

9. First-time adoption of Ind AS



Summary

This chapter covers:

- Ind AS 101, *First-time Adoption of Indian Accounting Standards*



The 2013 Act mandates preparation of financial statements of specified companies in accordance with Ind AS. For this purpose, the Ministry of Corporate Affairs (MCA) had laid down a road map which provided guidance for adoption of Ind AS by the specified companies in a phased manner. Ind AS 101 provides principles for transition and disclosures to be made in the financial statements by a first-time adopter.



Key principles

- Ind AS 101 provides a suitable starting point for entities that are transitioning to Ind AS. Ind AS 101 is applied by an entity in its first Ind AS financial statements and each interim financial report, if any, that it presents in accordance with Ind AS 34, *Interim Financial Reporting*.
- The date of transition is the beginning of the earliest comparative period presented on the basis of Ind AS. At least one year of comparatives is also presented together with the opening balance sheet, which is prepared at the date of transition to Ind AS.

Accounting policies

- An entity is required to use the same accounting policies in its opening Ind AS balance sheet and throughout all periods presented in its first Ind AS financial statements.
- Accounting policies are required to be chosen from Ind AS effective at the end of its first Ind AS reporting period, unless there is an explicit exemption or option provided in Ind AS 101.
- An entity is required to take the following steps 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.
- The accounting policies in the opening Ind AS balance sheet may differ from those that an entity used for the same date under previous GAAP. The resulting adjustments arising from events and transactions before the date of transition to Ind AS are generally recognised in retained earnings.
- Ind AS 101 establishes the following two categories of exceptions to the principle that an entity's

opening Ind AS balance sheet should comply with each Ind AS:

- Prohibits retrospective application of some specific aspects of an Ind AS
- Grants exemptions from some specific requirements of an Ind AS.

Explanation of transition to Ind AS

- An entity is required to explain how the transition from previous GAAP to Ind AS affected its reported balance sheet, financial performance and cash flows.

Disclosures

- Detailed disclosures on the first-time adoption of Ind AS including reconciliations of equity and profit or loss from previous GAAP to Ind AS are required in the annual financial statements as well as some disclosures in its interim financial statement.

Significant differences from IFRS¹

• Definition of previous GAAP

IFRS 1, *First-time Adoption of International Financial Reporting Standards* defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

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

• Deemed cost for PPE/intangible assets/ investment property/investments in subsidiaries, associates and joint ventures

IFRS 1 provides that on the date of transition the carrying amount for items of Property, Plant and Equipment (PPE), intangible assets, investment property, or investments in subsidiaries, associates and joint ventures (as presented in the separate financial statements), should be measured by either applying the relevant Ind AS retrospectively or at their fair value.

Paragraph D7AA of Ind AS 101 provides an additional option to measure these items on the date of transition at their carrying amount in accordance with previous GAAP and use this amount as a measure of their deemed cost.

• Foreign currency translation on long-term monetary items

Paragraph D13AA of Appendix D to Ind AS 101 provides that a first-time adopter may continue the previous GAAP 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. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has availed of the exemption in paragraph D13AA of Appendix D to Ind AS 101.

IFRS 1 does not include a similar exemption for long-term foreign currency monetary items.

• Adjustment in goodwill

IFRS 1 requires a first-time adopter to exclude from its opening balance sheet, any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under IFRS. The first-time adopter shall account for the resulting change in retained earnings as at the transition date except in certain specific instances where it requires adjustment in goodwill. In such specific instances where IFRS 1 allows an adjustment in goodwill, under Ind AS 101 this amount may be adjusted in capital reserve to the extent it does not exceed the balance available in capital reserve.

1. Indian Accounting Standards (Ind AS): An Overview (Revised 2019) published by the ICAI

Significant differences arising out of the requirements of 2013 Act

- An entity may be required to comply with the accounting, presentation and disclosure requirements prescribed in a court approved scheme relating to a merger or amalgamation transaction. The requirements of Ind AS 101 may stand modified to this extent.



Significant differences from IFRS

- **Investment property**

Paragraph D7(a) of IFRS 1 provides an option between 'fair value at the date of transition to IFRS and 'previous GAAP revalued amount'. A first-time adopter may exercise either of the option for accounting its investment property. However, this option has not been provided under Ind AS 101, as Ind AS 40 permits only the cost model.

- **Service concession arrangements relating to toll roads**

Paragraph D22 of Ind AS 101 permits a first-time adopter to continue the amortisation policy adopted under previous GAAP for intangible assets arising from 'toll-road' service concession arrangements that were recognised in the financial statements before the beginning of the first Ind AS financial reporting period. Therefore, entities that have adopted a revenue based amortisation policy for such intangible assets under previous GAAP are permitted to continue applying such policy for toll road intangible assets recognised prior to the Ind AS implementation date.





Guidance from ITFG clarifications

I. Clarifications with respect to the application of the deemed cost exemption

As stated above, Ind AS 101 permits an entity to measure items of PPE, investment property, intangible assets and investments in subsidiaries/associates/joint ventures on the date of transition at either their fair value or their carrying amount in accordance with previous GAAP and use this amount as a measure of their deemed cost.

The application of this optional exemption gives rise to several accounting issues, especially when considering the interaction of this exemption in Ind AS 101 with the requirements of other Ind AS. These issues are further discussed below.

a. Applicability of deemed cost exemption

Paragraph D7AA of Ind AS 101, provides an option to a first-time adopter at the date of transition to continue with the carrying value of all PPE (intangible assets or investment property) measured as per previous GAAP, and use it as its deemed cost without making any further adjustments based on application of other Ind AS.

Alternatively, Ind AS 101 also permits a first-time adopter to elect to measure an item of PPE at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost on transition. This option may be applied selectively to some items of PPE.

An entity is not permitted to continue with the previous GAAP carrying value as deemed cost on a selective basis for some of the items of PPE and use fair value as deemed cost approach for the remaining items. (ITFG 5, Issue 3)

b. Reversal of the effects of paragraph 46/46A of AS 11 under previous GAAP carrying amount of PPE on transition to Ind AS

An entity that would avail of deemed cost exemption of paragraph D7AA (as mentioned in above issue) would be required to carry forward the entire previous GAAP carrying amount for all of its PPE on transition to Ind AS. Ind AS 101 does not permit any further adjustments to the deemed cost of PPE.

Under previous GAAP, an entity may have availed of the option under paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates* to capitalise foreign exchange differences on long-term

foreign currency items to the cost of the related PPE. At the time of transition to Ind AS if such an entity decides to avail the deemed cost exemption under paragraph D7AA of Ind AS 101, but does not elect to continue to capitalise foreign exchange differences (also refer section II below), it would still be required to carry forward the entire previous GAAP carrying amount for all of its PPE and would not be permitted to reverse the impact of paragraph 46/46A of AS 11 from the deemed cost of PPE. (ITFG 7, Issue 3)

Subsequent to issuing the above clarification in bulletin 7, the ITFG clarified (refer paragraph I (c) below) that the deemed cost of an asset, being its previous GAAP carrying amount, may be adjusted only to the extent of consequential adjustments arising from the application of other Ind AS (ITFG 12, Issue 10).

c. Consequential adjustments to deemed cost, being the previous GAAP carrying amount of assets and liabilities

An entity is required to recognise, classify and measure assets and liabilities in its opening Ind AS balance sheet in accordance with Ind AS.

Based on the above guidance, and subject to any specific exemption/exception in Ind AS 101, all assets and liabilities are required to be recognised in accordance with the principles of Ind AS 101.

However, there may be situations where no exemption/exception has been provided for an item of asset and/or liability, and the application of Ind AS principles to such an item has a corresponding impact on another item of asset and/or liability which is measured at its previous GAAP carrying amount at the transition date as permitted by Ind AS 101.

In such a situation, the adjustment to the assets/liabilities measured at deemed cost is only consequential in nature and arises due to the application of the transition requirements of Ind AS 101 to another item. Therefore, the previous GAAP carrying amount may be adjusted only to the extent of consequential adjustments. Except such consequential adjustments, no further adjustments should be made to the deemed cost (being the previous GAAP carrying amount) due to the application of other Ind AS. (ITFG 12, Issue 10).

This clarification may result in additional adjustments being made to the deemed cost of PPE for items such as certain borrowing costs, hedging gains/losses, etc.

This clarification is more general in nature, although clarifications have been provided in the past on specific consequential adjustments – please refer paragraph I (d) and (e) below:

d. Processing fees on loans

An entity may have incurred processing fees on a loan obtained before transition to Ind AS and capitalised these as part of the relevant item of PPE in accordance with the previous GAAP. On transition to Ind AS, an entity may elect to apply the deemed cost exemption and continue with the previous GAAP carrying value for such PPE.

However, the loan is required to be measured at amortised cost (in accordance with Ind AS 109) and its carrying amount is to be restated to its amortised cost in accordance with Ind AS 109 as at the date of transition.

As a consequence, in order to restate the carrying amount of loan, the deemed cost of the PPE, being its previous GAAP carrying amount at the date of transition, should be reduced by the amount of processing cost (net of cumulative depreciation impact).

This would be in the nature of consequential adjustment to enable an adjustment to the carrying amount of loan as required by Ind AS. (ITFG 5, Issue 4)

e. Government grants for purchase of a fixed asset

An entity may have received a government grant related to an asset, prior to the date of transition to Ind AS. As permitted under previous GAAP, the amount of grant received may have been deducted from the carrying amount of the related asset.

Certain issues may arise based on whether an entity elects to measure the related asset at its previous GAAP carrying amount or at fair value as its deemed cost on transition. Those issues are as follows:

i. Carrying value as deemed cost: On transition to Ind AS, the entity may avail of the deemed cost exemption to continue with the carrying amount of PPE in accordance with the previous GAAP.

The government grant outstanding on the transition date is required to be recognised as deferred income in accordance with the requirements of Ind AS 20. Therefore, to recognise the amount of unamortised deferred income as at the date of the transition in accordance with Ind AS 101, a consequential adjustment should be made to the carrying amount of PPE (net of cumulative depreciation impact) and retained earnings respectively, even

though the PPE is measured at its deemed cost (being previous GAAP carrying amount). (ITFG 5, Issue 5)

ii. Fair value as deemed cost: The entity may elect to measure its PPE at fair value and use that as its deemed cost on the date of transition to Ind AS in accordance with principles of Ind AS 101. Considering the principles in Ind AS 113, fair value of the asset is the exit price that would be received to sell the asset in an orderly transaction. As fair value is a market-based measurement and not an entity specific measurement, it is independent of the government grant received on the asset. Consequently, no adjustment with regard to government grant should be made to the fair value of the PPE, being the deemed cost on the date of transition to Ind AS. However, the entity is required to recognise the asset related government grant outstanding on the transition date as deferred income in accordance with the requirements of Ind AS 20. The resultant adjustments should therefore be made in retained earnings or if appropriate, another category of equity at the date of transition to Ind AS. (ITFG 12, Issue 2)

Please refer chapter 10, Other topics-Accounting for Government Grants and Disclosure of Government Assistance for more details on amended Ind AS 20 (ITFG 17, Issue 1)

f. Capital spares

An entity that has elected to continue with the carrying value under previous GAAP as the deemed cost for all of its PPE on transition to Ind AS, may have capital spares that were recognised as inventory under previous GAAP but are eligible for capitalisation under Ind AS. On transition to Ind AS such capital spares should be recognised as a part of PPE if they meet the criteria for capitalisation under Ind AS 16. Ind AS 16 should be applied retrospectively to measure the amount that will be recognised for such spare parts on the date of transition to Ind AS. Depreciation on these spare parts should begin from the date when they are available for use.

The exemption to continue with the carrying value of PPE under previous GAAP as the deemed cost would not apply to capital spares that were not recognised as PPE under previous GAAP. (ITFG 3, Issue 9 and ITFG 5, Issue 6)



g. Capital work in progress

Capital work-in-progress is considered to be in the nature of PPE under construction.

The optional exemption under paragraph D7AA of Ind AS 101, to continue with the carrying value under previous GAAP as deemed cost under Ind AS, is also available with regards to capital work in progress. (*ITFG 3, Issue 11*)

h. Capitalisation of an item of PPE not falling under the definition of an asset

The deemed cost exemption under paragraph D7AA of Ind AS 101 cannot be availed for an item that did not meet the definition of a tangible asset under previous GAAP (or PPE under Ind AS) and was incorrectly capitalised under previous GAAP.

The incorrect capitalisation would be considered as an error under Ind AS 101 and disclosed in the net worth reconciliation. (*ITFG 8, Issue 4*)

i. Revalued amount of PPE considered as deemed cost

An entity that has revalued its PPE in the past may, at the date of transition to Ind AS, elect to continue with the revised carrying value of its PPE under previous GAAP and use that as its deemed cost under Ind AS 101. If such an entity elects to apply the cost model (i.e. to carry PPE at cost less accumulated depreciation and impairment losses) for subsequent measurement of its PPE under Ind AS 16, it should not carry forward the revaluation reserve (created under previous GAAP) under Ind AS.

After transition, the entity would no longer be applying the revaluation model under Ind AS 16. Additionally, deferred tax would need to be recognised on such asset to the extent of the difference between its carrying value in the financial statements and the tax base. (*ITFG 8, Issue 7*)

j. Reversal of impairment provision

If an entity elects to apply the deemed cost exemption under Ind AS 101 and measure its PPE at its previous GAAP revaluation amount on transition, the revalued amounts of PPE as per previous GAAP, is considered as cost under Ind AS.

In this case, accumulated depreciation and provision for impairment under previous GAAP have no relevance, and can not be carried forward or reversed under Ind AS. However, the impairment loss for the period between the deemed cost determination date (date of revaluation under previous GAAP) and the transition date (when Ind AS accounting and depreciation policies are applied to the asset to arrive at its cost on date of transition under Ind AS) may be reversed if permitted under Ind AS 36.

However, where an entity has not availed of the deemed cost exemption and has opted to apply Ind AS 16 retrospectively in accordance with Ind AS 101, then impairment loss could be reversed if permitted by Ind AS 36. (*ITFG 8, Issue 5*)

k. Applicability of deemed cost exemption on assets classified as held for sale

Under previous GAAP 'assets held for sale' in accordance with AS 10, *Property, Plant and Equipment*, may be stated at lower of their net book value and net realisable value and presented separately from other fixed assets. On transition to Ind AS, if these assets are found not to fulfil the criteria for being classified as 'held for sale' in accordance with Ind AS 105, *Non-current assets held for Sale and Discontinued Operations*, then such assets should be reclassified as PPE.

However, the entity could avail the deemed cost exemption for such assets since the exemption applies to all PPE recognised in the financial statements at the date of transition to Ind AS, including those that were presented/disclosed separately. (*ITFG 10, Issue 4*)

l. Deemed cost of an investment in a subsidiary

On transition date, a first-time adopter can determine cost of its investment in a subsidiary, associate or joint venture recognised in SFS by using any of the following methods:

- Cost determined in accordance with Ind AS 27 (i.e. retrospective application of Ind AS 27)
- Fair value at the entity's date of transition to Ind AS
- Previous GAAP carrying amount.

Accordingly, if an entity chooses to measure its investment at fair value at the date of transition then fair value is deemed to be cost of such investment for the entity and, therefore, it should carry its investment at that amount (i.e. fair value at the date of transition) after the date of transition. (*ITFG 3, Issue 12*)

m. Investment in debentures of a subsidiary company

Ind AS 27 requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 (i.e. at fair value) in its SFS. Further, if an entity elects a cost based measurement for such investments, Ind AS 101 permits the investment to be measured at its deemed cost, being its fair value or its previous GAAP carrying amount on the date of transition to Ind AS.

The guidance in Ind AS 27 and Ind AS 101 stated above, is applicable only to those investments in a subsidiary, associate or joint venture that would meet the definition of an ‘equity’ instrument (from the issuer’s perspective) under Ind AS 32.

Therefore, for example, if an entity invests in debentures issued by its subsidiary, which are classified as a financial liability by the subsidiary, it would have to classify the investment as a financial asset and measure this in accordance with Ind AS 109. The deemed cost exemption in Ind AS 101 would not apply to such an investment. *(ITFG 7, Issue 8)*

(Please refer Chapter 10, Other topics- Separate Financial Statements for more details on investments in debentures of a subsidiary)

n. Accounting for interest-free loan provided by holding entity in its SFS

On transition to Ind AS, an entity that has advanced an interest-free loan to its subsidiary, is required to recognise the difference between the present value of the loan amount and its carrying amount as per previous GAAP as an addition to its investment in the subsidiary in its SFS. If the entity elects to measure its investment in the subsidiary at its previous GAAP carrying amount, being deemed cost, in its SFS, in accordance with Ind AS 101, then the difference between the carrying amount of the loan as per previous GAAP and its present value, would be considered a consequential adjustment (due to application of Ind AS 109 to the loan) and should be added to the deemed cost of its investment in the subsidiary. *(ITFG 10, Issue 1)*

This is consistent, in principle, with the clarifications on consequential adjustments to deemed cost of tangible and intangible assets.

(Please refer paragraphs l (c), (d) and (e) above).

o. Measurement of investment in subsidiaries, joint ventures and associates at the end of the first Ind AS financial reporting period

When an entity prepares SFS, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with Ind AS 109.

If an entity has elected to measure a particular category of investment (e.g. its investments in its subsidiaries) at deemed cost on the date of transition, it is required to carry such investment at cost in its first Ind AS financial statements prepared as at the end of the reporting period. However, for investments made in other categories where it has not selected the deemed cost exemption (e.g. investments in associates or joint ventures), the company would have an option to account for those investments either at cost or in accordance with Ind AS 109. *(ITFG 11, Issue 4)*

Once an entity chooses the method of accounting (i.e. deemed cost and cost-based measurement or measurement in accordance with Ind AS 109) for a particular category of investment, it is required to continue with the same accounting policy for that category of investment.

II. Clarifications with respect to application of the exemption to continue with the accounting policy under para 46A of AS 11

Under previous GAAP an entity was permitted by paragraph 46/46A of AS 11 to capitalise foreign exchange gains or losses on long-term foreign currency monetary items. If selected, this option permitted such exchange gains/losses to be either capitalised into the cost of a related item of PPE, or accumulated in a reserve named Foreign Currency Monetary Item Translation Difference Account (FCMITDA).

(Please refer Chapter 5, Income taxes for deferred taxes on capitalised exchange differences. *(ITFG 8, Issue 8)*. Also please refer Chapter 10, Other topics- Earnings Per Share for consideration of amounts debited to FCMITDA for computation of basic EPS *(ITFG 10, Issue 5)*

Paragraph D13AA of Ind AS 101, permits a first-time adopter to continue the accounting policy adopted





under previous GAAP 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.

The application of this exemption in Ind AS 101 gives rise to several practical implementation issues, which are highlighted below.

a. Applicability of exemption under paragraph D13AA of Ind AS 101

The option (under Ind AS 101) to continue with the accounting policy under paragraph 46/46A of AS 11, is available for only those long-term foreign currency loans that were taken/drawn down before the beginning of the first Ind AS reporting period i.e. 1 April 2017 for a company falling within phase 2 of the Ind AS adoption road map. (*ITFG 1, Issue 3*) and (*ITFG 7, Issue 1*)

b. Exemption under paragraph D13AA of Ind AS 101 vis-a-vis borrowing costs under Ind AS 23

In case of a first-time adopter of Ind AS which would present its first Ind AS financial statements for the financial year 2018-19, ITFG considered and clarified on exchange differences that qualify as borrowing costs as per paragraph 6(e) of Ind AS 23, *Borrowing Costs*. In the given scenario, the relevant entity was exercising the option provided in paragraph 46/46A of AS 11 and intended to continue to follow the same accounting policy in accordance with paragraph D13AA of Ind AS 101.

A first-time adopter of Ind AS can continue to apply an accounting policy based on para 46A of AS 11 upon transition to Ind AS. When a company applies paragraph 46A of AS 11 then it does not apply AS 16, *Borrowing Costs* to those exchange differences relating to long-term foreign currency monetary items that otherwise qualify as being in the nature of adjustments to interest cost within the meaning of paragraph 4(e) of AS 16.

Therefore, ITFG clarified that a company which wishes to continue to avail of the exemption provided by paragraph D13AA of Ind AS 101 would not be permitted to apply paragraph 6 (e) of Ind AS 23 to that part of exchange differences on such long-term foreign currency monetary items. (*ITFG 18, Issue 1*).

c. Amortisation of FCMITDA on transition to Ind AS

Ind AS 109 provides guidance on the measurement of financial liabilities classified into the amortised cost category and requires the application of the Effective Interest Rate (EIR) method to measure amortised cost. The application of this method may result in a change in the carrying amount of a long-term foreign currency liability on transition to Ind AS, as compared to previous GAAP.

If an entity applies the exemption in paragraph D13AA of Ind AS 101 and continues to accumulate foreign exchange gains or losses on translation of such an item in FCMITDA, the balance in FCMITDA should be revised retrospectively on the basis of the amortised cost of the liability (as determined under Ind AS 109 on the date of transition). The revised balance of FCMITDA should be amortised over the balance period of that long-term liability through the statement of profit and loss. (*ITFG 2, Issues 1 and 6*)

d. Exemption under paragraph D13AA on change in functional currency

When the functional currency of a company changes from INR to any other currency (e.g. USD), then any loans taken in the new functional currency (USD) would not be considered as long-term foreign currency monetary items under previous GAAP (i.e. paragraph 46A of AS 11)

Therefore, an entity cannot continue to recognise the exchange differences arising from those loans, in the cost of fixed assets under paragraph D13AA of Ind AS 101. (*ITFG 1, Issue 4*)

e. Accounting policy for exchange differences to long-term forward exchange contracts

Companies that availed of the option to apply paragraph 46/46A of AS 11 under previous GAAP may have also capitalised foreign exchange differences on forward exchange contracts (covered by paragraph 36 of AS 11) acquired to hedge long-term foreign currency loans. This was permitted in accordance with the clarification issued by ICAI in its Frequently Asked Questions (FAQs) on the AS 11 notification.

However, the exemption in paragraph D13AA of Ind AS 101 relates only to foreign exchange differences on long-term foreign currency monetary items recognised in the financial statements prior to the first Ind AS financial reporting period and would not apply to long-term forward exchange contracts. (*ITFG 7, Issue 4*)

Long-term forward exchange contracts would meet the definition of a derivative and are within the scope of Ind AS 109. These derivatives would have to be recognised at FVTPL unless hedge accounting principles apply and these are designated in a qualifying cash flow hedge relationship under Ind AS 109.

f. Application of hedge accounting principles where an entity avails an option under para 46A of AS 11

On transition to Ind AS, an entity may continue to capitalise foreign exchange differences arising on translation of long-term foreign currency loans into the cost of a related asset, in accordance with the exemption in Ind AS 101. The entity may have also entered into derivative transactions (e.g. forward contracts or cross currency swaps) to hedge the cash flows on the long-term foreign currency loan.

However, the entity would not be permitted to apply hedge accounting under Ind AS to such derivatives. This is because the entity is considered to have no corresponding foreign exchange exposure that affects profit or loss, since it capitalises the exchange differences. *(ITFG 3, Issue 10)*

Also refer Chapter 9, Financial instruments. *(ITFG 3, Issue 10 and ITFG 13, Issue 8)*

III. Clarifications with respect to application of the exemption for service concession arrangements

Paragraph D22 of Ind AS 101 specifically permits an entity to continue with its amortisation policy adopted under previous GAAP for intangible assets arising from service concession arrangements in respect of toll roads. This, read with paragraph 7AA of Ind AS 38, permits an entity to continue with revenue based amortisation for such intangible assets (related to toll roads) recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period. This method of amortisation is not permitted for intangible assets related to toll roads that are recognised subsequently.

a. Revenue-based amortisation for toll roads

The ITFG clarified that in harmonisation of the Companies (Accounts) Rules, 2014, Ind AS 38 and Ind AS 101, the principles of Ind AS 38 should be followed for all intangible assets related to service concession arrangements including toll roads once Ind AS is applicable to an entity.

Accordingly, revenue-based amortisation would, generally, not apply to such intangible assets, except in accordance with paragraph D22 of Ind AS 101, which provides a specific exemption for toll road intangibles recognised in the financial statements before the beginning of the first Ind AS reporting period. *(ITFG 3, Issue 13)*

b. Application of exemption to toll roads under construction

Another practical issue is with reference to applicability of this exemption to toll roads under construction/development. The exemption applies only to intangible assets arising from toll-road concession arrangements recognised in the financial statements before the beginning of first Ind AS reporting period.

An entity can not avail of the exemption if the construction of the toll road is in progress on the date of transition to Ind AS. This is because the intangible asset in relation to toll road would not have been recognised prior to the beginning of the first Ind AS reporting period. *(ITFG 7, Issue 9)*





IV. Other clarifications

The following are other significant application issues arising from the implementation of the guidance in Ind AS 101:

a. Retrospective application of Ind AS 109 to financial instruments acquired in past business combinations

Ind AS 101 provides entities transitioning to Ind AS with an option to not apply Ind AS 103, retrospectively to business combinations that occurred before the date of transition to Ind AS.

Where an entity acquires another entity in a scheme of amalgamation approved under the provisions of the 2013 Act, prior to its date of transition to Ind AS and avails of the option to not restate its past business combinations, it considers the previous GAAP carrying amounts of assets acquired and liabilities assumed to be their deemed cost on the date of transition to Ind AS.

On the other hand, while preparing its opening Ind AS balance sheet, Ind AS 101 requires an entity to apply the criteria in Ind AS 109 to classify financial instruments on the basis of the facts and circumstances that exist at the date of transition to Ind AS. The resulting classifications are applied retrospectively.

While Ind AS 101 does not specifically provide any transitional relief for financial instruments, it also does not specify the accounting treatment if an entity elects not to restate its past business combinations, giving rise to an application issue.

In this scenario, the previous GAAP carrying amounts of financial instruments acquired as part of the business combination would be their deemed cost at the date of the business combination. The fair value or amortised cost (as required by Ind AS 109) of such financial instruments should be determined from the date of business combination and not from the date of origination by the acquiree company. Accordingly, the financial instruments would be measured in the following manner:

- **Financial instruments classified as Fair Value Through Profit or Loss (FVTPL)/Fair Value Through Other Comprehensive Income (FVOCI):** Measured at their fair value on the date of transition to Ind AS.

- **Financial instruments classified at amortised cost:** The carrying amount of the instrument should be computed on the date of transition to Ind AS, based on the previous GAAP carrying amount at the date of business combination (under previous GAAP) and the effective interest rate as on that date (determined after considering the amount and timing of expected settlement of such financial instrument). (*ITFG 12, Issue 9*)

b. Date of transition for presentation of opening balance sheet

As per Ind AS 101, an entity is required to prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS and this is the starting point for its accounting.

For example, the balance sheet of an entity with transition date as 1 April 2016 would be prepared as on date of transition to Ind AS i.e. the beginning of business on 1 April 2016 (or, equivalently, close of business on 31 March 2016). (*ITFG 8, Issue 3*)

ITFG clarified that on the date of transition to Ind AS, an entity would prepare its balance sheet as on the start of that day.

c. Determination of date for assessing functional currency

Ind AS 101 provides for certain exceptions and exemptions from retrospective application of other Ind AS. However, there is no specific guidance regarding the date of assessment for determination of functional currency by an entity, i.e., whether this would be assessed as on the date of transition to Ind AS or retrospectively. In accordance with principles in Ind AS 101, since neither any exception nor any exemption has been provided, an entity would be required to assess its functional currency retrospectively. (*ITFG 1, Issue 5*)

d. Premium on redemption of financial liabilities

Companies may have adjusted redemption premiums and/or other transaction costs incurred on financial liabilities (as defined in Ind AS 109) issued before transition to Ind AS against the securities premium account under previous GAAP. However, this is not permitted in Ind AS 109, which requires such redemption premium and transaction costs to be adjusted in the EIR of the financial liability.

Accordingly, ICAI clarified that the difference between the carrying amount of the financial liability (as per previous GAAP) on the date of transition and its amortised cost as on that date, computed as per the EIR method specified in Ind AS 109, should be adjusted by crediting the capital reserve account and the corresponding debit would be to the relevant account which was credited earlier. (FAQ dated 7 April 2017 issued by the ASB of ICAI).

Companies that have previously adjusted the entire redemption premium against the securities premium account and recognised the full repayable amount of the liability would be required to reverse the unamortised premium expense on transition to Ind AS. This would subsequently be recognised as an interest expense through the statement of profit and loss over the remaining period until redemption. This could have a significant impact on the determination of future profits under Ind AS.

e. Depreciation on first-time adoption

An entity, being a first-time adopter of Ind AS is required by Ind AS 101 to measure its PPE on the date of transition either by retrospectively applying Ind AS 16 or at deemed cost (being either fair value or previous GAAP carrying amount at the date of transition).

If the entity elects to measure its PPE by retrospective application of Ind AS 16, it is not permitted to re-estimate its depreciation, unless its estimate of depreciation in the previous GAAP was in error.

However, when an entity has not estimated the useful life of its assets, but has depreciated its assets as per the minimum requirements of law (at the rates prescribed under Schedule XIV to the Companies Act, 1956), then it would be required to re-compute the depreciation by assessing the useful life of the asset in accordance with Ind AS 16. (ITFG 3, Issue 14)

f. Accounting treatment of government loans at a below-market rate of interest

Ind AS 101 requires a first-time adopter to apply the requirements in Ind AS 109 and Ind AS 20 prospectively to government loans existing at the date of transition to Ind AS. Therefore, the carrying amount of government loan, under previous GAAP, would continue to be recognised at the date of transition to Ind AS.

Although Ind AS 20 requires that the benefit of a government loan at a below-market rate of interest is treated as a government grant, such benefit (based on a retrospective restatement of the loan amount at its fair value on initial recognition under Ind AS 109) would not be recognised for a government loan existing at the date of transition, since Ind AS 101 does not permit such retrospective restatement.

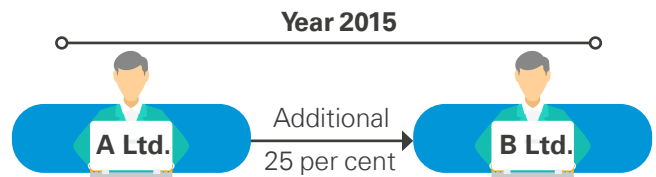
A first-time adopter is required to use its previous GAAP carrying amount of government loan as the Ind AS carrying amount on the date of transition. It should apply the requirements of Ind AS 20 and Ind AS 109, prospectively to government loans existing at the date of transition to Ind AS, unless the necessary information needed to apply the requirements of Ind AS 109 and Ind AS 20 retrospectively, has been obtained at the time of initially accounting for that loan. On prospective application of Ind AS 109, the EIR of the loan should be computed by comparing the carrying amount of the loan at the date of transition with the amount and timing of expected repayment to the government.

Another important related issue is whether this exemption would apply to the deferment of a liability payable to government based on an agreement, i.e. liability similar to sales tax deferment for 10 years. Often in such deferral schemes (e.g. where the amount of sales tax collected by an entity from its customers is retained by the entity and is required to be repaid after a specified number of years) are similar in nature to an interest-free loan. Hence, Ind AS 109 and Ind AS 20 should also be prospectively applied to such balances (e.g. deferred sales tax liabilities) outstanding at the date of transition. (ITFG 12, Issue 7).

Entities are, therefore, not required to remeasure their deferred sales tax liabilities outstanding at the date of transition.

g. Business combination accounting in case of acquisitions by first-time adopter

In the year 2009, an entity A Ltd. formed a subsidiary B Ltd. by subscribing to 60 per cent of its share capital. Additionally, A Ltd. acquired 25 per cent of share capital of B Ltd. during the month of October 2015. Subsequently, in the Financial Year (FY) 2017-18, A Ltd. transitioned to Ind AS with its date of transition as 1 April 2017.



As formation of B Ltd. was not a business combination, the following issues were raised:

- Whether the option available to a first-time adopter of Ind AS, to restate, or not restate, past business combinations as per Ind AS 103 be available in respect of B Ltd
- Whether A Ltd. could account for the difference between the consideration paid for the additional 25 per cent shares in B Ltd. and the amount of reduction in Non-Controlling Interests (NCI), directly in equity.

In this case, ITFG clarified that, requirements of Ind AS 110 in respect of consolidation apply not only to those subsidiaries that were acquired by way of business combinations but also those entities which were formed by the parent itself and have been its subsidiaries *ab initio*.

Accordingly, Ind AS 110 would apply to changes in a parent’s ownership interest without loss of control of any subsidiary (acquired or formed by the parent).

However, Ind AS 101 specifically prohibits retrospective application of a certain requirement of Ind AS 110 (i.e. changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary to be accounted for as equity transactions).

Consequently, ITFG clarified if case A Ltd. does not restate its past business combinations, then the accounting treatment of purchase of the additional interest in B Ltd. by A Ltd. in accordance with previous GAAP would continue (i.e., no adjustments to the same would be made) while transitioning to Ind AS. (ITFG 19 Issue 1)

h. First-time adopter of Ind AS - Transitional options under Ind AS 115

Under Ind AS transitional provisions could be found at two places:

The transitional provision contained in Ind AS 101 are applicable to first-time adopter of Ind AS. A first-time adopter does not apply the transitional requirements of individual standards unless specifically required to do so. The transitional requirements of individual standards are available to entities that already apply Ind AS.

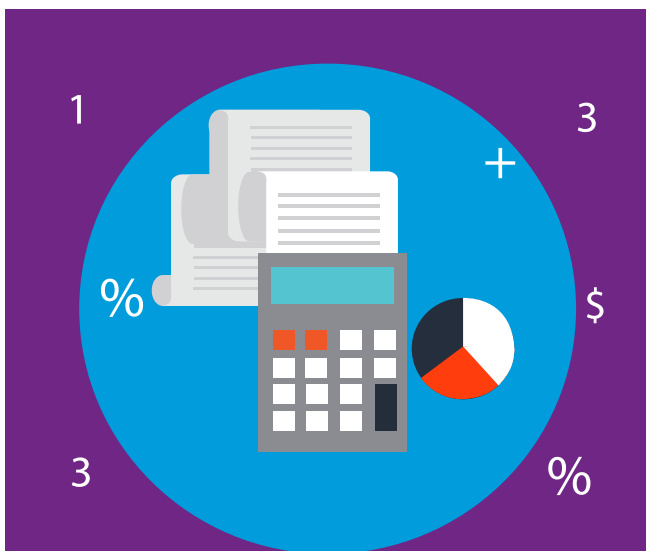


In this regard, ITFG considered a situation where an entity (ABC Ltd.) complying with Ind AS for the first time from 1 April 2018 is required to comply with Ind AS 115 and whether a first-time adopter of Ind AS could apply simplified transition method under Ind AS 115.

For existing Ind AS users Ind AS 115 provides following two methods of accounting at transition to Ind AS 115:

- The retrospective method (with or without one or more of four practical expedients)
- The cumulative effect method (simplified transition method).

However, Ind AS 101 contains specific provisions dealing with the application of transitional provisions of Ind AS 115 by a first-time adopter. A first-time adopter could apply the transitional provisions contained in Ind AS 115 only to the extent required or allowed to do so under Appendices B-D of Ind AS 101. Appendix B-D allows a first-time adopter to apply only the full retrospective adoption method (with practical expedients) given in Ind AS 115.



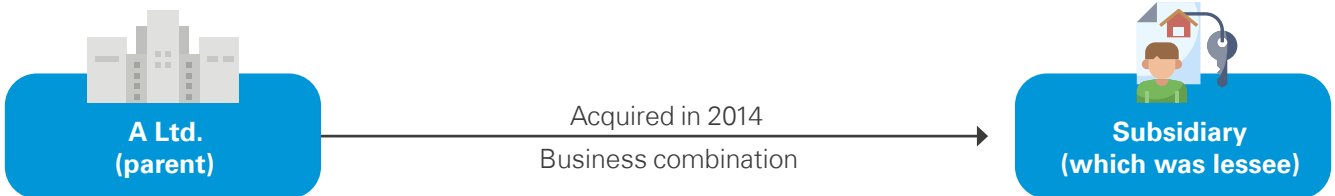
Therefore, ITFG clarified that a first-time adopter does not have the choice of applying the simplified transition method. (ITFG 19, Issue 3)

i. Accounting of operating leases of a subsidiary not capitalised by a first-time adopter parent

An entity A Ltd. is a first-time adopter of Ind AS. Its date of transition is 1 April 2018 and it would apply

Ind AS for the first time when it prepares its financial statements for the accounting period beginning on 1 April 2019.

In the year 2014, A Ltd. acquired an Indian company as its subsidiary. The acquisition qualifies as a business combination as per Ind AS 103.



At the date of its acquisition, the acquired subsidiary was a lessee in certain operating leases which were not capitalised in the CFS prepared by A in accordance with previous GAAP².

As a first-time adopter of Ind AS, A Ltd. is required to apply Ind AS 101 in preparing its first Ind AS financial statements which would include, inter alia, an opening Ind AS balance sheet as at the date of transition to Ind AS.

In accordance with Ind AS 101, the general requirement is retrospective application of the standards in force at the end of an entity's first Ind AS reporting period. However, there are certain optional exemptions from, and some mandatory exceptions to this general requirement.

Accordingly, A Ltd. being a first-time adopter could, apply the transitional provisions contained in Ind AS 116 only to the extent required or allowed to do so under Ind AS 101 requirements as follows:

- **Exemption from restating past business combinations**

For business combinations that occurred before the date of transition, entities have the following choices:

- Restate all business combinations
- Restate all business combinations after a particular date or
- Do not restate any of the business combinations.

- **Exemption from retrospective application of Ind AS 116**

Ind AS 101 contains certain practical expedients in relation to Ind AS 116. Therefore, A Ltd. could have taken the above choices and it would result in following scenarios:



Scenario I: The business combination is restated

A Ltd. would need to account for the business combination retrospectively from the acquisition date. Accordingly, it would be required to apply Ind AS 116 to acquired leases as if each of those leases were a new lease at the acquisition date. However, an acquirer is exempted from recognition of Right-Of-Use (ROU) assets and lease liability in the following two cases:

- Leases for which the lease term (as defined in Ind AS 116) ends within 12 months of the acquisition date or
- Leases for which the underlying asset is of low value.

A Ltd. would measure the lease liability in respect of a lease at the acquisition date in accordance with Ind AS 116. This would include measuring the lease liability at the present value of the lease payments that are not paid at that date. The lease payments should be discounted using the interest rate implicit in the lease, if that rate could be readily determined. If that rate cannot be readily determined, the lessee should use the lessee's incremental borrowing rate.

Further, ITFG has clarified that the incremental borrowing rate would be determined with reference to the acquisition date which represents the commencement date within the meaning of Ind AS 116 in respect of leases acquired in a business combination.

² Ind AS 116 has superseded Ind AS 17 and is applicable for annual reporting periods beginning on or after 1 April 2019



Scenario 2: The business combination is not restated

In case the business combination is not restated, the accounting treatment of the acquired leases in the first Ind AS CFS would be as follows:

- **Does not avail Ind AS 101 exemption:** In case A Ltd. does not select to avail of the exemption provided by Ind AS 101 in respect of leases, it would measure the lease liability and ROU asset in respect of the acquired leases at the date of transition to Ind AS by applying Ind AS 116 retrospectively from the acquisition date. This implies, *inter-alia* that the lease payments would be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee's incremental borrowing rate determined with reference to the acquisition date would be used.
- **Avails Ind AS 101 exemption:** In case A Ltd. selects to avail of the exemption provided by Ind AS 101 in respect of leases, it would measure the lease liability and ROU asset in respect of the acquired leases at the date of transition to Ind AS by applying requirements of Ind AS 101. This implies, *inter alia*, that the incremental borrowing rate to be applied for measuring the lease liability would be determined with reference to the date of transition to Ind AS. (ITFG 21, Issue 4)

j. Accounting treatment of deferred tax adjustments recognised in equity on first-time adoption of Ind AS in accordance with Ind AS 101, at the time of transition to Ind AS 115 and Ind AS 116

The principle laid down in Ind AS 12 for accounting of current and deferred tax effects is as follows:

Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or the event itself.

Accordingly, an entity is required to account for tax consequences of transactions and other events in the same way that it accounts for the transaction and other events themselves. Thus, for transactions and other events recognised in the statement of profit and loss, any related tax effects are also recognised outside the statement of profit and loss (i.e. either in Other Comprehensive Income (OCI) or directly in equity, any related tax effects are also recognised either in OCI or directly in equity respectively.

ITFG considered a situation where an Entity X at the time of first-time adoption of Ind AS, made adjustments resulting from recognition of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL) directly in equity as required by the Ind AS 101.

Subsequently, similar deferred tax adjustments were made directly in equity at the time of initial application of Ind AS 115 and Ind AS 116.

In the financial year 2019-20, Entity X decided to opt for the lower tax rate the Ordinance 2019. As a result, DTA and DTL, to the extent unrealised/not settled, would be required to be remeasured.

The issue under consideration is whether entity X Ltd. should recognise the resultant differences in amount of DTA and DTL arising from change in tax rates directly in equity.

The ITFG deliberated the intended meaning of terms 'directly in equity' and 'transaction or event' as envisaged in Ind AS 12. Consequently, the emerging view was that the words 'directly in equity' relate to the base transaction/event and the term 'transaction or event' refers to the source which gave rise to the deferred tax implication.

The ITFG considered following examples with respect to the term 'directly in equity':

- An entity at the time of first-time adoption of Ind AS restates a previous business combination. This was earlier accounted under previous GAAP on book value basis. As a result, the entity recalculates the depreciation charge for items of PPE acquired as a part of the business combination on the basis of fair value for the previous periods from the date of business combination to the date of transition to Ind ASs and adjusted the resultant increase (or decrease) in retained earnings (in cumulative depreciation) as on the date of transition to Ind AS. ITFG clarified that, in doing so, the entity, in effect, restated the depreciation charge in profit or loss for each of the previous periods from the date of business combination to the date of transition to Ind AS. (Had the entity presented comparative information for all such previous periods, the increased (or decreased) depreciation for a period would have reflected in statement of profit and loss for that period). Accordingly, it was highlighted that the cumulative adjustment to retained earnings at the date of transition to Ind AS is not an adjustment 'directly in equity'.

- An entity at the time of first-time adoption of Ind AS remeasures certain equity investments at Fair Value through Other Comprehensive Income (FVOCI). Under previous GAAP, the investments were measured at cost less diminution (other than temporary in nature). The resultant increase/decrease in carrying value of investments were adjusted under an appropriate equity head (e.g. OCI) on the date of transition to Ind AS. ITFG clarified that in doing this, the entity in effect, reflected the fair value changes in OCI for each of the previous periods up to the date of transition. (Had the entity presented comparative information for all such previous periods, the increase (or decrease) in the fair value for a period would be reflected in OCI for that period.). Accordingly, it was highlighted that the cumulative adjustment to equity at the date of transition to Ind AS is not a transaction or event recognised 'directly in equity' and the remeasurement of deferred tax on such item is required to be recognised in OCI.
- An entity at the time of first-time adoption of Ind AS adjusts the unamortised balance of costs of issue of equity shares in an appropriate equity head on the date of transition to Ind AS. The adjustment was made in accordance with Ind AS 32, Financial Instruments: Presentation that 'transaction costs of an equity transaction shall be accounted for as a deduction from equity'. Accordingly, ITFG clarified that were the entity an existing adopter of Ind AS at the time of issuance of the equity share, it would still have adjusted the issue costs directly in equity. Hence, it was highlighted that the adjustment to equity at the date of transition to Ind AS is an adjustment 'directly in equity'. Additionally, the remeasurement of deferred tax on such item is required to be recognised directly in equity.

The ITFG clarified that entity is required to determine (using the current accounting policies) the underlying items (source transaction/events) with respect to which deferred taxes were recognised by it at the time of first-time adoption of Ind AS or at the time of transition to Ind AS 115 or Ind AS 116.

Accordingly, ITFG concluded that depending on the nature of an underlying item, the change in the amount of the related deferred tax asset or deferred tax liability resulting from the remeasurement of the same at lower tax rates introduced by the Ordinance 2019 should be recognised in statement of profit and loss, OCI or directly in equity. (*ITFG 23, Issue 2*)



Refer to educational material on Ind AS 101 for the following issues/topics:

Issue number	Topic
1	Guidance on explicit and unreserved statement of compliance with Ind AS
2	Guidance on date of transition to Ind AS
3	Guidance on use of fair values as the deemed cost of fixed assets (whether this would be a change in accounting policy)
4	Guidance on whether use of fair values as deemed cost and use of revaluation model in first annual Ind AS financial statements would be a change in change in accounting policy
5	Few examples of the items that an entity may need to recognise, derecognise, remeasure, reclassify on the date of transition
6	Guidance on cumulative translation differences and accumulated exchange differences (prospective and retrospective options) (Similar to the ITFG 7, Issue 3)
7	Guidance on cumulative translation differences and accumulated exchange differences in case of continuing with option exercised as per para 46/46A of AS 11 (Similar to ITFG 2, Issues 1 and 6)
8	Guidance on cumulative translation differences and accumulated exchange differences in case option exercised as per Para 46/46A of AS 11 discontinued and apply Ind AS 21
9	Guidance on treatment of adjustment of foreign exchange fluctuation already capitalised to PPE under previous GAAP on discontinuation of existing policy of capitalising exchange fluctuation on long term foreign currency monetary items to fixed assets (Similar to ITFG 1, Issue 3)
10	Guidance on consolidation on transition to Ind AS with respect to an entity not a subsidiary/ associate/JV under previous GAAP
11	Guidance on restatement of past business combinations under Ind AS financials of holding and subsidiary company
12	Guidance on retrospective adjustment of allocation of losses to NCI (whether required or permitted)
13	Guidance on adjustment to goodwill arising on business combination on first-time adoption in case an entity elects not to restate past business combination
14	Guidance on share-based payment transactions at the date of transition (treatment of vested and unvested stock options)
15	Guidance on application of deemed cost on selective basis (Similar to ITFG 5, Issue 3)
16	Guidance on whether entities in a group could use different basis of arriving at deemed cost for PPE in their respective SFS
17	Guidance on whether use of carrying value for PPE and fair value for intangible assets as deemed cost permitted
18	Guidance on whether to use original cost or net book value (for the purpose of deemed cost) and impact on future depreciation
19	Guidance on allocation of cost to component based on fair value when component wise breakup of historical cost not available
20	Guidance on acceptable time gap for validity of revaluation under previous GAAP from the date of transition
21	Guidance on acceptable time gap for validity of fair valuation under certain events from the date of transition
22	Guidance on recognition of intangible assets (not recognised under previous GAAP) under Ind AS on fair value basis on first-time adoption



23	Guidance on treatment of compound financial instruments on the date of transition
24	Guidance on previous GAAP for consolidation of foreign entity on transition to Ind AS
25	Guidance on restatement of past business combinations at a date prior to transition and availability of deemed cost exemption for PPE
26	Guidance on first-time adoption exemptions for business combinations
27	Guidance on treatment of goodwill in CFS in case of step acquisition under previous GAAP when past business are combinations are not restated and cases where restated
28	Guidance on significant accounting steps required for an entity which opted not to restate business combinations
29	Guidance on significant implications of restating past business combinations
30	Guidance on accounting for change of classification of an entity from an associate to a subsidiary in case past business combinations are not restated
31	Guidance on accounting for the change of classification of a subsidiary entity to an associate in case past business combinations are not restated
32	Guidance on whether carrying amount of investments in a business combination transactions would be adjusted
33	Guidance on sale of stake prior to date of transition (whether or not leading to loss of control)
34	Guidance on continuation of an adjustment of change in estimate (made in accordance with previous GAAP) on transition date
35	Guidance on when an estimate was not required to be made as per previous GAAP on the transition date but required under Ind AS
36	Guidance on revision of estimates made under previous GAAP (in situations when no evidence to suggest that original estimate was in error)
37	Guidance on derecognition of financial assets and liabilities (treatment of securitised loan assets on transition)
38	Guidance on continuing hedge accounting on transition (when hedge transaction in previous GAAP was a hedging instrument which is a written option)
39	Guidance on exemptions from the presentation and disclosure requirements in other Ind AS
40	Guidance on comparatives as per Ind AS in first Ind AS financial statements
41	Guidance on errors as per previous GAAP (rectification under Ind AS)
42	Guidance on explanation of change in accounting policies in first Ind AS financials
43	Guidance on disclosure with respect to deemed cost on transition date
44	Guidance on change in accounting policy post transition to Ind AS (after presenting its first Ind AS interim financial statements but before presenting its first annual Ind AS financial statements)
45	Guidance on disclosure requirements for the first interim financial reports prepared as per Ind AS
46	Guidance on reconciliation from previous GAAP to Ind AS
47	Guidance on presentation of reconciliations with its previous GAAP SFS (where an entity did not prepare CFS as per the previous GAAP)
48	Guidance on minimum reconciliations to be given as per Ind AS 101