

# INDAS – 101

## FIRST TIME ADOPTION OF IND AS

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Quote:

If you can't do *Great* things, do small things in *Great* ways.

## 1. INTRODUCTION

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

## 2. DEFINITIONS

- (a) 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*.
- (b) 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.
- (c) First Ind AS reporting period:** The latest reporting period covered by an entity's first Ind AS financial statements.
- (d) First-time adopter:** An entity that presents its first Ind AS financial statements.
- (e) Opening Ind AS balance sheet:** An entity's balance sheet at the date of transition to Ind AS.
- (f) 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.

### 3. 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**

### 4. HOW AN ENTITY ADOPTS IND AS?

- Ind-AS 101 applies when an entity adopts Ind-AS for the first time by an **explicit and unreserved statement of compliance with Ind-ASs**.
- This means compliance with ALL Ind-ASs.
- **Partial Compliance is not enough** to make an entity Ind-AS Compliant.

### 5. WHEN TO APPLY THIS INDAS 101?

An entity shall apply this standard -

- in its first Ind-AS compliant financial statements, and
- In each interim financial report, if any, presented in accordance with Ind AS 34, *Interim Financial Reporting*, for part of the period covered by its first Ind AS financial statements.

#### For example 1:

If a company adopts Ind ASs for the financial year 2016-17, the following are the relevant Ind AS adoption date/period:

- The date of transition is 1.4.2015;
- Comparative period to the first Ind AS financial statements period is 2015-16; and
- First Ind AS financial statements period is 2016-17.

An entity would apply Ind ASs consistently. It is required to apply Ind ASs effective for the period ending on 31 March, 2016 the purposes of -

- Preparation and presentation of opening Ind AS Balance Sheet as on 1.4.2015;
- Preparation and presentation of comparative financial statements for the period 2015-16;
- Preparation and presentation of first Ind AS financial statements for the period 2016-17; and
- This standard will not be applied on and from the second financial year of Ind AS adoption i.e. for the financial year 2017-18.

An entity shall not apply different versions of Ind ASs that were effective at earlier dates. It may apply a new IndAS that is not yet mandatory if that Ind AS permits early application.

## 6. Uniform Accounting Policies

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

- Mandatory exceptions and
- Optional exemptions

## 7. IND AS 101 – SPECIFIC REQUIREMENTS

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

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

- Recognise** All Assets and Liabilities whose recognition is required by IND AS
- Not recognise** items as Assets or Liabilities if Ind AS do not permit such recognition
- Reclassify** items that it recognised under previous GAAP as one type of Asset, Liability or component of equity, but a different type of asset, liability or component of equity under Ind AS and
- Apply Ind AS in **Re-measuring** all Recognised Assets and Liabilities.

Recognition	De-recognition	Reclassification	Re-Measurement
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### RECOGNISE (Examples)

- Defined benefit pension plans (Ind-AS 19)
- Deferred taxation (Ind-AS 12)
- Assets and liabilities under Appendix C Decommissioning Liability commissioning
- Provisions where there is a legal or construction obligation (Ind-AS 37)
- Derivative financial instruments (Ind-AS 39)
- Share-based payments (Ind-AS 2)

**DE-RECOGNISE (Examples)**

- 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.

**RECLASSIFY (Examples)**

- 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)

**MEASURE OR REMEASURE (Examples):**

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

**SAME ACCOUNTING POLICIES:**

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

## 8. MANDATORY EXEMPTIONS & OPTIONAL EXCEPTIONS

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

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

### 8.1 MANDATORY EXEMPTIONS

#### (Exceptions to Retrospective Application of Other IndAS)

**General Rule** - Retrospective Application of all INDAS when apply first time.

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

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, 2:** an entity made provision on 31st March, 2015, for Rs. 1 lakh. By the time the entity prepares 1st Ind-AS Financial Statements - the said liability was settled for Rs. 80,000.

How much should the provision be measured at when an entity makes in the 1st Ind-AS Financial Statement prepared on 1<sup>st</sup> April, 2011?

A. Rs. 80,000 or B. 1,00,000

The Answer is B,

2. **Non-controlling Interests:** A first-time adopter shall apply the following requirements of Ind AS 110 **prospectively from the date of transition** to Ind AS:

- (a) Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- (b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- (c) Accounting for a loss of control over a subsidiary,

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



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

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

### Example 3

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility. Company A's date of transition to Ind AS is 1 April 20X5. In 20X2, Company A had received a loan of ₹ 1 crore at a below-market rate of interest from the government. Under Indian GAAP, Company A accounted for the loan as equity and the carrying amount was ₹ 1 crore at the date of transition. The amount repayable at 31 March 20X9 will be ₹ 1.25 crore. The loan meets the definition of a financial liability in accordance with Ind AS 32. Company A therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet. It calculates the annual effective interest rate (EIR) starting 1 April 20X5 as below:  $EIR = \text{Amount} / \text{Principal}(1/t)$  i.e.  $1.25/1(1/4)$  i.e. 5.74%. approx. At this rate, ₹ 1 crore will accrete to ₹ 1.25 crore as at 31 March 20X9.

Year Ended	Opening Amortized Cost (Rs.)	Interest Expense for the Year (Rs.) @ 5.74% p.a. approx.	Closing amortized cost (Rs.)
31 March 20X6	1,00,00,000	5,73,713	1,05,73,713
31 March 20X7	1,05,73,713	6,06,627	1,11,80,340
31 March 20X8	1,11,80,340	6,41,430z	1,18,21,770
31 March 20X9	1,18,21,770	6,78,230	1,25,00,000

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan. **That means interest expense as per ERI shall be recognised prospectively from the transition date.**

#### 4. Hedge accounting

Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

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

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

An entity shall not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109

#### 5. Classification & measurement of financial assets and financial liabilities

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

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

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

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

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

#### 6. Derecognition of financial assets and liabilities

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

**Example 4:**

If a first-time adopter derecognised non-derivative financial assets or non-derivative

financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to Ind AS, it shall not recognise those assets and liabilities in accordance with Ind AS

## 7. Impairment of financial assets

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

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

## 8. Embedded derivatives

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

### **8.2 OPTIONAL EXEMPTIONS**

**(From application of other IndAS)**

#### **1. Exemptions for Business Combinations:**

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

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.

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

**For example 5:** if the "pooling of interests" method is applied as per AS 14, the balances of assets and liabilities arising therefrom shall be carried forward.

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

### Measurement exemptions:

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

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

- Therefore, it should be evident that the balance of goodwill or capital reserve as per previous GAAP is not adjusted for any reason other than:

Recognition of an intangible asset that was earlier subsumed in goodwill or capital reserve but Ind AS requires it to be recognised separately; or

- Vice versa, an asset that was recognised as an intangible asset under previous GAAP but is not permitted to be recognised as an asset under Ind AS.
- Regardless of whether there is any indication that the goodwill may be impaired, the goodwill has to be tested for impairment at the date of transition to Ind AS and any resulting impairment loss is to be recognised in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test is based on conditions at the date of transition to Ind AS.

### Example 6

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

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

recognition in the financial statements of the acquiree.

## 2. Share-based Payment Transactions:

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.

## 3. Deemed Cost:

**Meaning of Deemed Cost** - An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

An entity may elect to measure an item of property, plant and equipment or an intangible asset at the date of transition to Ind AS **at its fair value and use that fair value as its deemed cost at that date**.

A first-time adopter **may elect to continue with the carrying value** (i.e original cost less accumulated depreciation less accumulated revaluations if any less accumulated impairments if any) for all of its property, plant and equipment as recognised in the financial statements as at the date of transition measured **as per the previous GAAP and use that as its deemed cost** This exemption is also applicable to intangible assets and investment property.

**Be careful - This exemption is not available on asset by asset basis - its for all assets.**

### For Investment Property

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

## 4. Cumulative Translation Difference

**No need to:**

1. Recognise some translation differences in other comprehensive income.

2. Reclassify cumulative translation differences for foreign operation from equity to profit or loss as part of gain or loss on its disposal

**If first time adopter uses this exemption:**

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

### **5. Long-term Foreign Currency Monetary Items:**

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.

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

### **6. Investments in Subsidiaries, Joint Ventures and Associates**

When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

- (a) at cost; or
- (b) In accordance with Ind AS 109.

If a first-time adopter measures such an investment 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 of such an investment shall be its:
  - (i) fair value at the entity's date of transition to Ind AS in its separate financial statements; or
  - (ii) Previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.

## 7. Compound Financial Instruments

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

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

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

- Measure the liability as at the transition date as per Ind AS 37 i.e. based on the facts and circumstances, including the risk-adjusted discount rate, as at the transition date
- Calculate accumulated depreciation on the transition date on the basis of estimated useful life as at that date.

## 9. LEASES

A first-time adopter may determine whether an arrangement existing at the date of transition to Ind AS contain a lease (including classification by a lessor of each land and building element as finance or an operating lease) on the basis of facts and circumstances existing on the date of transition. A lessee which is a first-time adopter of Ind AS shall recognise lease liabilities and right-of-use assets, by applying the following approach to all of its leases at the date of transition to Ind AS:

(a) Measure a lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS;

(b) measure a right-of-use asset on a lease-by-lease basis either at:

- (i) Its carrying amount as if Ind AS 116 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS; or
- (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition to Ind AS.

(c) apply Ind AS 36 to right-of-use assets.

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

- (1) apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

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

A first-time adopter can:

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

## 11. Joint Arrangements

### Transition from Proportionate Consolidation to Equity Method

- ❖ To measure initial investment at transition date at the aggregate of carrying amount of assets and liabilities that had previously proportionately consolidated including goodwill arising on acquisition.
- ❖ To test the investment for impairment.
- ❖ If aggregate of all previously recognized assets/liabilities results in negative asset and if having legal or constructive obligation than recognize corresponding liability otherwise adjust retained earnings.

### Transition from Equity Method to accounting for assets and liabilities

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

- (b) If carrying amount of previous investment is higher:  
Adjust against retained earning

### Transitional provisions in entity's Separate FS

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

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

As per Ind AS 109, if:

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

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

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

## 13. Designation of previously recognised financial instruments

All financial instruments are initially measured at fair value. As regards subsequent measurement, Ind AS 109 permits that upon initial recognition, an entity may designate financial instruments as subsequently measured at fair value if certain criteria are met. Ind AS 101 exempts an entity from retrospective designation of financial instruments and permits that such designation be done on the basis of the facts and circumstances that exist at the date of transition to Ind AS. In particular the exemption is provided for below mentioned financial instruments:

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

## 14. Extinguishing financial liabilities with equity instruments

Appendix D of Ind AS 109 provides for accounting principles to be applied when an entity's equity instruments are issued to extinguish all or part of its financial liability.

A first time adopter may apply Appendix D of Ind AS 109 from the date of transition to Ind AS.

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

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

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

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

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

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

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

- The carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS. or
- The carrying amounts required by Ind AS 101, based on the subsidiary's date of transition to Ind AS.

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

### 18. Revenue from Contract with Customers

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

- For completed contracts: Need not restate contracts that begin and end within

the same annual reporting period;

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

## 9. PRESENTATION AND DISCLOSURE

### Comparative Information

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

### Provide Reconciliation of

- (a) Equity from previous GAAP to Ind AS at transition and last year end;
- (b) Last year's total comprehensive income under previous GAAP to Ind AS.

## 10. CARVE OUTS IN INDAS 101 FROM IFRS 1

### (i) Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101.

**As per IFRS:** IFRS 1 *First time adoption of International Accounting Standards* provides that on the date of transition either the items of Property, Plant and Equipment shall be determined by applying IAS 16 'Property, Plant and Equipment' retrospectively or the same should be recorded at fair value.

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

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

### (ii) Long-term Foreign Currency Monetary Items

**As per IFRS:** No provision in IFRS 1.

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

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

before the beginning of First IFRS reporting period.

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

**As per IFRS**

No provisions under IFRS 1.

**Carve Out**

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

**Reason**

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

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

**As per IFRS**

No provision in IFRS 1.

**Carve Out**

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

As a consequence to the above, paragraph 7AA has been inserted in Ind AS 38 to scope out the entity, to apply amortisation method, that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the

beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101.

### **Reason**

Schedule II to the Companies Act, 2013, allows companies to use revenue based amortisation of intangible assets arising from service concession arrangements related to toll roads while Ind AS 38, Intangible Assets, allows revenue based amortisation only in the circumstances in which the predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold. In order to provide relief to such entities, Ind AS 38 and Ind AS 101 have been amended to allow the entities to continue to use the accounting policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial statements. In other words, Ind AS 38 would be applicable to the amortisation of intangible assets arising from service concession arrangements related to toll roads entered into after the implementation of Ind AS.



Student Notes:-



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