Educational Material on
Indian Accounting Standard (Ind AS) 101
First-time Adoption of Indian Accounting Standards

The Institute of Chartered Accountants of India
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Foreword

The Institute of Chartered Accountants of India (ICAI) has always been making efforts for bringing an overall qualitative improvement in the financial reporting in India. Continuing with its endeavour to achieve international benchmarks of accounting, convergence with International Financial Reporting Standards (IFRS) has been decided. Pursuant to the Budget Speech of the Finance Minister in July 2014, the ICAI has taken various steps in order to bring IFRS-converged Indian Accounting Standards (Ind AS) in place. The ICAI has formulated IFRS-converged Ind AS, which have been considered and approved by the National Advisory Committee on Accounting Standards (NACAS). After recommendation of NACAS, these Ind AS have been notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015.

While formulating IFRS-converged Indian Accounting Standards (Ind AS), need has been felt to provide guidance on Ind AS in order to ensure the implementation of these Standards in the same spirit in which these have been formulated. This task of providing guidance has been entrusted to Ind AS (IFRS) Implementation Committee. Accordingly, the Committee is formulating Educational Materials on Ind ASs to provide the required guidance.

Moving forward in this direction, the Committee has formulated Educational Material on Indian Accounting Standard (Ind AS) 101, *First-time Adoption of Indian Accounting Standards.* Ind AS 101 provides the suitable starting point for accounting in accordance with Ind ASs. This Standard provides various exemptions and exceptions to the entities preparing their Ind AS-compliant financial statements for the first time to ensure the smooth transitioning to Ind ASs. The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) on the issues that may be encountered while implementing Ind AS 101 for the purpose of transitioning to Ind AS.

This Educational Material would be of great help as the first time implementation of Ind AS may be a challenge for many entities. Therefore, publication of this Educational Material in a timely manner is a very significant initiative of the Committee. Accordingly, I would like to place on record my deep appreciation to CA. S. B. Zaware, Chairman, CA. Vijay Kumar Gupta, Vice Chairman and other members of the Committee including co-opted members and special invitees for their invaluable inputs and support.

I would also like to thank Dr. Avinash Chander, Technical Director, ICAI, for his technical support and guidance, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee and other officers for their technical and administrative support in bringing out this publication.

I am of the firm belief that this Educational Material will be very useful to those who are getting ready for transition from existing Accounting Standards to Ind AS and those who will audit the financial statements in accordance with Ind AS.

New Delhi
June 15, 2015

CA. Manoj Fadnis
President, ICAI

Preface

Considering the global developments and expected benefits of convergence with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely recognised as global financial reporting standards, India decided to converge with IFRS. For this purpose, IFRS-converged Indian Accounting Standards corresponding to IFRS considered relevant for Indian entities have been formulated by the ICAI and the same have been notified by the Ministry of Corporate Affairs (MCA) after consideration and recommendation by National Advisory Committee on Accounting Standards (NACAS).

In addition to the formulation of IFRS-converged Ind AS, the ICAI through its Ind AS (IFRS) Implementation Committee is making every possible effort to ensure that these Standards are implemented in the same spirit in which these have been formulated. For this purpose, the Committee is working to provide guidance to the members and other stakeholder by issuing Educational Materials on Ind ASs apart from conducting IFRS Certificate Course, workshops, seminars, awareness programmes, and series of webcasts, etc.

I am glad that the Committee has brought out the Educational Material on Indian Accounting Standard (Ind AS) 101, *First-time Adoption of Indian Accounting Standards*.

The objective of Ind AS 101 is to provide a suitable starting point for accounting in accordance with Ind ASs at a cost that does not exceed the benefits. First Ind AS financial statements are the first annual financial statements in which the entity adopts Ind ASs, and makes an explicit and unreserved statement in those financial statements of compliance with Ind ASs. This Standard grants some mandatory exceptions, and voluntary exemptions from retrospective application of some aspects of other Ind ASs, e.g., exemption relating to business combinations, use of fair value of items of property, plant and equipment as its deemed cost on the date of transition to Ind ASs etc.

This Educational Material contains summary of Ind AS 101 discussing the key requirements of the Standard and the Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard, such as, issues regarding opening Ind AS Balance Sheet, optional exemptions, business combinations and consolidation etc.

I may mention that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I would like to convey my sincere gratitude to our Honourable President CA. Manoj Fadnis and Vice-President CA. M. Devaraja Reddy for providing me this opportunity of bringing out implementation guidance on Ind ASs in the form of Educational Materials. I wish to place on record my sincere appreciation of CA. Sanjiv Kumar Chaudhary, Central Council Member, CA. Sanjeev Singhal, CA. Archana Bhutani, CA. Krishan Kant Tulshan, CA. Sanjay Vasudeva and other members of the Study Group, for preparing the draft of this Educational Material. I would also like to thank all members, co-opted members, special invitees of the Ind AS (IFRS) Implementation Committee for their invaluable suggestions and contributions for finalising this publication.

I sincerely believe that this Educational Material will be of great help in understanding the provisions of Ind AS 101 and in implementation of the same.

New Delhi
June 15, 2015

CA. S. B. Zaware
Chairman
Ind AS (IFRS) Implementation Committee

Contents

Educational Material on
Indian Accounting Standard (Ind AS) 101
First-time Adoption of Indian Accounting Standards

I Ind AS 101 - Summary

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.

Definitions

Ind AS 101 defines various terms used in the Standard. These are contained in Appendix A to Ind AS 101. These definitions are important to understand the requirements of Ind AS 101. Some of the key definitions are given below:

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

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.

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

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

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

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

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

Objective

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

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

Scope

An entity shall apply Ind AS 101 in its first Ind AS financial statements and each interim financial report, if any, that it presents in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements.

Recognition and measurement

Opening Ind AS Balance Sheet

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind ASs. This is the starting point for its accounting in accordance with Ind ASs.

Accounting policies

An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout 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, except as specified in Ind AS 101.

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

(a) recognise all assets and liabilities whose recognition is required by Ind ASs;

(b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;

(c) 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 ASs; and

(d) apply Ind ASs in measuring all recognised assets and liabilities.

The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs, which shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs.

This Ind AS establishes **two categories of exceptions** to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

(a) Ind AS 101 prohibits retrospective application of some specific aspects of other Ind ASs.

(b) Ind AS 101 grants voluntary exemptions from some specific requirements of other Ind ASs.

Presentation and Disclosure

Ind AS 101 does not provide exemptions from the presentation and disclosure requirements in other Ind ASs. This Ind AS requires that an entity's first Ind AS financial statements shall include at least three balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

Explanation of transition to Ind ASs

Ind AS 101 requires that an entity should explain how the transition from previous GAAP to Ind ASs affected its reported balance sheet, financial performance and cash flows.

Exceptions to the retrospective application of other Ind ASs

Ind AS 101 prohibits retrospective application of some aspects of other Ind ASs. These exceptions are set out in paragraph 14-17 of Ind AS 101 and Appendix B to Ind AS 101.

Estimates

Paragraphs 14-17 of Ind AS 101 deal with exception with regard to 'estimates'. As per paragraph 14 of Ind AS 101, an entity's estimates in accordance with Ind AS at 'the date of transition to Ind AS' or 'the end of the comparative period presented in the entity's first Ind AS financial statements', as the case may be, should be consistent with estimates made for the same date in accordance with previous GAAP unless there is objective evidence that those estimates were in error. However, the estimates should be adjusted to reflect any differences in accounting policies.

Mandatory Exceptions

Appendix B to Ind AS 101 provides that an entity should apply the following mandatory exceptions:

- derecognition of financial assets and financial liabilities;
- hedge accounting;
- non-controlling interests;
- classification and measurement of financial assets;
- impairment of financial assets;
- embedded derivatives; and
- government loans

De-recognition of financial assets and financial liabilities

A first-time adopter should apply the de-recognition requirements in Ind AS 109 on *'Financial Instruments'* prospectively for transactions occurring on or after the date of transition to Ind AS.

Hedge Accounting

As required by Ind AS 109, at the date of transition to Ind AS, an entity should:

(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.

Paragraph B5 of Appendix B to Ind AS 101 provides that an entity should 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.

Paragraph B6 of Ind AS 101 provides that if, before the date of transition to Ind AS, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity should discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

Non-controlling interests

A first-time adopter should apply the following requirements of Ind AS 110 on *'Consolidated Financial Statements'* prospectively from the date of transition to Ind AS:

(a) the requirement that total comprehensive income should be 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) the requirements under Ind AS 110 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control, i.e., considering such a change as a equity transaction (transaction with owners in their capacity as owners) to be accounted for accordingly

(c) the requirements under Ind AS 110 for accounting for a loss of control over a subsidiary, and the related requirements under Ind AS 105 on *'Non-current Assets Held for Sale and Discontinued Operations'*

However, if a first-time adopter elects to apply Ind AS 103 on *'Business Combinations'* retrospectively to past business combinations, it should also apply Ind AS 110 from the same date.

Classification and measurement of financial assets

Ind AS 101 provides exemptions to certain classification and measurement requirements of financial assets under Ind AS 109, where these are impracticable to implement.

Impairment of financial assets

An entity should apply the impairment requirements under Ind AS 109 (for recognition and measurement of expected credit losses) retrospectively subject to certain exemptions provided under Ind AS 101.

Embedded derivatives

A first-time adopter should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative. This assessment is based on the conditions that existed at the later of:

(a) the date it first became a party to the contract; and
(b) the date a reassessment is required under Ind AS 109

Government loans

A first-time adopter should classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32 on *'Financial Instruments: Presentation'*.

A first-time adopter should apply the requirements under Ind AS 109 on *'Financial Instruments'* and Ind AS 20 on *'Accounting for Government Grants and Disclosure of Government Assistance'* prospectively to government loans existing at the date of transition to Ind AS, i.e., it should 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 the requirements under Ind AS, it should use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS balance sheet and apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Under Ind AS 101, an entity has been given an exception to prospective application of Ind AS 109 and Ind AS 20, i.e., 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. However, this exception is available only in cases where the information needed for retrospective application of Ind AS 109 and Ind AS 20 had been obtained at the time of initially accounting for that loan.

Exemptions for business combinations

Appendix C to Ind AS 101 contains the requirements that an entity should apply to business combinations that the entity recognised before the date of transition to Ind AS. The key requirements are as follows: