

IND AS 101 - First time Adoption of Ind AS

Jagati Ltd. is now a listed entity and needs to prepare Financial statements as per IND AS from the first time from 1.4.2002 i.e. Financial year 2002-03.

∴ 1st IND AS Annual F/S → 1.4.2002 to 31.3.2003
Comparative F/S → 1.4.2001 to 31.3.2002

∴ opening **Ind AS** Balance sheet → 1.4.2001



Also called **Date of Transition to Ind AS.**

Balance sheet of Jagati Ltd AS per Previous GAAP (i.e. Old AS)

31.3.01 1.4.2001

Share Capital	10,00,000
Reserves and Surplus	25,00,000
<u>Non Current Liabilities</u>	
Long term Borrowings (FL)	800000
Long term Provisions (Estimates)	400000
Deferred tax Liabilities	150000
<u>Current Liabilities</u>	
Trade payables (FL)	300000
Other Current Liabilities	100000
Short term provisions (Proposed Dividend)	80000
Total	<u>53,30,000</u>

1.4.01
op. Ind AS B/S

01-02
B/S
P/L
CFS

02-03
B/S
P/L
CFS

1.4.2002
08-09 07-08
P.Y P.Y

1.4.2002 op. Ind AS B/S

ASSETS

Non Current Assets

PPE	200000	1200000
Intangible assets		450000
Investment Property		1450000
Goodwill		180000
Non Current Investment (FA)		370000
Long term loans & Adv. (FA)		850000

Current Assets

Current Investment (FA)	130000
Inventories	90000
Trade Receivables (FA)	250000
Cash and Bank Balances	610000
	<hr/>
	53,30,000

The general principle of Ind AS 101 is that All Ind AS should be applied **retrospectively** in opening Ind AS Balance sheet i.e. it should carry the balances as if Ind AS has always been applied by the company in the past.

An Entity shall in its opening Ind AS Balance sheet ÷

- (i) Recognise all assets and liabilities whose recognition is required by Ind AS.
(e.g. OTA on DTL in case of revaluation of assets, Derivative FA and FL, Intangible Assets arising on Business combination)
- (ii) Not recognise items as Assets or Liabilities if Ind AS do not permit such recognition. (e.g. Proposed dividend)

(iii) Reclassify items recognised with previous as one type of assets, liability or component of Equity, but are a different type of asset, liability or component of Equity in accordance with Ind AS.

↑ Land given on operating lease classified as Investment Property as per Ind AS whereas same are presented as PPE under Indian GAAP ↓

iv) Measurement of all Assets and Liabilities applying Ind AS.

↑ E.g. certain Investments are measured at Fair value under Ind AS whereas same are measured at lower of cost and Fair value under Indian GAAP. ↓

Exceptions / Exemptions

1. Mandatory Exceptions ÷ Estimates, NCI, Classification and measurement of Financial Instruments, Government loans, Derecognition of FA and FL.

2. Optional Exemptions ÷ Business Combination, SBP transactions, Deemed cost for PPE, tangible Assets and Investment Property, Cumulative Translation Difference, long term foreign currency monetary items, Inv in Subs., JV and Associates, leases, Non Current Assets held for sale and Discontinued operation.

1. Classification and measurement of Financial Instruments

Classification Exceptions as per Ind AS 101 → Classification of FA as Acm, FVTPL, FVTOCI on the basis of assessment of its features (CCFC Test and Business model test) done on the date of transition to Ind AS instead of date of initial recognition.

Measurement Exceptions as per Ind AS 101 → Ind AS 109 requires measurement of Amortised cost of a FA on FL using effective interest method.

However Ind AS provides that if it is impracticable to apply effective interest method retrospectively, the Fair Value of FA on FL shall be taken on the date of transition to Ind AS

Illustration 15 (RTP May'20)

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31 March 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1 April 20X3. Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition. The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

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

Transition Date to Ind AS → 1.4.2013

$$\begin{aligned} \text{C.A. of Debenture on Transition Date} &= 30,00,000 + \{300,000 \times 2/4\} \\ \text{(As per Previous GAAP)} &= 31,50,000 \end{aligned}$$

Alternative 1 ÷ Retrospective Adjustment

1.4.2001 (0 th ym)	31.3.2002	31.3.2003	31.3.2004	31.3.2005
180000 × 3.17 = 570600	180000	180000	180000	180000
300000 × 0.68 = 204000				330000
<u>2814600</u>				

10%

E.g. In 2002, Company received loan of ₹ 1.25 cr at below market rate of interest from Government. Amount repayable at 31.3.2009 is ₹ 1.25 cr. Date of Transition to Ind AS is 1st April 2005 on which date carrying amount of loan is ₹ 1 cr as per AS. Company A accounted for loan as Equity.

Solⁿ Classification on 1st April 2005

Since, Amount is repayable on 31.3.2009, it is classified as Financial Liability as per Ind AS 32 Financial Instruments.

Company A therefore reclassifies it from Equity to FL.

It also uses previous GAAP CA of loan as the CA of loan in opening Ind AS Balances and calculates Annual effective interest rate starting rate.

<u>1.4.2005</u>	<u>31.3.06</u>	<u>31.3.07</u>	<u>31.3.08</u>	<u>31.3.09</u>
CA of loan = 1 cr				1.25 cr
EIR = 5.74% approx				

Amortisation table

	<u>Opening loan</u>	<u>Interest</u>	<u>Payment</u>	<u>Closing loan</u>
31.3.06	1000000	574000	-	10574000
31.3.07	10574000	606948	-	11180948
31.3.08	11180948	641786	-	11822734
31.3.09	11822734	678625 677266	12500000	NIL

opening Ind AS Balance

<u>Equity</u>		
Govt loan	1 cr	
<u>Liability</u>		
Govt loan	1 cr	(1.25)

3) Financial instruments:

- VAT deferral loan ₹ 60,00,000:

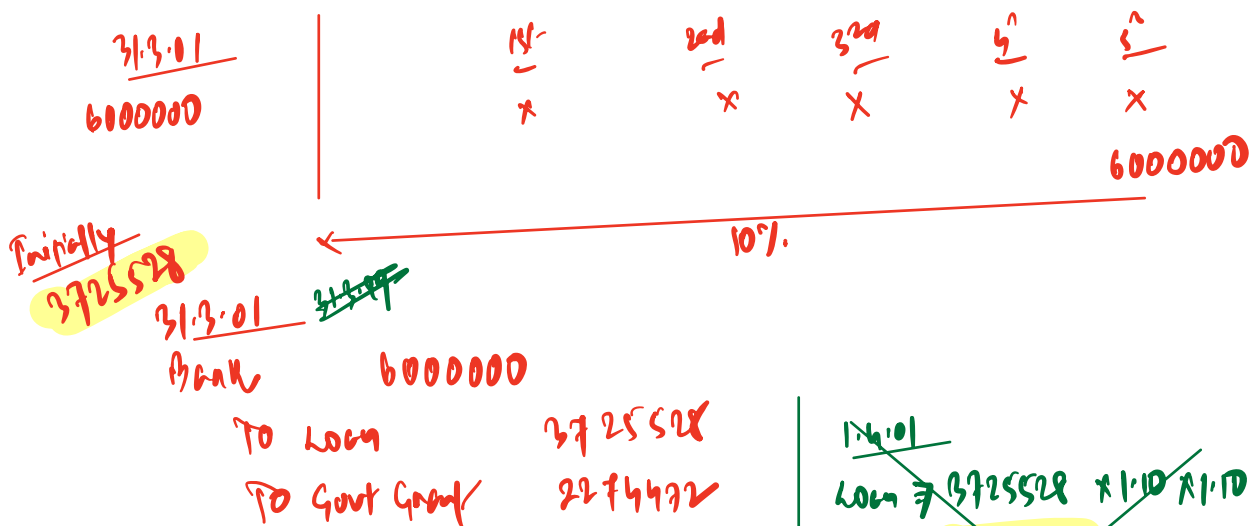
The VAT deferral loan of ₹ 60,00,000 was obtained on March 31, 20X1, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 20 X1, is ₹ 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for VAT deferral loan.

Govt loan

11401

3.3.1999

Date of Transition to Ind AS - 1.4.2001



Fairly
3725528

31.3.01	6000000		
Bank	6000000		
To Loan		3725528	
To Govt Grant		2274472	

~~1.4.01
Loan = 3725528 x 1.10 x 1.10
= 4504888
Govt Grant
2274472 x 3/5 = 1364683~~

Date of Transition to Ind AS (1.4.01)

op. Ind AS B/w/over

Non Current Liab

Loan	6000000
Loan from Govt	3725528
Govt Grant (1/5)	1819578

Current Liab

Govt Grant (1/5)	454894
------------------	--------

Share Based Payment transactions

1.4.2001 → op. Ind AS 915

For Equity Instruments **vested** before
Date of transition to Ind AS

↓

Not required to apply Ind AS 102
Share based Payments.

However, Ind AS 102 may be applied if
it has disclosed publicly the fair value of
those equity instruments, determined at
the measurement date.

For Equity Instruments that will vest
after the date of transition to Ind AS

↓

Need to account from the same as
per Ind AS 102.

For liability settled SBL, it is encouraged to apply Ind AS 102 to
both vested and non vested options.

Deemed cost for PPE, Intangible assets and investment property.

PPE, Intangible assets, ROU assets

Either ÷

1. Retrospective Restatement
 2. Fair value on date of transition
 3. Previous GAAP carrying amount
- Applied on an item by item basis.
Eg. Plant A measured retrospectively, Plant B measured at fair value
- Can be applied only if applied to all of the assets classes and items there in

Investment Property

Ind AS 40 permits only cost model. Therefore FTA cannot apply fair value
on date of transition. Previous GAAP carrying amount can be used.

4) The retained earnings of the Company contained the following:

200 unvested

- ESOP reserve of ₹ 20,000:

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

SBPR = 20000 (As per intrinsic method)

₹ 12000 (vested)

₹ 8000 (Non vested)

Fair value = 15000

Fair value = 9000

⇓

⇓

No Restatement (Ind AS 102 not applied)

Ind AS 102 shall be applied

⇓

⇓

Continue old figures = ₹ 12000

₹ 9000 taken

∴ Total SBPR in opening Ind AS B/S = 12000 + 9000 = 21000

Opening Ind AS B/S sheet

ESOP Reserve (Recognised)	(20000)
SBP Reserve	21000
Retained Earnings	(1000)

Investment in Subsidiaries, Joint Ventures and Associates

Ind AS 27 requires measurement of inv in Subs., JV and Associates either at (a) Cost or (b) Ind AS 109 (FVTPL, FVTOCI)

Ind AS 101 permits FTA to measure such investment at ÷

- (i) Cost or per Ind AS 27 or
- (ii) **Fair Value** or Previous GAAP Carrying Amount (Deemed Cost)

Joint Arrangements

Transition from **Proportionate Consolidation** ^{→ AS 27} to **Equity** ^{→ Ind AS 28} method

- (i) To measure initial investment at ÷ Aggregate of C.A. of Assets and Liabilities that entity had previously proportionately consolidated including goodwill.
- (ii) To test the investment for impairment and any resulting impairment loss adjusted with Retained Earnings.

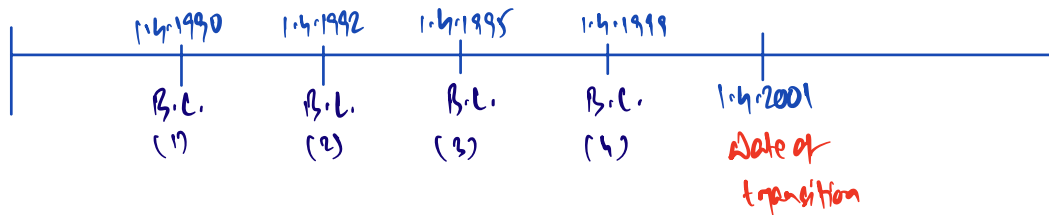
		Cash	(98000)
		PPE (Proportionate)	50000
Loan	18000	I.A. (")	30000
Payables	5000	Inventories (")	15000
		Receivables (")	20000
		Goodwill	6000
	98000		

Retained Earnings	(13000)	Investment in JV	98000
		(→ Impairment loss)	(13000)
			<u>85000</u>

Business combination

Ind AS 103 need not be applied to business combination before date of transition.

But if one Business combination is restated retrospectively to comply with Ind AS 103, all subsequent business combination are restated.



If Business combination (2) is restated retrospectively, then Business combination (3) & (4) also needs to be restated.

When Exemption is used, the balance of assets and liabilities as per previous GAAP shall be carried forward.

Ind AS 101 prescribes that when past B.C. are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP, then the subsidiary's assets and liabilities included in parent's CFS at such values as would appear in subsidiary's SFS if subsidiary were to adopt Ind AS as at the parent's date of transition.

For this purpose, the subsidiary's SFS would be prepared as if it was a first time adopter of Ind AS.

The Deemed cost of Goodwill =

Cost of Inv in parent's SFS less parent's interest in those adjusted C.A.

1000 Cr
55 Cr
550 Cr

600 Cr

550 Cr

450 Cr

150 Cr

The measurement of NCI and Deferred tax follows from the measurement of other assets and liabilities.

Non Controlling Interest

As per previous GAAP, Minority Interest (i.e. NCI) cannot be negative but as per Ind AS 110, NCI can be negative.

A FTA shall apply below requirements of Ind AS 110 **prospectively** from the date of transition to Ind AS :-

- (i) Total Comprehensive Income (Profit + OCI) attributed to owners of parent and NCI even if this results in NCI having deficit balance.

1.4.2001	31.3.02	31.3.03
Date of transition to Ind AS		
F.L.I. = -1050000		F.L.I. = -400000
NCI = 250000 (25%) (Previous GAAP C.A.)	NCI 250000	NCI -12500
	(-) 262500	(-) 180000
	-12500	-112500

- (ii) Accounting for changes in parent's ownership interest in a subsidiary that do not result in loss of control.

However if FTA elects to apply Ind AS 103 retrospectively to past B.C., it shall also apply Ind AS 110 retrospectively.

Cumulative Translation Difference

Ind AS 21 requires an entity :-

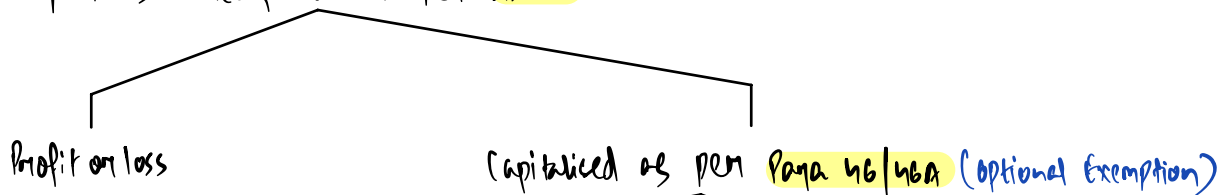
- (i) To recognise some translation differences in OCI and accumulate these in separate component of equity.
- (ii) On disposal of F.O., to reclassify Cumulative Translation Difference from that F.O. from equity to P/L as part of gain or loss on disposal.

However, A FTA can use Ind AS 101 exemption not to comply with above requirements. If FTA uses this exemption, the cumulative Translation Difference set to zero at the date of transition to Ind AS.

Gain/loss on subsequent disposal of F.O. shall exclude these differences that arose before transition.

Long Term Foreign Currency Monetary Items Imp:

Foreign Currency Exchange gain or losses arising on long term foreign currency monetary items recognised as per AS 11 in



Such monetary item was entered into to acquire PPE or Intangible Assets



Added to cost of asset
(amortised through Depⁿ)

↓
B/sheet

	Bank (500\$ x 50) 25000 - 25000 <hr style="width: 50%; margin: 0;"/> ML	
(-) Payable (500\$ x 50) 25000	PPE	25000
(+) Exch. loss (500\$ x 4) 2000	(+) Exch. loss	2000
Payable 27000		<hr style="width: 50%; margin: 0;"/> 27000

Such monetary item was entered into for any other purpose (General loan)



Accumulated in Foreign Currency monetary item translation difference account (FCMTDA)

← FCMTDA amortised over loan term →

↓
B/sheet

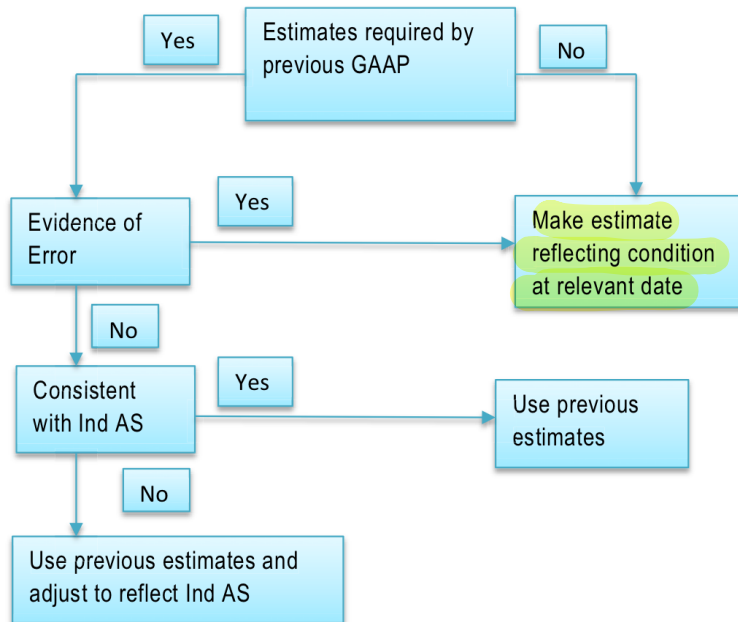
	FCMTDA (2000)	Bank (500\$ x 50) 25000
Payables (500\$ x 50) 25000		
(+) Exch. loss 2000		
Payable 27000		<hr style="width: 50%; margin: 0;"/> 27000

loans before transition to Ind AS but which para 46/46A option waived earlier

i) A FTA may continue the accounting policy for existing loans capitalised under para 46/46A which will be amortised through Depⁿ on over the term of the loan. or

ii) Apply Ind AS 21 in which case entire FEMITDA balance will be derecognised with corresponding adjustment to retained earnings.

Estimates



Estimates not done or
 Estimates done but GAAP
 ↓
 Estimate reflecting relevant date condition

Illustration 16

Opening and closing BS sheet

ASSETS

Non Current Assets

PPE	$\{13450000 - 450000\}$	13000000
Investment Property	$\{450000\}$	450000

Current Assets

Inventories ✓ 800000

Financial Assets

Investment in S Ltd (P.T. Non Current) $\{4800000 + 2000000\}$ 6800000 ✓

Trade Receivables ✓ 200000

Cash ✓ 49000

Other Current Assets (Adv. from Inventories) — 5000000

Total Assets 26299000

Equity and Liabilities

Share Capital — 15000000

Other Equity

Cumulative Translation Reserve $\{100000 - 100000\}$ 0

ESOP Reserve $\{20000 + 1000\}$ 21000

Retained Earnings $\{179000 + 2000000 - 1000 + 100000\}$ 2278000

Non Current Liabilities

Financial Liabilities

VAT Deferred Loan 3725528

Government Grant 2274472

Current Liabilities

Financial Liabilities

Short Term Borrowings 800000

Trade Payables 3000000

Provisions 1200000

26299000

Illustration 17

Opening and as B/sheet

Non Current Assets

PPE	250000
Intangible Assets	200000
Goodwill	10000

Financial Asset

Investment	50000
Loans (40000 + 10000)	50000
Other FA	11000

Other Non Current Assets 20000

Current Assets

Inventories 125000

Financial Assets

Investments	183000
Trade Receivables	90000
Cash & Cash Eq.	100000
Other FA	35000

Other Current Assets (Adv. from Inventories) 5000

Total Assets 904000

Equity and Liabilities

Share Capital 100000

Other Equity (250000 + 190000) 329000

Non Current Liabilities

Financial Liabilities

Borrowings 45000

Provisions 85000

Deferred tax liabilities (135000 - 50000) 30000

Other Non Current Liab

Current liabilities

Financial liabilities

Trade payables

2200000

Other FC

390000

Other current liabilities

60000

Provisions (1200000 - 200000)

1000000

9040000

Typ B

Calc of total equity

Share capital

8000

Other equity

General Reserve

4000

Cap. Reserve

5000

Retained Earnings

5000

(-) Inc. in Inv.

5.500

(+) Reversal of Prop. Div.

7800

(+) Inc. in Inv.

7500

Total Retained Earnings

57.00

102.00

∴ Total Equity as per Ind AS

182.00

Reconciliation

Total Equity as per AS

Share Capital

8000

Prep. Sh. Cap

2500

PLS

9500

Total Eq. as per AS

20000

Less Pref. Sh. Cap.
 Add Inc. in land value
 Add Increase of prop. divided
 Add Inc in Inv
 Total Eq. on per end AS.

(2500)
 5.500
 - 7000
 - 7500

 182.03

Non Current Assets

PPE	22228 - 1200	= 21028
Investment Property	5245	= 5245
Goodwill	1507 - 119	= 1388
<u>Financial Assets</u>		
Long term loans & adv.	6350 - 405	= 5945
Investment in JV	1200 + 405 + 200 + 50 - 75 - 35 + 119	= 1944

Current Assets

Financial Assets

Investments	3763	= 3763
Trade Receivables	1818 - 280	= 1538
Other CA	104 - 50	= 54

Total Assets

Equity and Liabilities

Share Capital	7953	7953
Other Equity	16597	16597

Non Current Liabilities

Financial Liabilities

Borrowings	1000	1000
Long term Provisions	691	691
Other Non Current Liab	5904	5904

Current Liabilities

Financial Liabilities

Trade Payables	8455 - 75	8380
Provisions	475 - 35	440

	<u>Total CFS</u>	<u>SV</u>
PPE	22288	1200
loop & Adv	6350	405
TR	1818	280
OCA	104	50
TP	(8455)	(75)
Provision	(475)	(35)
	<u>21630</u>	
Goodwill	<u>1507</u>	<u>119</u> $\left(\frac{1507}{23137} \times 1825 \right)$
Total	<u>23137</u>	<u>1825</u>

~~23137 Asset
 1 Asset
 1825 Asset
 1507 Goodwill
 1507 Goodwill
 23137
 $\frac{1507}{23137} \times 1825 = 119$~~

Goodwill allocated to SV = $\frac{1507}{23137} \times 1825$
 = 119