# Presentation of Financial Statements; First-time Adoption of Ind AS

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Private & Confidential

# Presentation of Financial Statements

# Learning Objectives

**Participants will be able to:**

- Understand the overall considerations for the presentation of financial statements under Ind AS
- Understand the guidelines for the structure of financial statements
- Describe the minimum requirements for the content of the financial statements
- Understand the disclosure requirements on critical accounting judgments and estimation uncertainty
- Identify common presentation issues on the statement of profit and loss
- Understand the key requirements of Ind AS 1

# Overall Considerations

**Presentation of True and Fair View and compliance with Ind AS**

- Application of Ind AS, with appropriate disclosure, results in presentation of a ‘true and fair view’
- Disclose ‘explicit and unreserved’ statement of Ind AS compliance
- Do not disclose Ind AS compliance if do not comply with all the requirements of Ind ASs

# Overall Considerations

**Presentation of a True and Fair View and compliance with Ind AS**

- If compliance is 'misleading', depart from Ind AS **but only if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure**.
  - Extremely rare circumstances
  - Disclose:
    - Financial statements present a 'true and fair view'
    - Departed from Ind AS to achieve presentation of 'true and fair view'
    - Title of the Ind AS, Nature of departure, including Ind AS treatment
    - Reason why Ind AS treatment is misleading
    - Treatment adopted
    - Financial impact of departure on each item in the financial statements

# Overall Considerations

**Going concern**

- Assessment made by management
- Use going concern basis to prepare financial statements unless:
  - Intention to liquidate
  - Intention to cease trading
  - No realistic alternative but to liquidate
- If other basis is used, disclose:
  - Basis used
  - Reason for not using going concern basis
- Disclose uncertainties which cast significant doubt upon ability to continue as going concern

# Overall Considerations

**Materiality and aggregation**

- Separate presentation of material items
- Aggregation of immaterial amounts **except when required by law**
- Applies to statement of profit and loss and balance sheet

**Offsetting**

- Balance sheet
  - Never, unless required or permitted by another Ind AS
- Statement of profit and loss
  - Never, unless:
    - Required or permitted by another Ind AS
    - Present on a net basis similar transactions, immaterial gains or losses (e.g., foreign exchange gains and losses)

# Overall Considerations

**Consistency of presentation**

- Unless change required by Ind AS or significant change in operations or apparent from review of financial statements that another presentation or classification would be more appropriate

**Accrual basis of accounting**

- Except for cash flow information

# Overall Considerations

**Comparative information**

- For at least one prior period except when Ind ASs permit or require otherwise
- Reclassification, disclose:
  - Nature and reason of reclassification
  - Amount of each item or items reclassified
  - If impracticable, disclose:
    - Reason for not reclassifying
    - The nature of adjustments that would have been made

# Components of Financial Statements

- Balance Sheet
- Statement of Profit and Loss
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes
  - Summary of significant accounting policies
  - Other explanatory information
- Comparative information in respect of the preceding period
- A balance sheet as at the beginning of the earliest comparative period (in certain cases)

# Structure and Content: Balance Sheet

- Requirement to present classified balance sheet:
  - Current and non-current assets and liabilities unless a presentation based on liquidity provides information that is reliable and more relevant
  - If not separately classified based on above exception, present assets and liabilities in order of liquidity
  - For each item, disclose amounts expected to be recovered or settled after more than 12 months; if combined with items expected to be recovered or settled in no more than 12 months
- Deferred tax assets/liabilities – always non-current
- Long-term debt expected to be refinanced under an existing loan facility is non-current; even if due within twelve months – **this is only if the entity has a discretion to roll-over or refinance the obligation and expects to do so**

# Structure and Content: Balance Sheet

- Long-term debt considered as current if breach of covenant and can be called
  - Liability becomes payable on demand
  - Post balance sheet cure of a covenant violation will not change the classification to non-current
  - Non-current if twelve months grace period given by **balance sheet date**

- In respect of debt classified as current, no change in classification on account of the following events
  - Post balance sheet debt refinancing on long-term basis
  - Post balance sheet cure of a covenant violation or provision of grace period to rectify the defect

# Structure and Content: Balance Sheet

Requirement to present minimum line items on the face of balance sheet:

- Property, plant and equipment
- Investment property
- Intangible assets
- Financial assets
- Investments accounted for using the equity method
- Biological assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Assets classified as held for sale and assets included in disposal groups classified as held for sale
- Trade and other payables

# Structure and Content: Balance Sheet

Requirement to present minimum line items on the face of balance sheet

(Contd.)

- Provisions
- Financial liabilities
- Current tax liabilities and assets
- Deferred tax liabilities and assets
- Non-controlling interests, presented within equity
- Issued capital and reserves attributable to the equity holders of the parent
- Assets classified as held for sale and assets included in disposal group classified as held for sale
- Liabilities included in disposal group classified as held for sale

# Structure and Content: Balance Sheet

- Additional line items may be needed when such a presentation is relevant to an understanding of the entity’s financial position
- Separate line items for assets measured on different basis
- Option to disclose further sub-classifications of assets either on the face of balance sheet or in the notes

# Structure and Content: Statement of Profit and Loss

Requirement to present minimum line items in the Statement of Profit and Loss:

- Revenue (presenting separately interest revenue calculated using the effective interest method)
- Gains and losses arising from the derecognition of financial assets measured at amortised cost;
- Finance costs
- Impairment losses (including reversals of impairment losses or impairment gains)
- Share of the profit or loss of associates and joint ventures accounted for using the equity method
- If a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date
- If a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss

# Structure and Content: Statement of Profit and Loss

Requirement to present minimum line items in the Statement of Profit and Loss (continued):

- Share of the profit or loss of associates and joint ventures accounted for using the equity method
- Tax expense
- A single amount comprising the total of
  - The post-tax profit or loss of discontinued operations, and
  - The post-tax gain or loss recognised on the disposal of the assets or disposal group(s) constituting the discontinued operation

# Structure and Content: Statement of Profit and Loss

- Each component of other comprehensive income classified by nature (including share of OCI of associates and JV accounted for using the equity method)
- Total Comprehensive Income
- Allocation of profit or loss for the period must be presented on the face of statement of profit and loss as
  - Profit or loss attributable to non-controlling interests;
  - Profit or loss attributable to owners of the parent
- Additional line items/subtotals may be needed to give a true and fair the financial performance
- Extraordinary items - **Prohibited**

# Structure and Content: Statement of Profit and Loss

Need to disclose following items separately, if material:

- Write-down of inventories to net realisable value as well as reversal of such a write-down
- Write-down of PPE to recoverable amount as well as reversal of such a write-down
- Restructuring provisions as well as reversal of such a provision
- Disposals of items of property, plant and equipment
- Disposal of investments
- Discontinued operations
- Litigation settlements
- Other reversal of provisions

# Structure and Content: Statement of Profit and Loss

- Requirement to present an analysis of expenses using a classification based on the nature of expense method – **functional classification of expenses prohibited**
- Disclose dividends per share, declared or proposed

# Example 1: Expense Classification by Nature

| | | | |
|---|---|---|---|
| Revenue | | X | |
| Other income | | X | |
| Changes in inventories of finished | | | |
| goods and work in progress | X | | |
| Raw material and consumables used | X | | |
| Employee benefits expense | X | | |
| Depreciation and amortisation expense | X | | |
| Other expenses | X | | |
| Total expenses | | (X) | |
| Profit before tax | | | X |

# Structure and Content: Other Comprehensive Income

- An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.
- An entity may present components of other comprehensive income either:
  - net of related tax effects, or
  - before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.
- An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

# Structure and Content: Statement of Changes in Equity

Statement of Changes in Equity includes the following :

a. total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

b. for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;

c. for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:

   i. profit or loss;

   ii. each item of other comprehensive income;

   iii. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and

   iv. any item recognised directly in equity such as amount recognised directly in equity as capital reserve with paragraph 36A of Ind AS 103.

# Structure and Content: Statement of Changes in Equity

Option to present the following either on the face of statement of changes in equity or in the notes:

- For each component of equity, an analysis of other comprehensive income by item
- The amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

# Structure and Content: Notes

- Basis of preparation of financial statements
- Accounting policies
- Disclosures required by Ind ASs
- Additional information necessary presentation of ‘true and fair view’
- ‘Systematic manner’ – cross referenced

# Critical Accounting Judgments

Requirement to disclose the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

# Key Assumptions/Estimation Uncertainty

Requirement to disclose key assumptions about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

Disclosures may include:

- Nature of assumption or other estimation uncertainty
- Carrying amount at the end of the reporting period
- Sensitivity analysis
- Expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year
- Changes, if any, made to the assumptions and the effect on reported amounts

# Key Learning Points

- Ind AS 1 includes guidance on the meaning of presenting a ‘true and fair view’ and emphasises that the application of Ind AS is presumed to result in financial statements that give a ‘true and fair view’.
- Ind AS 1 requires an entity to present assets and liabilities in order of liquidity **only** when a liquidity presentation provides information that is reliable and is more relevant than a current/non-current presentation
- Presentation of minimum line items on the face of balance sheet and statement of profit and loss is required
- Ind AS 1 allows presentation of additional line items/subtotals if they are needed to present a ‘true and fair view’ of the financial position or financial performance

# Key Learning Points

- Expenses are presented in the statement of profit and loss by nature-wise classification
- Ind AS 1 requires disclosure, on the face of the statement of changes in equity, of total income and expenses for the period (including amounts recognised directly in equity), showing separately the amounts attributable to equity holders of the parent and to non-controlling interests
- Ind AS 1 also requires presentation of critical accounting judgments and estimates

# Comparison with Indian GAAP

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Components of financial statements | Requirements set out in Schedule III to the Companies Act, 2013 together with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.<br>As per the Companies Act, 2013, 'financial statement' includes<br>a) a balance sheet as at the end of the financial year;<br>b) a profit and loss account, (or an income and expenditure account)<br>c) cash flow statement;<br>d) a statement of changes in equity, if applicable; and<br>e) any explanatory note annexed to, or forming part of, any document referred to above.<br><br>Comparative (corresponding) figures are presented for one year. | Comprises a) a balance sheet as at the end of the period; b) statement of profit and loss; c) statement of changes in equity; d) a statement of cash flows; e) notes including summary of accounting policies and other explanatory information.<br><br>Comparative figures are presented for one year. When a change in accounting policy has been applied retrospectively or items of financial statements have been restated/ reclassified, a balance sheet is required as at the beginning of the earliest period presented.<br><br>Additional comparative information may be presented, if in accordance with Ind AS, but it need not comprise a complete set of financial statements. |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Components of financial statements (Continued) | Separate financial statements are required to be presented by all entities. The Companies Act 2013 requires a company having one or more subsidiaries, to prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. The term ‘subsidiary’ includes an associate company and joint venture. Certain relaxations have been provided from the preparation of consolidated financial statements. Equity listed companies are required to present consolidated financial statements in addition to separate financial statements of the parent in terms of the Listing Agreement with the Stock Exchanges and the SEBI Guidelines. | |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Formats | Schedule III prescribes the minimum requirements for disclosure on the face of the balance sheet and statement of profit and loss and notes. | Ind AS 1 does not include any illustrative format for the presentation of financial statements. The ICAI has issued an exposure draft of the Ind AS-compliant Schedule III. |
| Definition of "material" and disclosure of material information | Financial statements should disclose all "material" items, i.e. items, the knowledge of which might influence the decisions of the user of the financial statements. | Under Ind AS 1, a specific disclosure required by an Ind AS is not provided if the information is not material except when required by law. |
| Fair Presentation | Fair presentation requires compliance with the applicable requirements of the Companies Act, 2013 and the other regulatory requirements and the application of the qualitative characteristics of the Accounting Standards Framework. | Fair presentation requires faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions of and recognition criteria for assets, liabilities, income and expenses set out in the Framework. |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Classification of financial liabilities under refinancing arrangements | There is no guidance in the existing standards. Schedule III specifies that financial liabilities where the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date will be classified as current liabilities. | Current, even if the agreement to refinance or reschedule payments on a long-term basis is completed after the end of the reporting period and before the financial statements are authorised for issue. |
| Classification of financial liabilities upon breach of covenants | There is no guidance in the existing standards. Schedule III specifies that financial liabilities where the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date will be classified as current liabilities. | Where there is a breach of a material provision of a long-term arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender has agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach, The loan will not be classified as current. |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Presentation of statement of profit and loss | Schedule III requires an analysis of expense by nature. Any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.100,000, whichever is higher, needs to be disclosed. | Entities should present an analysis of expenses recognised in profit or loss using a classification based only on the nature of expense. |
| Presentation of profit or loss attributable to non-controlling interests (minority interests) | Profit or loss attributable to minority interests is disclosed as deduction from the profit or loss for the period as an item of income or expense (as per AS 21). | Profit or loss attributable to non-controlling interests and equity holders of the parent are disclosed in the statement of profit or loss and OCI as allocations of profit or loss and total comprehensive income for the period. |
| Statement of profit or loss | Statement of profit and loss is the Indian GAAP equivalent of separate statement of profit or loss under Ind AS.<br>Some items such as revaluation surplus which are treated as 'other comprehensive income' under Ind AS are recognised directly in equity under Indian GAAP. | An entity is required to present all items of income and expense including components of OCI in a period in a single statement of profit and loss. |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Statement of changes in equity | A statement of changes in equity is currently not presented.<br><br>Movements in share capital, retained earnings and other reserves are to be presented in the notes to accounts. | The statement of changes in equity includes the following information:<br>• total comprehensive income for the period;<br>• the effects on each component of equity of retrospective application or retrospective restatement in accordance with Ind AS 8; and<br>• for each component of equity, a reconciliation between the opening and closing balances, separately disclosing each change. |
| Extraordinary Items | Extraordinary items are disclosed separately in the statement of profit and loss and are included in the determination of net profit or loss for the period. Items of income or expense to be disclosed as extraordinary should be distinct from the ordinary activities and are determined by the nature of the event or transaction in relation to the business ordinarily carried out by an entity. | Presentation of any items of income or expense as extraordinary is prohibited. |
| Reclassification | A disclosure is made in financial statements that comparative amounts have been reclassified to conform to the presentation in the current period without additional disclosures for the nature, amount and reason for reclassification. | When comparative amounts are reclassified, nature, amount and reason for reclassification are disclosed. |

# Comparison with Indian GAAP (continued)

| Area of Difference | Indian GAAP | Ind AS |
|---|---|---|
| Critical Judgements | AS 1 does not specifically require disclosure of judgements that management has made in the summary of significant accounting policies or other notes. | Requires disclosure of critical judgements made by management in applying accounting policies |
| Estimation Uncertainty | AS 1 does not specifically require an entity to disclose information about the assumptions that it makes about the future and other major sources of estimation uncertainty at the end of the reporting period though other standards may require certain disclosures of the same. | Requires disclosure of key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.<br>The nature of the uncertainty and the carrying amounts of such assets and liabilities at the end of the reporting period are required to be disclosed |
| Capital | AS 1 does not require an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes of managing capital. | Requires disclosure of information about management of capital and compliance with externally imposed capital requirements, if any. |

# First-time adoption of Ind AS

# Learning Objectives

**Participants will be able to:**

- Describe the requirements and overall considerations for first-time adoption of Ind AS
- List the mandatory exceptions and voluntary exceptions from Ind AS on transition
- Describe the disclosure requirements on transition to Ind AS

# Applicability and Scope

**An entity shall apply this Ind AS in:**

a. its first Ind AS financial statements; and

b. each interim financial report, if any, that it presents in accordance with Ind AS 34 Interim Financial Reporting for part of the period covered by its first Ind AS financial statements.

An entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind ASs, in accordance with Ind ASs notified under the Companies Act, 2013 and makes an explicit and unreserved statement in those financial statements of compliance with Ind ASs.

# Ind AS 101 overview and scope

- Ind AS 101 provides guidance on first-time application of Ind AS (ongoing accounting policy elections and prospective accounting addressed under other standards}
- Applies when entity makes its first "explicit and unreserved" reference to Ind AS
- Generally retrospective application of all Ind AS effective at the end of first Ind AS reporting period (although some elective and mandatory exceptions)
- Requires one year of comparative financial information
- Transition adjustments recognised in retained earnings
- Disclosures and reconciliation to Indian GAAP to explain effect of transition to Ind AS

Primary objectives:

- Consistent starting point for Ind AS
- Specific requirements and detailed disclosures
- Clearly convey to financial statement users the impact of converting from Indian GAAP to Ind AS

# Transitional Date and Previous GAAP

**Transitional date**

- Starting point for Ind AS
- Date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except for optional exemptions and mandatory exceptions
- Is the beginning of the earliest period for which an entity presents full comparative information under Ind AS in first Ind AS financial statements

Previous GAAP is defined as “Indian GAAP” (Section 133 of the Companies Act, 2013)

# Comparatives

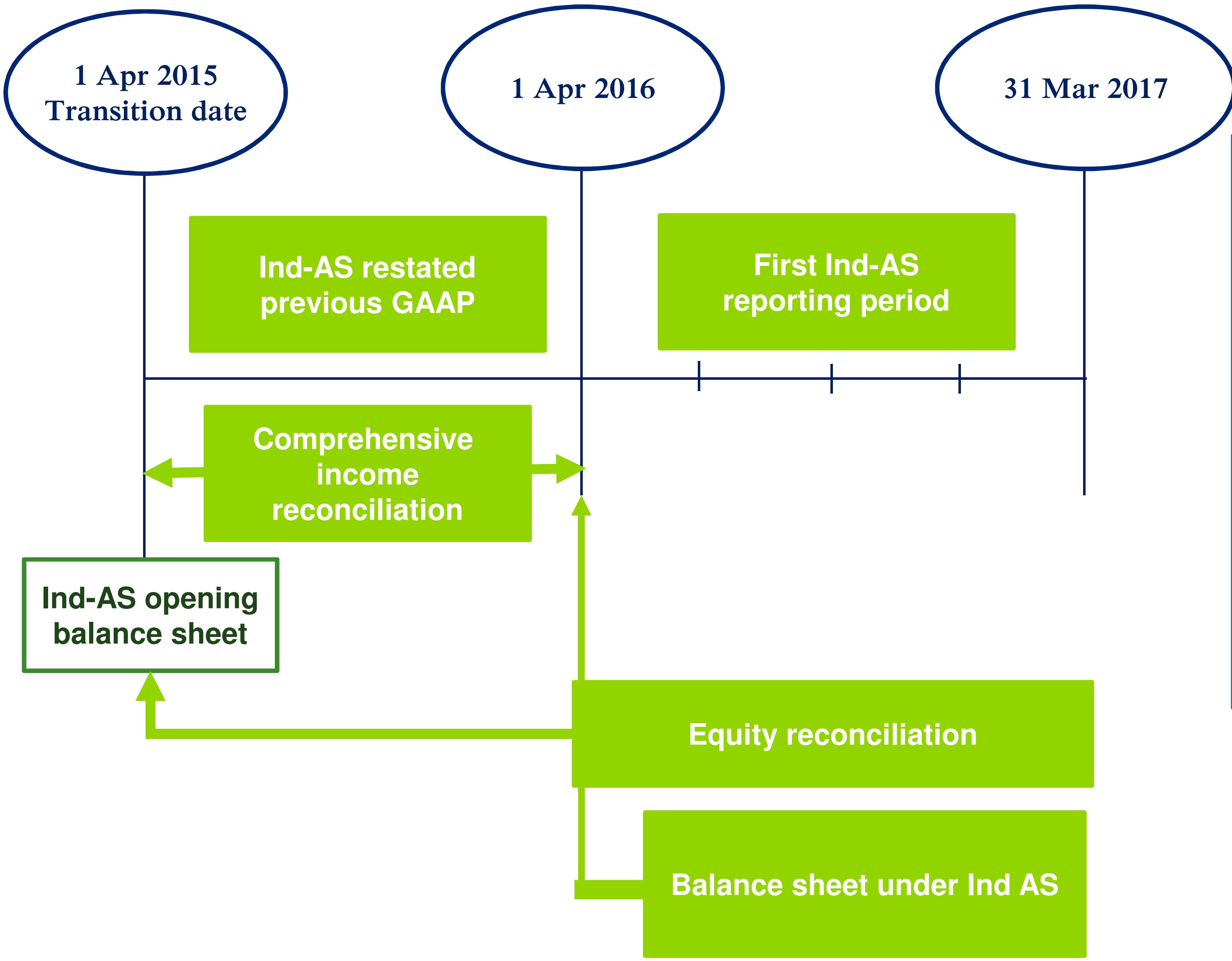
The first Ind AS financial statements shall include at least:

- Three Balance Sheets
- Two Statements of Profit and Loss
- Two Statements of cash flows
- Two Statements of changes in equity
- Related notes including summary of accounting policies and other explanatory information

**Remember :**

Use the same accounting policies in the opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements.

# First Ind-AS reporting (with comparatives) – Phase 1




**Apply accounting policy based on Ind AS effective as of March 31 2017**

**31 March 2017**
Ind AS financial statements for 2016-17 comprising of the following *with comparatives*:
1. Balance sheet as at and statement of changes in equity for the year ending 31 March 2017
2. Statement of profit and loss (total comprehensive income) for the year ending 31 March 2017
3. Statement of cash flows for the year ending 31 March 2017
4. Related notes to accounts for the year ending 31 March 2017

Additionally, following is required:
1. Opening balance sheet as of the date of transition

**Explain material adjustments to the statement of cash flows presented under the previous GAAP**

# Disclosures in First Ind AS Financials

**Disclosures**

- Reconciliation of equity - Date of transition to Ind AS and the comparative period in the entity’s first Ind AS financial statements
- Reconciliation of net profit or loss if total comprehensive income not reported under Indian GAAP - Comparative period in the entity’s first Ind AS financial statements
- Distinguish between policy changes, estimate changes and error corrections.
- Narrative discussion on reconciliation adjustments
- Narrative discussion of material adjustments to cash flow statement
- Asset impairment
- Disclose Previous GAAP WDV as deemed cost along with the accounting policy until those items are significantly depreciated, impaired or derecognised.

# Reconciliations on transition

| | Notes | 31 March 2016 ` | 1 April 2015 ` |
|---|---|---|---|
| **Total equity under existing accounting standards** | | **XXX** | **XXX** |
| **Adjustments to equity to conform with Ind-AS:** | | | |
| Employee benefits | a | XXX | XXX |
| Share-based payments | b | XXX | XXX |
| Goodwill and other intangibles | c | XXX | XXX |
| Leases | d | XXX | XXX |
| Deferred tax | e | XXX | XXX |
| **Total reduction in equity** | | **XXX** | **XXX** |
| **Total equity under Ind-AS** | | **XXX** | **XXX** |

| | Notes | 2016-17 ` | 2015-16 ` |
|---|---|---|---|
| **Net income for the year under existing accounting standards** | | XXX | XXX |
| Adjustments to net income to conform with Ind-AS: | | | |
| Employee benefits | a | XXX | XXX |
| Share-based payments | b | XXX | XXX |
| Goodwill and other intangibles | c | XXX | XXX |
| Leases | d | XXX | XXX |
| Deferred tax | e | XXX | XXX |
| **Total adjustment to net income for the year** | | XXX | XXX |
| **Net income for the year under Ind-AS** | | XXX | XXX |

# Ind AS 101 Considerations

| Overall | Opening Balance Sheet |
|---|---|
| • Identify key dates<br>• Identify differences between existing accounting policies and Ind AS and determine Ind AS policies<br>• Adjust opening retained earnings at the transition date for difference in accounting policies<br>• Determination of estimates under Ind AS<br>• Elect and apply optional exemptions<br>• Apply mandatory exceptions | • Recognise all assets and liabilities required under Ind AS subject to certain exceptions<br>• Derecognise all assets and liabilities not permitted under Ind AS subject to certain exceptions<br>• Measure assets, liabilities and equity subject to certain exceptions<br>• Reclassify items subject to certain exceptions |

# Transitional Date and Previous GAAP

**Transitional date**

- Starting point for Ind AS
- Date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except for optional exemptions and mandatory exceptions
- Is the beginning of the earliest period for which an entity presents full comparative information under Ind AS in first Ind AS financial statements

Previous GAAP is defined as “Indian GAAP” (Section 133 of the Companies Act, 2013)

# Mandatory Exceptions From Retrospective Application

- **Derecognition of financial assets and financial liabilities**
  - apply the derecognition requirements of Ind AS 109 prospectively and would therefore not recognise items previously derecognised under Indian GAAP prior to transition date
  - Recognise derivatives
  - Consolidate special-purpose entities if controlled
- **Hedge accounting**
  - Do not reflect (discontinue) a hedging relationship that does not qualify for hedge accounting as per Ind AS 109.
- **Non-controlling interests** –

  Apply requirements of Ind AS 110 prospectively from the date of transition to Ind AS for :
  - Total comprehensive income is attributed to NCI even if this results in the NCI having a deficit balance;
  - recognise directly in equity any changes In ownership interest between NCI and owners of the parent
  - loss of control over a subsidiary and the related provisions of Ind AS 105

**Remember : Apply retrospectively if business combination exemption not considered**

# Mandatory Exceptions From Retrospective Application

- **Classification and measurement of financial assets**
  - Classify as per Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.
  - If **impracticable** to apply retrospectively the effective interest method for financial asset and financial liability, the fair value on the asset or liability on the date of transition to Ind AS shall be the new gross carrying amount or the new amortised cost

  **Government Loans** :

  - Apply prospectively to government loans existing at the date of transition to Ind ASs and do not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant

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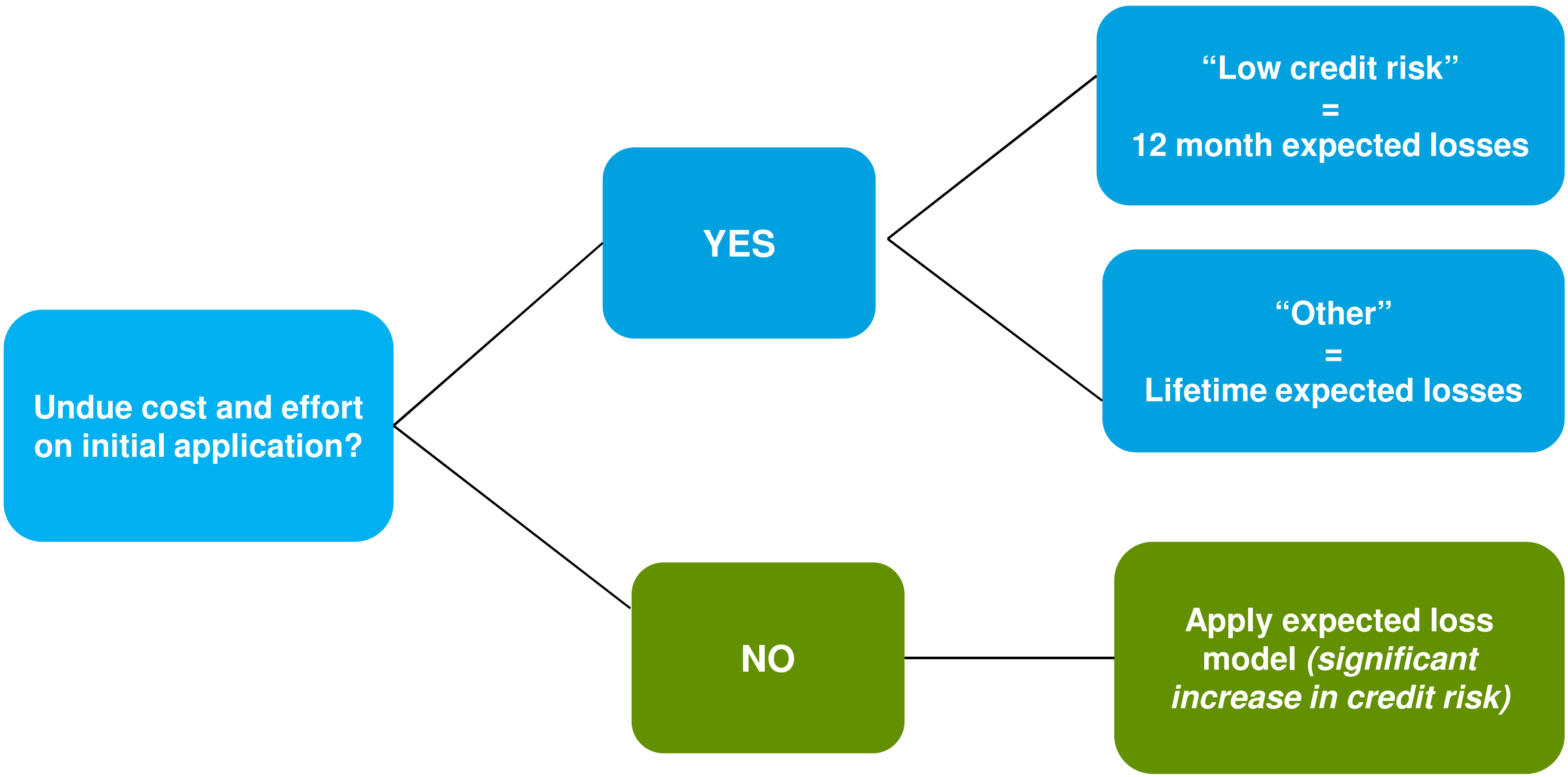
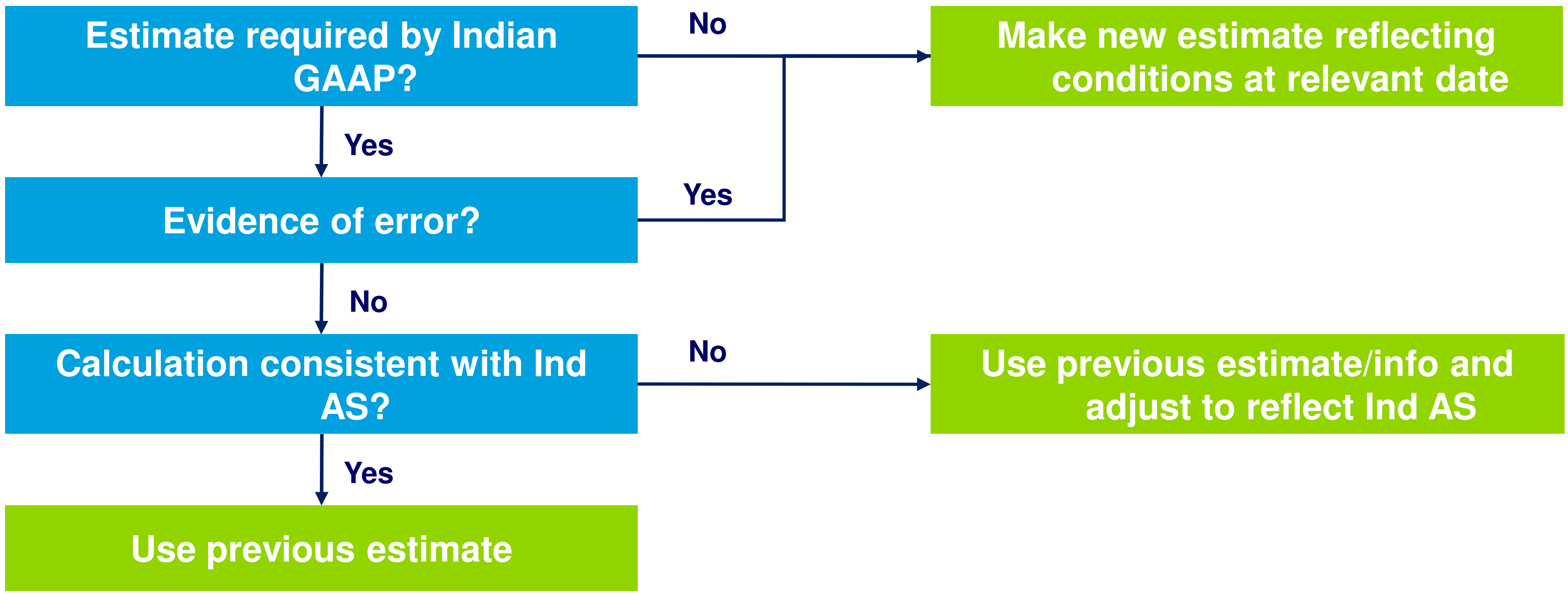
# Mandatory Exceptions From Retrospective Application

## Impairment

**Retrospective application but not required to restate comparatives**



# Mandatory exceptions — Estimates




- Do not consider information received after the date of transition
  - Cannot benefit from hindsight
  - Use assumptions consistent with other estimates made at the time under Indian GAAP
  - New estimates required by Ind AS shall reflect conditions that exist as of date of transition

# Quiz:

## Question:

How should the adjustments to correct a prior-period error be disclosed in the reconciliation?

## Solution:

**Paragraph 26 of Ind AS 101** states that if an entity becomes aware of errors made under previous GAAP, the reconciliations of total equity and total comprehensive income shall distinguish the correction of those errors from changes in accounting policies.

# Voluntary exemptions from retrospective application

May elect some or all of the following (does not impact future "accounting policy" choice, although your choices will impact financial results):

- Business combinations
- Fair value or revaluation as deemed cost (PP&E, investment property intangibles)
- Indian GAAP cost as deemed cost for PP&E
- Cumulative translation differences
- Compound financial instruments
- Assets and liabilities of subsidiaries, associates and joint ventures
- Designation of previously recognised financial instruments
- Share-based payment transactions
- Insurance contracts
- Decommissioning liabilities
- Leases
- Fair value measurement of financial assets or financial liabilities at initial recognition
- Service concession arrangements
- Borrowing costs
- Cost of subsidiary in parent F/S
- FCMIT continuing for long term foreign currency monetary item on the transition date

# Voluntary Exemptions

- **Business Combinations**
  - May elect to not apply retrospectively to past business combinations or to elect a prior date and only apply to business combinations after that prior date
  - Still need to eliminate assets and liabilities that do not meet the recognition criteria under Ind AS outside of a business combination (with adjustment to goodwill)
  - Test goodwill in opening Ind AS balance sheet for impairment
  - If entities chooses to restate for past business combinations, must also apply PP&E under Ind AS 36 and intangibles under Ind AS 38
- **Share based payments**
  - Not required to apply Ind AS 102 to equity instruments that vested before date of transition to Ind AS
  - May apply to the above only if the fair value information was previously disclosed publicly
  - Need not apply to liabilities arising from share-based compensation that were settled before the date of transition to Ind AS
- **Insurance Contracts**

  Apply Ind AS 104 Insurance Contracts for periods beginning on or after date of transition to Ind AS.

# Voluntary Exemptions

**Fair value, revaluation or previous Indian GAAP value as deemed cost**

- Applies to PP&E, investment property, intangible assets (but only if Ind AS 38 criteria are met)
- Applied on an individual asset basis and not required to apply to every item in a class of assets
- Impairment test still required if indicators exist
- Determine components of assets
- Assess depreciation methods for consistency with Ind AS

**Option A:**

Elect to use fair value at date of transition as deemed cost.

**Option B:**

Elect to use revalued amount according to Indian GAAP at time of revaluation as deemed cost

**Option C:**

Elect to use fair value (As presented in previous financial statements) as deemed cost at the date of an event such as privatisation or IPO.

**Option D:**

Elect to use Indian GAAP carrying value if no change in functional currency

# Example: Componentisation of Assets

- Company W (a commercial airline) acquired an aircraft on April 1, 2013. The total cost included the cost of the engines, the on-board furnishings (e.g., seats, carpets) and the in-flight entertainment system.
- Under previous GAAP, the total cost was capitalised and depreciated (straight line over the economic life of 25 years) as one item on the fixed asset register
- Under Ind AS 16 each component of the aircraft (i.e., the engines, furnishings, entertainment system) should have been recognised and depreciated separately.
- Ind AS 101 requires to adjust the depreciation recognised under previous GAAP if the amount that would have been recorded under Ind AS is materially different.

# Voluntary Exemptions

## Subsidiaries, associates and joint ventures

**When does the subsidiary become a first-time adopter?**

Before its parent

In consolidated financial statements, use carrying amounts in the subsidiary's separate Ind AS financial statements.

After its parent

In separate financial statements of the subsidiary, either:

1. Use carrying amounts in parent's consolidated financial statements as of the parent's date of transition, OR
2. Use carrying amounts required by Ind AS 101 as of the subsidiary's date of transition.

# Voluntary Exemptions - Others

- **Leases**

Apply Appendix C of Ind AS 17 on date of transition to Ind AS

Appendix C - Determining whether an arrangement contains a lease

Assess classification based on facts and circumstances on the date of transition to Ind AS for lease including land and building elements

- **Cumulative translation differences**
  - Reset to zero, cumulative translation differences for all foreign operations at the date of transition to Ind AS
  - Exclude from the computation of gain or loss on a subsequent disposal of any foreign operation translation differences that arose before the date of transition to Ind ASs

# Voluntary Exemptions - Others

- **Long Term Foreign Currency Monetary Items**
  - May continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items as previously followed under Indian GAAP for assets and liabilities at the date of transition to Ind AS
- **Investments in subsidiaries, joint ventures and associates**
  - If measured at cost in accordance with Ind AS 27, choice of measuring such investment at one of the following amounts :
    - ✓ cost determined in accordance with Ind AS 27; or
    - ✓ deemed cost : Fair value on the date of transition to Ind AS or Indian GAAP carrying amount
- **Compound financial instruments**
  - Do not separate if the liability component is no longer outstanding at the date of transition to Ind AS.
- **Designation of previously recognised financial instruments**
  - Permitted to designate, at the date of transition to Ind AS, any financial liability and financial asset as at fair value through profit or loss.

# Voluntary Exemptions - Others

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

If impracticable to apply retrospectively at the date of transition to Ind AS, then

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

# Disclosures - Interim Financial Reporting

- Must follow **Ind AS 34 for any interim reports** prepared during period covered by first Ind AS financial statements
- Reconciliations required even in the interim financial report

# Example : Disclosures in Interim Report

**Facts:**

- Entity R's first Ind AS financial statements have a reporting date of March 31, 2017, and its first interim financial report under Ind AS 34 is for the QE June 30, 2016.
- Entity R prepared previous GAAP annual financial statements for the year ended March 31, 2016, and prepared quarterly reports throughout 2015-16.

**In each quarterly interim financial report for 2016-17, entity R includes reconciliations of:**

- Its equity under previous GAAP at the end of the comparable quarter of 2015-16 to its equity under Ind AS at that date; and
- Its profit or loss under previous GAAP for the comparable quarter of 2015-16 (current and year-to-date) to its total comprehensive income under Ind AS

# Example : Disclosures in Interim Report (Contd.)

In addition to the reconciliations required above and the disclosures required by Ind AS 34, entity R's interim financial report for the QE June 30, 2016 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

- Its equity under previous GAAP at April 1, 2015 and March 31, 2016 to its equity under Ind AS at those dates; and
- Its profit or loss for 2015-16 under previous GAAP to its total comprehensive income for 2015-16 under Ind AS

# Comparison with IFRS 1

| Ind AS 101 | IFRS 1 |
|---|---|
| Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind ASs. | IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. |
| Transitional relief from the retrospective application of **Ind AS 16: Property, Plant and Equipment**. Entity have an option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP; subject to certain additional disclosures. | No such relief |

# Comparison with IFRS 1 (continued)

| Ind AS 101 | IFRS 1 |
|---|---|
| While applying **Ind AS 17: Leases.** D9AA provides an entity to use the transition date facts and circumstances for lease arrangements which includes both land and building elements to assess the classification of each element as finance or an operating lease at the transition date to Ind ASs.<br><br>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. | No such relief available here. |
| While **applying Ind AS 105 - Non-current Assets Held for Sale and Discontinued Operations.** Paragraph D35AA provides an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell. | No such relief available here. |

# Comparison with IFRS 1 (continued)

| Ind AS 101 | IFRS 1 |
|---|---|
| If an entity decides not to apply Ind AS 103 retrospectively to a past business combination, it shall exclude from its balance sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind ASs. In certain specific instances, the resulting change is accounted as an adjustment in goodwill or adjusted with capital reserve to the extent such adjustment amount does not exceed the balance available in Capital reserve. | IFRS 1, in these certain specific instances, requires adjustment only in goodwill. |
| A first-time adopter may continue the policy adopted as per the previous GAAP for accounting for exchange differences on long-term foreign currency monetary items recognised immediately before the beginning of the first Ind AS financial reporting period. | No such relief. |
| A first-time adopter may continue the policy adopted as per the previous GAAP for amortisation of intangible assets arising from service concession arrangements related to toll roads immediately before the beginning of the first Ind AS financial reporting period. | No such relief. |

# Points to consider

- How will ongoing Ind AS differ from existing accounting policies, and does this influence the company's decisions around which exceptions to retrospective application to elect?
- How different are accounting estimates under Ind AS compared to legacy amounts?
- What are the data needs to support first-time adoption of Ind AS, and are current information systems capable of capturing that necessary information?
- Given all of the above, what will be the company's approach to Ind AS based on anticipated timelines and potential resource considerations?
- What will the company's opening balance sheet look like, based on Ind AS asset/liability recognition, reclassifications?
- What disclosures are required (including enhanced disclosures in some areas, reconciliation of equity and income in the opening balance sheet, narrative discussion of adjustments)?
- Are "changes" really changes in policy, estimates, or correction of Indian GAAP errors?