First time adoption of Ind AS (Ind AS 101)

Objective of Ind AS 101

Ind AS 101 ensures that an entity's first Ind AS financial statements and first Ind AS interim financial statements contain **high quality financial information** that:

Transparent	• FS is transparent and comparable over all periods presented
Serve as Starting point	• FS provides a suitable starting point for accounting under Ind AS
Cost v/s benefit	• FS can be generated at a cost that does not exceed the benefits to users

Scope of Ind AS 101

What is in the scope

- First Ind AS financial statement
- Interim financial statement covered under period of First Ind AS financial statement

What is scoped out

- Changes in accounting policy made by an entity already applying Ind AS
- Such changes to be accounted under Ind AS 8 or transitional period under other Ind AS

Who is First Time Adopter?

- **First Time Adopter:** An entity that presents its first Ind AS Financial Statements
- **First Ind AS financial statements:** The first <u>annual</u> financial statement in which an entity adopts Ind AS by <u>an explicit and unreserved statement of compliance</u> with Ind AS
- **Previous GAAP:** the basis of accounting that a first time adopter used for its statutory reporting requirements in India immediately before adopting Ind AS. 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 statement

Timelines

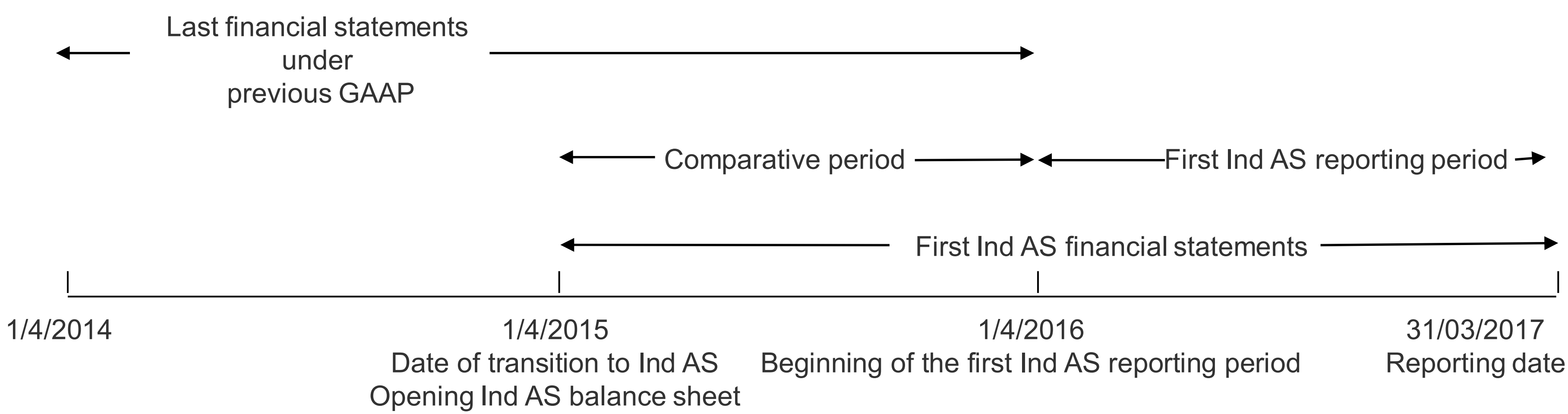
If a company applies Ind AS from 01 April 2016, then:

First Ind AS reporting date: End of the current reporting period (i.e. 31/03/2017)

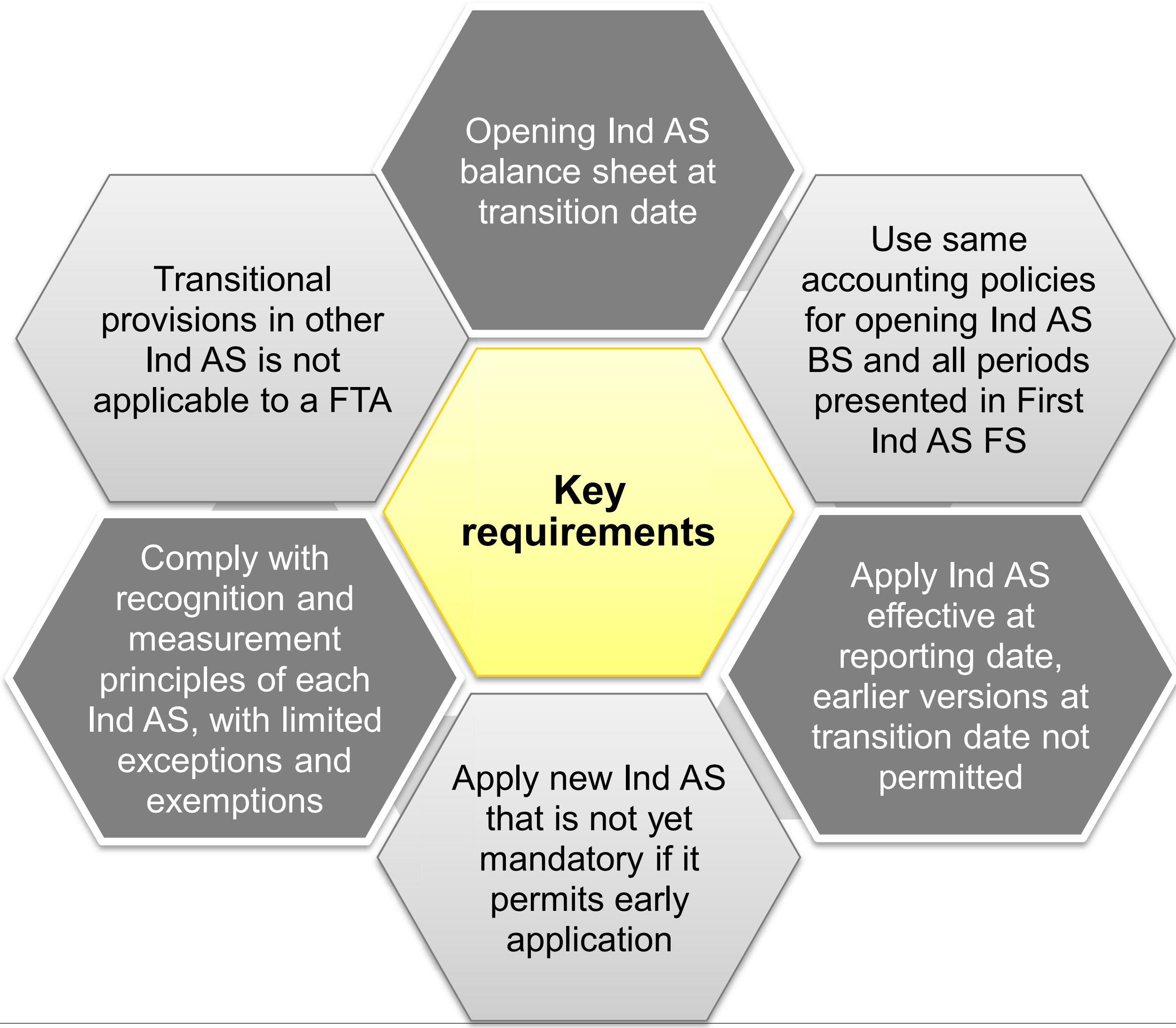
Transition date: Beginning of the earliest comparative period presented (i.e. 01/04/2015 for a first time adopter for the year ending 31/03/2017)

First Ind AS reporting period: The latest reporting period covered by entity's first Ind AS financial statement. In this case 01/04/2016 to 31/03/2017

Opening Ind AS balance sheet: An entity's balance sheet at the date of transition to Ind AS (i.e. 01/04/2015)



Recognition and measurement



General rule in preparing opening Ind AS balance sheet

- Except where Ind AS 101 contains an **exception or an exemption**, an entity must:

Step 1	Step 2	Step 3	Step 4
Recognise all assets and liabilities required to be recognised by Ind AS	**De-recognise** all assets and liabilities not permitted by Ind AS	**Reclassify** all items in accordance with Ind AS	**Measure** all recognized assets and liabilities in accordance with Ind AS

- The restatement is booked through retained earnings (or, if appropriate, another category of equity) except for certain adjustments (acquired intangibles, impairment which is adjusted against goodwill)

Exemptions and exceptions

- To facilitate the implementation of Ind AS, Ind AS 101 provides some relief from retrospective application of Ind AS which can be broadly divided in two categories:
  - Exemptions

    First time adopters can <u>choose to adopt one or more</u> of the exemptions available under Ind AS 101
  - Exceptions

    First time adopters are <u>prohibited from applying certain provisions</u> of Ind AS retrospectively

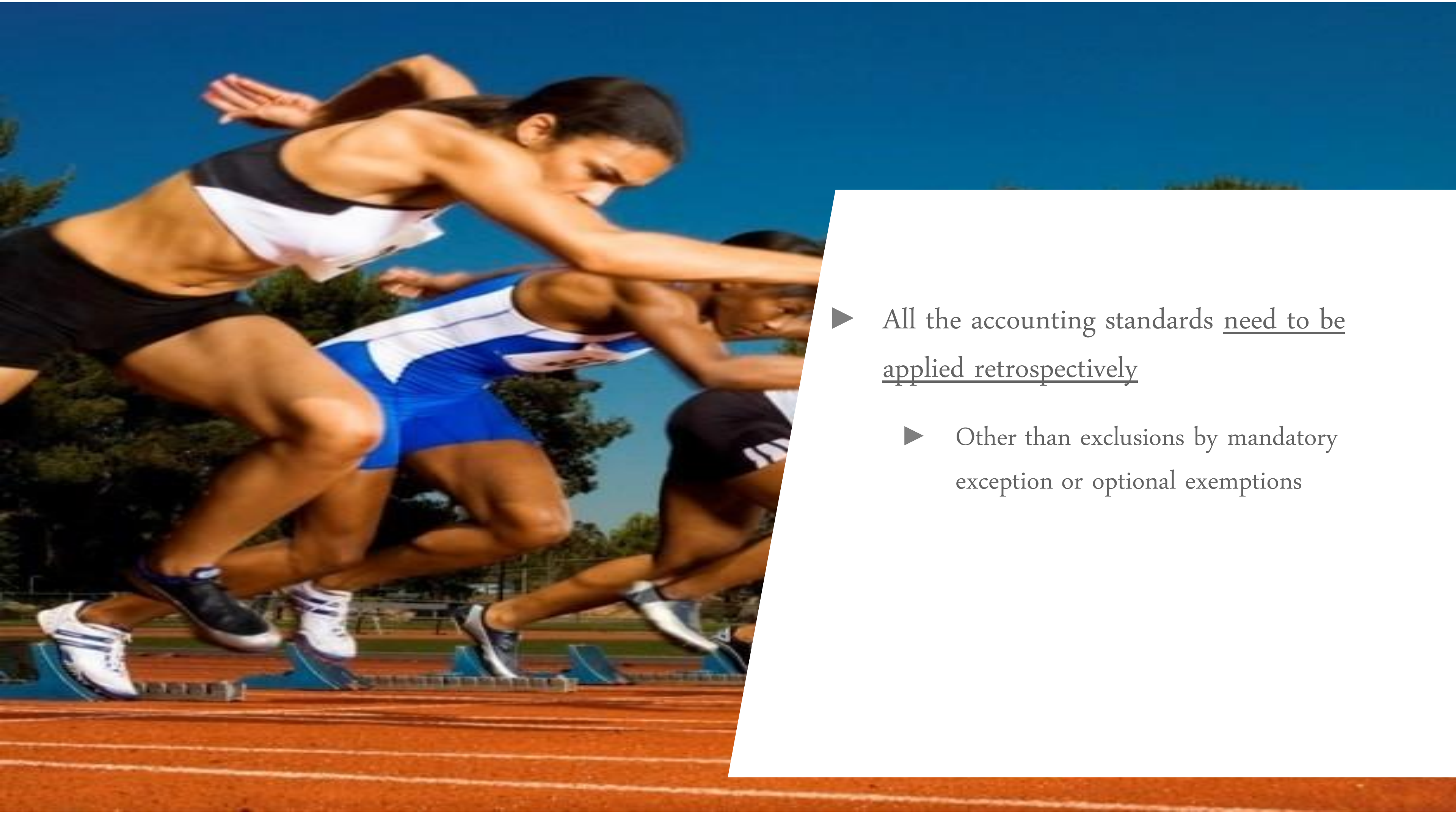
Exemptions are optional whereas exceptions are mandatory

Key requirements of Ind AS 101

Key requirements:

- First Ind AS Financial Statements should include at least:
  - At least three balance sheet
  - two Statements of profit or loss
  - two Statements of cash flows and
  - two Statements of changes in equity and related notes
- An entity must use the same accounting policies in its opening Ind AS balance sheet and for all periods presented in its first Ind AS financial statements.
- Apply only the applicable version of accounting standards at the reporting date - (and not earlier versions at transition date)
- This must comply with the recognition and measurement principles of each Ind AS, with limited exceptions and exemptions.
- An entity may apply a new Ind AS that is not yet mandatory if it permits early application

First time adoption



- All the accounting standards <u>need to be applied retrospectively</u>
  - Other than exclusions by mandatory exception or optional exemptions

Exceptions to retrospective application

- Ind AS 101 prohibits retrospective application in certain cases.

- Retrospective application prohibited for:
  - Use of estimates
  - Hedge accounting
  - De-recognition of financial assets and financial liabilities
  - Some aspects of accounting for non-controlling interests
  - Classification and measurement of financial assets
  - Impairment of financial assets
  - Embedded derivatives
  - Government loans

Use of estimates

- **Ind AS 101 prohibits the use of hindsight in assessing estimates under Ind AS.**

- Estimates made by management under Indian GAAP should not change as a result of Ind AS implementation, as management can not use hindsight. There may be small differences due to different requirements in calculation bases, eg tax and pensions:

- Significant estimates may include
  - Income tax
  - Future obligations under employee benefit plans
  - Useful lives of PPE (these will need to be assessed under Ind AS 16)
  - Valuation of deferred tax assets (these will need to be assessed under Ind AS 12)

Use of estimates

Hedge accounting

- **An entity may be accounting for derivatives as hedges prior to adoption of Ind AS.**

- All derivatives to be measured at fair value at transition date
- All deferred gains and losses arising on derivatives under previous GAAP to be eliminated on transition date
- Opening balance sheet not to reflect a hedging relationship that does not qualify specified criteria under Ind AS 109
- If an instrument is designated a hedge before the date of transition, but does not meet the conditions for hedge accounting, apply Ind AS 109 to discontinue hedge accounting
- Contemporaneous documentation requirements apply in order to support hedge accounting

Question

X Ltd. has entered into a hedge transaction in its previous GAAP wherein the hedging instrument is a written option. On the date of transition to Ind AS, can it continue the hedge accounting in respect of this transaction?

Response:

In accordance with paragraph B5 of Appendix B of Ind AS 101 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

Since Ind-AS 109 does not permit designating a written option as a hedging instrument, the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity shall apply paragraph 6.5.6 of Ind AS 109 to discontinue hedge accounting.

De-recognition of financial assets and financial liabilities

- An entity should apply the de-recognition requirements in Ind AS 109 prospectively:

- A first-time adopter should apply the de-recognition requirements in Ind AS 109 prospectively to transactions occurring on or after transition date

- A first-time adopter that derecognised non-derivative financial assets and liabilities under its previous GAAP before transition date, will not recognise these items under Ind AS even if these meet the Ind AS 109 recognition criteria

- An entity may apply the de-recognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions

De-recognition of financial assets and financial liabilities

Example:

Steel Ltd has export receivables of Rs.100 as at 31 March 2002. These export receivables are receivable in May 2005

- Steel Ltd entered into discounting arrangement with SBI whereby it received Rs.95 for these receivables in 2002-2003.
- If such debtors does not pay then SBI has right of recourse to Steel Ltd
- Steel Ltd had derecognized receivables from its books in 2002-2003
- Steel Ltd is preparing its first Ind AS FS with 1 April 2015 as its date of transition to Ind AS

Is Steel Ltd required to apply Ind AS 109 derecognition rules to discounting of export receivables ?

Response:

<u>No</u>, Steel Ltd is not required to apply Ind AS 109 derecognition rules to financial assets <u>derecognized under its previous GAAP before 1 April 2015</u>

Question

XYZ Bank Ltd. had derecognised certain loan assets upon securitisation in the financial year 2008-09 in accordance with the RBI Guidelines on Securitisation. XYZ Bank Ltd. adopts Ind AS from 1 April 2018 and accordingly the date of transition is 1 April 2017. How would the securitised loan assets be accounted for upon such transition?

Response:

According to paragraph B2 of Appendix B of Ind AS 101, 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. If a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with the previous GAAP as a result of a transaction that occurred before the date of transition to Ind-AS, it shall not recognise those assets and liabilities in accordance with Ind-AS. Thus, securitised loan assets are not required to be recognised by XYZ Bank Ltd. at the date of transition to Ind AS.

Non-controlling interest

First-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind As

- the requirement that 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

- the requirements for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control

- the requirements for 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.

However, if a first-time adopter elects to apply Ind AS 103 retrospectively to past business combinations, it also shall apply Ind AS 110

Question

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?

Response:

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.

However, the NCI could have a deficit balance due to re-measurement of the assets and liabilities subsequent to the business combination as part of the transition to Ind AS.

Other exceptions

Other exceptions	Description
Classification and measurement of financial assets	Assessment for classification and measurement of financial assets needs to be based on the facts and circumstances exist on the date of transition to Ind AS
Impairment of financial assets	Impairment requirements as per Ind AS 109 needs to apply retrospectively subject to certain exceptions
Embedded derivatives	Assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of condition that existed at the later of the date the entity first become as party to the contract and the date of reassessment is required as per Ind AS 109.
Government loans	Requirement of Ind AS 20 and Ind AS 109 are applied prospectively. It can be applied retrospectively, if information was obtained at the time of initial recognition.

Elective exemptions

20 Optional exemptions

Business combination related	Fixed assets related	Financial instruments related	Others
Business combination	Deemed cost of PPE / investment property and certain intangible assets	Compound financial instrument	Severe hyperinflation
Investment in subsidiaries/associates/ joint ventures	Decommissioning liabilities included in PPE	Fair value measurement of financial asset and financial liability	Non-current assets held for sale and discontinuing operations
Assets and liabilities of subsidiaries, associates, and joint ventures	Leases	Designation of previously recognized financial instruments	Share-based payment transactions
Cumulative translation difference	Service concession agreements	Extinguishing financial liabilities with equity	Insurance contracts
Joint arrangements	Stripping costs in the production phase	Designation of contracts to buy or sell non financial item	Revenue from contract with others

Business combinations

- **Ind AS 103 requires business combinations to be accounted for by applying fair values to assets and liabilities acquired**

- Ind AS 101 provides a choice:
  - Restating all past business combinations according to Ind AS 103
  - Restating all business combinations starting from a pre transition date (selected by the company)
  - Not restating past business combinations that occurred before the date of transition to Ind AS
  - Exemption is applicable to past acquisitions of associates and interests in joint ventures

Business combinations (continued)

- FTA is not required to determine classification (e.g., acquisition or reverse acquisition) of past business combination in accordance with Ind AS 103
- Recognize all assets and liabilities acquired or assumed in a past business combination except:
  - Certain financial assets and liabilities that were derecognized under previous GAAP
  - Assets (including goodwill) and liabilities that were not recognized in the acquirer's CFS under previous GAAP that would not qualify for recognition under Ind AS in SFS of acquiree
- Derecognize assets and liabilities under previous GAAP that do not qualify for recognition as an asset or liability under Ind AS

Business combinations (continued)

Example:

- Entity B's date of transition to Ind AS is 1 April 2015
- On 1 July 2009, it acquired 100% of subsidiary C through issuance of shares
- Under Previous GAAP, entity B
  - Accounted transaction as acquisition of subsidiary
  - Measured assets acquired and liabilities assumed at the following amounts at 1 April 2015 (date of transition)
    - Fixed assets: 200 (B has adopted cost model for FA under Ind AS)
    - FVOCI Investments : 100 (Market value of such investment is INR300)
    - Pension liability : Nil (Ind AS 19 net liability : INR30)
    - Unamortized VRS expenses: INR25 (Ind AS 19 liability:. Nil)
- How should B account for above acquisition in opening Ind AS balance sheet?

Business combinations (continued)

Response

- Classifies business combination as acquisition (no change in classification even if it satisfies reverse acquisition criteria)
- Fixed Assets which require cost based measurement:
  - Treats carrying amount under previous GAAP immediately after business combination as their deemed cost. Asset may be stated at INR200
  - To be tested for impairment, if there are impairment indicators
- Investments to be recorded at fair value (INR300). Corresponding effect to be shown in equity as a unrealized gain on investments (200)
- Pension liability will be recorded at INR30 with corresponding effect to retained earnings
- Unamortized VRS expenditure will be written off with corresponding effect to retained earnings
- No adjustment to goodwill; however, it will be tested for impairment.

Cumulative Translation Adjustments (CTA)

- Under Ind AS 21, translation adjustments on foreign subsidiaries need to be recorded.

- Under Ind AS 101, CTA may be deemed zero at the transition date
  - No need to restate historically
  - Gain/loss on subsequent disposal of foreign operations will exclude translation differences that arose before transition to Ind AS,
- **FTA may continue policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items** recognised in financial statements for period ending immediately before beginning of first Ind AS financial reporting period as per previous GAAP

Retrospective application of translation difference would be costly or impracticable.

Subsequent disposal of foreign operation, calculation of gain loss include only translation difference post transition date

Fair value or revaluation as deemed cost

- An entity may elect to measure an item of PPE, intangible assets & investment property at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date

- Previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind AS can be used as deemed cost provided that revalued amounts are broadly comparable to:
  - fair value; or
  - cost or depreciated cost under Ind AS, adjusted to reflect, for example, changes in a general price index
- This option can be elected asset by asset.

Indian GAAP revalued amounts may ease transition

- Future depreciation and amortisation will be charged to P&L
- Fair value of intangible, can be considered as the deemed cost only if an active market exists

Previous GAAP carrying value as deemed cost

- An entity may elect to continue with the previous GAAP carrying value for all of its PP&E as recognized in the previous GAAP financial statements at the transition date

- When there is no change in the functional currency on transition date then choice to use previous GAAP carrying value for all of its PPE, as recognized in the previous GAAP financial statements at the transition date
- Necessary adjustments to be made for decommissioning liabilities
- Similar exemption is also available for intangible assets and investment property.

Significantly ease the process of transition

Not be able to revalue selected assets on the transition date

Previous GAAP carrying value as deemed cost

Property, plant & equipment – Fair value vs deemed cost

Option A : item-wise	Option B : all items of PPE
▸ fair value as deemed cost ▸ revaluation as deemed cost ▸ retrospective application	▸ previous GAAP carrying value as deemed cost

- The Company may choose to fair value its Property, plant & equipment to improve its net worth
- An upward fair valuation of PPE will result in reduction of future profits due to higher depreciation charge
- This will not have any implication on the MAT liability.

The ICAI has issued the Exposure Draft of amendments to paragraph D7AA of Ind AS 101, First-time Adoption of Indian Accounting Standards. Among other matters, following amendments have been proposed in the said paragraph:

- Carrying value can be taken as the deemed cost for 'a class' of assets instead of 'all' assets on the transition.
- When the entity chooses to adopt the carrying value as at the date of transition to Ind AS as the deemed cost as per paragraph D7AA, consequential changes arising on the application of other Ind AS can be adjusted from the deemed cost of property, plant and equipment.

Decommissioning liabilities

- **Ind AS requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.**

- A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to Ind AS.
- If a first-time adopter uses this exemption, it shall:
  - Measure the liability in accordance with Ind AS 37 on the date of transition to Ind AS
  - The obligation should be capitalized as a separate component of PPE, together with the accumulated depreciation from the date the obligation was incurred to the transition date.
  - The amount to be capitalized as part of the cost of the asset is calculated by discounting the liability back to the date the obligation initially arose using the **best estimate of historical discount rates.**
  - The associated accumulated depreciation is calculated by applying the current estimate of the useful life of the asset, using the entity's depreciation policy for the asset

Decommissioning liabilities (cont'd)

- X Telecom's date of transition is January 1, 2007
- It set up a tower that was completed and ready for use on January 1, 2002
- The facts relevant to Tower are summarized below:
  - Cost INR 1,400
  - Residual value INR 200
  - Economic life 20 years
  - Original estimate of decommissioning cost to be incurred INR 175
  - Revised estimate at 2004 of decommissioning cost INR 300
  - Discount rate applicable (assumed to be constant) 5.65%
  - Discounted value of original decommissioning liability on 1 January 2002 INR 58
  - Discounted value of revised decommissioning liability on 1 January 2002 INR 100
  - Discounted value of revised decommissioning liability on 1 January 2007 INR 131
- X Telecom is not accounting for decommissioning liability under previous GAAP

Decommissioning liabilities (cont'd)

Response:

- Full retrospective application of Ind AS would require an entity to go back in time and account for each revision of the decommissioning provision
- Keeping in view practical difficulties, Ind AS 101 allows the following treatment to be followed:
  - Recognize decommissioning liability based on discounted value of revised liability on 1 January 2007, i.e., INR 131
  - Amount to be added to cost of Tower
    - Discounted value of revised decommissioning liability on 1 January 2002 INR 100
    - Accumulated depreciation on the above amount = INR 100 x 5/ 20 = 25
    - Net amount to be capitalized = 100 – 25 = INR 75
  - Entry to be passed
    - Dr. Tower INR 75
    - Dr. Retained earning INR 56
    - Cr. Decommissioning liability INR 131

Leases

- **Certain arrangements may be determined to be leases Appendix C of Ind AS 17.**

- A first-time adopter may apply the transitional provisions in Appendix C of Ind AS 17 Determining whether an Arrangement contains a Lease.
- Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to Ind As contains a lease on the basis of facts and circumstances existing at that date.

Example

An entity's first Ind AS financial statements are for a period that ends on 31 March 2017 and include comparative information for 2016 only. Its date of transition to Ind AS is therefore 1 April 2015. On 1 April 2013, the entity entered into a take-or-pay arrangement to supply gas. On 1 June 2014, there was a change in the contractual terms of the arrangement

At what date should entity perform Appendix C to Ind AS 17 assessment?

Response

On 1 April 2015, the entity may determine whether the arrangement contains a lease by applying the criteria of Appendix C of Ind AS 17 on the basis of facts and circumstances existing on that date.

Alternatively, the entity may apply those criteria on the basis of facts and circumstances existing on 1 April 2013 and reassesses the arrangement on June 1, 2014 with consequent changes on 1 April 2015.

Other Exemptions

Exemptions	Description
Investment in subsidiaries, joint ventures and associates	While preparing SFS in accordance with Ind AS 27, investments in subsidiaries, joint ventures and associates to be recorded at cost or in accordance with Ind AS 109 . If measured at cost by a first-time adopter, the investment may be measured at the following amounts in separate opening Ind AS Balance Sheet: a) Cost as per Ind AS 27 or b) Deemed cost, i.e., fair value at the entity's date of transition to Ind AS or previous GAAP carrying amount at that date
Assets and liabilities of subsidiaries, associates, and joint ventures	The exemption is applicable when the parent company has adopted Ind AS before its subsidiary/ Associate /JV or vice versa. However since under notified road map Parent and its affiliates are required to apply Ind AS simultaneously this exemption will be redundant.

Other Exemptions

Exemptions	Description
Designation of previously recognised financial instruments	Ind AS 109 permits: • Any financial liability to be designated at FVTPL on the date of transition, provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date. • Designate financial asset at FVTPL as per Ind AS 109 based on facts and circumstances as on transition date • Designate an investment in equity shares as FVOCI, as per Ind AS 109, based on facts and circumstances that exist on transition date.

Other Exemptions

Exemptions	Description
Non-current assets held for sale and discontinued operations	Ind AS 105 requires non-current assets to be classified as held for sale, non-current assets held for distribution to owners and operations to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell. A first time adopter can: a) <u>measure</u> such assets or operations at the lower of carrying value and fair value less cost to sell <u>at the date of transition</u> and b) <u>recognise directly in retained earnings</u> any difference between that amount and the carrying amount of those assets at the date of transition

Other Exemptions

Exemptions	Description
Financial assets or an intangible assets accounted for in accordance with service concession arrangement	The transitional provisions require retrospective application unless it is impracticable*, where it is impracticable the FTA shall • recognise financial assets and intangible assets that existed at the date of transition to Ind As. • use the previous carrying amounts of those financial and intangible assets • test financial and intangible assets recognised at that date for impairment, unless this is not practicable,

*Impracticable as defined in Ind AS 8 – Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Disclosures

Disclosure requirements

- First set of Ind AS financial statements to include:
  - at least <u>three</u> statements of financial position;
  - two statements of comprehensive income;
  - two separate income statements (if presented);
  - two statements of changes in equity; and
  - related notes, including comparative information

Disclosure requirements – explanation of transition to Ind AS

- First time adopter shall explain how the transition from previous GAAP to Ind AS affected its financial position, performance and cash flows

  - Reconciliations of its equity reported under previous GAAP to its equity under Ind AS at:
    - The date of transition to Ind AS ; and
    - The end of the latest period presented in the entity's most recent annual financial statements under previous GAAP

  - A reconciliation of its total comprehensive income under Ind AS for the latest period in the entity's most recent annual financial statements to its total comprehensive income, or if not available, to its profit or loss under previous GAAP for the same period

  - An explanation of the material adjustments to the cash flow statement, if it presented one under its previous GAAP

Carve outs

IFRS 1 Vs Ind-AS 101

	IFRS 1	Ind-AS 101
Previous GAAP	The basis of accounting that a first-time adopter used immediately before adopting IFRS	The basis of accounting that a first-time adopter used for its statutory reporting requirement in India immediately before adopting Ind-AS.
Deemed cost for PPE, Intangible Assets and Investment Property	Option to use fair value at the date of transition or a previous GAAP revaluation at, or before, the date of transition to IFRS as deemed cost	In addition, Ind-AS 101 also allows a first-time adopter to continue with the previous GAAP carrying value at the transition date and use the same as deemed cost at that date, after making necessary adjustments for decommissioning liabilities.

IFRS 1 Vs Ind-AS 101

	IFRS 1	Ind-AS 101
Non-current assets HFS & DCO	No exemption available	Option to use the transitional date circumstances to measure Non-current Assets Held for Sale (HFS) and Discontinued Operations (DCO) at the lower of carrying value and fair value less cost to sell.
Treatment of exchange differences	No exemption available	An entity may continue the policy adopted for accounting for exchange differences arising from translation of such long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before beginning of the first Ind AS financial reporting period as per the previous GAAP.
Short term exemptions	IFRS provide short term exemptions	Ind AS 101 does not provide the short term exemptions

Thank you