# Ind-AS 101 First Time Adoption of Ind AS

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## 2 Applicability

Generally speaking Ind AS 101 is applicable retrospectively.

Except :-

Mandatory Exceptions to the retrospective application of other Ind AS

Voluntary exemptions for business Combinations.

Voluntary Exemptions from other IndAS

Thus extra care to be exercised for those standards for which are not covered either by mandatory exceptions or voluntary exemptions.

# Ind-AS 101 : Definitions

**<u>First Time Adopter :</u> (FTA)** An entity is referred to as a first-time adopter in the period in which it presents its **First Ind-AS financial statements.**

**<u>Date of Transition</u> :** The ***beginning*** of the ***earliest*** period for which an entity presents full comparative information under Ind-AS in its **"First Ind-AS Financial Statements".**

**<u>First Ind-AS Financial Statements</u> :** The first ***annual*** financial statements in which an entity adopts Ind-AS by making an explicit and unreserved statement of compliance with Ind-AS.

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# Ind-AS 101 : Definitions

**<u>Opening Ind-AS statement of financial position:</u>** An entity's statement of financial position at the **date of transition to Ind-ASs.**

**<u>First Ind-AS Reporting Period :</u>**The latest reporting period covered by an entity's **first Ind-AS financial statements.**

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## Which Accounting Policies to be applied ?

Use Same Accounting Policies

- *In its opening Ind-AS statement of financial position*
- And Throughout all the Comparative periods presented
- And , (Of course) in it's 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, with some exceptions. Para 13-19 & Appendices B-D.***

## Ind-AS 101 : First Time Adoption of Ind-AS

**Requirements**

General

To comply with each Ind-AS effective at the end of its **first Ind-AS reporting period.**

Specific

To recognise, De-recognise, measure & re-classify in the opening Ind-AS statement of financial position that it prepares------------------->

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## Ind-AS 101: Specific Requirement

**(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 under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under Ind-ASs; and

(d) apply Ind-AS s in **measuring** all recognised assets and liabilities.

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**Subject to limited Exemptions & Mandatory Exceptions >**

## De Recognise

➢ Provisions where there is no legal or constructive obligation (e.g., general reserves, )

➢ Internally generated intangible assets (Ind-AS 38)

➢ Deferred tax assets where recovery is not probable (Ind-AS 12)

➢Provision for Dividend (Ind-AS 10)

➢Preliminary & Pre-Operative expenses.

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# Classify

- Investments accounted for in accordance with Ind-AS 39
- Certain financial instruments previously classified as equity
- Any assets and liabilities that have been offset where the criteria for offsetting in Ind-AS are not met—for example, the offset of an insurance recovery against a provision
- Noncurrent assets held-for-sale (Ind-AS 5)
- Non-controlling interest (Ind-AS 27)

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# Measure ( rather remeasure !!!)

- ➢ Receivables (Ind-AS 18)
- ➢ Inventory (Ind-AS 2)
- ➢ Employee benefit obligations (Ind-AS 19)
- ➢ Deferred taxation (Ind-AS 12)
- ➢ Financial instruments (IndAS 39)
- ➢ Investment Property ( Ind-AS 40)
- ➢ Property Plant & Equipment (Ind-AS 16)

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# This standard is applicable more frequently… and that is

Ind AS 12

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## Ind-AS 101 : Exemptions & Exceptions

- Limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.

- Also ***prohibits retrospective*** application of Ind-ASs in some areas, particularly where retrospective application would require judgements by management about past conditions ***after the outcome of a particular transaction is already known.***

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Exemptions & Exceptions discussed in details later

| **All Documents as per Ind-AS , based on Policies @ 31.3.2017** | **1st April, 2015** | **31st March 2016** | **31st March 2017** |
|---|---|---|---|
| Balance Sheet | **Yes** | **Yes** | **Yes** |
| Profit or Loss Account | **No** | **Yes** | **Yes** |
| Cash Flow Statements | **No** | **Yes** | **Yes** |
| Statement of Changes in Equity | **No** | **Yes** | **Yes** |
| Notes and Comparative Information | **No** | **Yes** | **Yes** |

New Ind-AS Announced but not Mandatory

If a new Ind-AS is not yet mandatory but permits early application, entity is ***permitted,*** but **NOT** ***required,*** to apply that Ind-AS in its :

"First Ind-AS Financial Statements".

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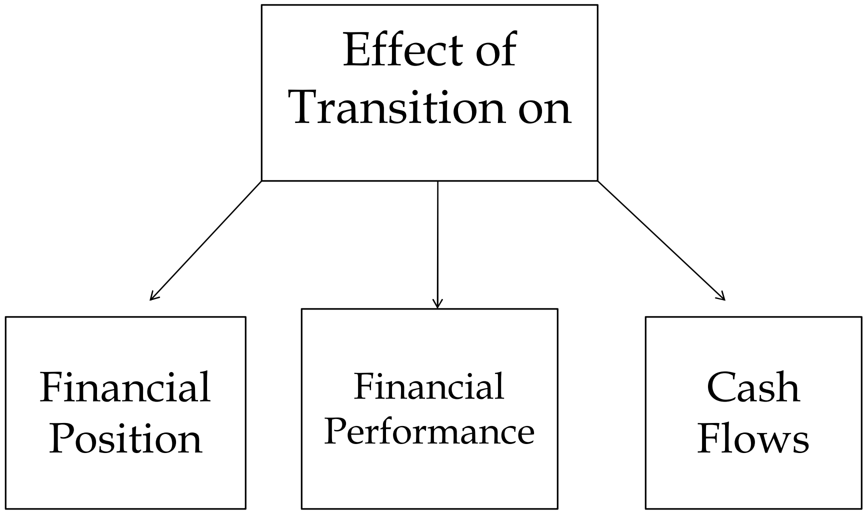


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**Reconciliations** an entity's first Ind-AS financial statements shall include:

(a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind-ASs for both of the following dates:
(i) the date of transition to Ind-ASs; and

(ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

(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.

An entity also has to give reconciliation along with interim financial statements.

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**Reconciliations** an entity's first Ind-AS financial statements shall include:

Equity Under Local GAAP on 31.3.2015 / 2016

Reconciled with

Equity Under Ind-AS as on 1.4.2015

Equity Under Ind-AS on 31.3.2016.

One needs to be careful while giving reconciliation of differences between the previous GAAP and Ind AS to differentiate the impact if any of errors , Impairment and reversal of impairment if any.

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# Transition Adjustments

Retained Earnings

Exception

Goodwill*

Another category of Equity

**Tax Impact**

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Adjustment to Intangible Assets

## Ind-AS 1 : **Mandatory Exceptions fro retrospective applications – Appendix B**

- De-recognition of financial assets and liabilities
- Hedge accounting
- Non Controlling Interest
- Para 13 -19 of Ind-AS – Estimates.
- Classification and measurement of financial assets (paragraph B8); and
- Embedded derivatives
- Government Loans

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## Estimates - Hindsight prohibited

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.***

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# Estimates - Hindsight prohibited

***In other words, estimates made by the entity in accordance with local GAAP shall not be changed in view of the developments after the transition date.***

***For example, an entity made provision on 31st March,2011 , for Rs. 1 lakh. By the time the entity prepares 1st Ind-AS Financial Statements – the said liability was settled for Rs. 80,000.00***

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## Estimates – Summary

| **Estimate** | **Recognition** | **Measurement** | **Accounting Treatment** |
|---|---|---|---|
| I GAAP | Yes | Yes | No Adjustment |
| Ind-AS | Yes | Yes | |
| I GAAP | Yes | No | Adjust Partially |
| Ind-AS | Yes | Yes | |
| I GAAP | No | No | Recognise & measure as per Ind-AS. |
| Ind-AS | Yes | Yes | |

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*These requirements also apply*

*to a comparative period presented in an entity's first Ind-AS financial statements,*

*in which case the references to the date of transition to Ind-ASs*

*are replaced by references to the end of that comparative period. i.e., 31st March, 2011.*

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# Voluntary Exemptions – General

An entity may elect to use one or more of the following exemptions:

(a) Business Combination
(b) Share-based payment transactions
(c) Insurance contract
(d) Fair value or revaluation as deemed cost
(e) Leases
(f) Deleted
(g) cumulative translation differences
(h) investments in subsidiaries, **jointly controlled entities** and associates
(i) assets and liabilities of subsidiaries, associates and **joint ventures**
(j) compound financial instruments

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# Voluntary Exemptions - General

(k) designation of previously recognised financial instruments

(l) fair value measurement of financial assets or financial liabilities at initial recognition

(m) decommissioning liabilities included in the cost of property, plant and equipment

(n) financial assets or intangible assets accounted for in accordance with *Service Concession Arrangements*

(o) borrowing costs

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

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# Voluntary Exemptions - General

(p)extinguishing financial liabilities with equity instruments
(q) severe hyperinflation
(r) joint arrangements
(s) stripping costs in the production phase of a surface mine
(t) designation of contracts to buy or sell a non-financial item
(u) revenue from contracts with customers
(v) non-current assets held for sale and discontinued operations

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

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# Few Common Impacts

Effective interest Rate

Fair Valuation of Investments

Actuarial Gains and Losses

Retention Money – Receivable and Payable

Employee Stock Option

Revenue Recognition

Lease Deposits FV

Change in accounting policies

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# Property Plant and Equipment

A. Measure an asset at fair value of the date of transition , or

Entity can be selective – cherry pick model is available.
Difference to be recognised in retained earnings.
Disclosure needs to be made.
This option is available to Intangible assets also.

A. Continue to carry the same carrying value as per I GAAP as the deemed cost as per Ind AS vide Para D 7AA

Once an entity opts for this exemption , it has to measure all the assets at cost , **no cherry pick model available**.
Only changes permissible is on account of de-commissioning cost.
Disclosure to be made till any one of the assets are fully depreciated or amortised.
This option is also available for Intangible assets and Investment properties
Be careful – This exemption is not available on asset by asset basis – its for all assets.

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# Deemed cost under previous GAAP

If at or before the date of transition – retain such deemed cost
 – revalued amount

What if the such event takes place after the date of transition
but during the period  Covered by the first Ind-AS financial statements ?

Can an entity apply such deemed cost  ?

If yes , where the difference would be recognised ?

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**Additional Exemption Under Ind-AS D7AA**

- If subsidiary was consolidated

Previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements.

- If the Subsidiary was not consolidated

The amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount.

- No further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet

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## Long Term Foreign Currency Monetary Items

- D13AA 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.**

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**Investments in subsidiaries, jointly controlled entities and associates – In Separate Financial Statements**

Cost

Ind-AS 109

Cost or

Deemed Cost which can be :-

Fair Value as per Ind-AS 109 or

Previous GAAP's Carrying Amount

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## Use of deemed cost for investments in subsidiaries, joint ventures and associates

The entity's first Ind AS separate financial statements shall disclose:

(a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;

(b) the aggregate deemed cost of those investments for which deemed cost is fair value; and

(c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Impact of equity method on financial statements for JCEs

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## VE : Assets and Liabilities of Subsidiaries, associates and joint ventures.

Key factor : Who adopts Ind-AS first –

Parent or

Subsidiary .

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## Parent adopts ealier than the Subsidiary – Option I

| Parent Adopts | Subsidiary Adopts | Parents Accounting | Subsidiary's Accounting |
|---|---|---|---|
| 2016-17 | 2018-19 | No Impact on Parents FS | The carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind Ass, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary |
| This election is not available to a subsidiary of an investment entity, as defined in Ind AS 110, that is required to be measured at fair value through profit or loss | | | |

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## Parent adopts ealier than the Subsidiary – Option II

| Parent Adopts | Subsidiary Adopts | Parents Accounting | Subsidiary's Accounting |
|---|---|---|---|
| 2016-17 | 2018-19 | No Impact on Parents FS | The carrying amounts required by the rest of this Ind AS, based on the subsidiary's date of transition to Ind Ass |
| This election is not available to a subsidiary of an investment entity, as defined in Ind AS 110, that is required to be measured at fair value through profit or loss | | | |

Similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it

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# Subsidiary adopts earlier than the Parent

| Parent Adopts | Subsidiary Adopts | Parents Accounting | Subsidiary's Accounting |
|---|---|---|---|
| | | | |
| 2018-19 | 2016-17 | Parent 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 | Will not make any changes – not required also |

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## Designation of previously recognised financial instruments

- D 19 A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
- D19C For a financial liability that is designated as a financial liability at fair value through profit or loss, an entity shall determine whether the treatment prescribed 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 ASs.

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## VE : Decommissioning Liabilities included in cost of PPE

- ❖ A first-time adopter need not comply with the Appendix A to Ind-As 16 re any changes that occurred before date of transition.
- ❖ If exemption used:
- ✓ Measure liability at date of transition in accordance with Ind-AS 37.
- ✓ Estimate amount that would have been included in Non Current Asset when liability first arose. Discount using rate applicable to the intervening period.
- ✓ Calculate accumulated depreciation at date of transition based on the above amount.

39 Example next Slide

## VE : Decommissioning Liabilities included in cost of PPE

- ❖ For Example Plant set up on 1.4.2010. Date of Transition 1.4.2015
- ❖ Estimated liability on 1.4.2015 Rs. 1,000
- ❖ Estimated Life 20 Years , PV of Rs. 1,000 , on 1.4.2015 .. Rs. 481.00
- ❖ Discounting it back to 1.4.2010 Rs. 377.00 ( Dep 377/20)
- ❖ Entry

| | | |
|---|---|---|
| ❖Debit PPE … | Rs. 377 | |
| ❖Debit Retained Earnings AD | Rs. 94 | |
| ❖Debit Retained Earnings Interest | Rs. 104 | |
| ❖Credit Accumulated Depreciation | | Rs. 94 |
| ❖Credit Decommissioning Liability | | Rs. 377 |
| ❖Credit D C L | | Rs. 104 |

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## VE :Designation of previously recognised financial instruments

At the date of transition an entity may classify previously designated Financial Instruments :

(a) As financial assets as fair value through other comprehensive Income ;

(b) As financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in Ind-As 109.

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## Exemptions for business combinations

If exemption is exercised , an entity need not apply Ind-AS 103 retrospectively.

Once any business combination is restated all subsequent business combinations need to be tretated and exemption cant be claimed.

This exemption is equally applicable to investments in associates and of interests in joint ventures.

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## If Ind-AS 103 is not applied retrospectively.

1 FTA should preserve the same Classification

= as an acquisition by legal acquirer
= a reverse acquisition by the legal acquiree, or
= a uniting of interests as per previous GAAP

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## If Ind-AS 103 is not applied retrospectively.

2. Recognise all its assets and liabilities at the date of transition to Ind-ASs that were acquired or assumed in a past business combination, EXCEPT

(i) Financial assets and Financial liabilities derecognised in accordance with previous GAAP – covered by mandatory exceptions ; and

(ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with Ind-ASs in the separate statement of financial position of the acquiree.

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Continued…………

## If Ind-AS 103 is not applied retrospectively.

(iii)shall recognise any resulting change by adjusting retained earnings

- or, if appropriate, another category of equity,
- unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill.

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## Goodwill

Good shall be Shall be at carrying amount in accordance with previous GAAP at the date of transition subject to following adjustments :

(i) increased by reclassification of Intangible asset or

(ii) Decreased upon recognition of Intangible Asset subsumed in goodwill and if applicable adjust deferred tax and non controlling interest.

### Goodwill - Following adjustments not made

(i) to exclude in process research and development acquired in that business combination * unless related to Ind-AS 38.

(ii) to adjust previous amortisation of goodwill;

(iii) to reverse adjustments to goodwill that Ind-AS 103 would not permit, but were made in accordance with previous GAAP

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**Joint arrangements**

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

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

**Transition provisions in an entity's separate financial statements**

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**Ind-AS 12** ***Income Taxes***

IG5 An entity applies Ind-AS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening Ind-AS statement of financial position and their tax bases.

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Case Study

On Ind-AS 1: XYZ Limited presented its financial statements under the national GAAP until 2015. It adopted Ind-AS from April 1, 2016 and is required to prepare an opening Ind-AS balance sheet as at April 1, 2015. In preparing the Ind-AS opening balance sheet of XYZ Limited noted:

1.Under its previous GAAP, had classified proposed dividend of Rs.5,00,000 as a current liability.

2.It had not made a provision for warranty of Rs. 200,000 in the financial statements presented under previous GAAP since the concept of "constructive obligation" was not recognized under its previous GAAP.

3.In arriving at the amount to be capitalized as part of costs necessary to bring an asset to its working condition, XYZ Limited had not included Professional fees of Rs. 300,000 paid to architects at the time when the building it currently occupies as its head office was being constructed.

Required:

Advise XYZ Limited on the treatment of all the above items under Ind-AS1

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Solution :

- In order to prepare the opening Ind-AS balance sheet at April 1, 2015 XYZ Limited would need to make these adjustments to its balance sheet at March 31, 2015, presented under its previous GAAP:

1. Ind AS10 does not allow proposed dividend to be recognized as a liability; instead, under the latest revision to Ind AS 10, they should be disclosed in footnotes. Previous Indian GAAP allowed proposed dividend to be treated as current liability. Therefore proposed dividend of Rs.500,000 should be disclosed in footnotes.
2. Ind AS 37 requires recognition of a provision for warranty but Previous Indian GAAP did not allow a similar treatment. Thus, a provision for warranty of Rs.200,000 should be recognized under Ind-AS-37.
3. Ind AS 16 requires all directly attributable costs of bringing an asset to its working condition for its intended use to be capitalized as part of carrying cost of property, plant and equipment. Thus Rs.300,000 of architects' fees should be capitalized as part of (i.e., used in measurement of) property, plant and equipment under Ind-AS.

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**Questions**
**&**
**Answers**

**Thank You**

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