Issues in First Time Adoption Ind AS

Ind AS 101 First Time Adoption of Ind AS

CA Manoj Fadnis
Past President ICAI

- **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 As.**

Opening Ind AS Balance Sheet

- **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**

Accounting policies

- An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all period presented in its first Ind AS financial statements. The accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period.

2019-20	2018-19

- Same Accounting Policies from 1st April 2018 to 31st March 2020

Adjustments to be made

- Recognise all assets and liabilities whose recognition in its Opening Ind AS Balance Sheet

- Not recognise items as assets and liabilities if Ind AS do not permit such recognition

- Reclassify items that if recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS.

Examples of Adjustments Required

(a) recognise all assets and liabilities whose recognition is required by Ind ASs:

(i) customer related intangible assets if an entity elects to restate business combinations

(ii) share-based payment transactions with non-employees

(iii) recognition of deferred tax on land

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition:

(i) proposed dividend

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs:

(i) redeemable preference shares that would have earlier been classified as equity;

(ii) non-controlling interests which would have been earlier classified outside equity ; and

(d) apply Ind ASs in measuring all recognised assets and liabilities:

(i) discounting of long term provisions

(ii) measurement of deferred income taxes for all temporary differences instead of timing differences.

Estimates:

- An entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be

a) consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies);

b) unless there is objective evidence that those estimates were in error.

Exceptions & Exemptions

- Ind AS 101 provides
  - Exceptions to retrospective application of Ind AS in Appendix B
  - Exemptions from certain requirements under Appendix C and D.

Comparative Information

First Ind AS Financial Statements will include:-

- Three Balance Sheet
- Two Statements of Profit and Loss
- Two Statements of Cash Flows
- Two Statement of Changes in Equity
- Notes on Account

Reconciliation

First Ind AS Financial Statements to include:-

- Reconciliation of Equity as per previous GAAP and Ind AS
  - As on the date of transition to Ind AS; and
  - The end of the latest period presented in the entity's most recent annual financial statements in accordance with the previous GAAP

- Reconciliation of Total Comprehensive Income as per Ind AS and the Indian GAAP for the most recent annual financial statements.

- Disclosures as per Ind AS 36 for recognised or reversed impairment losses.

First Ind AS Financial Statements	Comparative Year	Date of Transition
2016-17	2015-16	01-04-2015
2017-18	2016-17	01-04-2016
2018-19	2017-18	01-04-2017
2019-20	2018-19	01-04-2018
2020-21	2019-20	01-04-2019

Exceptions to Retrospective Application-

Appendix B

Derecognition of Financial Assets or Financial Liabilities

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

Hedge Accounting:

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.

Non-controlling Interests

- A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition:

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, and the related requirements of paragraph 8A of Ind AS 105, *'Non-current Assets Held for Sale and Discontinued Operations'*.

Classification and Measurement of Financial Assets

- An entity shall assess whether a financial asset meets :

a) the conditions in paragraph 4.1.2; or

b) the conditions in paragraph 4.1.2A

of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.

Impairment of Financial Assets

- An entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort.

- An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind ASs, whether there have been significant increases in credit risk since initial recognition

- If an entity is unable to make this determination without undue cost or effort paragraph B8G of this Ind AS applies.

Embedded Derivatives

A first-time adopter shall assess

- whether an embedded derivative is required to be separated from the host contract andaccounted 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 of a reassessment.

Government Loans

A first-time adopter shall classify all government loans received as

a) a financial liability; or

b) an equity instrument

in accordance with Ind AS 32.

Apply the requirements prospectively of Ind AS 109 & 20

Optional Exemptions

1.Exemptions for Business Combinations

- A first time adopter may elect not to apply Ind AS 103 retrospectively to pass business combinations (that occurred before date of transition to Ind ASs)
- However if a first time adopter restates any business combination to comply with Ind AS103, it shall restate all later business combinations, and shall also apply Ind AS 110 from that same date.

2. Share-based Payment Transactions

- A first time adopter is encouraged, but not required, to apply Ind AS 102 'Share based Payment' to equity instrument that vested before date of transition to Ind ASs.

3. Insurance Contracts

- Ind AS 104 'Insurance Contracts', shall be applied for annual periods beginning on or after date of transition to Ind ASs. Earlier application is encouraged.
- If an entity applies Ind AS 104 for an earlier period, it shall disclose that fact.

4. Deemed Cost

- An item of property plant and equipment shall be measured at its fair value at the date of its transition to Ind ASs.
- Such fair value will be used as its deemed cost at that date.
- However , previous GAAP evaluation can be used as deemed cost at the date of revaluation, if the revaluation was, at the date of revaluation, broadly comparable to :
  a. Fair value ; or
  b. Cost or depreciated cost in accordance with Ind ASs, adjusted to reflect, for eg. Changes in general or specific price index.

5. Leases

- A first time adopter may apply paragraphs 6-9 of the Appendix C of Ind AS 17 determining whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at the date of transition, except where the effect is expected to be not material.

6. Cumulative Translation Differences

- Ind AS 21 requires an entity:

a) To recognize some translation differences in other comprehensive income and accumulate these in a separate component of equity; and

b) On disposal of a foreign operation, to re classify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as a part of the gain or loss on disposal.

- However, a first time adopter need not comply with these requirements and if the exemption is used :

a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind ASs; and

b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation difference that arose before the date of transition & shall include later translation differences.

7. Long-term Foreign Currency Monetary Items

- A first-time adopter may continue the policy adopted for accounting of exchange differences arising from translation of foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning if first Ind AS financial reporting period as per previous GAAP.

8. Investments in Subsidiaries, Joint Ventures & Associates.

- Ind AS 27 requires an entity to account for its investment in subsidiary, joint venture or associate, 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 its separate opening Ind AS balance sheet:
  a) Cost as per Ind AS-27; or
  b) Deemed cost (refer next page)

- Deemed Cost of such an instument shall be its :
  a. Fair Value at the date of transition to Ind AS in its separate financial statements; or
  b. 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.

9.Assets & Liabilities of Subsidiaries,Associates & Joint Ventures

- If a Subsidiary becomes a first time adopter after its parent, the subsidiary shall, in its financial statements, measure its assets & liabilities at either:

a) The carrying amount that would be included in the parent's consolidates financial statements, based on the parent's date of transition to Ind AS, if no adjustments were made for consolidation procedures and for the effects f the business in which the parent acquired the subsidiary; or

b) The carrying amount required by the rest of this Ind AS, based on the subsidiary's date of transition to Ind ASs. These carrying amounts could differ from those described in (a):

i. When the exemptions in this Ind AS results in measurements that depend on the date of transition to Ind ASs.

ii. When the subsidiary uses different Accounting policies from those used in consolidated financial statements.

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

10. Compound Financial Instruments

- Ind As 32 requires an entity to split a compound financial instrument into separate liability and equity components.
- If the liability component is no longer outstanding then the two portions of equity are separated.
  a. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component.
  b. The other portion represents the original equity components.

However a first time adopter need not separate these two portions, if liability component is no longer outstanding.

11. Designation of previously recognized financial instruments.

- Ind AS 109 permits financial liability to be designated as a financial liability at fair value through profit or loss.
- Despite this requirement, an entity is permitted to designate any financial liability at fair value through profit or loss provided the liabilty meets the criteria in para 4.2.2 of Ind AS 109 at the date of transition.

12. Fair Value Measurement of Financial Assets or Liabilities at Initial Recognition.

- Despite the requirements of Para 7 and 9 of this Ind AS, an entity may apply the requirements of Ind AS 109 prospectively to transactions entered into on or after the date of transition to Ind ASs.

13.Decommissioning Liabilities included in the Cost of Property, Plant and Equipment

- A first time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition and if this exemption is used, it shall:

a) Measure the liability as at date of transition in accordance with Ind AS 37.

b) To the extent that the liability is within the scope of Appendix A of Ind AS 16, estimate the amount that would have been included in the cost of the related asset when the liability first arouse, by discounting the liability to that date using its best estimates of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period.

c) calculate the accumulated depreciation on that amount, as at the date of transition to Ind ASs, 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.

14. Financial Assets or Intangible Assets accounted for in accordance with Appendix C, Service Concession Arrangements to Ind AS 115

- A first-time adopter may apply the following provisions while applying the Appendix C to Ind AS 115:
  a) Subject to paragraph (ii), changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively,

except for 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.

b) If, for any particular service arrangement, it is impracticable for an operator to apply this Appendix retrospectively at the date of transition to Ind ASs, it shall:

   i. recognize financial assets and intangible assets that existed at the date of transition to Ind ASs;

ii. use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
iii. test financial and intangible assets recognized 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.

- There are two aspects to retrospective determination:

a) reclassification

b) re-measurement.

It will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in an operator's Balance Sheet, but that retrospective re-measurement of service arrangement assets might not always be practicable. However, the fact should be disclosed.

15. Extinguishing Financial Liabilities with Equity Instruments:

- A first-time adopter may apply the Appendix E of Ind AS 109 Extinguishing Financial Liabilities with Equity Instruments from the date of transition to Ind ASs.

16. Severe Hyperinflation:

- This applies to entities that are adopting Ind ASs for the first time, as well as entities that have previously applied Ind ASs.
- If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to Ind ASs.

17. Joint Ventures - Transition from Proportionate Consolidation to the Equity Method:

- An entity shall recognize its investment in the joint venture at transition date.
- That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition.

- If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

18. Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities

- An entity shall, at the date of transition to Ind ASs:

a. De-recognize the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28.

b. Recognize its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

19. Transition Provisions in an Entity's Separate Financial Statements:

- An entity that was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with Ind AS 109 shall :

a) De-recognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined.

b) provide a reconciliation between the investment de-recognized, and the assets and liabilities recognized, together with any remaining difference adjusted in retained earnings, at the date of transition to Ind ASs.

20. Stripping Costs in the Production Phase of a Surface Mine

- As at transition date to Ind ASs, any previously recognized asset balance that resulted from stripping activity shall be depreciated or amortized over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.
- If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognized in opening retained earnings at the transition date to Ind ASs

21. Designation of Contracts to Buy or Sell a Non-financial Item:

- an entity is permitted to designate, at the date of transition to Ind ASs, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of Ind AS 109 at that date and the entity designates all similar contracts.
- However, Ind AS 109 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (Ind AS 109).

22. Revenue from Contracts with Customers:

- A first-time adopter may use one or more of the following practical expedients when applying Ind AS 115 retrospectively

i. for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period

ii. for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; and

iii. 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 (for all reporting periods presented before the beginning of the first Ind AS reporting period).

23.Non-current Assets Held for Sale and Discontinued Operations:

- Ind AS 105 requires non-current assets that meet the criteria to be classified as:

a) Held for sale

b) Held for distribution to owners; and

c) Operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification.

- A first time adopter can:
  - measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind ASs in accordance with Ind AS 105; and
  - recognize directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind ASs determined under the entity's previous GAAP.

Thank You