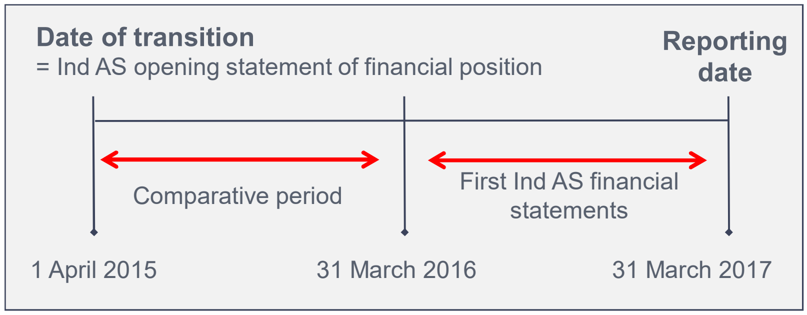
Ind AS 101 First-time Adoption of Indian Accounting Standards

- Anand Banka

Snapshot

- Appendices forming integral part of the Standard
  - A = Defined terms
  - B = Exceptions to the retrospective application of other Ind ASs
  - C = Exemptions for business combinations
  - D = Exemptions from other Ind ASs
  - E = Short-term exemptions from Ind ASs



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All Documents as Per Ind AS, based on Policies as at 31.3.2017	1st April, 2015	31st March 2016	31st March 2017
Balance Sheet	**Yes**	**Yes**	**Yes**
Income Statement	**No**	**Yes**	**Yes**
Cash Flow Statements	**No**	**Yes**	**Yes**
Statement of Changes in Equity	**No**	**Yes**	**Yes**
Notes and Comparative Information	**No**	**Yes**	**Yes**

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STEPS

- Remeasure
  - Basis same, but measured differently (e.g., Ind AS cost ≠ Indian GAAP cost)
  - Basis changed (e.g., from cost to fair value)
  - Discounting is required / prohibited (e.g., deferred tax, provisions, impairments)
- Reclassify
  - Between captions (e.g., debt / equity)
  - Current / non-current

STEPS

- Consider whether to apply any of the optional exemptions from retrospective application
- Apply the mandatory exceptions from retrospective application
- Make extensive disclosures to explain the transition to Ind AS

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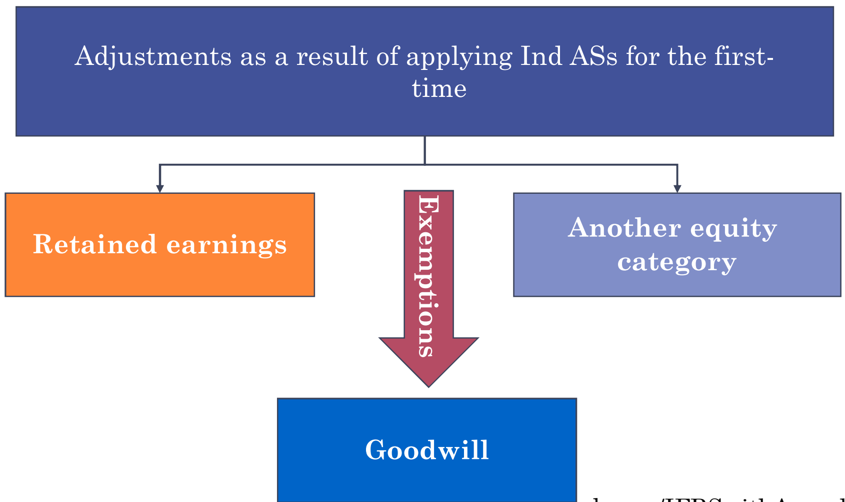
Opening Ind AS Balance Sheet



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Mandatory Exceptions

- Estimates
- Derecognition of non-derivative financial instruments
- Hedge accounting
- Non-controlling interests
- Classification and measurement of financial assets
- Impairment of financial assets
- Embedded derivatives
- Government loans

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1. Estimates

- 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 Indian GAAP, unless there is objective evidence that those estimates were in error.

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Quick Quiz

	Quick Quiz	
1	A Ltd makes provision for warranty @ 5% of total revenue based on historical trend for the year 2010-11. In 2011-12, the company came to know that products manufactured by it from a new factory in 2010-11 had a design defect and due to that the warranty costs will rise substantially for sales of the products manufactured in the new factory. Whether the company can revise its estimates of warranty cost while preparing its first IFRS financials?	✗
2	B Ltd creates provision for Leave Encashment on the basis of basic salary + special allowance of all the employees. During the preparation of its first IFRS financial statements, it discovered that in the estimates done for the year 2010-11 the company had mistakenly considered only basic salary for estimating the amount of Leave Encashment provision. Whether B Ltd can revise its estimates for Leave Encashment for 2010-11?	✓
3	In the financials for the year 2010-11, C Ltd had disclosed 5 lacs as contingent liability for one of the claims made against it by a customer as C Ltd ascertained that it was not very probable that it will be asked to make that payment. During 2011-12, the customer filed a case against C Ltd for 5 lacs and C Ltd ascertains that settlement will be done for 3 lacs. Can C Ltd make a provision for 3 lacs for the year 2011-12?	✗

2. Derecognition of non-derivative financial instruments

- A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or DOT to Ind AS.
- For example, if a first-time adopter derecognised non-derivative financial assets/ liabilities in accordance with Indian GAAP as a result of a transaction that occurred before the DOT, it shall not recognise those assets and liabilities in accordance with Ind ASs
- However, the entity may apply the derecognition requirements retrospectively provided that the needed information was obtained at the time of initially accounting for those transactions.

3. Hedge accounting

- As required by Ind AS 109, at the date of transition to nd ASs, an entity shall:
  - measure all derivatives at fair value; and
  - eliminate all deferred losses and gains arising on derivatives that were reported in accordance with Indian GAAP
- An entity shall not reflect in its opening balance sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109
- Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges

4. Non-controlling interests

- A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:
  - 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;
  - Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
  - 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 the same date

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5. Classification and measurement of financial assets

- An entity shall assess whether a financial asset meets the conditions of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs

6. Impairment of financial assets

- An entity shall apply the impairment requirements of Ind AS 109 retrospectively
- At the date of transition to Ind ASs, 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 and compare that to the credit risk at the date of transition to Ind ASs

7. EMBEDDED DERIVATIVES

- A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of
  - the date it first became a party to the contract and
  - the date a reassessment is required by Ind AS 109.

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8. GOVERNMENT LOANS

- Follow Ind AS 109 prospectively
- Follow Ind AS 109 retrospectively, if the information needed to do so had been obtained at the time of initially accounting for that loan

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Optional Exemptions

- Business combinations
- Share based payment transactions
- Insurance contracts
- Deemed cost
- Leases
- Cumulative translation differences
- Investments in subsidiaries, joint ventures and associates
- Assets and liabilities of subsidiaries, associates and joint ventures
- Compound financial instruments
- Designation of previously recognised financial instruments
- Fair value measurement of financial assets or financial liabilities at initial recognition
- Decommissioning liabilities
- Service concession arrangements
- Borrowing costs
- Extinguishing financial liabilities with equity instruments
- Severe hyperinflation
- Joint arrangements
- Stripping costs
- Designation of contracts to buy or sell a non-financial item
- Non-current assets held for sale and discontinued operations

Business Combinations

- Choose a date of your choice and apply Ind AS 103 prospectively from that date
  - Adjust goodwill for intangible assets
- An entity may apply Ind AS 21 retrospectively to fair value adjustments and goodwill arising in either:
  - all business combinations that occurred before the date of transition to Ind ASs; or
  - all business combinations that the entity elects to restate to comply with Ind AS 103

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DEEMED COST

- Use the following as a deemed cost for an item of PPE, ~~Investment Properties~~ and Intangible Assets
  - Fair value on the date of transition
  - Revaluation as per previous GAAP
- Use Indian GAAP carrying Value for all of its PPE, Investment Property and Intangible Assets

CUMULATIVE TRANSLATION DIFFERENCES

- Deem to be zero

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INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

- In Separate financial statements, measure investments at
  - Cost as per Ind AS 27
  - Deemed cost
    - FV at the date of transition
    - Previous GAAP carrying amount at that date

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ASSETS AND LIABILITIES OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

I. Subsidiary becomes a first time adopter later than its parent	II. Group becomes a first time adopter later than its subsidiaries	III. Parent becomes a first-time adopter for its separate accounts earlier or later than for its consolidated accounts
Option 1 - Use the carrying amounts that are used for preparation of the parent's IFRS consolidated financial statements Or **Option 2** - Apply the recognition and measurement rules of IFRS 1 based on the subsidiary's date of transition.	If an Group becomes a first-time adopter later than its subsidiaries (or joint venture entities or associates), in its consolidated accounts, the entity must use the carrying amounts of the subsidiaries (or joint venture entity or associate) after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination.	If a parent becomes a first-time adopter for its separate accounts earlier or later than for its consolidated accounts, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Double bite at the cherry

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COMPOUND FINANCIAL INSTRUMENTS

- Need not separate into Equity and Liability if the Liability component is no longer outstanding

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DESIGNATION OF PREVIOUSLY RECOGNISED FINANCIAL INSTRUMENTS

- An entity may designate a financial asset or liability as measured at FVTPL in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition
- An entity may designate an investment in an equity instrument as at FVTOCI in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition

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DECOMMISSIONING LIABILITIES

- measure the liability as at the date of transition to Ind ASs
- Estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- Calculate the accumulated depreciation on that amount, as at the date of transition, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with Ind ASs

DISCLOSURES

- Reconciliations of equity reported under previous GAAP to equity under IFRS
  - at the date of transition to IFRSs
  - At the end of the last annual period reported under the previous GAAP
- Reconciliations of total comprehensive income for the last annual period reported under the previous GAAP to total comprehensive income under IFRSs for the same period
- Explanation of material adjustments that were made, in adopting IFRSs for the first time, to
  - statement of financial position,
  - statement of comprehensive income and
  - statement of cash flows
- If errors in previous GAAP financial statements were discovered in the course of transition to IFRSs, those must be separately disclosed
- If the entity recognised or reversed any impairment losses in preparing its opening IFRS balance sheet, these must be disclosed
- Appropriate explanations if the entity has elected to apply any of the specific recognition and measurement exemptions permitted under IFRS 1 – for instance, if it used fair values as deemed cost

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Illustrative Format - Reconciliation

INR in million	Notes	Indian GAAP	Adjustments	IFRS
Non - Current assets				
Property, plant and equipment	(a)	15,000	250	15,250
Goodwill	(b)	2,000	200	2,200
Other intangible assets, net of accumulated amortization	(c)	500	1,125	1,625
Investments in associates	(d)	500	(35)	465
Other assets including deferred taxes		4,000	-	4,000
Total Non - current assets		**22,000**	**1,450**	**23,540**
Current assets				
Cash and cash equivalents		5,000	-	5,000
Short-term securities		2,000	-	2,000
Accounts receivable less allowances		5,000	-	5,000
Inventories	(e)	4,500	450	4,950
Other current assets, including deferred taxes		3,500	-	3,500
Total current assets		**20,000**	**450**	**20,450**
Total assets		**42,000**	**1,990**	**43,990**

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Illustrative Format - Reconciliation

INR in million	Notes	Indian GAAP	Adjustments	IFRS
Non - current liabilities				
Long-term debt		13,000	-	13,000
Pension liabilities		500	-	500
Accrued postretirement benefits other than pensions		1,500	-	1,500
Other noncurrent liabilities, including deferred taxes	(f)	2,150	1,250	3,400
Total Non - current liabilities		**17,150**	**1,250**	**18,400**
Current liabilities				
Trade accounts payable		1,600	-	1,600
Accrued expenses		6,400	-	6,400
Accrued taxes		2,000	-	2,000
Total current liabilities		**10,000**	**-**	**10,000**
Stockholders' equity				
Share capital		500	-	500
Cumulative translation adjustment	(g)	300	(300)	-
Retained earnings	(h)	14,250	925	15,175
Non-controlling interests	(i)	-	15	15
Accumulated other comprehensive loss	(j)	(200)	100	(100)
Total stockholders' equity		**14,850**	**740**	**15,590**
Total liabilities and stockholders' equity		**42,000**	**1,990**	**43,990**

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ILLUSTRATIVE FORMAT - RECONCILIATION

INR in million	Notes	Indian GAAP	Adjustments	IFRS
Sales		27,000	-	27,000
Cost of sales	(k)	20,000	439	20,439
Gross profit		**7,000**	**(439)**	**6,561**
Other operating income		(100)	-	(100)
Selling and marketing costs		2,000	-	2,000
Administrative expenses		600	-	600
Other operating expenses		500	-	500
Operating profit/(loss)		**4,000**	**(439)**	**3,561**
Finance costs—net	(l)	(700)	(50)	(750)
Share of profit of associates		100		100
Profit before tax		**3,400**	**(489)**	**2,911**
Income tax expense (benefit)	(m)	1,525	(196)	1,329
Profit for the period		**1,875**	**(293)**	**1,582**
Other comprehensive income				
Items recognised in other comprehensive income under IFRS, net of tax			(50)	(50)
Total comprehensive income		**1,875**	**(343)**	**1,532**
Profit for the year attributable to				
Owners of the parent		1,860		1,517
Non – controlling interest		15		15
Total Income for the year		**1,875**		**1,532**

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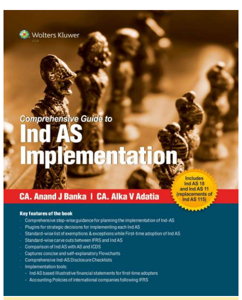
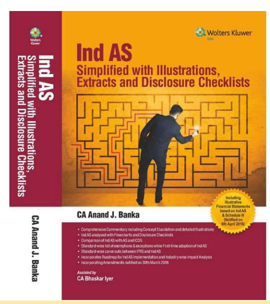


Comprehensive Guide to Ind AS Implementation

Comprehensive Guide to Indian GAAP



Ind AS - Simplified with Illustrations, Extracts and Disclosure Checklists

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