After studying this chapter, you will be able to:

- Understand the objective for issuing this standard.
- Appreciate the applicability and non-applicability of this standard.
- Define the relevant terms like 'First Ind AS Financial Statements', 'First-time adopter', 'Opening Ind AS Balance sheet', 'Date of Transition to Ind AS', 'First Ind AS reporting period', 'Deemed cost' and 'Previous GAAP'.
- Apply the recognition and measurement principles in the preparation of opening Ind AS Balance Sheets.
- Use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements.
- Evaluate the mandatory exceptions in which Ind AS prohibits retrospective application of Ind AS.
- Examine when Ind AS 101 grants voluntary exemptions from some specific requirements of other Ind AS.
- Know the carve outs in Ind AS 101 from IFRS 1.
1. INTRODUCTION

Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various ‘transition’ requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS.

Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS. The exemptions are broadly categorised into

- those which are mandatory in nature (i.e., cases where the company is not allowed to apply Ind AS retrospectively) and
- those which are voluntary in nature (i.e., the company may elect not to apply certain requirements of Ind AS retrospectively).

Ind AS 101 also prescribes presentation and disclosure requirements to explain the transition to the users of financial statements including explaining how the transition from Indian GAAP to Ind AS affected the company’s financial position, financial performance and cash flows.

Ind AS 101 does not provide any exemption from the disclosure requirements in other Ind AS.

2. OBJECTIVE

The objective of this Ind AS 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;
- provides a suitable starting point; and
- at a cost that does not exceed the benefits.
3. DEFINITIONS

1. First Ind AS Financial Statements
   - The first annual financial statements in which an entity adopts Ind AS, by an explicit and unreserved statement of compliance with Ind AS.
   - This means compliance with ALL Ind-AS, partial compliance is not enough to make entity Ind AS compliant.

2. First –time adopter
   - An entity that presents its first Ind AS financial statements, that entity is known as first time adopter

3. Opening Ind AS Balance sheet
   - An entity’s balance sheet at the date of transition to Ind AS

4. Date of Transition to Ind AS
   - The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS Financial statements.

5. First Ind AS reporting period
   - The latest reporting period covered by an entity’s first Ind AS financial statements

Example

XYZ Ltd. is a BSE listed company having net worth of ₹100 cr. XYZ Ltd. has to prepare financial statements as per Ind AS from 1st April 20X1.

The first Ind AS Financial Statements would be for period ending as on 31.03.20X2

First –time adopter- “XYZ Ltd” with effect from 01.04.20X1
6. **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.

7. **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 statements.

**Illustration 1**

*Company B is a foreign subsidiary of Company A and has adopted IFRS as issued by IASB as its primary GAAP for its local financial reporting purposes. Company B prepares its financial statements as per Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 for the purpose of consolidation with Company A. On transition of Company A to Ind-AS, what would be the previous GAAP of the foreign subsidiary Company B for its financial statements prepared for consolidation with Company A?*

**Solution**

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its statutory reporting requirements in India (emphasis added) immediately before adopting Ind AS. For instance, companies preparing their financial statements in accordance with the Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 shall consider those financial statements as previous GAAP financial statements.

Accordingly, the previous GAAP of the foreign subsidiary for the purpose of consolidation under Ind-AS with the parent company would be accounting standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 and not the IFRS as issued by the IASB since the first time adoption has to be considered in the context of India only.

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4. SCOPE

Ind AS 101 Applies to:

- First Ind AS financial statements
- Each interim financial report for part of the period covered by its first Ind AS financial statements.

However, it does not apply to:

- Changes in accounting policies made by an entity that already applied Ind AS.

Illustration 2

E Ltd. is required to first time adopt Indian Accounting Standards (Ind AS) from April 1, 20X1. The management of E Ltd. has prepared its financial statements in accordance with Ind AS and an explicit and unreserved statement of compliance with Ind AS has been given by the management. However, there is a disagreement on application of one Ind AS between the management and the auditor. Can such financial statements of E Ltd. be treated as first Ind AS financial statements?

Solution

Ind AS 101 defines first Ind AS financial statements as “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.” In accordance with the above definition, if an explicit and unreserved statement of compliance with Ind AS has been given in the financial statements, even if the auditor’s report contains a qualification because of disagreement on application of Indian Accounting Standard(s), it would be considered that E Ltd. has done the first time adoption of Ind AS. In such a case, exemptions given under Ind AS 101 cannot be availed again. If, however, the unreserved statement of compliance with Ind AS is not given in the financial statements, such financial statements would not be considered to be first Ind AS financial statements.

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5. RECOGNITION AND MEASUREMENT

5.1 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.
5.2 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

An entity shall, in its opening Ind AS Balance sheet:

- Recognise all assets and liabilities whose recognition is required by Ind AS;
- Not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- 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 AS; and
- Apply Ind AS in measuring all recognised assets and liabilities.

Example: Consistent application of latest version of Ind AS

The end of entity A’s first Ind AS reporting period is 31 March 20X2. Entity A decides to present comparative information in those financial statements for one year only. Therefore, its date of transition to Ind AS is the beginning of business on 1 April 20X0 (or, equivalently, close of business on 31 March 20X0).

Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 20X1.

Application of requirements

Entity A is required to apply the Ind AS effective for periods ending on 31 March 20X2 in:

a) preparing and presenting its opening Ind AS balance sheet at 1 April 20X0; and

b) preparing and presenting its balance sheet for 31 March 20X2 (including comparative amounts for the year ended 31 March 20X1), statement of profit and loss, statement of changes in equity and statement of cash flows for the year to 31 March 20X2 (including comparative amounts for the year ended 31 March 20X1) and disclosures (including comparative information for the year ended 31 March 20X1).

If a new Ind AS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that Ind AS in its first Ind AS financial statements.

Illustration 3

X Ltd. is required to adopt Ind AS from April 1, 20X1, with comparatives for one year, i.e., for 20X0-20X1. What will be its date of transition?
Solution

The date of transition for X Ltd. will be April 1, 20X0 being the beginning of the earliest comparative period presented. To explain it further, X Ltd. is required to adopt an Ind AS from April 1, 20X1, and it will give comparatives as per Ind AS for 20X0-20X1. Accordingly, the beginning of the comparative period will be April 1, 20X0 which will be considered as date of transition.

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Illustration 4

X Ltd. was using cost model for its property, plant and equipment (tangible fixed assets) till 31st March, 20X1 under previous GAAP. On 1st April, 20X0, i.e., the date of its transition to Ind AS, it used fair values as the deemed cost in respect of its Property, Plant & Equipment. Whether it will amount to a change in accounting policy?

Solution

Use of fair values on the date of transition will not tantamount to a change in accounting policy. The fair values of the property, plant and equipment on the date on transition will be considered as deemed cost without this being considered as a change in accounting policy.

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6. EXCEPTIONS/ EXEMPTIONS

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)

6.1 Mandatory (Exceptions to the retrospective application of other Ind AS)

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.

Step 1 Estimates required by previous GAAP? If yes then go to Step 2 otherwise Step 3.

Step 2 Evidence of Error? If yes then go to Step 3 otherwise Step 4.

Step 3 Make estimate reflecting condition at relevant date.

Step 4 Consistent with Ind AS? If yes then go to step 5 otherwise Step 6
Step 5 Use previous estimates
Step 6 Use previous estimates and adjust to reflect Ind AS.

Illustration 5
A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable) A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for this transaction?

Solution
In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

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2. Derecognition of financial assets and liabilities

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

**Example**

If a first time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its 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 (unless they qualify for recognition as a result of a later transaction or event).

An entity may apply the derecognition 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 derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

3. Hedge accounting

At the date of transition to Ind AS an entity shall:

(a) measure all derivatives at fair value; and

(b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

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 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with Ind AS an individual item within that net position, or a net position if that meets the requirements in Ind AS 109, provided that it does so no later than the date of transition to Ind AS.

Ind AS 109 to discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

4. Non-controlling interests

A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind 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, and the related requirements 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 shall also apply Ind AS 110 from that date.

**Illustration 6**

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**

In case an entity elects not to restate past business combinations, Ind AS 101 requires the measurement of non-controlling interests (NCI) to follow from the measurement of other assets and liabilities on transition to Ind AS. However, 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 (remeasurement 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. However, the NCI could have a deficit balance due to remeasurement of the assets and liabilities subsequent to the business combination as part of the transition to Ind AS. In case an entity restates past business combination, Ind AS 101 requires that the balance in NCI as at the date of transition shall be determined retrospectively in accordance with Ind AS, taking into account the impact of other elections made as part of the adoption of Ind AS. As such, the NCI could have a deficit balance on account of losses attributable to the NCI, even if there is no obligation on the holders of NCI to contribute assets to fund such a deficit.

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5. **Classification and measurement of financial assets**

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

If it is impracticable to assess a modified time value of money element in respect of financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind AS without taking into account the requirements related to the modification of the time value of money element. An entity shall disclose the carrying amount at the reporting date of such financial assets until those financial assets are derecognized.

If it is impracticable to assess whether the fair value of a prepayment feature is insignificant on the basis of the facts and circumstances that exist at the date of transition to Ind AS, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind AS without taking into account the exception for prepayment features. An entity shall disclose the carrying amount at the reporting date of such financial assets until those financial assets are derecognised.

If it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

6. Impairment of financial assets

An entity shall apply the impairment requirements of Ind AS 109 retrospectively subject to

At the date of transition to Ind AS, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised.

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

If, at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised, unless that financial instrument is low credit risk at a reporting date.

7. Embedded derivatives

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

8. **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.

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

### 6.2 Optional (exemptions from application of other Ind AS)

1. **Business combination**

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

   When the exemption is used

   - There won’t be any change in classification
   - Assets and liabilities of past combination measured at carrying amount (deemed cost)
   - Assets and liabilities measured at fair value restated at date of transition - adjusted retained earnings.

   **Note:**

   If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening Ind AS Balance Sheet. Instead, the acquirer shall recognise and measure it in its Consolidated Balance Sheet on the basis that Ind ASs would require in the Balance Sheet of the acquiree.

   **Example**

   If the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as Ind AS 116, would require the acquiree to do in its Ind AS Balance Sheet.
Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to Ind AS, the acquirer shall recognise that contingent liability at that date unless Ind AS 37 would prohibit its recognition in the financial statements of the acquiree.

Conversely, if an asset or liability was subsumed in goodwill / capital reserve in accordance with previous GAAP but would have been recognised separately under Ind AS 103, that asset or liability remains in goodwill / capital reserve unless Ind AS would require its recognition in the financial statements of the acquiree.

Illustration 7

A Ltd. had made certain investments in B Ltd.’s convertible debt instruments. The conversion rights are substantive rights and would provide A Ltd. with a controlling stake over B Ltd. A Ltd. has evaluated that B Ltd. would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS consolidated financial statements. B Ltd. was not considered as a subsidiary, associate or a joint venture under previous GAAP. How should B Ltd. be consolidated on transition to Ind AS assuming that A Ltd. has opted to avail the exemption from retrospective restatement of past business combinations?

Solution

Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary’s assets and liabilities would be included in the parent’s opening consolidated financial statements at such values as would appear in the subsidiary’s separate financial statements if the subsidiary were to adopt the Ind AS as at the parent’s date of transition. For this purpose, the subsidiary’s separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after availing relevant first-time adoption mandatory exceptions and voluntary exemptions. In other words, the parent will adjust the carrying amount of the subsidiary’s assets and liabilities to the amounts that Ind AS would require in the subsidiary’s balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

(a) the parent’s interest in those adjusted carrying amount; and

(b) the cost in the parent’s separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.
It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind AS, then the above exemption does not apply.

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Illustration 8

A Ltd. has a subsidiary B Ltd. On first time adoption of Ind AS by B Ltd., it availed the optional exemption of not restating its past business combinations. However, A Ltd. in its consolidated financial statements has decided to restate all its past business combinations. Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated financial statements of A Ltd. considering that A Ltd. does not avail the business combination exemption? Will the answer be different if the A Ltd. adopts Ind AS after the B Ltd?

Solution

As per Ind AS 101: “A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS). 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.

For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X0, it shall restate all business combinations that occurred between 30 June 20X0 and the date of transition to Ind AS, and it shall also apply Ind AS 110 from 30 June 20X0.”

Based on the above, if A Ltd. restates past business combinations, it would have to be applied to all business combinations of the group including those by subsidiary B Ltd. for the purpose of Consolidated Financial Statements. Ind AS 101 states, “However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.” Thus, in case where the parent adopts Ind AS later than the subsidiary then it does not change the amounts already recognised by the subsidiary.

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2. **Insurance contracts**

   Ind AS 104 will apply for annual periods beginning on or after date of transition to Ind AS. If an insurer changes its accounting policies for insurance liabilities, it is permitted to reclassify some or all of its financial assets as FVTPL (fair value through profit or loss).

3. **Share based payment transactions**

   Apply Ind AS 102, Share-based Payment, to equity instruments that vested before date of transition to Ind AS. However, a first-time adopter may apply Ind AS 102 to equity instruments, if it has disclosed publicly the fair value of those equity instruments, determined at the measurement date. It is encouraged to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind AS.

Illustration 9

*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.

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4. **Deemed cost for PPE and intangible assets**

   If an entity uses fair value in its opening Ind AS Balance Sheet as deemed cost for an item
of property, plant and equipment, an intangible asset or a right-of-use asset, the entity’s first Ind AS financial statements shall disclose, for each line item in the opening Ind AS Balance Sheet:

(a) the aggregate of those fair values; and
(b) the aggregate adjustment to the carrying amounts reported under previous GAAP

A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or
(b) cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

For Investment Property

Ind AS 40, Investment Property permits only the cost model. Therefore, option of availing fair value as deemed cost for investment property is not available for first time adopters of Ind AS for its financial statements.

Illustration 10

X Ltd. is the holding company of Y Ltd. X Ltd. is required to adopt Ind AS from April 1, 20X1. 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. If a first time adopter chooses this option then the option of applying this on selective basis to some of the items of property, plant and equipment and using fair value for others is not available. 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
6.18 FINANCIAL REPORTING

property, plant and equipment on the date of transition by different entities of the group for
the purpose of preparing Consolidated Financial Statements.

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Illustration 11

For the purpose of deemed cost on the date of transition, an entity has the option of using
the carrying value as the deemed cost. In this context, suggest which carrying value is to be
considered as deemed cost: original cost or net book value? Also examine whether this
would have any impact on future depreciation charge?

Solution

For the purpose of deemed cost on the date of transition, if an entity uses the carrying value
as the deemed cost, then it should consider the net book value on the date of transition as
the deemed cost and not the original cost because carrying value here means net book value.
The future depreciation charge will be based on the net book value and the remaining useful
life on the date of transition. Further, as per the requirements of Ind AS 16, the depreciation
method, residual value and useful life need to be reviewed at least annually. As a result of
this, the depreciation charge may or may not be the same as the depreciation charge under
the previous GAAP.

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Illustration 12

Is it possible for an entity to allocate cost as per the previous GAAP to a component based
on its fair value on the date of transition even when it does not have the component-wise
historical cost?

Solution

Yes, an entity can allocate cost to a component based on its fair value on the date of transition.
This is permissible even when the entity does not have component-wise historical cost.

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Illustration 13

Revaluation under previous GAAP can be considered as deemed cost if the revaluation was,
at the date of the revaluation, broadly comparable to fair value or cost or depreciated cost of
assets in accordance with Ind AS, adjusted to reflect, e.g., changes in a general or specific
price index. What is the acceptable time gap of such revaluation from the date of transition?
Can adjustments be made to take effects of events subsequent to revaluation?
Solution

There are no specific guidelines in Ind AS 101 to indicate the acceptable time gap of such revaluation from the date of transition. The management of an entity needs to exercise judgement in this regard. However, generally, a period of 2–3 years may be treated as an acceptable time gap of such revaluation from the date of transition. In any case, adjustments should be made to reflect the effect of material events subsequent to revaluation.

*****

5. Cumulative translation difference

No need to:

◆ Recognise some translation differences in other comprehensive income.

◆ Reclassify cumulative translation differences for foreign operation from entity to profit or loss as part of gain or loss on its disposal

If first time adopter uses this exemption:

◆ Cumulative translation differences set to zero for all foreign operations.

◆ Gain/loss on subsequent disposal of a foreign operation shall exclude these differences that arose before transition

A first time adopter may continue the policy adopted for accounting for exchange differences arising from long term monetary foreign currency items, as per previous GAAP.

Illustration 14

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X1. On the date of transition, there is a long-term foreign currency monetary liability of ₹60 crores (US $ 10 million converted at an exchange rate of US $ 1 = ₹ 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.

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.

**If the Company wants to avail the option retrospectively**

The Company cannot avail the exemption given in Ind AS 101 and cannot exercise the option under paragraph 46/46A of AS 11 retrospectively on the date of transition to Ind AS in respect of long term foreign currency monetary liability that existed on the date of transition since the option is available only if it is in continuation of the accounting policy followed in accordance with the previous GAAP. Y Ltd. has not been using the option provided in Para 46/46A of AS 11, hence, it will not be permitted to use the option given in Ind AS 101 retrospectively.

---

**Illustration 15**

Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X5. On April 1, 20X1, it obtained a 7 year US$ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition, the company wants to continue the same accounting policy with regard to amortising of exchange differences. Whether the Company is permitted to do so?

**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. In view of the above, the Company can continue to follow the existing accounting policy of amortising the exchange differences in respect of this loan over the balance period of such long term liability.

---

6. **Investment in subsidiaries, joint ventures and associates**

It is measured at cost, the cost may be:
- Cost determined in accordance with Ind AS 27 or
- Deemed cost (which may be fair value or previous GAAP carrying amount)

**Illustration 16**

A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate
financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable). A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for this transaction?

**Solution**

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

*****

7. **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.

**Illustration 17**

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31, 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is April 1, 20X3. Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition. The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

<table>
<thead>
<tr>
<th>End of year</th>
<th>6%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.94</td>
<td>0.91</td>
</tr>
<tr>
<td>2</td>
<td>0.89</td>
<td>0.83</td>
</tr>
<tr>
<td>3</td>
<td>0.84</td>
<td>0.75</td>
</tr>
<tr>
<td>4</td>
<td>0.79</td>
<td>0.68</td>
</tr>
</tbody>
</table>

**Solution**

Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer
outstanding at the date of transition to Ind AS. In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payments p.a. on each debenture</td>
<td>6</td>
</tr>
<tr>
<td>Present Value (PV) of interest payment for years 1 to 4 (6 × 3.17) (Note 1)</td>
<td>19.02</td>
</tr>
<tr>
<td>PV of principal repayment (including premium) 110 × 0.68 (Note 2)</td>
<td>74.80</td>
</tr>
<tr>
<td>Total liability component</td>
<td>93.82</td>
</tr>
<tr>
<td>Total equity component (Balancing figure)</td>
<td>6.18</td>
</tr>
<tr>
<td>Face value of debentures</td>
<td>100.00</td>
</tr>
<tr>
<td>Equity component per debenture</td>
<td>6.18</td>
</tr>
<tr>
<td>Total equity component for 30,000 debentures</td>
<td>1,85,400</td>
</tr>
<tr>
<td>Total debt amount (30,000 x 93.82)</td>
<td>28,14,600</td>
</tr>
</tbody>
</table>

Thus, on the date of transition, the amount of ₹ 30,00,000 being the amount of debentures will be split as under:

| Debt                                                                 | ₹ 28,14,600|
|                                                                     |           |
| Equity                                                              | ₹ 1,85,400|

Notes:
1. 3.17 is PV of Annuity Factor of ₹ 1 at a discount rate of 10% for 4 years.
2. On maturity, ₹ 110 will be paid (₹ 100 as principal payment + ₹ 10 as premium)

8. Fair value measurement of financial assets or financial liabilities
An entity may apply requirement of Ind AS 109 prospectively to transactions entered into on or after the date of transition.

9. Decommissioning liabilities included in Property Plant Equipment
An entity need not comply with the requirement for changes in such liabilities that accounted before the date of transition.
However, entity may measure liability as at the transition date as per Ind AS 37 and recognise its effect.
10. **Designation of previously recognised financial instruments**

An entity may designate any financial liability or asset at fair value through profit or loss at transition date.

Investment in equity may be designated at fair value through other comprehensive income at transition date.

If retrospectively application of effective interest method or impairment requirement is impracticable – fair value shall be new amortised cost of financial asset on the date of transition.

11. **Existing financial liabilities with equity instruments**

A first time adopter may apply Ind AS 109 from the date of transition to Ind AS.

12. **Severe Hyperinflation**

In hyperinflationary economy, when an entity’s date of transition to Ind AS, is on, or after, the functional currency normalization date, then all assets and liabilities held before the functional currency normalization date may be measured at fair value on the date of transition.

This fair value may be used as deemed cost of those assets and liabilities in the opening Ind AS statement of financial position.

13. **Leases**

A first time adopter may determine whether an arrangement existing at the date of transition to Ind AS contain a lease (including classification of each land and building element as finance or an operating lease) on the basis of facts and circumstances existing on the date of transition.

A lessee which is a first-time adopter of Ind AS shall recognise lease liabilities and right-of-use assets, by applying the following approach to all of its leases at the date of transition to Ind AS:

(a) measure a lease liability at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of transition to Ind AS;

(b) measure a right-of-use asset on a lease-by-lease basis either at:

(i) its carrying amount as if Ind AS 116 had been applied since the commencement date of the lease, but discounted using the lessee’s incremental borrowing rate at the date of transition to Ind AS; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition to Ind AS.
6.24 FINANCIAL REPORTING

(c) apply Ind AS 36 to right-of-use assets.

A first-time adopter that is a lessee may do one or more of the following at the date of transition to Ind AS, applied on a lease-by-lease basis:

(1) apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

(2) elect not to apply the above requirements given in (a) to (c) to leases for which the lease term ends within 12 months of the date of transition to Ind AS. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted as per Ind AS 116.

(3) elect not to apply the above requirements given in (a) to (c) to leases for which the underlying asset is of low value. Instead, the entity shall account for (including disclosure of information about) these leases as per Ind AS 116.

(4) exclude initial direct costs from the measurement of the right-of-use asset at the date of transition to Ind AS.

(5) use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

14. Financial asset or intangible assets accounted for service concession arrangements

Change in accounting policy to be accounted retrospectively except for amortization policy in tangible assets relating to toll roads adopted as per previous GAAP.

If impracticable for an operator to apply the requirements of the Ind AS retrospectively at the date of transition to Ind AS, it shall recognise financial assets and intangible assets that existed at the date of transition to Ind AS using the previous carrying amounts.

15. Designation of contracts to buy or sell a non-financial item

An Entity may designate at the date of transition to Ind AS, contract that already exist on that date as measured at fair value through profit or loss but they meet the requirements of Ind AS 109 at the date and the entity designate all similar contracts.

16. Striping costs in the production of surface mine

A first time adopter may apply appendix to Ind AS 16 stripping costs in the production phase of a surface mine from the date of transition to Ind AS. As at the transition date to Ind AS, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the core body with which the predecessor stripping asset can be associated.
17. Non-current assets held for sale and discounted operations

A first time adopter can:
- Measure noncurrent assets held for sale or discontinued operation at the lower carrying value and fair value less cost to sell at the date of transition to Ind AS in accordance with Ind AS 105; and
- Recognize directly in retain earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity’s previous GAAP.

18. Assets and liabilities of subsidiaries, associates and joint ventures

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall measure its assets and liabilities at either:
- The carrying amounts that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to Ind AS. or
- The carrying amounts required by Ind AS 101, based on the subsidiary’s date of transition to Ind AS.

If an entity becomes first time adopter later than its subsidiary, the entity shall measure the assets and liabilities at the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidy.

19. Revenue from Contract with Customers

Any of the following exemption may be used in applying Ind AS 115 retrospectively:
- For completed contracts: Need not restate contracts that begin and end within the same annual reporting period;
- For completed contracts that have variable consideration: Option to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;
- For all reporting periods presented before the beginning of the first Ind AS reporting period, 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.
20. 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.

7. PRESENTATION AND DISCLOSURE

I. Comparative Information

• Ind AS does not require historical summaries to comply with the recognition and measurement requirement of Ind AS.
• In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
  ♦ Label the previous GAAP information prominently as not being prepared in accordance with Ind AS; and
Disclose the nature of the main adjustments that would make it comply with Ind AS. An entity need not quantify those adjustments.

II. Explanation of transition to Ind AS

- Reconciliation of
  
  (a) Equity from previous GAAP to Ind AS at transition and last year end;
  
  (b) Last year’s total comprehensive income under previous GAAP to Ind AS.

- Sufficient detail to understand adjustments to each line item.

- Reconciliation to distinguish correction of errors identified during transition from change in accounting policy.

- Fair value as deemed cost and the amount of the adjustment.

- Ind AS 36 disclosures for impairment during transition.

- If adopted first time exemption option, to disclose the fact and accounting policy until such time those PPE, Intangible Assets, investment properties or intangible assets significantly depreciated/impaired/derecognized.

- Interim financial reports to include reconciliation with equity and profit or loss under previous GAAP.

- Further information to comply with Ind AS 34.

Illustration 18

H Ltd. has the following assets and liabilities as at March 31, 20X1, prepared in accordance with previous GAAP:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Notes</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>1</td>
<td>1,34,50,000</td>
</tr>
<tr>
<td>Investments in S. Ltd.</td>
<td>2</td>
<td>48,00,000</td>
</tr>
<tr>
<td>Trade Receivables</td>
<td></td>
<td>2,00,000</td>
</tr>
<tr>
<td>Advances for purchase of inventory</td>
<td></td>
<td>50,00,000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>8,00,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>49,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>2,42,99,000</strong></td>
</tr>
<tr>
<td>VAT deferral loan</td>
<td>3</td>
<td>60,00,000</td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
<td>30,00,000</td>
</tr>
<tr>
<td>Short term borrowing</td>
<td></td>
<td>8,00,000</td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td>12,00,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>1,10,00,000</strong></td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 20X1:

1. In relation to property, plant and equipment, the following adjustments were identified:
   - Property, plant and equipment comprise land held for capital appreciation purposes costing ₹4,50,000 and was classified as investment property as per Ind AS 40.
   - Exchange differences of ₹1,00,000 were capitalised to depreciable property, plant and equipment on which accumulated depreciation of ₹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 ₹48,00,000 that carried a fair value of ₹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 ₹60,00,000:**
     The VAT deferral loan of ₹60,00,000 was obtained on March 31, 20X1, 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, 20X1, is ₹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 ** ₹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 ₹12,000 towards the vested options and ₹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 ₹15,000 and ₹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:**
  ₹1,00,000 The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹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. **Property, Plant & Equipment:** 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 capitalised 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 ₹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 ₹37,25,528 and the remaining ₹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 ₹ 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 D12 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 ₹ 1,00,000 should be transferred to retained earnings

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

<table>
<thead>
<tr>
<th>Particular</th>
<th>Notes</th>
<th>Previous</th>
<th>Adjustments</th>
<th>Ind AS GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in fair value of investment in subsidiary</td>
<td></td>
<td>20,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional ESOP charge on unvested options</td>
<td></td>
<td>(1,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer of cumulative translation difference balance to</td>
<td></td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>retained earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Particular</th>
<th>Notes</th>
<th>Previous</th>
<th>Adjustments</th>
<th>Ind AS GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>1</td>
<td>1,34,50,000</td>
<td>(4,50,000)</td>
<td>1,30,00,000</td>
</tr>
<tr>
<td>Investment property</td>
<td>1</td>
<td>0</td>
<td>4,50,000</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Investment in S Ltd.</td>
<td>2</td>
<td>48,00,000</td>
<td>20,00,000</td>
<td>68,00,000</td>
</tr>
<tr>
<td>Advances for purchase of inventory</td>
<td>5</td>
<td>50,00,000</td>
<td></td>
<td>50,00,000</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Receivables</td>
<td>2</td>
<td>2,00,000</td>
<td></td>
<td>2,00,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>8</td>
<td>8,00,000</td>
<td></td>
<td>8,00,000</td>
</tr>
<tr>
<td>Cash</td>
<td>49</td>
<td>49,000</td>
<td></td>
<td>49,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>20</td>
<td>2,42,99,000</td>
<td>20,00,000</td>
<td>2,62,99,000</td>
</tr>
<tr>
<td>Non-current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT deferral loan</td>
<td>3</td>
<td>60,00,000</td>
<td>(22,74,472)</td>
<td>37,25,528</td>
</tr>
<tr>
<td>Deferred government grant</td>
<td>3</td>
<td>0</td>
<td>22,74,472</td>
<td>22,74,472</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>30</td>
<td>30,00,000</td>
<td></td>
<td>30,00,000</td>
</tr>
</tbody>
</table>
### 8. CARVE OUTS IN IND AS 101 FROM IFRS 1

(i) **Definition of previous GAAP under Ind AS 101**

**As per IFRS**

IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

**Carve out**

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 AS. The changes made it mandatory for Indian entities to consider the financial statements prepared in accordance with notified Accounting Standards as was applicable to them as previous GAAP when it transitions to Ind AS.

**Reason**

The change makes it mandatory for Indian companies to consider the financial statements prepared in accordance with Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 as previous GAAP when it transitions to Ind AS as the law prevailing in India recognises the financial statements prepared in accordance with the Companies Act.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount (Previous GAAP)</th>
<th>Amount (Ind AS 101)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term borrowing</td>
<td>8,00,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Provisions</td>
<td>12,00,000</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,10,00,000</td>
<td>1,10,00,000</td>
</tr>
<tr>
<td>Share capital</td>
<td>1,30,00,000</td>
<td>1,30,00,000</td>
</tr>
<tr>
<td>Reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative translation difference</td>
<td>1,00,000 (1,00,000)</td>
<td>0</td>
</tr>
<tr>
<td>ESOP reserve</td>
<td>20,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Other reserves</td>
<td>1,79,000</td>
<td>20,99,000</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,32,99,000</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>2,42,99,000</td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

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(ii) 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

Paragraph D7AA of 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.

(iii) Long Term Foreign Currency Monetary Items

As per IFRS

No provision in IFRS 1.

Carve out

Paragraph D13AA of Appendix D to 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

Para 46A of 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 Ind AS reporting period.
Financial Assets or intangible assets accounted for in accordance with Appendix D, Service Concession Arrangements to Ind AS 115, Revenue from Contracts with Customers

As per IFRS

Paragraph D 22 of Appendix D to IFRS 1 provides that a first-time adopter may apply the transitional provisions in IFRIC 12 for account for financial assets or intangible assets.

Carve Out

Paragraph D 22 of Appendix D to Ind AS 101 provides that a first-time adopter may apply the following provisions while applying the Appendix D to Ind AS 115:

i) 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.

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

(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.

iii) There are two aspects to retrospective determination: reclassification and remeasurement.

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.

As a consequence to the above, paragraph 7AA has been inserted in Ind AS 38 to scope out the entity, to apply amortisation method, that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in paragraph D22 of Appendix D to Ind AS 101.

Reason

Schedule II to the Companies Act, 2013, allows companies to use revenue based amortisation of intangible assets arising from service concession arrangements related to toll roads while Ind AS 38, Intangible Assets, allows revenue based amortisation only in the
circumstances in which the predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold. In order to provide relief to such entities, Ind AS 38 and Ind AS 101 have been amended to allow the entities to continue to use the accounting 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 statements. In other words, Ind AS 38 would be applicable to the amortisation of intangible assets arising from service concession arrangements related to toll roads entered into after the implementation of Ind AS.
TEST YOUR KNOWLEDGE

Questions

1. Company A intends to restate its past business combinations with effect from 30 June 20X0 (being a date prior to the transition date). If business combinations are restated, whether certain other exemptions, such as the deemed cost exemption for property, plant and equipment (PPE), can be adopted?

2. X Ltd. was using cost model for its property, plant and equipment till March 31, 20X2 under previous GAAP. The Ind AS become applicable to the company for financial year beginning April 1, 20X2. On April 1, 20X1, i.e., the date of its transition to Ind AS, it used fair value as the deemed cost in respect of its property, plant and equipment. X Ltd. wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements. Whether use of fair values as deemed cost on the date of transition and use of revaluation model in the first annual Ind AS financial statements would amount to a change in accounting policy?

3. Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X5. On April 1, 20X0, it obtained a 7 year US $ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition to Ind AS, Y Ltd. wants to discontinue the accounting policy as per the previous GAAP and follow the requirements of Ind AS 21 with respect to recognition of foreign exchange differences. Whether the Company is permitted to do so?

4. A company has chosen to elect the deemed cost exemption in accordance with Ind AS 101. However, it does not wish to continue with its existing policy of capitalising exchange fluctuation on long term foreign currency monetary items to property, plant and equipment i.e. it does not want to elect the exemption available as per Ind AS 101. In such a case, how would the company be required to adjust the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP?

Answers

1. Ind-AS 101 prescribes that an entity may elect to use one or more of the exemptions of the Standard. As such, an entity may choose to adopt a combination of optional exemptions in relation to the underlying account balances.

When the past business combinations after a particular date (30 June 20X0 in the given case) are restated, it requires retrospective adjustments to the carrying amounts of acquiree’s assets and liabilities on account of initial acquisition accounting of the acquiree’s net assets, the effects of subsequent measurement of those net assets (including
amortisation of non-current assets that were recognised at its fair value), goodwill on consolidation and the consolidation adjustments. Therefore, the goodwill and equity (including non-controlling interest (NCI)) cannot be computed by considering the deemed cost exemption for PPE. However, the entity may adopt the deemed cost exemption for its property, plant and equipment other than those acquired through business combinations.

2. In the instant case, X Ltd. is using revaluation model for property, plant and equipment for the first annual Ind AS financial statements and using fair value of property, plant and equipment on the date of the transition, as deemed cost. Since the entity is using fair value at the transition date as well as in the first Ind AS financial statements, there is no change in accounting policy and mere use of the term ‘deemed cost’ would not mean that there is a change in accounting policy.

3. 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. Ind AS 101 gives an option to continue the existing accounting policy. Hence, Y Ltd. may opt for discontinuation of accounting policy as per previous GAAP and follow the requirements of Ind AS 21. The cumulative amount lying in the FCMITDA should be derecognised by an adjustment against retained earnings on the date of transition.

4. Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment. Separately, it allows a company to continue with its existing policy 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. Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment. In such a case, in the given case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP) but for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long term foreign currency borrowings would be recognised in the statement of profit and loss.