ind ASs. These exceptions are set out in paragraph 14-17 of Ind AS 101 and Appendix B to Ind AS 101.

## **Estimates**

Paragraphs 14-17 of Ind AS 101 deal with exception with regard to 'estimates'. As per paragraph 14 of Ind AS 101, an entity's estimates in accordance with Ind AS at 'the date of transition to Ind AS' or 'the end of the comparative period presented in the entity's first Ind AS financial statements', as the case may be, should be consistent with estimates made for the same date in accordance with previous GAAP unless there is objective evidence that those estimates were in error. However, the estimates should be adjusted to reflect any differences in accounting policies.

## **Mandatory Exceptions**

Appendix B to Ind AS 101 provides that an entity should apply the following mandatory exceptions:

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- derecognition of financial assets and financial liabilities;
- hedge accounting;
- non-controlling interests;
- classification and measurement of financial assets;
- impairment of financial assets;
- embedded derivatives; and
- government loans

### **De-recognition of financial assets and financial liabilities**

A first-time adopter should apply the de-recognition requirements in Ind AS 109 on '*Financial Instruments*' prospectively for transactions occurring on or after the date of transition to Ind AS.

### **Hedge Accounting**

As required by Ind AS 109, at the date of transition to Ind AS, an entity should:

- (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.

Paragraph B5 of Appendix B to Ind AS 101 provides that an entity should 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.

Paragraph B6 of Ind AS 101 provides that if, before the date of transition to Ind AS, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity should discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

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### **Non-controlling interests**

A first-time adopter should apply the following requirements of Ind AS 110 on '*Consolidated Financial Statements*' prospectively from the date of transition to Ind AS:

- (a) the requirement that total comprehensive income should be 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) the requirements under Ind AS 110 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control, i.e., considering such a change as a equity transaction (transaction with owners in their capacity as owners) to be accounted for accordingly
- (c) the requirements under Ind AS 110 for accounting for a loss of control over a subsidiary, and the related requirements under Ind AS 105 on '*Non-current Assets Held for Sale and Discontinued Operations*'

However, if a first-time adopter elects to apply Ind AS 103 on '*Business Combinations*' retrospectively to past business combinations, it should also apply Ind AS 110 from the same date.

### **Classification and measurement of financial assets**

Ind AS 101 provides exemptions to certain classification and measurement requirements of financial assets under Ind AS 109, where these are impracticable to implement.

### **Impairment of financial assets**

An entity should apply the impairment requirements under Ind AS 109 (for recognition and measurement of expected credit losses) retrospectively subject to certain exemptions provided under Ind AS 101.

### **Embedded derivatives**

A first-time adopter should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative. This assessment is based on 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 under Ind AS 109

### **Government loans**

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

A first-time adopter should apply the requirements under Ind AS 109 on *'Financial Instruments'* and Ind AS 20 on *'Accounting for Government Grants and Disclosure of Government Assistance'* prospectively to government loans existing at the date of transition to Ind AS, i.e., it should 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 the requirements under Ind AS, it should 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 and apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Under Ind AS 101, an entity has been given an exception to prospective application of Ind AS 109 and Ind AS 20, i.e., 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. However, this exception is available only in cases where the information needed for retrospective application of Ind AS 109 and Ind AS 20 had been obtained at the time of initially accounting for that loan.

### **Exemptions for business combinations**

Appendix C to Ind AS 101 contains the requirements that an entity should apply to business combinations that the entity recognised before the date of transition to Ind AS. The key requirements are as follows:

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- 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 ASs). 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.
- An entity need not apply Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to Ind ASs and it shall treat them as assets and liabilities of the entity.
- An entity may apply Ind AS 21 retrospectively to fair value adjustments and goodwill arising in either:
  - (a) all business combinations that occurred before the date of transition to Ind ASs; or
  - (b) all business combinations that the entity elects to restate to comply with Ind AS 103.
- Appendix C to Ind AS 101 provides the detailed consequences in case a first-time adopter does not apply Ind AS 103 retrospectively to a past business combinations.
- The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in Ind AS 103 .

### **Voluntary Exemptions from other Ind ASs**

An entity may elect to use one or more exemptions given in Ind AS 101 in the context of the following:

- (i) share-based payment transactions;
- (ii) insurance contracts;
- (iii) deemed cost;
- (iv) leases;

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- (v) cumulative translation differences;
- (vi) investments in subsidiaries, joint ventures and associates;
- (vii) assets and liabilities of subsidiaries, associates and joint ventures;
- (viii) compound financial instruments;
- (ix) designation of previously recognised financial instruments;
- (x) fair value measurement of financial assets or financial liabilities at initial recognition;
- (xi) decommissioning liabilities included in the cost of property, plant and equipment;
- (xii) financial assets or intangible assets accounted for in accordance with Appendix C to Ind AS 115, Service Concession Arrangements;
- (xiii) borrowing costs
- (xiv) extinguishing financial liabilities with equity instruments;
- (xv) severe hyperinflation;
- (xvi) joint arrangements;
- (xvii) stripping costs in the production phase of a surface mine;
- (xviii) designation of contracts to buy or sell a non-financial item;
- (xix) revenue from contracts with customers; and
- (xx) non-current assets held for sale and discontinued operations.

An entity shall not apply these exemptions by analogy to other items.

Some of these exemptions expected be commonly used are explained briefly as below:

#### **Share-based payment transactions**

Paragraph D2 of Appendix D of Ind AS 11 provides that 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 ASs. 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

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instruments, determined at the measurement date, as defined in Ind AS 102. A first-time adopter is encouraged, but not required, to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind ASs.

### **Deemed cost**

Paragraph D5 to D8B provides detailed guidance with regard to exemption related use of deemed cost. These are summarised below:

- An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date.
- A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind ASs 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 ASs, adjusted to reflect, for example, changes in a general or specific price index
- The elections in above points are also available for:
  - (a) investment property, accounted for in accordance with the cost model in Ind AS 40, *Investment Property*; and
  - (b) intangible assets that meet:
    - (i) the recognition criteria in Ind AS 38 (including reliable measurement of original cost); and
    - (ii) the criteria in Ind AS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

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- Ind AS 101 also provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS. If an entity uses this exemption, the fact and the accounting policy shall be disclosed by the entity until time that those items of property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired or derecognised from the entity's balance sheet.
- If the carrying amount of property, plant and equipment or intangible assets that are used in rate-regulated activities includes amounts under previous GAAP that do not qualify for capitalisation in accordance with Ind ASs, a first-time adopter may elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of Ind ASs.

### **Leases**

Ind AS 101 provided that a first-time adopter may apply relevant principles of the Appendix C of Ind AS 17, *Determining whether an Arrangement contains a Lease*, to determine whether an arrangement existing at the date of transition to Ind ASs contains a lease on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.

### **Cumulative translation differences**

Ind AS 21 requires an entity:

- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
- (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

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However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Ind ASs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind ASs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind ASs and shall include later translation differences.

### **Long Term Foreign Currency Monetary Items**

Ind AS 101 includes an optional exemption to continue the existing policy as per the previous GAAP, i.e., existing AS 11 in respect of the 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.

### **Investments in subsidiaries, joint ventures and associates**

If a first-time adopter measures such investments at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

- (a) cost determined in accordance with Ind AS 27; or
- (b) deemed cost. The deemed cost shall be its:
  - fair value at the entity's date of transition to Ind ASs in its separate financial statements; or
  - previous GAAP carrying amount at that date.

### **Compound financial instruments**

Paragraph D18 of Appendix D to Ind AS 101 provides the exemption that a first-time adopter need not separate compound financial instrument into liability and equity as per requirements of Ind AS 32, *Financial Instruments: Presentation*, if the liability component is no longer outstanding at the date of transition to Ind ASs.

### **Designation of previously recognised financial instruments**

#### *Designation of financial liability as at fair value through profit or loss*

An entity is permitted to designate, at the date of transition to Ind AS, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date.

For a financial liability that is designated as a *financial liability* at fair value through profit or loss, an entity should determine whether the treatment in paragraph 5.7.7 of Ind AS 109 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to Ind AS. If it results into accounting mismatch, financial liability should be designated through profit and loss retrospectively.

#### *Designation of financial asset as at fair value through profit or loss*

An entity may designate a financial asset measured at fair value through profit or loss in accordance with paragraph 4.1.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

#### *Designation of investment in equity instruments at fair value through other comprehensive income*

An entity may designate an investment in an equity instrument at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

### **Decommissioning liabilities included in the cost of 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. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Ind ASs.

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

If, for any particular service arrangement, it is impracticable for an operator to apply Appendix C to Ind AS 115 retrospectively at the date of transition to Ind ASs, it shall:

- (a) recognise financial assets and intangible assets that existed at the date of transition to Ind ASs;
- (b) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
- (c) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

Subject to the above requirements, changes in accounting policies are accounted for in accordance with Ind AS 8, i.e., retrospectively, except for the policy adopted for amortisation 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.

#### **Extinguishing financial liabilities with equity instruments**

A first-time adopter may apply Appendix D of Ind AS 109, *Extinguishing Financial Liabilities with Equity Instruments*, from the date of transition to Ind AS.

#### **Joint Arrangements**

##### **Joint ventures - transition from proportionate consolidation to the equity method**

When changing from proportionate consolidation to the equity method, an entity should recognise its investment in the joint venture at transition date to Ind ASs. That initial investment should 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.

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The balance of the investment in joint venture at the date of transition to Ind ASs, determined in accordance with above is regarded as the deemed cost of the investment at initial recognition.

A first-time adopter should test investment in joint venture for impairment in accordance with Ind AS 36 at the date of transition to Ind ASs, regardless of whether there is any indication that the investment may be impaired.

After initial recognition at the date of transition to Ind ASs, an entity should account for its investment in the joint venture using the equity method in accordance with Ind AS 28.

Detailed requirements in this regard are given in paragraph D31AA to D31AF of Ind AS 101

#### **Joint operations—transition from the equity method to accounting for assets and liabilities**

When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the date of transition to Ind ASs, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28 and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement, and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

- (a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.
- (b) adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the

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investment (and any other items that formed part of the entity's net investment) derecognised.

Detailed requirements in this regard are given in paragraph D31AG to D31AK of Ind AS 101

### **Stripping costs in the production phase of a surface mine**

Paragraph D32 provides that a first-time adopter may apply Ind AS 16 Appendix B on '*Stripping Costs in the Production Phase of a Surface Mine*', from the date of transition to Ind AS.

As at transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') should be reclassified as a part of an existing asset to which the stripping activity is related, however, only to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

The balance of the predecessor stripping asset should be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. However, in case where there is no identifiable component of the ore body to which that predecessor stripping asset relates, it should be recognised in opening retained earnings at the transition date to Ind AS.

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

Paragraph D33 provides that despite requirements of Ind AS 109, an entity is permitted under Ind AS 101 to designate existing contracts, at the date of transition to Ind AS, as measured at fair value through profit or loss subject to requirements of paragraph 2.5 of Ind AS 109.

### **Revenue from contracts with customers**

A first-time adopter may use one or more of the following practical expedients when applying Ind AS 115 retrospectively:

- (a) for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period;
- (b) for completed contracts that have variable consideration, an

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entity may use the transaction price at the date the contract was completed; and

- (c) 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 recognise that amount as revenue.

### **Non-current assets held for sale and discontinued operations**

A first time adopter can:

- (a) measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind ASs; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind ASs.

## **II Frequently Asked Questions**

### **Scope**

#### **Question 1**

E Ltd. is required to first time adopt Indian Accounting Standards (Ind AS) from April 1, 2016. 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. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Ind AS. Can such financial statements of E Ltd. be treated as first Ind AS financial statements?

#### **Response**

Ind AS 101 defines first Ind AS financial statements as "The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind ASs), by an explicit and unreserved statement of compliance with Ind ASs."

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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.

### **Accounting Policies**

#### **Question 2**

X Ltd. is required to adopt Ind AS from April 1, 2016, with comparatives for one year, i.e., for 2015-16. What will be its date of transition?

#### **Response**

The date of transition for X Ltd. will be April 1, 2015 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, 2016, and it will give comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015 which will be considered as date of transition.

#### **Question 3**

X Ltd. was using cost model for its property, plant and equipment (tangible fixed assets) till March 31, 2016 under previous GAAP. On April 1, 2015, i.e., the date of its transition to Ind AS, it used fair values as the deemed cost in respect of its fixed assets. Whether it will amount to a change in accounting policy?

#### **Response**

Use of fair values on the date of transition will not tantamount to a change in accounting policy. The fair values of the property, plant and equipment on the date on transition will be considered as deemed cost without this being considered as a change in accounting policy.

#### **Question 4**

X Ltd. was using cost model for its property, plant and equipment till March 31, 2016 under previous GAAP. The Ind AS become applicable to the company for

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financial year beginning April 1, 2016. On April 1, 2015, 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?

#### **Response**

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.

#### **Opening Balance Sheet**

##### **Question 5**

While preparing an opening balance sheet on the date of transition, an entity is required to:

- (a) recognise all assets and liabilities whose recognition is required by Ind ASs;
- (b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;
- (c) 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 ASs; and
- (d) apply Ind ASs in measuring all recognised assets and liabilities.

Give examples for each of the above 4 categories.

#### **Response**

The examples of the items that an entity may need to recognise, derecognise,

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remeasure, reclassify on the date of transition are as under:

- (a) recognise all assets and liabilities whose recognition is required by Ind ASs:
  - (i) customer related intangible assets if an entity elects to restate business combinations
  - (ii) share-based payment transactions with non-employees
  - (iii) recognition of deferred tax on land
- (b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition:
  - (i) proposed dividend
- (c) 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 ASs:
  - (i) redeemable preference shares that would have earlier been classified as equity;
  - (ii) non-controlling interests which would have been earlier classified outside equity ; and
- (d) apply Ind ASs in measuring all recognised assets and liabilities:
  - (i) discounting of long term provisions
  - (ii) measurement of deferred income taxes for all temporary differences instead of timing differences.

### **Optional Exemptions**

#### **Cumulative translation differences and accumulated exchange differences**

#### **Question 6**

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On the date of transition, there is a long- term foreign currency monetary liability of Rs. 60 crores (US \$ 10 million converted at an exchange rate of US \$ 1 = Rs.

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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?

#### **Response**

Paragraph D13AA of 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 paragraph D13AA of 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*.

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

The Company cannot avail the exemption given in paragraph D13AA of 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 Para D13AA of Ind AS 101 retrospectively.

#### **Question 7**

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On April 1, 2010, it obtained a 7 year US\$ 1,00,000 loan. It has been exercising the

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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 of exchange differences. Whether the Company is permitted to do so?

#### **Response**

Paragraph D13AA of 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.

#### **Question 8**

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On April 1, 2010, 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, *The Effects of Changes in Foreign Exchange Rates* with respect to recognition of foreign exchange differences.. Whether the Company is permitted to do so?

#### **Response**

Paragraph D13AA of 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.

Paragraph D13AA of 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 FCMITDA should be derecognised by an adjustment against retained earnings on the date of transition.

**Question 9**

A company has chosen to elect the deemed cost exemption in accordance with Para D7AA of 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 fixed assets i.e. it does not want to elect the exemption available as per Para D13AA of 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?

**Response**

Para D7AA of 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, Para D13AA 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 as per Para D7AA 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 would be recognised in the statement of profit and loss.

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### **Business combination and consolidation in relation to first-time adoption of Ind-AS**

#### **Question 10**

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 a controlling stake 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?

#### **Response**

Appendix C to Ind-AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Paragraph C(4)(j) of Appendix C to 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 availing 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 ASs 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 amount; 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.

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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. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind-AS, then the above exemption does not apply. Such a change in classification is addressed under the FAQs 30 and 31.

#### **Question 11**

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 the A Ltd. adopts Ind AS after the B Ltd?

#### **Response**

As per paragraph C1 of 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 ASs). **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 2010, it shall restate all business combinations that occurred between 30 June 2010 and the date of transition to Ind ASs, and it shall also apply Ind AS 110 from 30 June 2010.”*

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.

Paragraph D17 of 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*

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*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 then it does not change the amounts already recognised by the subsidiary.*

### **Goodwill and Non-Controlling Interest (NCI)**

#### **Question 12**

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?

#### **Response**

In case an entity elects not to restate past business combinations, paragraph C4(k) of Appendix C to 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, paragraph B7 of Appendix B to Ind AS 101 contains a mandatory exception that prohibits retrospective allocation of accumulated profits between the owners of the parent and the NCI.

A combined reading of paragraphs C4(k) and B7 implies that 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 minority 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.

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In case an entity restates past business combination, paragraph B7 of Appendix B to 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.

#### **Question 13**

Is any adjustment required to goodwill arising on business combination on first time adoption of Ind AS if an entity elects not to restate past business combinations?

#### **Response**

In case of an entity elects not to restate past business combination, the carrying value of goodwill cannot be adjusted other than for certain specified adjustments. Paragraph C4(g)/(h) states that in relation to cases where entity elects not to restate past business combinations, the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind ASs (i.e. no adjustment shall be made including for amortisation or write-off of goodwill in the previous GAAP and subsequent resolution of contingency affecting purchase consideration) except for certain adjustments which include:

- (i) As per paragraph C4(c)(i), the first-time adopter shall derecognise an intangible asset recognised under the previous GAAP which does not meet the recognition criteria of intangible assets as prescribed under Ind AS 38, and increase goodwill/decrease capital reserve, as the case may be, to the extent of carrying value of previously recognised intangible asset.
- (ii) As per paragraph C4(f), the first-time adopter shall recognise an additional intangible asset that was not recognised earlier in accordance with the previous GAAP, in the opening Ind AS balance sheet with a corresponding decrease in goodwill / increase in capital reserve.
- (iii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind ASs and in recognising any resulting impairment loss in retained earnings.

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(iv) Correction of any errors discovered on transition to Ind AS

In line with paragraph C4(j) and FAQ 10 above, the carrying amount of goodwill in the consolidated financial statements may undergo a change if an entity that was not previously classified as a subsidiary shall now be classified as a subsidiary on transition to Ind AS

If an acquisition is classified as an asset acquisition instead of business acquisition, then the goodwill recognised, if any, on such asset acquisition is derecognised.

As stated more explicitly in FAQs 30 and 31, in case of change in classification of an investee from a subsidiary to an associate or vice versa, the goodwill value does not undergo a change as compared to the previous GAAP carrying values.

If the past business combinations are restated, then the goodwill is recomputed in line with Ind AS 103.

### **Share-based payment transactions**

#### **Question 14**

X Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2016. It has given 200 stock options to its employees. Out of these, 75 options have vested on November 30, 2015 and the remaining 125 will vest on November 30, 2016. What are the options available to X Ltd. at the date of transition?

#### **Answer**

Paragraph D2 of 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.

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(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 required by paragraphs 44 and 45 of Ind AS 102.

#### **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.

### **Deemed Cost**

#### **Question 15**

Ind AS has given the option to consider previous GAAP carrying value of property, plant and equipment (PPE) as deemed cost for assets acquired before the transition date. Whether an entity has the option of fair valuing few items of PPE and taking carrying amounts of the remaining items of PPE as the deemed cost on the date of transition?

#### **Response**

No. In accordance with paragraph D7AA, where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs 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 in accordance with paragraph D21 and D21A of Ind AS 101. 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.

#### **Question 16**

X Ltd. is the holding company of Y Ltd. X Ltd. is required to adopt Ind AS from April 1, 2016. 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.

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### **Response**

In accordance with paragraph D7AA, where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs 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 in accordance with paragraph D21 and D21A of Ind AS 101. 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. There is nothing in paragraph D 7AA that 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.

### **Question 17**

X Ltd. is required to implement Ind AS from April 1, 2016. X Ltd. wants to avail the optional exemption of using the previous GAAP carrying value in respect of its property, plant and equipment whereas for intangible assets it wants to use fair value as its deemed cost. Examine whether it is permitted to do so?

### **Response**

Para D 7AA of Ind AS 101 provides that where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of Ind AS 101. It further provides that **this option can also be availed for intangible assets covered by Ind AS 38, Intangible Assets and investment property covered by Ind AS 40 Investment Property.** There is nothing in paragraph D 7AA that suggest that if the previous GAAP carrying value has been used as the deemed cost for property, plant and equipment then the same need to be done for all items of intangible assets as

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well. Thus, X Ltd. can use previous GAAP carrying value for all of its items of property, plant and equipment and fair value for all of its intangible assets as its deemed cost on the date of transition. However, the fair value can be used for intangible assets only in accordance with and subject to conditions specified in Ind AS 38, *Intangible Assets*.

#### **Question 18**

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?

#### **Response**

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.

#### **Question 19**

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?

#### **Response**

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.

#### **Question 20**

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

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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?

#### **Response**

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.

#### **Question 21**

Fair value measurement on an event like privatisation or initial public offering can be treated as deemed cost for Ind AS at the date of that measurement. What is the acceptable time gap of such event from the date of transition? Can adjustments be made to take effects of events subsequent to event?

#### **Response**

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

#### **Question 22**

Can an intangible asset if not recognised as per the previous GAAP, be recognised on first-time adoption on fair value basis?

#### **Response**

In this case, there are principally two issues:

- (1) Whether an intangible asset if not recognised as per the previous GAAP can be recognised on first-time adoption.

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- (2) Secondly, if the answer to the first question is in the affirmative, whether the same can be recognised on fair value basis.

On the issue of recognition of an intangible asset that has not been recognised as per the previous GAAP, Ind AS 101 provides that an entity's opening Ind AS balance sheet:

- (a) excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with Ind AS 38 at the date of transition to Ind AS; and
- (b) includes all intangible assets that meet the recognition criteria in Ind AS 38 at that date, except for intangible assets acquired in a business combination that was not recognised in the acquirer's consolidated financial statements in accordance with the previous GAAP and also would not qualify for recognition in accordance with Ind AS 38 in the separate balance sheet of the acquiree.

The criteria in Ind AS 38 require an entity to recognise an intangible asset if, and only if:

- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

Ind AS 38 supplements these two criteria with further, more specific, criteria for internally generated intangible assets. In accordance with Ind AS 38, an entity capitalises the costs of creating internally generated intangible assets prospectively from the date when the recognition criteria are met. Ind AS 38 does not permit an entity to use hindsight to conclude retrospectively that these recognition criteria are met.

If an internally generated intangible asset qualifies for recognition at the date of transition to Ind AS, an entity should recognise the asset in its opening Ind AS balance sheet even if it has treated the related expenditure as an expense in accordance with the previous GAAP. If the asset does not qualify for recognition in accordance with Ind AS 38 until a later date, its cost is the sum of the expenditure incurred from that later date. The criteria discussed above also apply to an intangible asset acquired separately.

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If based on the above, an entity recognises an intangible asset in its opening Ind AS balance sheet, it can do so on any of the basis permitted under Ind AS 101. Since fair value is also one of the bases permitted under Ind AS 101, one may conclude that an entity can recognise an intangible asset that has not been recognised under previous GAAP in the opening Ind AS balance sheet on the basis of its fair value on the date of transition. However, the fair value can be used for intangible assets only in accordance with and subject to conditions specified in Ind AS 38.

### **Compound Financial Instruments**

#### **Question 23**

On April 1, 2014, Sigma Ltd. issued 30,000 6% convertible debentures of face value of Rs. 100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31, 2018 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 April 1, 2016.

Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition.

The present value of Re. 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>  |
|--------------------|-------------|-------------|
| <b>1</b>           | <b>0.94</b> | <b>0.91</b> |
| <b>2</b>           | <b>0.89</b> | <b>0.83</b> |
| <b>3</b>           | <b>0.84</b> | <b>0.75</b> |
| <b>4</b>           | <b>0.79</b> | <b>0.68</b> |

#### **Response**

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

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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).

|  | (Rs.)         |
|--|---------------|
| 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  | <u>93.82</u>  |
| Total equity component (Balancing figure)  | 6.18          |
| Face value of debentures   | <u>100.00</u> |
| Equity component per debenture   | 6.18          |
| Total equity component for 30,000 debentures   | 1,85,400      |
| Total debt amount ( $30,000 \times 93.82$ )  | 28,14,600     |

Thus, on the date of transition, the amount of Rs. 30,00,000 being the amount of debentures will be split as under:

|        |               |
|--------|---------------|
| Debt   | Rs. 28,14,600 |
| Equity | Rs. 1,85,400  |

Notes:

1. 3.17 is PV of Annuity Factor of Re. 1 at a discount rate of 10% for 4 years.
2. On maturity, Rs. 110 will be paid (Rs. 100 as principal payment + Rs. 10 as premium)

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### **Previous GAAP and choice of exemptions**

#### **Question 24**

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?

#### **Response**

Appendix A to 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-ASs. 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.

#### **Question 25**

Company A intends to restate its past business combinations with effect from 30 June 2010 (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?

#### **Response**

Paragraph 18 to Ind-AS 101 prescribes that an entity may elect to use one or more of the exemptions contained in Appendices C–D of the Standard. As such, an entity may choose to adopt a combination of optional exemptions in relation to the underlying account balances.

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When the past business combinations after a particular date (30 June 2010 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.

#### **Question 26**

Whether the following transactions undertaken by Company A prior to its Ind-AS transition date will be covered within the first-time adoption exemption for business combinations?

- Acquisition of Company B prior to transition date
- Acquisition of Company C, which was fully owned by group companies
- Acquisition of Company D, which does not meet the definition of business combination (i.e. it is an asset acquisition)
- Acquisition of additional stake in a subsidiary Company E, after acquiring controlling interest

#### **Response**

Paragraph C1 of Ind AS 101 states that a first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to Ind-ASs). It needs to be noted here that the exemption extends to all past transactions that are 'business combinations' under Ind-AS 103. Thus, it follows that the exemption extends to all transactions that meet the definition of business combination as prescribed under Ind AS 103.

Accordingly, the exemption will be available for:

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- Acquisition of Company B prior to transition date presuming the acquisition met the definition of 'business combination'
- Acquisition of Company C, which was fully owned by group companies

Acquisition of an entity that represents an asset acquisition rather than a business and acquisition of additional stake in a subsidiary company (after acquiring controlling interest) do not meet the definition of business combination. Accordingly, the business combination exemption under Ind-AS 101 does not apply to asset acquisition transactions and acquisition of additional stake.

### **Step acquisition under previous GAAP**

#### **Question 27**

A Ltd. acquired 60% stake in B Ltd. in 2006 for Rs 70. The net assets of B Ltd. at the date of acquisition were Rs 100. Accordingly, A Ltd. recognised goodwill of Rs. 10 ( $70 - 100 * 60\%$ ) in its consolidated financial statements. In 2008, A Ltd. acquired an additional 20% stake in B Ltd. for Rs. 40. The net assets at the date of the second acquisition were Rs. 150, thereby leading to an additional goodwill in the consolidated books of A Ltd. of Rs. 10 ( $40 - 150 * 20\%$ ). Accordingly, total goodwill on the basis of previous GAAP aggregated to Rs. 20 in the consolidated financial statements of A Ltd.

On transition to Ind AS, B Ltd. is classified as subsidiary from the date of acquisition of the initial 60% stake. Under such step acquisition transaction, how should the goodwill be treated in the consolidated financial statements of A Ltd. if (i) past business combinations are not restated; and (ii) past business combinations are restated.

#### **Response**

In case the entity elects not to restate past business combinations, the carrying value of goodwill will not be adjusted (except for matters stated in paragraph C(4)(g) of Appendix C to Ind AS 101) if that carrying value was derived in accordance with previous GAAP, though that may not be in accordance with Ind ASs. Accordingly, no adjustment will be made to the carrying value of goodwill in case the business combinations are not restated.

In case the past business combinations are restated and the control (as defined in Ind AS 110) over B Ltd. is obtained on acquisition of initial 60% stake in B Ltd., A Ltd. should compute goodwill in accordance with the provisions of Ind AS 103.

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The acquisition of additional 20% stake in B Ltd. shall be outside the scope of Ind AS 103 and shall be accounted under Ind AS 110, being a transaction with shareholders. Accordingly, no further goodwill shall be recognised on acquisition of additional 20% stake in B Ltd.

### **Accounting for restated and unrestated business combinations**

#### **Question 28**

If an entity has opted not to restate business combinations, what are the significant accounting steps that are required?

#### **Response**

Paragraph C4 of Appendix C of Ind AS 101 deals with the situation where a first-time adopter has decided not to restate business combinations under previous GAAP upon the adoption of Ind ASs. In this situation, the following steps are relevant:

- 1 Maintain previous GAAP classification of the acquisition
- 2 Determine whether any additional assets or liabilities should be recognised.
- 3 Determine whether any recognised assets or liabilities should be derecognised.
- 4 Remeasure the assets and liabilities subsequent to the business combination if appropriate.
- 5 Adjust the measurement of goodwill/capital reserve if appropriate.

Although it is not specifically mentioned, a first time adopter will consider the consequential effects on deferred tax and NCI whenever an adjustment is made.

#### **Question 29**

What are the significant implications of restating past business combinations?

#### **Response**

Ind AS 101 permits a first-time adopter to restate past business combinations retrospectively in accordance with Ind ASs. However, retrospective restatement may be a difficult exercise in certain circumstances. This is primarily due to the

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requirement that the information available to restate the past business combinations must have been available at the time of the acquisition; the use of hindsight is prohibited. This may cause a practical difficulty for a first-time adopter, because it may not have been aware of all of the information to be collected at the date of acquisition in order to record the business combination on a basis consistent with Ind ASs.

In case the past business combinations are restated:

- mandatory exceptions relating to non-controlling interests as contained in paragraph B7 to Ind AS 101 continue to apply in relation to those transactions that occurred prior to the date after which all past business combination transactions are restated;
- optional exemptions need to be evaluated specifically on a case to case basis (e.g. deemed cost exemption relating to property, plant and equipment).
- normal consolidation procedures apply from the date of restated past business combinations

Some of the general issues that may be encountered are:

- calculating the consideration transferred in the business combination in accordance with Ind-ASs and assessing whether any contingent consideration should be recognised without the use of hindsight;
- assessing whether to recognise contingent liabilities at the acquisition date, without the use of hindsight;
- measuring the fair value of assets acquired and liabilities assumed at the acquisition date on a basis consistent with Ind ASs;
- testing goodwill for impairment in a restated business combination

There is no specific requirement in Ind AS 101 that goodwill acquired in a restated business combination be tested for impairment at the date of transition. However, the corresponding IFRS 1 provides some guidance that suggests that the impairment standard in IFRSs is applied at the date of transition in determining whether any impairment loss exists at that date. [IFRS 1.BC39, BC40].

**Change in classification as compared to previous GAAP**

**Question 30**

On transition to Ind AS, A Ltd. has opted not to restate its past business combination. It had invested in B Ltd. (classified as an associate under the previous GAAP) which is now being classified as a subsidiary under Ind AS. How should A Ltd. account for the change of classification of an entity from an associate to a subsidiary in case past business combinations are not restated?

**Response**

It needs to be noted that the exemption for past business combinations, if exercised for subsidiaries, is also applicable to past acquisitions of associates and joint ventures. In case an entity elects not to restate past business combinations, the carrying value of goodwill is not restated as per paragraph C4(g) to Ind AS 101.

If the acquisition of an interest is acquired in an entity, which is classified as subsidiary under Ind AS but as an associate under the previous GAAP, then the goodwill attributed to acquisition that is embedded in the carrying value of investment in such equity-accounted entities is not allowed to be recomputed. As such, the goodwill component of equity-accounted entity as per the previous GAAP shall be presented separately as the goodwill in the consolidated financial statements. The remaining component of such investment after segregating goodwill represents the company's share in the net assets of the investee. This remaining component will be derecognised and the underlying assets and liabilities of the investee will be presented gross in the consolidated financial statements with the difference being recognised as NCI. Additionally, the effects of Ind-AS transition of such an investee shall be adjusted in the carrying values of the assets and liabilities, with appropriate adjustment to NCI and owner's equity.

Similar treatment is required in case of change in classification from a joint venture to a subsidiary.

*Illustration*

A acquired 20% stake in B for Rs 30 and classified it as an associate. As at that date, the net assets of B were Rs 100 (i.e. assets of Rs 150 and liabilities of Rs 50). As such, there is goodwill on the transaction of Rs 10 ( $100 \times 20\% - 30$ ). Under Ind AS, B is classified as a subsidiary on account of certain participative rights.

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The following position has been illustrated presuming that there is no change in the net asset position of B, including Ind AS transition adjustment, till the date of transition to Ind AS:

| A's consolidated financial statements under Indian GAAP (Extracts relating to investment in B) |        |  |        | A's consolidated financial statements under Ind AS (Extracts relating to investment in B) |        |          |        |
|--|--------|--|--------|---|--------|----------|--------|
| Liabilities  | Amount | Assets                                     | Amount | Liabilities   | Amount | Assets   | Amount |
|  |        |  |        |   |        | Goodwill | 10     |
|  |        |  |        | Liabilities   | 50     | Assets   | 150    |
|  |        | Investments in equity accounted associates | 30     | Non-controlling interest  | 80     |          |        |

**Question 31**

On transition to Ind AS A Ltd. has opted not to restate its past business combinations. It had invested in E Ltd. and F Ltd. (both being classified as subsidiaries under existing GAAP). On transition to Ind AS, E Ltd. and F Ltd. are classified as associates. How should A Ltd. account for the change of classification of a subsidiary entity to an associate in case past business combinations are not restated?

**Response**

The accounting for change in classification of an investee from a subsidiary to an associate or a joint venture in case an entity elects not to restate past business combinations is similar as discussed in FAQ 30. In case of change in classification of an investee from a subsidiary to an associate, the carrying value of goodwill attributable to the said subsidiary in accordance with the previous GAAP shall be reclassified to investment in equity-accounted associate. Further, the carrying values of net assets shall be adjusted against the carrying value of minority interest as recognised in the previous GAAP and added to the equity-

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accounted investment. Additionally, the adjustments to the carrying values of investee's assets and liabilities on transition to Ind-AS shall be recognised in the investment in equity-accounted associates to the extent of investor's share.

*Illustration*

A acquired 60% stake in B for Rs 70 and is classified as an subsidiary under current Indian GAAP. As at that date, the net assets of B was Rs 100 (i.e. assets Rs 150 and liabilities Rs 50). As such, goodwill recognised by A in its consolidated financial statements aggregated Rs 10 (100\*60% - 70). On transition to Ind AS, B is classified as an associate. The following position has been illustrated presuming that there is no change in the net asset position of B, including Ind AS transition adjustment, till the date of transition to Ind AS:

| A's consolidated financial statements under Indian GAAP (Extracts relating to investment in B) |        |          |        | A's consolidated financial statements under Ind AS (Extracts relating to investment in B) |        |  |        |
|--|--------|----------|--------|---|--------|--|--------|
| Liabilities  | Amount | Assets   | Amount | Liabilities   | Amount | Assets                                     | Amount |
|  |        | Goodwill | 10     |   |        |  |        |
| Liabilities  | 50     | Assets   | 150    |   |        | Investments in equity accounted associates | 70     |
| Minority Interest  | 40     |          |        |   |        |  |        |

**Investments in subsidiaries, associates and joint ventures in separate financial statements of the Company**

**Question 32**

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

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cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for the this transaction?

#### **Response**

In accordance with paragraph D15 of Appendix D to 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.

### **Sale of stake – whether or not leading to loss of control**

#### **Question 33**

Whether A Ltd., which sold the following stakes in group companies prior to transition to Ind-AS, is required or permitted to adjust its financial statements retrospectively for

- Sale of stake in B Ltd. without loss of control over B Ltd.
- Sale of stake in C Ltd. leading to loss of control over C Ltd.

#### **Response**

Paragraph B7 of Appendix B to Ind AS 101 prescribes that in an unrestated past business combination, a first-time adopter is not permitted to adjust the carrying values of non-controlling interests for changes in parent's ownership interest, whether or not it leads to a loss of control over a subsidiary.

Paragraph C4(h) of Ind-AS 101 prescribes that in case of an unrestated past business combination, the previous GAAP carrying value of goodwill is adjusted only in limited circumstances. As such, a change in parent's ownership interest that does not lead to loss of control over the subsidiary does not impact the previous GAAP carrying value of goodwill.

However, in case of loss of control, classification of an entity undergoes a change on first-time adoption of Ind AS. Consequentially, the carrying values of net assets may be adjusted against the carrying value of non-controlling interest as discussed in FAQs 30 and 31.

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Paragraph B7 to Ind AS 101 clarifies that if a past business combination is restated, then all the assets, liabilities, goodwill, non-controlling interests and any other items shall be measured in accordance with Ind AS 103, Ind AS 110 or any other standard as may be applicable.

### **Exceptions to retrospective application**

#### **Estimates**

##### **Question 34**

An entity has made an estimate in accordance with the previous GAAP. At the time of transition to Ind AS, whether the entity can continue with the same estimate?

##### **Response**

Paragraph 14 of Ind AS 10 states that “An entity’s estimates in accordance with Ind ASs at the date of transition to Ind ASs 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”

Accordingly, the entity is required to continue with the same estimate unless the estimate needs adjustment for any differences in accounting policies or there is objective evidence that the estimate was in error.

In case the entity receives new information after the transition date with regard to a previously made estimate (in accordance with the previous GAAP) then an entity should 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*.

##### **Question 35**

In case an entity has not made an estimate since it was not required to be made as per the previous GAAP, whether the entity should now make an estimate under Ind AS?

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#### **Response**

Yes, the entity is required to make an estimate even if this was not required under previous GAAP. To achieve consistency with Ind AS 101, the estimates in accordance with Ind AS should reflect conditions that existed at the date of transition to Ind AS.

#### **Question 36**

XYZ Ltd., in its previous GAAP financial statements prepared for the financial year ending on March 31, 2015, had made a provision for Rs. 4 Lakhs in respect of a pending litigation against the company by one of its customers. The claim was for damages of Rs. 8 Lakhs, but XYZ Ltd. ascertained that the other party would probably settle for Rs. 4 Lakhs without taking the case to court. Based on management's assessment and on advice from XYZ's lawyers, a provision of Rs. 4 Lakhs was made as a best estimate of the liability.

During the course of financial year (FY) 2015-16, XYZ Ltd's customer decided to take the case to court. The case had not been heard by the time the FY 2015-16 financial statements were approved. In its FY 2015-16 financial statements XYZ Ltd. estimated that a provision of Rs 5 Lakhs best represented the most likely outcome and the provision was increased.

In August 2016 the case was settled and XYZ Ltd. had to pay damages of Rs 5.5 Lakhs. XYZ Ltd. has adopted Ind AS April 1, 2016 and presents comparative information. The relevant standard under Ind AS is Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which contains similar requirements in respect of such provisions to the equivalent standard in previous GAAP.

An estimate of the liability was required by previous GAAP and there is no evidence that its original estimate was in error. What should be the treatment of the estimate prepared earlier?

#### **Response**

In the opening Ind AS balance sheet as on April 1, 2015 (Balance Sheet on the date of transition), XYZ Ltd. should record a liability of Rs 4 lakhs.

Similarly, the provision in Financial Statements for the year ended March 31, 2016, should remain at Rs. 5 lakhs, with Rs. 1 lakh charged to the statement of profit and loss in that period. Ind AS financial statements on March 31, 2017 will

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reflect the outcome of the case, with a charge of Rs.0.5 lakh and settlement of the liability.

This is despite the fact that when the first Ind AS financial statements are prepared on March 31, 2017, the outcome of the court case is known. Revision to estimates should be made prospectively since the original estimate was not in error.

### **Derecognition of Financial Assets & Liabilities**

#### **Question 37**

XYZ Bank Ltd. had derecognised certain loan assets upon securitisation in the financial year 2008-09 in accordance with the RBI Guidelines on Securitisation. XYZ Bank Ltd. adopts Ind AS from April 1, 2018 and accordingly the date of transition is April 1, 2017. How would the securitised loan assets be accounted for upon such transition?

#### **Response**

According to paragraph B2 of Appendix B of Ind AS 101, 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 ASs. If a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with the 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. Thus, securitised loan assets are not required to be recognised by XYZ Bank Ltd. at the date of transition to Ind AS.

### **Hedge Accounting**

#### **Question 38**

X Ltd. has entered into a hedge transaction in its previous GAAP wherein the hedging instrument is a written option. On the date of transition to Ind AS, can it continue the hedge accounting in respect of this transaction?

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### **Response**

In accordance with paragraph B5 of Appendix B of Ind AS 101 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

Since Ind-AS 109 does not permit designating a written option as a hedging instrument, the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity shall apply paragraph 6.5.6 of Ind AS 109 to discontinue hedge accounting.

### *Note*

A written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (for example, a written call option used to hedge a callable liability).

## **Reconciliations, presentation and disclosures**

### **Question 39**

Does Ind AS 101 provide any exemptions from the presentation and disclosure requirements in other Ind AS?

### **Response**

No, paragraph 20 of Ind AS 101 provides that Ind AS 101 does not provide exemptions from the presentation and disclosure requirements in other Ind AS.

### **Question 40**

Does an entity need to provide comparatives as per Ind AS in its first Ind AS complied financial statements?

### **Response**

Yes, in accordance with Ind AS 101, a first time adopter need to provide the corresponding previous period financial statements in accordance with Ind AS when it reports its first Ind AS financial statements.

Paragraph 21 of Ind AS 101 provides that an entity's first IndAS financial statements include at least three balance sheets, two statements of profit and

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loss, two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all periods presented.

#### **Question 41**

While transitioning from previous GAAP to Ind AS, an entity becomes aware of certain errors and now corrects them. How should it explain those errors?

#### **Response**

In accordance with paragraph 26 of Ind AS 101, if an entity becomes aware of errors, the reconciliations and disclosures required by paragraph 24(a) and (b) should distinguish the correction of those errors from changes in accounting policies.

#### **Question 42**

While preparing its first Ind AS financial statements, an entity may change some of its accounting policies to comply with the requirements of various Ind AS. How should an entity explain these changes in accounting policies in terms of Ind AS 8, *Accounting Policies, Changes in Accounting Estimate and Errors*, in its first Ind AS financial statements?

#### **Response**

Paragraph 27 of Ind AS 101 provides that Ind AS 8 does not apply to changes in accounting policies that an entity makes when it adopts Ind ASs or to changes in those policies until after it presents its first Ind AS financial statements. Therefore, requirements of Ind AS 8 about changes in accounting policies do not apply in an entity's first Ind AS financial statements.

If, during the period covered by its first Ind AS financial statements, an entity changes its accounting policies or its use of the exemptions contained in this Ind AS, it should explain the changes between its first Ind AS interim financial report and its first Ind AS financial statements, in accordance with paragraph 23, and it should update the reconciliations required by paragraph 24(a) and (b).

#### **Question 43**

Ind AS 101 permits an entity to use 'deemed cost' as the transition date value in case of certain assets and investments. Does an entity need to disclose this fact

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in its first Ind AS compliant financial statements? What are the other disclosures that an entity should make in this connection?

#### **Response**

An entity has an option to use deemed cost as the transition date value, inter-alia, in case of the following:

- Property, plant and equipment, intangible assets & investment property;
- Oil and gas assets;
- Investments in subsidiaries, joint ventures and associates;
- Operations subject to rate regulation.

The disclosure requirements in each of the above circumstances are as under:

- **Property, plant and equipment, intangible assets and investment property:** If an entity uses fair value in its opening Ind AS Balance Sheet as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset, the entity's first Ind AS financial statements should disclose, for each line item in the opening Ind-AS Balance Sheet:
  - the aggregate of those fair values; and
  - the aggregate adjustment to the carrying amounts reported under previous GAAP [paragraph 30 of Ind AS 101].
- **Oil and gas assets:** If an entity uses the exemption in paragraph D8A(b) for oil and gas assets, it should disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated [paragraph 31A of Ind AS 101].
- **Investments in subsidiaries, joint ventures and associates:** If an entity uses a deemed cost in its opening Ind AS balance sheet for an investment in a subsidiary, joint venture or associate in its separate financial statements (paragraph D15), the entity's first Ind-AS separate financial statements should disclose: the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount; the aggregate deemed cost of those investments for

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which deemed cost is fair value; and the aggregate adjustment to the carrying amounts reported under previous GAAP [paragraph 31 of Ind AS 101].

- **Operations subject to rate regulation:** If an entity uses the exemption in paragraph D8B for operations subject to rate regulation, it should disclose that fact and the basis on which carrying amounts were determined under previous GAAP [paragraph 31B of Ind AS 101].

#### **Question 44**

Can an entity after presenting its first Ind AS interim financial statements but before presenting its first annual Ind AS financial statements change its accounting policies or its use of exemptions contained in Ind AS?

#### **Response**

An entity after presenting its first interim Ind AS financial statements but before presenting its first annual Ind AS compliant financial statements may change its accounting policies or its use of exemptions contained in Ind AS.

If an entity does so, it should explain the changes between its first Ind AS interim financial report and its first annual Ind AS financial statements, in accordance with paragraph 23, and update the disclosures required by paragraphs 24(a) and (b) [paragraph 27A of Ind AS 101].

Further, if an entity changes its accounting policies or its use of the exemptions contained in this Ind-AS, it should explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by paras 32(a) or 32(b) [paragraph 32(c) of Ind AS 101].

#### **Question 45**

An entity may be required to present interim financial reports. What are the disclosure requirements for the first interim financial reports prepared as per Ind AS?

#### **Response**

According to paragraph 32 of Ind AS 101, if an entity presents an interim financial report in accordance with Ind AS 34 for part of the period covered by its

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first Ind AS financial statements, the entity shall satisfy the following requirements in addition to the requirements of Ind AS 34:

- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
  - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Ind ASs at that date; and
  - (ii) a reconciliation to its total comprehensive income in accordance with Ind ASs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.
- (c) If an entity changes its accounting policies or its use of the exemptions contained in this Ind AS, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b).

Ind AS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, Ind AS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

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### **Question 46**

Whether an entity is required to explain its transition from previous GAAP to Ind AS? If yes, then how?

### **Response**

Paragraph 23 of Ind AS 101 requires an entity to explain how the transition from previous GAAP to Ind-AS affected its reported balance sheet, financial performance and cash flows.

The reconciliation and disclosure requirements prescribed in paragraphs 24 to 33 will normally achieve this purpose. However, if an entity so desires, it can disclose such further information that improves the relevance, reliability and understandability of the reported financial statements.

### **Question 47**

Company A Ltd. had made certain investments in B Ltd. and B Ltd. was not regarded as subsidiary, associate or joint venture as per previous GAAP. Therefore, A Ltd. did not to prepare and present consolidated financial statements as per the previous GAAP prior to first time adoption of Ind AS. It had always prepared stand-alone financial statements. However, on transition to Ind AS, B Ltd. would be treated as subsidiary as per Ind AS and A Ltd. would be required to prepare consolidated financial statements. In its first Ind AS consolidated financial statements, will A Ltd be required to present reconciliations with its previous GAAP stand-alone financial statements?

### **Response**

In the given case, the non-preparation of consolidated financial statements in the previous period is not a prior period error. There are no consolidated financial statements for the previous year and the amounts reported under previous GAAP are those of the separate financial statements of the parent. Ind AS 101 treats the transition to Ind AS of an entity in its separate financial statements as a different transition from the same entity's transition in its consolidated financial statements. Accordingly, parent's separate financial statements cannot be considered for the purpose of giving reconciliations in the consolidated financial statements. In this regard, paragraph 28 of Ind AS 101 may be noted which provides that "If an entity did not present financial statements for previous periods, its first Ind AS financial statements shall disclose that fact". Since there is no relevant previous GAAP financial statements from which the first-time

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adopter is transitioning, no reconciliation is required in the consolidated financial statements on first-time adoption of Ind AS.

#### **Question 48**

What are the reconciliations a first time adopter of Ind AS has to give as per Ind AS 101?

#### **Response**

A first time adopter of Ind AS needs to give the following reconciliations as per Ind AS 101, in sufficient details to enable users to understand material adjustments to the balance sheet and profit and loss:

- (a) reconciliation of its equity reported in accordance with Ind AS to its equity in accordance with previous GAAP on the date of transition to Ind AS and at the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP. [Paragraph 24(a)];
- (b) A reconciliation to its total comprehensive income in accordance with Ind ASs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP [Paragraph 24(b)].
- (c) If the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet, the disclosures that Ind AS 36, *Impairment of Assets*, would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind AS [Paragraph 24(c)].
- (d) If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows [Paragraph 25].
- (e) If during the period covered by its first Ind AS financial statements an entity changes its accounting policies or its use of the exemptions contained in this Ind AS, it shall explain the changes

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between its first Ind AS interim financial report and its first Ind AS financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b) [Paragraph 27A].

## **III Case Study**

H Ltd. has the following assets and liabilities as at March 31, 2016, prepared in accordance with previous GAAP:

| <b>Particulars</b>                  | <b>Notes</b> | <b>Amount<br/>(Rs.)</b> |
|-------------------------------------|--------------|-------------------------|
| Fixed assets                        | 1            | 1,34,50,000             |
| Investments in S. Ltd.              | 2            | 48,00,000               |
| Debtors                             |              | 2,00,000                |
| Advances for purchase of inventory  |              | 50,00,000               |
| Inventory                           |              | 8,00,000                |
| Cash                                |              | 49,000                  |
| <b>Total assets</b>                 |              | <b>2,42,99,000</b>      |
| VAT deferral loan                   | 3            | 60,00,000               |
| Creditors                           |              | 30,00,000               |
| Short term borrowing                |              | 8,00,000                |
| Provisions                          |              | 12,00,000               |
| Total liabilities                   |              | 1,10,00,000             |
| Share capital                       |              | 1,30,00,000             |
| <u>Reserves:</u>                    |              | 2,99,000                |
| Cumulative translation difference   | 4            | 1,00,000                |
| ESOP reserve                        | 4            | 20,000                  |
| Retained earnings                   |              | 1,79,000                |
| Total equity                        |              | 1,32,99,000             |
| <b>Total equity and liabilities</b> |              | <b>2,42,99,000</b>      |

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The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 2016:

1. In relation to tangible fixed assets (property, plant and equipment), the following adjustments were identified:
  - Fixed assets comprise land held for capital appreciation purposes costing Rs. 4,50,000 and was classified as investment property as per Ind AS 40.
  - Exchange differences of Rs. 1,00,000 were capitalised to depreciable fixed assets on which accumulated depreciation of Rs. 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 Rs. 48,00,000 that carried a fair value of Rs. 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: Rs.60,00,000

The VAT deferral loan of Rs. 60,00,000 was obtained on March 31, 2016, 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, 2016, is Rs. 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind

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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 Rs. 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 Rs. 12,000 towards the vested options and Rs. 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 Rs. 15,000 and Rs. 9,000 for the vested and unvested shares respectively. The Company intends to avail the Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.

- Cumulative translation difference : Rs. 1,00,000

The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of Rs. 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.

### **Response**

#### **Adjustments for opening balance sheet as per Ind AS 101**

1. Fixed assets:

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;

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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 Rs. 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 Rs. 37,25,528 and the remaining Rs. 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 Rs. 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 D 12 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

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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 Rs. 1,00,000 should be transferred to retained earnings

6. Retained earnings should be increased by Rs. 20,99,000 on account of the following:
- Increase in fair value of investment in subsidiary (note 2) Rs. 20,00,000
  - Additional ESOP charge on unvested options (note 4) Rs. (1,000)
  - Transfer of cumulative translation difference balance to retained earnings (note 5) Rs. 1,00,000

After the above adjustments, the carrying values of assets and liabilities for the purpose of opening Ind AS balance sheet of Company H should be as under:

| Particular                         | Notes | Previous    | Adjustments | Ind AS GAAP |
|------------------------------------|-------|-------------|-------------|-------------|
| <b>Non-Current Assets</b>          |       |             |             |             |
| Fixed assets                       | 1     | 1,34,50,000 | (4,50,000)  | 1,30,00,000 |
| Investment property                | 1     | 0           | 4,50,000    | 4,50,000    |
| Investment in S Ltd.               | 2     | 48,00,000   | 20,00,000   | 68,00,000   |
| Advances for purchase of inventory |       | 50,00,000   |             | 50,00,000   |
| <b>Current Assets</b>              |       |             |             |             |
| Debtors                            |       | 2,00,000    |             | 2,00,000    |
| Inventory                          |       | 8,00,000    |             | 8,00,000    |
| Cash                               |       | 49,000      |             | 49,000      |

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|                                     |   |                    |                  |                    |
|-------------------------------------|---|--------------------|------------------|--------------------|
| <b>Total assets</b>                 |   | <b>2,42,99,000</b> | <b>20,00,000</b> | <b>2,62,99,000</b> |
| <b>Non-current Liabilities</b>      |   |                    |                  |                    |
| Sales tax deferral loan             | 3 | 60,00,000          | (22,74,472)      | 37,25,528          |
| Deferred government grant           | 3 | 0                  | 22,74,472        | 22,74,472          |
| <b>Current Liabilities</b>          |   |                    |                  |                    |
| Creditors                           |   | 30,00,000          |                  | 30,00,000          |
| Short term borrowing                |   | 8,00,000           |                  | 8,00,000           |
| Provisions                          |   | 12,00,000          |                  | 12,00,000          |
| <b>Total liabilities</b>            |   | <b>1,10,00,000</b> | <b>0</b>         | <b>1,10,00,000</b> |
| <b>Share capital</b>                |   | <b>1,30,00,000</b> |                  | <b>1,30,00,000</b> |
| <b>Reserves:</b>                    |   |                    |                  |                    |
| Cumulative translation difference   | 5 | 1,00,000           | (1,00,000)       | 0                  |
| ESOP reserve                        | 4 | 20,000             | 1,000            | 21,000             |
| Other reserves                      | 6 | 1,79,000           | 20,99,000        | 22,78,000          |
| <b>Total equity</b>                 |   | <b>1,32,99,000</b> | <b>20,00,000</b> | <b>1,52,99,000</b> |
| <b>Total equity and liabilities</b> |   | <b>2,42,99,000</b> | <b>20,00,000</b> | <b>2,62,99,000</b> |

## **Appendix I**

*Note: The purpose of this Appendix is to highlight major differences between Ind AS 101, First-time Adoption of Indian Accounting Standards, and corresponding International Financial Reporting Standard (IFRS) 1, First-time Adoption of International Financial Reporting Standards.*

### **Major differences between Indian Accounting Standard (Ind AS) 101, First-time Adoption of Indian Accounting Standards and IFRS 1, First-time Adoption of International Financial Reporting Standards**

- 1 Paragraph 3 of Ind AS 101 specifies that an entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind ASs in accordance with Ind ASs notified under the Companies Act, 2013 whereas IFRS 1 provides various examples of first IFRS financial statements.
- 2 Paragraph 4, 4A, 4B, 23A and 23B of IFRS 1 provide various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provide the same. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.
- 3 IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. However, 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 makes it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Indian accounting standards as was applicable to them as previous GAAP when it transitions to Ind ASs.
- 4 Under IFRS 1, para C4(c) requires, the first-time adopter shall exclude from its opening Ind AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind ASs. The first-time adopter shall account for the resulting change in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill. In such specific instances where IFRS 1 allows adjustment in the goodwill, under

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Ind AS 101 it can be adjusted with the Capital reserve to the extent such adjustment amount does not exceed the balance available in Capital reserve.

- 5 Ind AS 101 in addition to exemptions provided under IFRS 1, also provides certain optional exemptions relating to the long-term foreign currency monetary items and service concession arrangements relating to toll roads. Accordingly, paragraphs 6 and D22 have been modified. Further a heading and paragraph D13AA have been added after paragraph D13.
- 6 Certain IFRS 1 exceptions to the retrospective application of other IFRS refer to transitional provisions of other IFRSs. However Ind ASs does not provide transitional provisions, accordingly transitional provisions in other IFRSs have been incorporated in the paragraphs B8A, B8B, B8D, B8E, B8EA and B8EB of Ind AS 101.
- 7 Certain exemptions in Appendix D of IFRS 1 refer to transitional provisions of other IFRSs. However Ind ASs do not provide transitional provisions, accordingly wherever considered an appropriate transitional provision in other IFRSs has been incorporated in the respective exemptions in Appendix D of Ind AS 101. The following paragraphs in IFRS 1 provide the transitional provisions of other IFRSs which are included in Ind AS 101:
  - (i) Paragraph D4 includes the transitional provisions of IFRS 4 *Insurance Contracts*;
  - (ii) Paragraph D9 includes the transitional provisions of IFRIC 4 *Determining whether an Arrangement contains a Lease*;
  - (iii) Paragraph D22 includes the transitional provisions of IFRIC 12 *Service Concession Arrangements*;
  - (iv) Paragraph D25 includes the transitional provisions of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*;
  - (v) Paragraph D31 includes the transitional provisions of IFRS 11 *Joint Arrangements*;
  - (vi) Paragraph D32 includes the transitional provisions of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*; and
  - (vii) Paragraph D34 and D35 includes the transitional provisions of IFRS 15 *Revenue from contracts customer*.

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8 IFRS 1 provides for various optional exemptions that an entity can seek while an entity transitions to IFRS from its previous GAAP. Similar provisions have been retained under Ind AS 101. However, there are few changes that have been made, which can be broadly categorized as follows:

(a) *Elimination of effective dates prior to transition date to Ind ASs. IFRS 1 provides for various dates from which a standard could have been implemented. For example,*

Paragraph D2 of IFRS 1 provides that an entity is encouraged, but not required, to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002 or to instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005. However, for Ind AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind AS.

(b) *Deletion of borrowing cost exemptions not relevant for India:*

Paragraph D23 of IFRS 1 provides for transitional adjustment requiring companies to apply the provisions of IAS 23 prospectively after the transition date to IFRS. However, this was considered as not relevant in Indian situation as AS 16 always required an entity to capitalize borrowing costs as compared to IAS 23 where it provided an option to expense out such borrowing cost.

(c) *Inclusion/modification of existing exemptions to make it relevant for India. For example,*

1. Paragraph D7AA has been added to provide for transitional relief from the retrospective application of Ind AS 16: *Property, Plant and Equipment*. Paragraph D7AA, provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS. Paragraph 27AA has been included in Ind AS 101 which requires the disclosure that if an entity adopts for first time exemption the option provided in accordance with paragraph D7AA, the fact and the accounting policy shall be disclosed by the entity until such time that those items of property, plant and equipment, investment properties or intangible assets, as the case maybe,

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- are significantly depreciated, impaired or derecognised from the entity's Balance Sheet.
2. Paragraph D9AA has been added to provide for transitional relief while applying Ind AS 17: *Leases*. D9AA provides an entity to 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 ASs. 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.
  3. Paragraph D35AA has been added to provide for transitional relief while applying Ind AS 105 - *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph D35AA provides an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.
- 9 Appendix E of IFRS 1 on 'Short-term exemptions from IFRSs', however Ind AS 101 does not provide the above said short-term exemption. In order to maintain consistency with Appendix numbers of IFRS 1, the Appendix E is retained in Ind AS 101.
- 10 IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are effective from annual period beginning on or after January 1, 2018 and January 1, 2017, respectively. As the above said standards are not yet effective consequential amendments due to these standards have not been incorporated in current version of IFRS 1. However, corresponding Ind AS 109 *Financial Instruments* and Ind AS 115 *Revenue from Contracts with Customer* have been issued with consequential amendments in other IFRS including IFRS 1. Accordingly, there consequential amendments Ind AS 109 and Ind AS 115 have been incorporated in Ind AS 101.
- 11 Different terminology is used in Ind AS 101, e.g., the term 'Balance Sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
- 12 Following paragraph numbers appear as 'deleted' in IFRS 1. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph

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numbers are retained in Ind AS 101.

- (i) Paragraph 19
- (ii) Paragraph D1(e)
- (iii) Paragraph D1(o)
- (iv) Paragraph D10-11
- (v) Paragraph D 24
- (vi) Paragraph D 31





