

Seminar on Ind-AS

First-time Adoption of Indian Accounting Standards (Ind AS 101)



Private & Confidential

Agenda

Applicability of Ind AS

Ind AS 101 – First-time adoption of Indian Accounting Standards

Application of Ind AS 101

Disclosures - Ind AS 101

Points to Consider

Learning Objectives

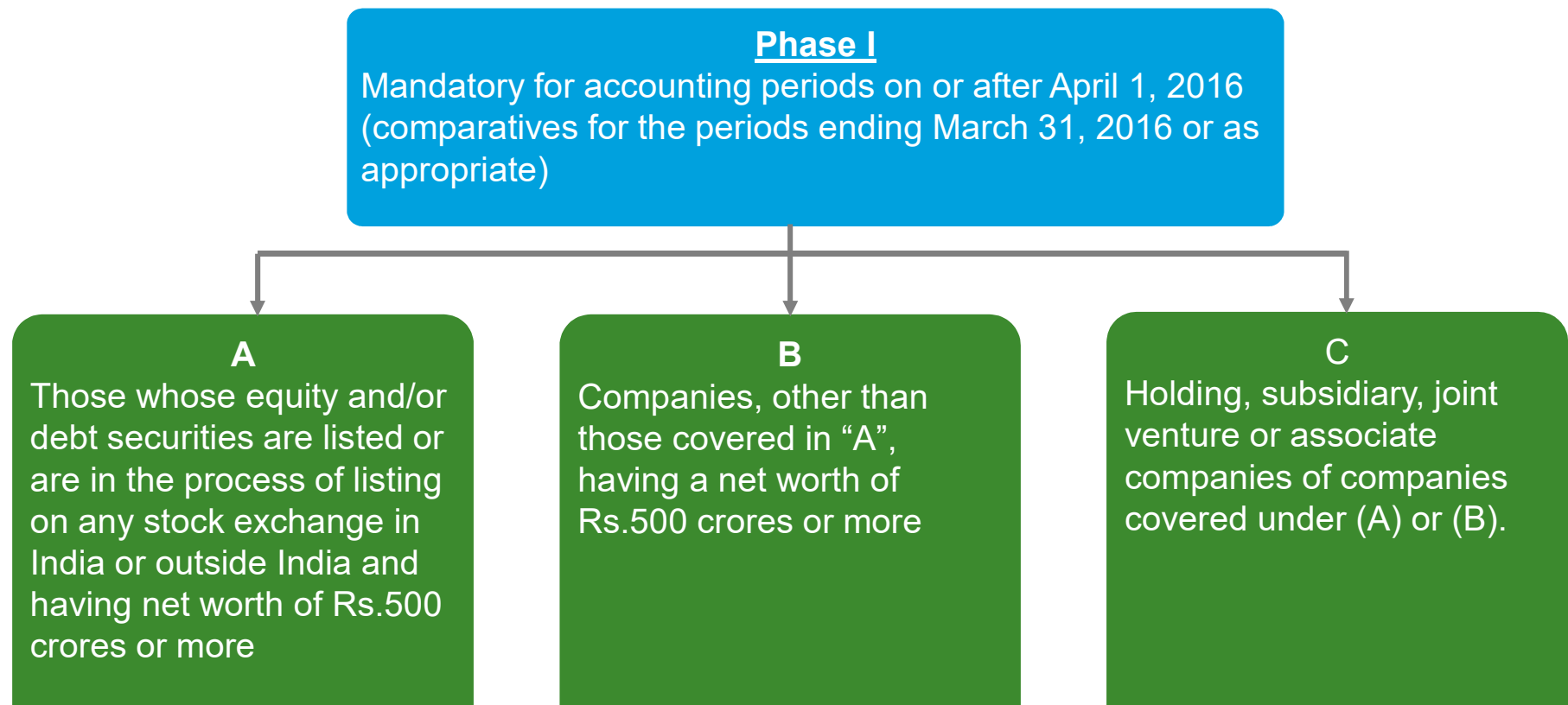
Participants will be able to:

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

Applicability of Ind AS

Road Map issued by the MCA vide Press Release

- On 16 February 2015, the Ministry of Corporate Affairs (“MCA”) notified the Companies (Indian Accounting Standards) Rules, 2015. The rules specify the Indian Accounting Standards (Ind AS) applicable to certain class of companies and sets out dates of applicability.



Transition dates, reporting periods and comparative periods for Phase I companies

	Net Worth of INR 500 crores or more met for the first time based on audited standalone financial statements as at:			
	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Transition date	April 1, 2015			April 1, 2016
Comparative period	April 1, 2015 to March 31, 2016			April 1, 2016 to March 31, 2017
Reporting period	April 1, 2016 to March 31, 2017			April 1, 2018 to March 31, 2019

Ind AS 101 – First-time adoption of Indian Accounting Standards

Applicability and Scope

An entity shall apply this Ind AS in:

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

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

Ind AS 101 overview and scope

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

Primary objectives:

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

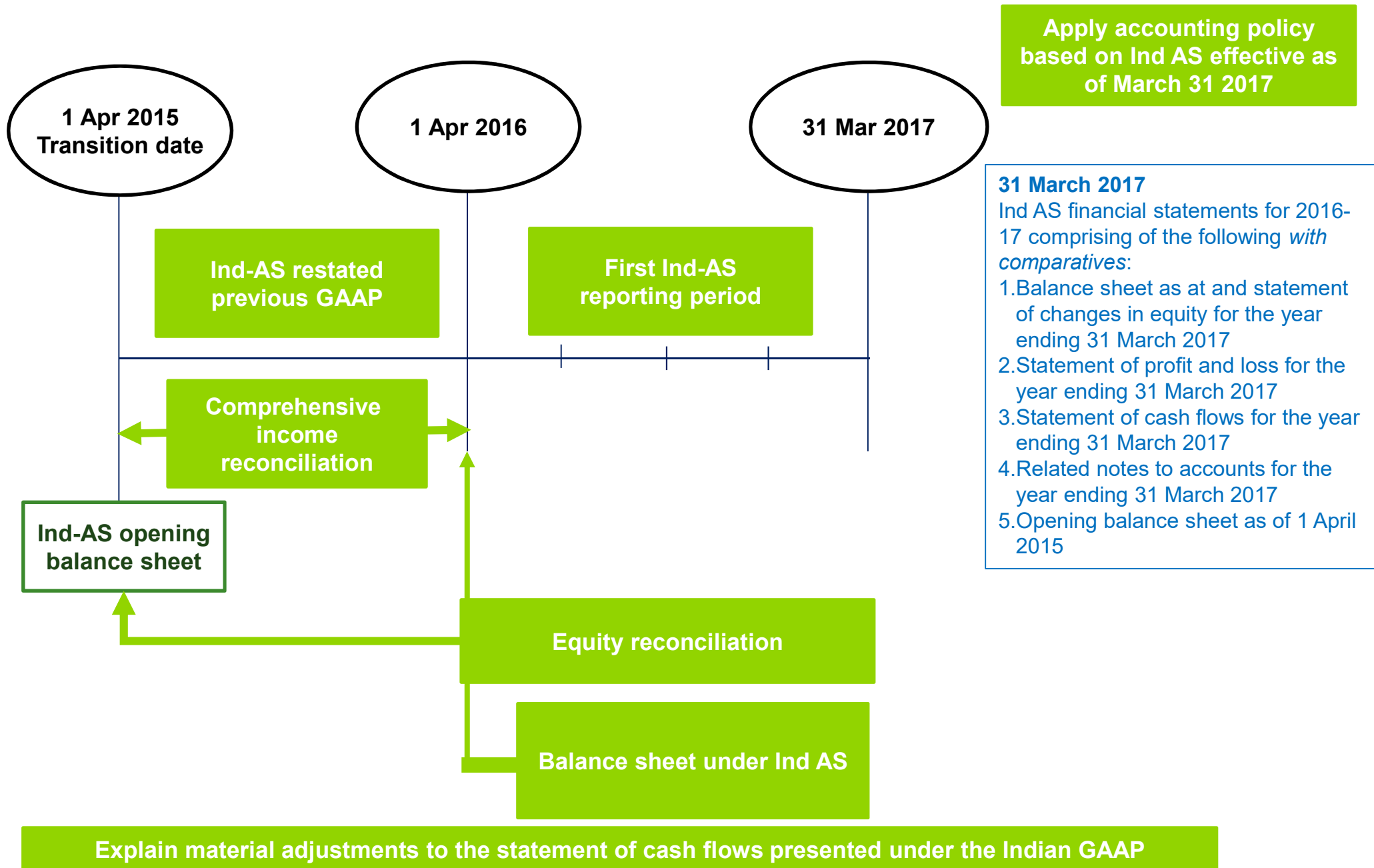
Transitional Date and Previous GAAP

Transitional date

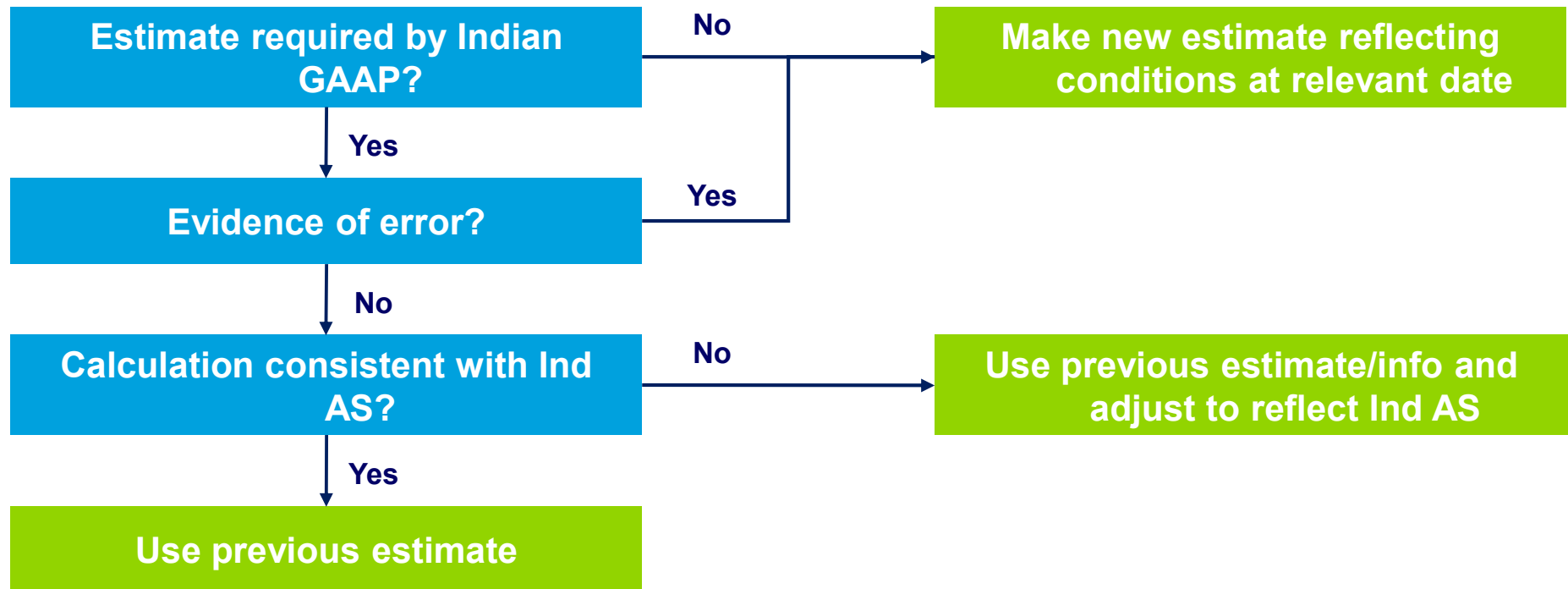
- Starting point for Ind AS
- Date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except for optional exemptions and mandatory exceptions
- Is the beginning of the earliest period for which an entity presents full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

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

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



Accounting for Estimates pursuant to Ind AS transition



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

Quiz

Question:

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

Solution:

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

Application of Ind AS 101

Ind AS 101 Considerations

Overall

- Identify key dates
- Identify differences between existing accounting policies and Ind AS and determine Ind AS policies
- Adjust opening retained earnings at the transition date for difference in accounting policies
- Determination of estimates under Ind AS
- Elect and apply optional exemptions
- Apply mandatory exceptions

Opening Balance Sheet

- Recognise all assets and liabilities required under Ind AS subject to certain exceptions
- Derecognise all assets and liabilities not permitted under Ind AS subject to certain exceptions
- Measure assets, liabilities and equity as per Ind AS subject to certain exceptions
- Reclassify items subject to certain exceptions

Mandatory Exceptions From Retrospective Application

An entity shall apply the following exceptions :-

- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Non-controlling interests (however, to be applied retrospectively if accounting for business combinations is applied retrospectively);
- Classification and measurement of financial assets;
- Impairment of financial assets;
- Embedded derivatives; and
- Government loans.

Mandatory Exceptions From Retrospective Application

- **Government Loans :**

- A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20 prospectively to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.
- Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind ASs as the carrying amount of the loan in the opening Ind AS Balance Sheet.
- An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind ASs.

Mandatory Exceptions From Retrospective Application

- **Classification and measurement of financial assets**

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

Mandatory Exceptions From Retrospective Application

- **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 as per Ind AS 109.

Voluntary exemptions from retrospective application

- | | |
|---|--|
| <ul style="list-style-type: none">• Business combinations• Deemed cost for PP&E, investment property and intangibles• Cumulative translation differences• Compound financial instruments• Investments in subsidiaries, joint ventures and associates• Assets and liabilities of subsidiaries, associates and joint ventures• Designation of previously recognised financial instruments | <ul style="list-style-type: none">• Share-based payment transactions• Decommissioning liabilities• Leases• Fair value measurement of financial assets or financial liabilities at initial recognition• Service concession arrangements• Borrowing costs |
|---|--|

Exemption – Business Combinations

- May elect to not apply retrospectively to past business combinations or to elect a prior date and only apply to business combinations after that prior date
- Still need to eliminate assets and liabilities that do not meet the recognition criteria under Ind AS outside of a business combination (with adjustment to goodwill or capital reserve as the case may be)
- Test goodwill in opening Ind AS balance sheet for impairment
- This exemption also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in Ind AS 103. Further, the date selected for Business Combinations applies equally to these as well.

Exemption – Decommissioning liabilities

- Ind AS 16 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 ASs.
- If the exemption is used, the first-time adopter shall:-
 - measure the liability as at the date of transition to Ind ASs as per Ind AS 37;
 - to the extent that the liability is within the scope of Ind AS 16, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
 - calculate the accumulated depreciation on that amount, as at the date of transition to Ind ASs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with Ind ASs.

Example 4: Decommissioning

DECOMMISSIONING OBLIGATION NOT RECOGNISED UNDER PREVIOUS GAAP - EXAMPLE

- Company A is adopting Ind AS with a 1 April 2015 date of transition. Ten years before that date, Company A paid Rs.100,000 for an asset with a 40-year useful life. Company A has an obligation to decommission this asset at the end of its useful life, but it was not required to recognise that obligation under its previous GAAP.
- Company A elects to take the exemption from retrospective application of decommissioning liabilities accounting.
- As a first step, Company A measures the decommissioning obligation at the date of transition in accordance with Ind AS 37 by estimating the present value of the expenditures expected to be required to settle the obligation in 30 years. Company A estimates this present value to be Rs. 25,000.
- Next, Company A estimates the amount that would have been included in the cost of the asset when the liability first arose (in this example, when the asset was acquired) by discounting Rs. 25,000 to the date on which the asset was acquired (i.e. 10 years previously). The discount rate used will be Company A's best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period. Company A estimates this rate to be 5% and that the rate has not changed since the date on which the asset was acquired. Consequently, Company A's estimate of the decommissioning obligation that would have been included in the cost of the asset when it was acquired is Rs.15,348 ($\text{Rs.}25,000 \div 1.05^{10}$).

Example 4: Decommissioning (continued)

DECOMMISSIONING OBLIGATION NOT RECOGNISED UNDER PREVIOUS GAAP - EXAMPLE

- Finally, Company A calculates the accumulated depreciation on that amount, as at the date of transition to Ind ASs, on the basis of the current estimate of the useful life of the asset, as Rs.3,837 [Rs.15,348 ÷ 40 × 10].
- As a result of these calculations, Company A records the following journal entries in its opening Balance Sheet as at 1 April 2015

	Rs.	Rs.
Dr. Cost of Asset (the decommissioning portion of the asset)	15,348	
Dr. Retained Earnings (the effect of change)	13,489	
Cr. Provisions (the decommissioning obligation)		25,000
Cr. Accumulated depreciation (from the date of purchase to 31 March 2015)		3,837

Exemption – Deemed Cost

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

- Applies to PP&E, investment property, intangible assets
- Impairment test still required if indicators exist
- Determine components of assets
- Assess depreciation methods for consistency with Ind AS

Option A:

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

Option B:

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

Option C:

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

Exemptions - Others

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

Disclosures - Ind AS 101

Disclosures in First Ind AS Financial Statements

Disclosures

- Reconciliation of equity - Date of transition to Ind AS and the comparative period in the entity's first Ind AS financial statements
- Reconciliation of net profit or loss - Comparative period in the entity's first Ind AS financial statements
- Distinguish between policy changes, estimate changes and error corrections.
- Narrative discussion on reconciliation adjustments
- Narrative discussion of material adjustments to cash flow statement
- Disclose Previous GAAP WDV as deemed cost along with the accounting policy until those items are significantly depreciated, impaired or derecognised.

Reconciliations on transition

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

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

Interim Financial Reporting

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

Example: Disclosures in Interim Report

Facts:

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

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

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

Example : Disclosures in Interim Report (Contd.)

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

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

Points to Consider

Points to consider

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

Thank You

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