TOPIC 34

IND AS 101
FIRST TIME ADOPTION OF IND AS

INDEX

Quote:- If you cannot do great things, do small things in great ways

Summary

- For the purpose of Ind AS adoption, an entity shall select a date of transition which is first day of the comparative period.
- It is required to prepare an opening Ind AS Balance Sheet as on the date of transition, Ind AS compliant financial statements for the comparative period and current period.
- It shall prepare reconciliation statement explaining differences in equity, total comprehensive income and cash flows arising of Ind AS adoption.
- These reconciliations are presented by way of an explanatory statement in the first Ind AS compliant financial statements.
- An entity's first Ind AS financial statements shall include at least three Balance Sheets, two Statements of profit and loss, two Statements of cash flows and two Statements of changes in equity and related notes,including comparative information for all statements presented.
- Ind AS 101 provides mandatory and optional transitional exemptions.
- Important optional exemptions are –
  - Existing carrying amount of property, plant and equipment, intangible assets and investment property can be included in the opening Ind AS Balance Sheet without adjustment;
  - Deferred exchange fluctuation loss/gain on long term foreign currency monetary items can be carried forward;
  - Lease classification of land and building can be given prospective effect.

DEFINITIONS

(a) **Date of transition to Ind AS:** The beginning of the earliest period for which an entity presents full comparative information under Ind AS in *first Ind AS financial statements*.

(b) **First Ind AS financial statements:** The first annual financial statements in which an entity adopts *Indian Accounting Standards* (Ind AS), by an explicit and unreserved statement of compliance with Ind AS.

(c) **First Ind AS reporting period:** The latest reporting period covered by an entity's first Ind AS financial statements.

(d) **First-time adopter:** An entity that presents its first Ind AS financial statements.

(e) Opening Ind AS balance sheet: An entity's balance sheet at the date of transition to Ind AS.

(f) Previous GAAP: The basis of accounting that a first-time adopter used for its statutory reporting requirements in India immediately before adopting Ind ASs. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, shall consider those financial statements as previous GAAP financial statements.

OBJECTIVE

The objective of Ind AS 101 is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- is **Transparent** for users and **Comparable** over all periods presented;
- provides a **suitable starting point** for accounting in accordance with Ind ASs; and
- can be **generated at a cost that does not exceed the benefits**

HOW AN ENTITY ADOPTS IND AS?

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

WHEN TO APPLY THIS INDAS 101?

An entity shall apply this standard -

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

For example:

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

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

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

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

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

PROCESS OF FIRST TIME ADOPTION OF IND AS

First time adoption of Ind ASs requires selection/mandatory adoption of the accounting period in which Ind AS based financial statements shall be prepared for the first time.
Based on the Ind AS adoption period, the date of transition is determined.

***Date of transition* is the first day of the earliest comparative period**.
If an entity adopts Ind ASs in 2016-17, then its date of transition is 1.4.2015, the comparative period is 2015-16.

It is required to explain how the transition from previous GAAP to Ind ASs affected its reported Balance Sheet, financial performance and cash flows.

These explanations are provided by way of reconciliations of equity and profit or loss.
Steps to be followed in first time adoption of Ind ASs are presented in following Table:

1	2	3
Date of Transition	**Comparative Period**	**First-time Ind AS adoption period**
1st April, 2014	**1.4.2014-31.3.2015**	**1.4.2015-31.3.2016**
(a) Prepare a Balance Sheet as on 1.4.2014 as per Ind AS which is termed as opening Ind AS Balance Sheet.	(a) Prepare Ind AS compliant financial statements for 2014-15 which shall be used as the basis for comparatives of	(a) Prepare Ind AS compliant financial statements for 2015-16 and use information of 2014-15 Ind AS compliant

(b) Prepare explanatory statement reconciling equity as on 1.4.2014 as per Ind ASs and as per previous GAAP as on 31.3.2014. (c) Distinguish difference Arising out of correction Of errors made in the previous GAAP and difference arising out of Ind ASs adoption. (d) Disclosures in accordance with Ind AS 36 when any previously recognised impairment loss is reversed while Preparing opening Ind AS Balance Sheet.	the first Ind AS compliant financial statements. These financial statements are released only as comparatives. (b) Prepare explanatory Statement reconciling equity as on 31.3.2015 as per Ind ASs and as per previous GAAP as on 31.3.2015. (c) Prepare explanatory statement reconciling total comprehensive income for the period 2014-15 as per Ind ASs and as per previous GAAP. (d) Provide details of material Adjustments to cash flows statement.	financial statements as comparatives. For Balance Sheet as on 31.3.2016, comparatives shall be Balance Sheets as on 1.4.2014 &31.3.2015. (b) Present in the Notes an explanatory statement showing reconciliation stated in 1(b), (c) & (d), and 2 (b), (c) & (d).

The resulting adjustments arise from events and transactions before the date of transition to Ind AS shall be recognised directly in retained earnings.

Uniform Accounting Policies

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

- Mandatory exceptions and
- Optional exemptions

IND AS 101 – SPECIFIC REQUIREMENTS

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

Recognition	De-recognition	Reclassification	Re-Measurement

RECOGNISE (Examples)

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

DE-RECOGNISE (Examples)

- Internally generated intangible assets (Ind-AS 38)
- Deferred tax assets where recovery is not probable (Ind-AS 12)
- Provision for Dividend (Ind-AS 10)
- Preliminary & Pre-Operative expenses.

RECLASSIFY (Examples)

- Investments accounted for in accordance with Ind-AS 39
- Certain financial instruments previously classified as equity
- Any assets and liabilities that have been offset where the criteria for offsetting in Ind-AS are not met—for example, the offset of an insurance recovery against a provision.
- Noncurrent assets held-for-sale (Ind-AS 5)
- Non-controlling interest (Ind-AS 27)

MEASURE OR REMEAURE (Examples)

- Receivables (Ind-AS 18)
- Inventory (Ind-AS 2)
- Employee benefit obligations (Ind-AS 19)

- Deferred taxation (Ind-AS 12)
- Financial instruments (IndAS 39)
- Investment Property (Ind-AS 40)
- Property Plant & Equipment (Ind-AS 16)

IND AS 101 – EXEMPTIONS & EXCEPTIONS

General Rule – Retrospective Application

There are **two kinds** of exceptions / exemptions in this Ind AS

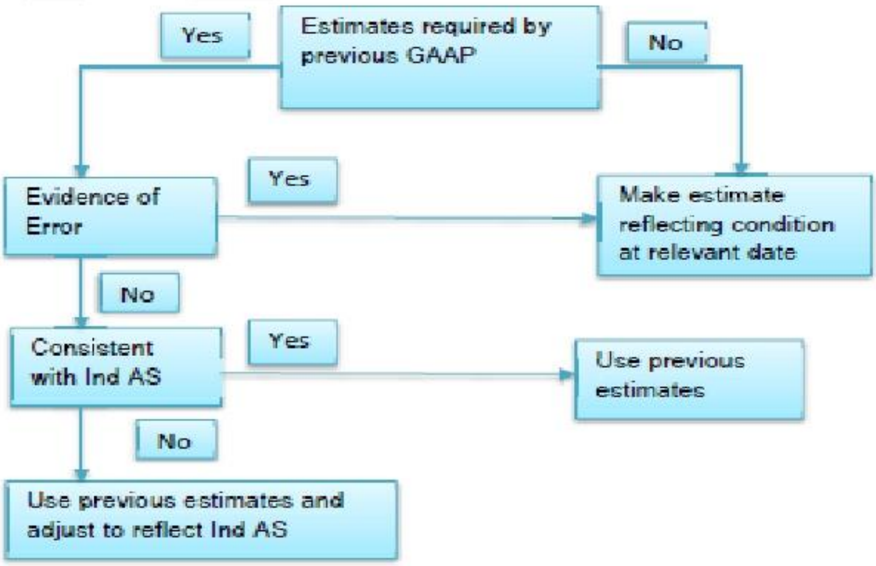
1. Mandatory **(Exceptions to the retrospective application** of other Ind AS)
2. Optional **(exemptions from application of other Ind AS)**

MANDATORY

(Exceptions to Retrospective Application of Other IndAS)

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

In other words, estimates made by the entity in accordance with local GAAP shall not be changed in view of the developments after the transition date.



For example, an entity made provision on 31st March,2015, for Rs. 1 lakh. By the time the entity prepares 1st Ind-AS Financial Statements – the said liability was settled for Rs. 80,000. How much should the provision be measured at when an entity make in the 1st Ind-As Financial Statement prepared on 1st April, 2011 ?

A.Rs. 80,000 or B. 1,00,0004

The Answer is B,

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

(a) Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

(b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

(c) Accounting for a loss of control over a subsidiary,

Q452. (ICAI MODULE)

Ind AS requires allocation of losses to the non-controlling interest, which may ultimately lead to a debit balance in non-controlling interests, even if there is no contract with the non-controlling interest holders to contribute assets to the Company to fund the losses. Whether this adjustment is required or permitted to be made retrospectively?

Solution

- Ind AS 101 contains a mandatory exception that prohibits retrospective allocation of accumulated profits between the owners of the parent and the NCI.
- In case an entity elects not to restate past business combinations, the previous GAAP carrying value of NCI is not changed other than for adjustments made (re-measurement of the assets and liabilities subsequent to the business combination) as part of the transition to Ind AS.
- As such, the carrying value of NCI in the opening Ind AS balance sheet cannot have a deficit balance on account of recognition of the losses attributable to the minority interest, which was not recognised under the previous GAAP as part of NCI in the absence of contract to contribute assets to fund such a deficit.

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

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

4. Hedge accounting

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

OPTIONAL EXEMPTIONS

(From application of other IndAS)

1. Exemptions for Business Combinations:

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

However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.

2. **Share-based Payment Transactions:**

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind-AS. However, if a first time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

Q453. (ICAI MODULE)

X Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X1. It has given 200 stock options to its employees. Out of these, 75 options have vested on November 30, 20X0 and the remaining 125 will vest on November 30, 20X1. What are the options available to X Ltd. at the date of transition?

Solution

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind-AS. However, if a first time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

Having regard to the above, X Ltd. has the following options:

- For 75 options that vested before the date of transition:

(a) To apply Ind AS 102 and account for the same accordingly, provided it has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

(b) Not to apply Ind AS 102.

However, for all grants of equity instruments to which Ind AS 102 has not been applied, i.e., equity instruments vested but not settled before date of transition to Ind AS, X Ltd. would still need to disclose the information.

For 125 options that will vest after the date of transition: X Ltd. will need to account for the same as per Ind AS 102.

3. Deemed Cost:

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

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

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

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

Q454 (ICAI MODULE)

X Ltd. is the holding company of Y Ltd. X Ltd. is required to adopt Ind AS from April 1, 2016. X Ltd. wants to avail the optional exemption of using the previous GAAP carrying values in respect of its property, plant and equipment whereas Y Ltd. wants to use fair value of its property, plant and equipment as its deemed cost on the date of transition. Examine whether X Ltd. can do so for its consolidated financial statements. Also, examine whether different entities in a group can use different basis for arriving at deemed cost for property, plant and equipment in their respective standalone financial statements

Solution

Where there is no change in its functional currency on the date of transition to Ind AS, a first time adopter to Ind AS may elect to continue with the carrying value of all of its property, plant and equipment as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition after making necessary adjustments.

Nothing prevents different entities within a group to choose different basis for arriving at deemed cost for the standalone financial statements. However, in Consolidated Financial Statements, the entire group should be treated as one reporting entity. Accordingly, it will not be permissible to use different basis for arriving at the deemed cost of property, plant and equipment on the date of transition by different entities of the group for the purpose of preparing Consolidated Financial Statements.

4. Long-term Foreign Currency Monetary Items;

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

If the Company wants to avail the option prospectively

The Company cannot avail the exemption given in Ind AS 101 and cannot exercise option under paragraph 46/46A of AS 11, prospectively, on the date of transition to Ind AS in respect of Long term foreign currency monetary liability existing on the date of transition as the company has not availed the option under paragraph 46/46A earlier. Therefore, the Company need to recognise the exchange differences in accordance with the requirements of Ind AS 21, The Effects of Changes in Foreign Exchange Rates.

Q455. (ICAI MODULE)

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On the date of transition, there is a long- term foreign currency monetary liability of Rs 60 crores (US \$ 10 million converted at an exchange rate of US \$ 1 = Rs 21 60). The accumulated exchange difference on the date of transition is nil since Y Ltd. was following AS 11 notified under the Companies (Accounting Standards) Rules, 2006 and has not exercised the option provided in paragraph 46/46A of AS 11. The Company wants to avail the option under paragraph 46A of AS 11 prospectively or retrospectively on the date of transition to Ind AS. How should it account for the translation differences in respect of this item under Ind AS 101?

Solution

Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

5. *Investments in Subsidiaries, Joint Ventures and Associates*

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

(a) at cost; or

(b) In accordance with Ind AS 109.

If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS Balance Sheet:

(a) cost determined in accordance with Ind AS 27; or

(b) Deemed cost. The deemed cost of such an investment shall be its:

   (i) fair value at the entity's date of transition to Ind AS in its separate financial statements; or

   (ii) Previous GAAP carrying amount at that date.

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

6. Compound Financial Instruments

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

7. Joint Arrangements

Transition from Proportionate Consolidation to Equity Method

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

Transition from Equity Method to accounting for assets and liabilities

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

Transitional provisions in entity's Separate FS

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

Carve Outs in IndAS 101 from IFRS 1

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

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

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

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

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

As per IFRS: No provision in IFRS 1.

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

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

Q456. (ICAI MODULE)

H Ltd. has the following assets and liabilities as at March 31, 2016, prepared in accordance with previous GAAP:

Particular	Notes	Amount (Rs)
Fixed assets	1	1,34,50,000
Investments in S Ltd.	2	48,00,000
Debtors		2,00,000
Advances for purchase of inventory		50,00,000
Inventory		8,00,000
Cash		49,000
Total assets		2,42,99,000
VAT deferral loan	3	60,00,000
Creditors		30,00,000
Short term borrowing		8,00,000
Provision		12,00,000
Total liabilities		1,10,00,000
Share capital		1,30,00,000
Reserves:		2,99,000
Cumulative translation difference	4	1,00,000
ESOPC reserve	4	20,000
Retained earning		1,79,000
Total equity		1,32,99,000
Total equity and liabilities		2,42,99,000

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 2016:

1. In relation to tangible fixed assets (property, plant and equipment), the following adjustments were identified:
   - Fixed assets comprise land held for capital appreciation purposes costing Rs 4,50,000 and was classified as investment property as per Ind AS 40.
   - Exchange differences of Rs 1,00,000 were capitalised to depreciable fixed assets on which accumulated depreciation of Rs 40,000 was recognised.
   - There were no asset retirement obligations.

- The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.

2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for Rs 48,00,000 that carried a fair value of Rs 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.

3. Financial instruments:

- **VAT deferral loan Rs 60,00,000 :**

The VAT deferral loan of Rs 60,00,000 was obtained on March 31, 2016, 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, 2016, is Rs 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

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

- **ESOP reserve of Rs 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 Rs 12,000 towards the vested options and R 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 Rs 15,000 and Rs 9,000 for the vested and unvested shares respectively. The Company intends to avail the Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.

❖ **Cumulative translation difference :**

Rs 1,00,000 The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of Rs 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.

Solution

Adjustments for opening balance sheet as per Ind AS 101

1. **Fixed assets:** As the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately; As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values. As such, the past capitalized exchange differences require no adjustment in this case.

2. **Investment in subsidiary:** On first time adoption of Ind AS, a parent company has an option to carry its investment in subsidiary at fair value as at the date of transition in its separate financial statements. As such, the Company can recognise such investment at a value of Rs 68,00,000.

3. **Financial instruments:** As the VAT deferral loan is a financial liability under Ind AS 109, that liability should be recognised at its present value discounted at an appropriate discounting factor. Consequently, the VAT deferral loan should be recognised at Rs 37,25,528 and the remaining Rs 22,74,472 would be recognised as deferred government grant.

4. **ESOPs:** Ind AS 101 provides an exemption of not restating the accounting as per the previous GAAP in accordance with Ind AS 102 for all options that have vested by the transition date. Accordingly, out of 1000 ESOPs granted, the first-time adoption exemption is available on 800 options that have already vested. As such, its accounting need not be restated. However, the 200 options that are not vested as at the transition date, need to be restated in accordance with Ind AS 102. As such, the additional impact of Rs 1,000 (i.e., 9,000 less 8,000) would be recognised in the opening Ind AS balance sheet.

5. **Cumulative translation difference:** As per paragraph D 12 of Ind AS 101, the first-time adopter can avail an exemption regarding requirements of Ind AS 21 in context of cumulative translation differences. If a first-time adopter uses this exemption the cumulative translation

differences for all foreign operation are deemed to be zero as at the transition date. In that case, the balance is transferred to retained earnings. As such, the balance of Rs 1,00,000 should be transferred to retained earnings

6. Retained earnings should be increased by Rs 20,99,000 on account of the following:

	Rs
Increase in fair value of investment in subsidiary (note 2)	20,00,000
Additional ESOP charge on unvested options (note 4)	(1,000)
Transfer of cumulative translation difference balance to retained earnings (note 5)	1,00,000

After the above adjustments, the carrying values of assets and liabilities for the purpose of opening Ind AS balance sheet of Company H should be as under:

Particular	Notes	Previous	Adjustments	Ind AS GAAP
Non-Current Assets				
Fixed assets	1	1,34,50,000	(4,50,000)	1,30,00,00
Investment property	1	0	4,50,000	4,50,000
Investment in S Ltd.	2	48,00,000	20,00,000	68,00,000
Advances for purchase of inventory		50,00,000		50,00,000
Current Assets				
Debtors		2,00,000		2,00,000
Inventory		8,00,000		8,00,000
Cash		49,000	-	49,000
Total assets		2,42,99,000	20,00,000	2,62,99,000
Non-current Liabilities				
Sales tax deferral loan	3	60,00,000	(22,74,472)	37,25,528
Deferred government grant	3	0	22,74,472	22,74,472
Current Liabilities				
Creditors		30,00,000		30,00,000
Short term borrowing		8,00,000		8,00,000
Provisions		12,00,000		12,00,000
Total liabilities		1,10,00,000		1,10,00,000
Share capital		1,30,00,000		1,30,00,000
Reserves:				

Cumulative translation difference		1,00,000	(1,00,000)	0
ESOP reserve		20,000	1,000	21,000
Other reserves		1,79,000	20,99,000	22,78,000
Total equity		1,32,99,000	20,00,000	1,52,99,000
Total equity and liabilities		2,42,99,000	20,00,000	2,62,99,000

Q457. (RTP MAY 19)

XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f 1st April, 2018 with a transition date of 1st April, 2017. The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(Rs in Lakhs)

Particulars	31.03.2018	31.03.2017
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	42,208	41,075
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments ·	1,263	3,763
Other Current Assets	1,554	104
Total	42,208	41,075

Additional Information:

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	Rs in Lakhs
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

SOLUTION

As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

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. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2054
Less: Trade Payables	75
Short Term Provisions	35
Deemed cost of the investment in JV	1944

Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	104
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	475
	23,137

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) x Net asset of JV]

= (1507 / 23,137) x 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	**31.3.2017**	**Ind AS Adjustment**	**Transition date Balance Sheet as per Ind AS**
Non-Current Assets			
Property Plant & Equipment	22,288	(1,200)	21,088
Intangible assets - Goodwill on Consolidation	1,507	(119) -	1,388
Investment Property	5,245	(405)	5,245
Long Term Loans & Advances	6,350	1,944	5,945
Non- current investment in JV	-	-	1,944
Current Assets		(280)	
Trade Receivables	1,818	-	1,538
Investments ·	3,763		3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**(110)**	**40,965**
Shareholder's Funds	7,953	-	
Share Capital	16,597	-	7,953
Reserves & Surplus		(75)	16,597
Non-Current Liabilities	1,000	(35)	
Long Term Borrowings	691	**(110)**	1,000
Long Term Provisions	5,904		691
Other Long-Term Liabilities			5,904
Current Liabilities			
Trade Payables	8,455		8,380
Short Term Provisions	475		440
Total	**41,075**		**40,965**

Student Notes:-

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