

Indian Accounting Standard (Ind-AS) 101

First-time Adoption of Indian Accounting Standards

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Indian Accounting Standard (Ind AS) 101

First-time Adoption of Indian Accounting Standards

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Indian Accounting Standard (Ind AS) is to ensure that an entity's *first Ind-AS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
 - (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with Ind-ASs; and
 - (c) can be generated at a cost that does not exceed the benefits.

Scope

- 2 An entity shall apply this Ind-AS in:
 - (a) its first Ind-AS financial statements¹ 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.
- 3 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, 1956 and makes an explicit and unreserved statement in those financial statements of compliance with Ind-ASs.
- 4 [Refer to Appendix 1]
- 5 This Indian Accounting Standard does not apply to changes in accounting policies made by an entity that already applies Ind-ASs. Such changes are the subject of:
 - (a) requirements on changes in accounting policies in Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) specific transitional requirements in other Ind-ASs.

Recognition and measurement

Opening Ind-AS Balance Sheet

- 6 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

- 7 **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 paragraphs 13–19 and Appendices B–E.**
- 8 An entity shall not apply different versions of Ind-ASs that were effective at earlier dates. An entity may apply a new Ind-AS that is not yet mandatory if that Ind-AS permits early application.

Example: Consistent application of latest version of Ind-ASs

Background

The end of entity A's first Ind-AS reporting period is 31 March 2014. Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 2013.

Application of requirements

Entity A is required to apply the Ind-ASs effective for financial year/periods ending on 31 March 2014 in:

- (a) preparing and presenting its opening Ind-AS Balance Sheet as at 1 April 2013 which is the date of transition to Ind-AS; and
- (b) preparing and presenting its Balance Sheet as at 31 March 2014, statement of profit and loss and statement of cash flows for the year ending 31 March 2014 and disclosures.

If Entity A; decides to present comparative information in those financial statements for one year (see paragraph 21).the requirements apply as follows:

Entity A is required to apply the Ind-ASs effective for financial year/periods ending on 31 March 2014 in:

- a. preparing and presenting its opening Ind-AS Balance Sheet as at 1 April, 2012 on a memorandum basis for compilation of comparative period financial statements assuming that deemed date of transition is April 1, 2012; and
- b. preparing and presenting its opening Ind-AS Balance Sheet as at 1 April 2013 which is the date of transition to Ind-AS
- c. preparing and presenting its Balance Sheet as at 31 March 2014 (including comparative amounts for 31 March, 2013), statement of profit and loss and statement of cash flows for the year ending 31 March 2014 (including comparative amounts for corresponding periods of year ending 31 March, 2013) and disclosures (including comparative

information for previous period).

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

- 9 The transitional provisions in other Ind-ASs apply to changes in accounting policies made by an entity that already uses Ind-ASs; they do not apply to a *first-time adopter's* transition to Ind-ASs, except as specified in Appendices B–E.
- 10 Except as described in paragraphs 13–19 and Appendices B–E, 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.
- 11 The accounting policies that an entity uses in its opening Ind-AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind-ASs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind-ASs.
- 12 This Indian Accounting Standard establishes two categories of exceptions to the principle that an entity's opening Ind-AS Balance Sheet shall comply with each Ind-AS:
- (a) paragraphs 14–17 and Appendix B prohibit retrospective application of some aspects of other Ind-ASs.
 - (b) Appendices C–E grant exemptions from some requirements of other Ind-ASs.

Exceptions to the retrospective application of other Ind-ASs

- 13 This Indian Accounting Standard prohibits retrospective application of some aspects of other Ind-ASs. These exceptions are set out in paragraphs 14–17 and Appendix B.

Estimates

- 14 **An entity's estimates in accordance with Ind-ASs at the date of**

transition to Ind-ASs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

- 15 An entity may receive information after the date of transition to Ind-ASs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to Ind-ASs is 1 April 2011 and new information on 15 May 2011 requires the revision of an estimate made in accordance with previous GAAP at 31 March 2011. The entity shall not reflect that new information in its opening Ind-AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 March 2012.
- 16 An entity may need to make estimates in accordance with Ind-ASs at the date of transition to Ind-ASs that were not required at that date under previous GAAP. To achieve consistency with Ind AS 10, those estimates in accordance with Ind-ASs shall reflect conditions that existed at the date of transition to Ind-ASs. In particular, estimates at the date of transition to Ind-ASs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 17 Paragraphs 14–16 apply to the opening Ind-AS Balance Sheet. In addition, they also apply to a comparative period presented in an entity's first Ind-AS financial statements, where an entity decides to present comparative information in those financial statements for one year (see paragraph 21), in which case the references to the date of transition to Ind-ASs are replaced by references to the end of that comparative period.

Exemptions from other Ind-ASs

- 18 An entity may elect to use one or more of the exemptions contained in Appendices C–E. An entity shall not apply these exemptions by analogy to other items.
- 19 Some exemptions in Appendices C–E refer to *fair value*. In determining fair values in accordance with this Ind-AS, an entity shall apply the definition of fair value in Appendix A and any more specific guidance in other Ind-ASs on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

Presentation and disclosure

- 20 This Indian Accounting Standard does not provide exemptions from the presentation and disclosure requirements in other Ind-ASs.

Comparative information

- 21 To comply with Ind AS 1, an entity's first Ind-AS financial statements shall include at least three Balance Sheets (including two statements of changes in equity), two statements of profit and loss, two statements of cash flows and related notes for those periods. However, in accordance with this Ind-AS, a first time adopter need not provide the corresponding previous period financial statements in accordance with Ind-AS when it reports its first Ind-AS financial statements. Irrespective of any of the following two options elected, in terms of this Ind AS the first time adopter shall present latest corresponding previous periods' financial statements prepared as per the previous GAAP when presenting its first Ind-AS financial statements:

(a) The first Ind-AS financial statements includes only two Balance Sheets (including one statement of changes in equity) and one statement of profit and loss, one statement of cash flows and related notes for the financial year prepared under Ind-AS. This first Ind-AS financial statements would include the previous years' comparative figures as per the previous GAAP. For example, a first time adopter for whom the first reporting period is financial statements for the year ending March 31, 2012 would only provide two Balance Sheets (including one statement of changes in equity) i.e. April 1, 2011 and March 31, 2012 and one statement of profit and loss, one statement of cash flows and related notes for the financial year ending March 31, 2012, accompanied by reclassified previous years financial statements for the year ending March 31, 2011 as per the previous GAAP to the extent practicable, or

(b) In addition to (a) above, voluntarily provide the previous years' comparatives corresponding to the first Ind-AS financial statements also under Ind-AS on a memorandum basis. Only for compilation of previous years comparative financial statements under Ind-ASs on a memorandum basis the entity shall assume that the deemed date of transition as at the beginning of the comparative period. For example, the first time adopter for whom the first reporting period is financial statements for the year ending March 31, 2012 would provide four Balance Sheets (including two statements of changes in equity) i.e. April 1, 2010, March 31, 2011, April 1, 2011 and March 31, 2012, two statements of profit and loss, two statements of cash flows and related notes i.e. for the financial year ending March 31, 2012 and for the corresponding comparative period under Ind-AS. In addition, the first Ind-AS financial statements would include the reclassified financial statements of the entity for the year ending March 31, 2011 as per the previous GAAP to the extent practicable.

An entity's comparative financial statements under Ind-ASs should:

- i. Apply consistent accounting policies for the first Ind-AS financial statements and comparative period

- ii. Apply the optional exemptions (set out in Appendices C-E) and exceptions (set out in paragraph 14-17 and Appendix B) consistently both as at the date of transition, i.e, beginning date of the financial year for which an entity presents financial information under Ind-ASs and deemed date of transition, i.e, beginning date of the comparative financial year for which an entity presents financial information under Ind-ASs. For example, the first time adopter for whom the first reporting period is financial statements for the year ending March 31, 2012 would apply the exceptions and exceptions as at April 1, 2010 and April 1, 2011; accordingly the Balance Sheet as at end of March 31, 2011 may not be equivalent to the opening Balance Sheet as at April 1, 2011.

Non-Ind-AS comparative information and historical summaries

- 22 [Refer to Appendix 1]

Explanation of transition to Ind-ASs

- 23 **An entity shall explain how the transition from previous GAAP to Ind-ASs affected its reported Balance Sheet, financial performance and cash flows.**

Reconciliations

- 24 To comply with paragraph 23, an entity's first Ind-AS financial statements shall include:
- (a) reconciliation of its equity reported in accordance with Ind-ASs to its equity in accordance with previous GAAP on the date of transition to Ind-ASs.
 - (b) significant differences between previous GAAP and Ind-AS in respect of its total comprehensive income (or if it did not report such a total, profit or loss).
For example, a first time adopter for whom the first reporting period as per Ind-AS is year ending March 31, 2012; would provide significant differences explaining the impact on the total comprehensive income for the year ending on that date arising from adoption of the Ind-AS.
 - (c) if the entity recognised or reversed any impairment losses for the first-time in preparing its opening Ind-AS Balance Sheet, the disclosures that Ind AS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind-ASs.
 - (d) where however, an entity decides to provide one year comparative information in accordance with paragraph 21(b) of this Ind-AS then instead of disclosures in (b) above such an entity shall provide

- i. a reconciliation of its equity in accordance with Ind-AS as at deemed date of transition, i.e, beginning of the comparative financial year for which an entity presents financial information under Ind-ASs to its equity reported in accordance with previous GAAP;
- ii. a reconciliation of its equity in accordance with Ind-AS as at the end of the comparative period presented to its equity reported in accordance with previous GAAP; and
- iii. a reconciliation of its total comprehensive income in accordance with Ind-AS compiled on a memorandum basis to its total comprehensive income (or if it did not report such a total, profit or loss) in accordance with previous GAAP for the comparative period.

For example, a first time adopter for whom the first reporting period as per Ind-AS is year ending March 31, 2012 along with one year comparative in accordance with paragraph 21(b) of this Ind-AS would provide a reconciliation explaining the impact on the total comprehensive income for the year ending March 31, 2011 and on the equity as at April 1, 2010 and March 31, 2011 arising from adoption of the Ind-AS .The equity in accordance as at March 31, 2011 may not be equal to the equity as at April 1, 2011 because the comparatives financial under Ind-AS would be compiled on a memorandum basis based on the assumption that the deemed date of transition for the comparative period would be April 1, 2010 where as the date of transition for the year ended March 31, 2012 will be April 1, 2011

- 25 The disclosures required by paragraphs 24(a),(b) and (d) and 24A shall give sufficient detail to enable users to understand the material adjustments to the Balance Sheet and statement of profit and loss. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- 26 If an entity becomes aware of errors made under previous GAAP, the disclosures required by paragraphs 24(a),(b) and (d) and 24A shall distinguish the correction of those errors from changes in accounting policies.
- 27 Ind AS 8 does not apply to changes in accounting policies an entity makes when it adopts Ind-ASs or to changes in those policies until after it presents its first Ind-AS financial statements. Therefore, Ind AS 8's requirements about changes in accounting policies do not apply in an entity's first Ind-AS financial statements.
- 27A If during the period covered by its first Ind-AS financial statements an entity changes its accounting policies or its use of the exemptions contained in this Ind-AS, it shall explain the changes between its first Ind-AS interim financial report and its first Ind-AS financial statements, in accordance with paragraph 23, and it shall update the disclosures required by paragraph 24(a), (b) and

(d) and 24A.

- 27B If an entity adopts the first time exemption option provided in accordance with paragraph D7A, the fact and the accounting policy shall be disclosed by the entity until such time that significant block of such assets is fully depreciated or derecognised from the entity's Balance Sheet.
- 28 If an entity did not present financial statements for previous periods, its first Ind-AS financial statements shall disclose that fact. __

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening Ind-AS Balance Sheet as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity's first Ind-AS financial statements shall disclose, for each line item in the opening Ind-AS Balance Sheet:
- (a) the aggregate of those fair values; and
 - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

- 31 Similarly, if an entity uses a deemed cost in its opening Ind-AS Balance Sheet for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph D15), the entity's first Ind-AS separate financial statements shall disclose:
- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
 - (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
 - (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for oil and gas assets

- 31A If an entity uses the exemption in paragraph D8A(b) for oil and gas assets, it

shall disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

Use of deemed cost for operations subject to rate regulation

- 31B If an entity uses the exemption in paragraph D8B for operations subject to rate regulation, it shall disclose that fact and the basis on which carrying amounts were determined under previous GAAP.

Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind-AS financial statements, the entity shall provide either of the following disclosures in addition to the requirements of Ind AS 34:

- a) where, an entity decides not to provide one year comparative period in accordance with paragraph 21(a) of this Ind-AS: provide the disclosures described in paragraph 24(a) and 24(b) for the part period and year to date covered by its first Ind-AS financial statements (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these disclosures; or
- b) where, an entity decides to provide one year comparative period in accordance with paragraph 21(b) of this Ind-AS: provide
 - i. the reconciliations described in paragraph 24(a) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.
 - ii. a reconciliation of its equity in accordance with Ind-AS as at deemed date of transition, i.e, beginning of the comparative interim period for which an entity presents financial information under Ind-ASs to its equity reported in accordance with previous GAAP;
 - iii. a reconciliation of its equity in accordance with Ind-AS at the end of that comparable interim period to its equity in accordance with previous GAAP at that date; and
 - iv. a reconciliation of total comprehensive income in accordance with Ind-AS compiled on a memorandum basis with its total comprehensive income (or if it did not report such a total, profit or loss) in accordance with previous GAAP for that comparable interim period (current and year to date).

(c) Refer to Appendix 1)

- 32A If an entity changes its accounting policies or its use of the exemptions contained in this Ind-AS, it shall explain the changes in each such interim

financial report in accordance with paragraph 23 and update the reconciliations required by 32(a) or 32(b).

- 33 Ind AS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, Ind AS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

Appendix A

Defined terms

This appendix is an integral part of this Ind-AS.

date of transition to Ind-AS	The beginning date of financial year on or after 1 April 2011 for which an entity presents financial information under Ind-ASs in its 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.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
first Ind-AS financial statements	The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind-ASs), by an explicit and unreserved statement of compliance with Ind-ASs.
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 .
Indian Accounting Standards (Ind-ASs)	Indian Accounting Standards are Accounting Standards prescribed under Section 211(3C) of the Companies Act, 1956.
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 immediately before adopting Ind-ASs for its reporting requirements in India. For instance, for companies preparing their financial statements in accordance with the existing Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 shall consider those financial statements as previous GAAP financial statements.

Appendix B

Exceptions to the retrospective application of other Ind-ASs

This appendix is an integral part of this Ind-AS.

- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6); and
 - (c) non-controlling interests (paragraph B7)

Derecognition of financial assets and financial liabilities

- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in Ind AS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after date of transition to Ind-AS. In other words, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before date of transition to Ind-AS, it shall not recognise those assets and liabilities in accordance with Ind-ASs (unless they qualify for recognition as a result of a later transaction or event).
- B3 Notwithstanding paragraph B2, an entity may apply the derecognition requirements in Ind AS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by Ind AS 39, at the date of transition to Ind-ASs, an entity shall:
- (a) measure all derivatives at fair value; and
 - (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.
- B5 An entity shall not reflect in its opening Ind-AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position

as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with Ind-ASs, provided that it does so no later than the date of transition to Ind-ASs.

- B6 If, before the date of transition to Ind-ASs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 39, the entity shall apply paragraphs 91 and 101 of Ind AS 39 to discontinue hedge accounting. Transactions entered into before the date of transition to Ind-ASs shall not be retrospectively designated as hedges.

Non-controlling interests

- B7 A first-time adopter shall apply the following requirements of Ind AS 27 prospectively from the date of transition to Ind-ASs:
- (a) the requirement in paragraph 28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
 - (b) the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
 - (c) the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply Ind AS 103 *Business Combinations* retrospectively to past business combinations, it shall also apply Ind AS 27 in accordance with paragraph C1 of this Ind-AS.

Appendix C

Exemptions for business combinations

This appendix is an integral part of this Ind-AS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to Ind-ASs.

- C1 A first-time adopter may elect not to apply Ind AS 103 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind-ASs). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 27 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2006, it shall restate all business combinations that occurred between 30 June 2006 and the date of transition to Ind-ASs, and it shall also apply Ind AS 27 from 30 June 2006.
- C2 An entity need not apply Ind AS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to Ind-ASs. If the entity does not apply Ind AS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.
- C3 An entity may apply Ind AS 21 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to Ind-ASs; or
 - (b) all business combinations that the entity elects to restate to comply with Ind AS 103, as permitted by paragraph C1 above.
- C4 If a first-time adopter does not apply Ind AS 103 retrospectively to a past business combination, this has the following consequences for that business combination:
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.
 - (b) The first-time adopter shall recognise all its assets and liabilities at

the date of transition to Ind-ASs that were acquired or assumed in a past business combination, other than:

- (i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and
- (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated Balance Sheet in accordance with previous GAAP and also would not qualify for recognition in accordance with Ind-ASs in the separate Balance Sheet of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

- (c) The first-time adopter shall exclude from its opening Ind-AS Balance Sheet any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under Ind-ASs. The first-time adopter shall account for the resulting change as follows:

- (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with Ind AS 38 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from equity in accordance with previous GAAP, see (g)(i) and (i) below) or capital reserve to the extent not exceeding the balance available in that reserve.
- (ii) the first-time adopter shall recognise all other resulting changes in retained earnings¹.

- (d) Ind-ASs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening Ind-AS Balance Sheet, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill/capital reserve.

- (e) Immediately after the business combination, the carrying amount in

¹ Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition or (c) recognised capital reserve in a business combination accounted for as an acquisition and the amount of reclassification mentioned in (i) above exceeds the balance available in that reserve.

accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with Ind-ASs at that date. If Ind-ASs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.

- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening Ind-AS Balance Sheet. Instead, the acquirer shall recognise and measure it in its consolidated Balance Sheet on the basis that Ind-ASs would require in the Balance Sheet of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as Ind AS 17 *Leases* would require the acquiree to do in its Ind-AS Balance Sheet. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to Ind-ASs, the acquirer shall recognise that contingent liability at that date unless Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill/capital reserve in accordance with previous GAAP but would have been recognised separately under Ind AS 103, that asset or liability remains in goodwill/capital reserve unless Ind-ASs would require its recognition in the financial statements of the acquiree.

- (g) The carrying amount of goodwill or capital reserve in the opening Ind-AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind-ASs, after the following two adjustments:
 - (i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill or decrease the carrying amount of capital reserve when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests).
 - (ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to

Ind-ASs and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind-ASs.

- (h) No other adjustments shall be made to the carrying amount of goodwill/capital reserve at the date of transition to Ind-ASs. For example, the first-time adopter shall not restate the carrying amount of goodwill/capital reserve:
 - (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with Ind AS 38 in the Balance Sheet of the acquiree);
 - (ii) to adjust previous amortisation of goodwill;
 - (iii) to reverse adjustments to goodwill that Ind AS 36 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to Ind-ASs.
- (i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity:
 - (i) it shall not recognise that goodwill in its opening Ind-AS Balance Sheet. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
 - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.
- (j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that Ind-ASs would require in the subsidiary's Balance Sheet. The deemed cost of goodwill equals the difference at the date of transition to Ind-ASs between:
 - (i) the parent's interest in those adjusted carrying amounts; and
 - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
- (k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities.

Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

- C5 The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Appendix D

Exemptions from other Ind-ASs

This appendix is an integral part of this Ind-AS.

- D1 An entity may elect to use one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) insurance contracts (paragraph D4);
 - (c) deemed cost (paragraphs D5–D8B);
 - (d) leases (paragraphs D9 and D9A);
 - (e) employee benefits (paragraphs D10 and D11);
 - (f) cumulative translation differences and accumulated exchange differences (paragraphs D12 -D13A);
 - (g) investments in subsidiaries, jointly controlled entities and associates (paragraphs D14 and D15);
 - (h) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs D16 and D17);
 - (i) compound financial instruments (paragraph D18);
 - (j) designation of previously recognised financial instruments (paragraph D19-D 19B);
 - (k) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph D20);
 - (l) decommissioning liabilities included in the cost of property, plant and equipment (paragraphs D21 and D21A);
 - (m) financial assets or intangible assets accounted for in accordance with Appendix A to Ind AS 11 *Service Concession Arrangements* (paragraph D22);
 - (n) borrowing costs (paragraph D23);
 - (o) transfers of assets from customers (paragraph D24).
 - (p) extinguishing financial liabilities with equity instruments (paragraph D25); and
 - (q) non-current assets held for sale and discontinued operations (paragraph D26).

An entity shall not apply these exemptions by analogy to other items.

Share-based payment transactions

- D2 A first-time adopter is encouraged, but not required, to apply Ind AS 102 *Share-based Payment* to equity instruments that vested before date of transition to Ind-ASs. However, if a first-time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has

disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102. For all grants of equity instruments to which Ind AS 102 has not been applied i.e. equity instruments vested but not settled before date of transition to Ind-ASs, a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of Ind AS 102. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which Ind AS 102 has not been applied, the entity is not required to apply paragraphs 26–29 of Ind AS 102 if the modification occurred before the date of transition to Ind-ASs.

- D3 A first-time adopter is encouraged, but not required, to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind-ASs.

Insurance contracts

- D4 An entity shall apply Ind AS 104 *Insurance Contracts* for annual periods beginning on or after date of transition to Ind-AS. Earlier application is encouraged. If an entity applies this Ind AS 104 for an earlier period, it shall disclose that fact.

In applying paragraph 39(c)(iii), of Ind AS 104 an entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies Ind AS 104. Furthermore, if it is impracticable, when an entity first applies Ind AS 104, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents information that complies with this Ind AS, the entity shall disclose that fact.

When an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets as 'at fair value through profit or loss'. This reclassification is permitted if an insurer changes accounting policies when it first applies Ind AS 104 and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and Ind AS 8 applies.

Deemed cost

- D5 A first-time adopter may elect to measure an item of property, plant and equipment at the date of transition to Ind-ASs at its fair value and use that fair value as its deemed cost at that date.
- D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition

to Ind-ASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

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

D7 The elections in paragraphs D5 and D6 are also available for:

- (a) investment property, accounted for in accordance with the cost model in Ind AS 40 *Investment Property*; and
- (b) intangible assets that meet:
 - (i) the recognition criteria in Ind AS 38 (including reliable measurement of original cost); and
 - (ii) the criteria in Ind AS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

D7A A first-time adopter may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition measured as per the previous GAAP and use that as its deemed cost as at date of transition after making necessary adjustments in accordance with paragraph D21 and D21A of this standard. In the financial statements of an entity where property, plant and equipment of subsidiaries, joint ventures or associates have been measured as per the previous GAAP for the purpose of consolidation/equity accounting/proportionate consolidation or equity accounting, then the amounts so used for the purpose of consolidation/equity accounting/proportionate consolidation or equity accounting, may be considered for the aforesaid optional exemption.

If an entity is preparing its financial statements in which its subsidiaries/associates/jointly controlled entities are consolidated/accounted as per the equity method/proportionately consolidated or accounted as per the equity method for the first time and if any of its subsidiaries, jointly controlled entities or associates has not measured property, plant and equipment in accordance with the previous GAAP, then to that extent the first time adopter may recompute carrying values of the property, plant and equipment in accordance with the principles of Ind AS 16: *Property, Plant and Equipment* as on the date of transition to Ind-AS after considering the first time adoption exemption available in this standard for that subsidiary, jointly controlled entity or associate.

The above option can also be availed for intangible assets covered by Ind AS 38 *Intangible Assets* and investment property covered by Ind AS

40 Investment Property.

D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. It may use such event-driven fair value measurements as deemed cost for Ind-ASs at the date of that measurement.

D8A Under some GAAPs exploration and development costs for oil and gas properties in the development or production phases² are accounted for in cost centres that include all properties in a large geographical area. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to Ind-ASs on the following basis:

- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- (b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to Ind-ASs in accordance with Ind AS 106 *Exploration for and Evaluation of Mineral Resources* or Ind AS 36 respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

D8B Some entities hold items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with Ind-ASs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to Ind-ASs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to Ind-ASs, an entity shall test for impairment in accordance with Ind AS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they provide goods or services to customers at prices (i.e.

² Ind AS 106, *Exploration for and Evaluation of Mineral Resources*, is under consideration and may not be notified in the present form. Accordingly, provisions given in this regard would be effective from the date this Standard comes into effect.

rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return. The specified return could be a minimum or range and need not be a fixed or guaranteed return.

Leases³

- D9 A first-time adopter may apply paragraphs 6-9 of the Appendix C of Ind AS 17 *Determining whether an Arrangement contains a Lease* to determine whether an arrangement existing at the date of transition to Ind-ASs contains a lease on the basis of facts and circumstances existing at the date of transition to Ind-AS except where the effect is expected to be not material. .
- D9A If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by Appendix C of Ind AS 17 - but at a date other than that required by D9 above, the first-time adopter need not reassess that determination when it adopts Ind-ASs. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying Ind AS 17 *Leases* and Appendix C of Ind AS 17-.

Employee benefits

- D10 [Refer to Appendix 1]
- D11 An entity may disclose the amounts required by paragraph 120A(p) of Ind AS 19 as the amounts are determined for each accounting period prospectively from the date of transition to Ind-ASs.
- D11A Ind AS 19 requires recognition of actuarial gains and losses for post-employment defined benefit plans and other long-term employment benefit plans in other comprehensive income immediately and are not reclassified to profit or loss in a subsequent period. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses subsequent to the date of transition to Ind-AS in other comprehensive income.

Cumulative translation differences and accumulated exchange differences

- D12 Ind AS 21 requires an entity:
- (a) to recognise some translation differences in other comprehensive

³ Notification of Appendix C of Ind AS 17, *Determining whether an Arrangement contains a Lease*, has been deferred. Accordingly, provisions given in this regard would be effective from the date this Appendix comes into effect.

- income and accumulate these in a separate component of equity; and
- (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.
- D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to Ind-ASs. If a first-time adopter uses this exemption:
- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to Ind-ASs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to Ind-ASs and shall include later translation differences.
- D13A On the date of transition, if there are long-term monetary assets or long-term monetary liabilities mentioned in paragraph 29A of Ind AS 21, an entity may exercise the option mentioned in that paragraph either retrospectively or prospectively. If this option is exercised prospectively, the accumulated exchange differences in respect of those items are deemed to be zero on the date of transition.

Investments in subsidiaries, jointly controlled entities and associates

- D14 When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:
- (a) at cost; or
- (b) in accordance with Ind AS 39.
- D15 If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind-AS Balance Sheet:
- (a) cost determined in accordance with Ind AS 27; or
- (b) deemed cost. The deemed cost of such an investment shall be its:
- (i) fair value (determined in accordance with Ind AS 39) at the entity's date of transition to Ind-ASs in its separate financial statements; or
- (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.

Assets and liabilities of subsidiaries, associates and joint ventures

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind-ASs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(b) the carrying amounts required by the rest of this Ind-AS, based on the subsidiary's date of transition to Ind-ASs. These carrying amounts could differ from those described in (a):

(i) when the exemptions in this Ind-AS result in measurements that depend on the date of transition to Ind-ASs.

(ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in Ind AS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

Compound financial instruments

D18 Ind AS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion

represents the original equity component. However, in accordance with this Ind-AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind-ASs.

Designation of previously recognised financial instruments

D19 An entity is permitted to designate financial asset and liability in accordance with Ind AS 39 as on the date of transition to Ind-AS's. Accordingly

(a) an entity is permitted to make an available-for-sale designation at the date of transition to Ind-ASs.

(b) an entity is permitted to designate, at the date of transition to Ind-ASs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria as per Ind AS 39 at that date.

D19A Financial instruments carried at amortised cost should be measured in accordance with Ind-AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of Ind AS 39. If it is impracticable then the fair value of the financial instrument at the date of transition to Ind-ASs shall be the new amortised cost of that financial instrument at the date of transition to Ind-ASs.

D19B Financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind-AS.

Fair value measurement of financial assets or financial liabilities at initial recognition

D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of Ind AS 39 paragraph AG76 and in paragraph AG76A, prospectively to transactions entered into after financial years beginning on or after date of transition to Ind-ASs

Decommissioning liabilities included in the cost of property, plant and equipment

D21 Appendix 'A' to Ind AS 16 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* 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 a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to Ind-ASs in accordance with Ind AS 37;
- (b) to the extent that the liability is within the scope of Appendix A 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
- (c) 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.

D21A An entity that uses the exemption in paragraph D8A(b) (for oil and gas assets in the development or production phases accounted for in cost centres that include all properties in a large geographical area under previous GAAP) shall, instead of applying paragraph D21 or Appendix A of Ind AS 16:

- (a) measure decommissioning, restoration and similar liabilities as at the date of transition to Ind-ASs in accordance with Ind AS 37; and
- (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to Ind-ASs determined under the entity's previous GAAP.

Financial assets or intangible assets accounted for in accordance with Appendix A to Ind AS 11⁴

D22 A first-time adopter may apply the following provisions while applying the Appendix A to Ind AS 11:

- i) Subject to paragraph (ii), changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively.
- ii) If, for any particular service arrangement, it is impracticable for an operator to apply this Appendix retrospectively at the date of transition, it shall:
 - (a) recognise financial assets and intangible assets that existed at the date of transition;

⁴ Notification of Appendix A of Ind AS 11, *Service Concession Arrangements*, has been deferred. Accordingly, provisions given in this regard would be effective from the date this Appendix comes into effect.

- (b) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
- (c) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

iii) There are two aspects to retrospective determination: reclassification and remeasurement. It will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in an operator's balance sheet, but that retrospective remeasurement of service arrangement assets might not always be practicable. However, the fact should be disclosed.

Borrowing costs

D23 [Refer to Appendix 1]

Transfers of assets from customers

D24 A first time adopter shall apply Appendix D of Ind AS 18 prospectively to transfers of assets from customers received on or after the date of transition to Ind-AS, Earlier application is permitted provided the valuations and other information needed to apply Appendix D of Ind AS 18 to past transfers were obtained at the time those transfers occurred. An entity shall disclose the date from which the Appendix D of Ind AS 18 was applied.

Extinguishing financial liabilities with equity instruments

D25 A first-time adopter may apply Appendix E of Ind AS 39 *Extinguishing Financial Liabilities with Equity Instruments* from the date of transition to Ind-AS.

Non-current assets held for sale and discontinued operations

D26 Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria to be classified as held for sale, non-current assets (or disposal groups) that are held for distribution to owners and operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification. A first time adopter can:

- (a) measure such assets or operations at the lower of carrying value and fair value less cost to sell as at the date of transition to Ind-ASs in

accordance with Ind AS 105; and

(b) recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind-ASs determined under the entity's previous GAAP.

Appendix E

Short-term exemptions from Ind-ASs

[Appendix reserved for future possible short-term exemptions]

This appendix is an integral part of the Ind-AS.

Appendix F

GUIDANCE ON IMPLEMENTING Ind-AS 101 *FIRST-TIME ADOPTION OF INDIAN ACCOUNTING STANDARDS*

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Guidance on implementing Ind-AS 101 *First-time Adoption of Indian Accounting Standards*

This guidance accompanies, but is not part of, Ind-AS 101.

Introduction

IG1 This implementation guidance:

- (a) explains how the requirements of this Ind-AS interact with the requirements of some other Ind-ASs (paragraphs IG2–IG62, IG64 and IG65). This explanation addresses those Ind-ASs that are most likely to involve questions that are specific to first-time adopters.
- (b) includes an illustrative example to show how a first-time adopter might disclose how the transition to Ind-ASs affected its reported financial position, financial performance and cash flows, as required by paragraphs 24(a) (b) and (d), 25 and 26 of this Ind-AS (paragraph IG63).

Ind AS 10 *Events after the Reporting Period*

IG2 Except as described in paragraph IG3, an entity applies Ind AS 10 in determining whether:

- (a) its opening Ind-AS Balance Sheet reflects an event that occurred after the date of transition to Ind-ASs; and .
- (b) where an entity decides to provide one year comparative information under Ind-AS then, comparative amounts in its first Ind-AS financial statements reflect an event that occurred after the end of that comparative period.

IG3 Paragraphs 14 –17 of this Ind-AS require some modifications to the principles in Ind AS 10 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of transition to Ind-ASs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 14–17 of this Ind-AS do not require modifications to the principles in Ind AS 10.

- (a) Case 1—Previous GAAP required estimates of similar items for the date of transition to Ind-ASs, using an accounting policy that is consistent with Ind-ASs. In this case, the estimates in accordance with Ind-ASs need to be consistent with estimates made for that date in accordance with previous GAAP, unless there is objective evidence that those estimates were in error (see Ind AS 10 *Accounting Policies, Changes in Accounting Estimates and Errors*). The entity reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of transition to Ind-ASs.
- (b) Case 2—Previous GAAP required estimates of similar items for the date of transition to Ind-ASs, but the entity made those estimates using accounting policies that are not consistent with its accounting policies in accordance with Ind-ASs. In this case, the estimates in accordance with Ind-ASs need to be consistent with the estimates required in accordance with previous GAAP for that date (unless there is objective evidence that those estimates were in error), after

adjusting for the difference in accounting policies. The opening Ind-AS Balance Sheet reflects those adjustments for the difference in accounting policies. As in case 1, the entity reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, previous GAAP may have required an entity to recognise and measure provisions on a basis consistent with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*, except that the previous GAAP measurement was on an undiscounted basis. In this example, the entity uses the estimates in accordance with previous GAAP as inputs in making the discounted measurement required by Ind AS 37.

- (c) Case 3—Previous GAAP did not require estimates of similar items for the date of transition to Ind-ASs. Estimates in accordance with Ind-ASs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of transition to Ind-ASs reflect market conditions at that date. This is consistent with the distinction in Ind AS 10 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG Example 1 Estimates (illustration assuming the company has elected not to provide prior period comparatives in accordance with Ind-AS)

Background

Entity A's first Ind-AS financial statements are for a period that ends on 31 March 2012. In its previous GAAP financial statements for 31 March 2011, entity A:

- (a) made estimates of accrued expenses and provisions at those dates;
- (b) accounted on a cash basis for a defined benefit pension plan; and
- (c) did not recognise a provision for a court case arising from events that occurred in December 2010. When the court case was concluded on 30 June 2011, entity A was required to pay Rs,1,000 and paid this on 10 July 2011.

In preparing its first Ind-AS financial statements, entity A concludes that its estimates in accordance with previous GAAP of accrued expenses and provisions at 31 March 2011 were made on a basis consistent with its accounting policies in accordance with Ind-ASs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with Ind AS 8.

Application of requirements

In preparing its opening Ind-AS Balance Sheet at April 1, 2011, entity A:

- (a) does not adjust the previous estimates for accrued expenses and provisions; and

- (b) makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with Ind AS 19 *Employee Benefits*. Entity A's actuarial assumptions at April 1, 2011 do not reflect conditions that arose after those dates. For example, entity A's:
 - (i) discount rates at March 31, 2011 for the pension plan and for provisions reflect market conditions at those dates; and
 - (ii) actuarial assumptions at March 31, 2011 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 2011-12.
- (c) The treatment of the court case at 31 March 2011 depends on the reason why entity A did not recognise a provision in accordance with previous GAAP at that date.

Assumption 1 –Previous GAAP was consistent with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with Ind-ASs are consistent with its assumptions in accordance with previous GAAP. Therefore, entity A does not recognise a provision at 31 March 2011.

Assumption 2 – Previous GAAP was not consistent with Ind AS 37. Therefore, entity A develops estimates in accordance with Ind AS 37. Under Ind AS 37, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with Ind AS 10 *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in December 31, 2010 (when the events occurred that gave rise to the court case). Therefore, entity A recognises a provision at 31 March 2011. Entity A measures that provision by discounting the Rs 1,000 paid on 10 September 2011 to its present value, using a discount rate that complies with Ind AS 37 and reflects market conditions at 31 March 2011.

IG4 Paragraphs 14–17 of this Ind-AS do not override requirements in other Ind-ASs that base classifications or measurements on circumstances existing at a particular date. Examples include:

- a) the distinction between finance leases and operating leases (see Ind AS 17 *Leases*);
- b) the restrictions in Ind AS 38 *Intangible Assets* that prohibit capitalisation of expenditure on an internally generated intangible asset if the asset did not qualify for recognition when the expenditure was incurred; and
- c) the distinction between financial liabilities and equity instruments (see Ind AS 32 *Financial Instruments: Presentation*).

Ind AS 12 Income Taxes

- IG5 An entity applies Ind AS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening Ind-AS Balance Sheet and their tax bases.
- IG6 In accordance with Ind AS 12, the measurement of current and deferred tax reflects tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. An entity accounts for the effect of changes in tax rates and tax laws when those changes are enacted or substantively enacted.

Ind AS 16 Property, Plant and Equipment

- IG7 If an entity's depreciation methods and rates in accordance with previous GAAP are acceptable in accordance with Ind-ASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 14 and 15 of the Ind-AS and paragraph 61 of Ind AS 16). However, in some cases, an entity's depreciation methods and rates in accordance with previous GAAP may differ from those that would be acceptable in accordance with Ind-ASs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening Ind-AS Balance Sheet retrospectively so that it complies with Ind-ASs.
- IG7A In accordance with paragraph D7A a first-time adopter may elect to continue with the carrying value of all of its property, plant and equipment as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition. However, if a first time adopter opts for exemption in paragraph D7A then it has following consequences for property, plant and equipment:
- a) recognising all assets whose recognition is required by Ind-AS and not recognizing items of assets if Ind-AS do not permit such recognition. For example Appendix A of Ind AS 17: Leases and Appendix A of Ind AS 11: *Construction Contracts*.
 - b) reclassify items that it recognised in accordance with previous GAAP as one type of asset but are a different type of asset in accordance with Ind-AS. For example Ind AS 105: *Non-current Assets Held for Sale and Discontinued Operations* and Ind AS 40: *Investment Property*.
 - c) derecognise the carrying value of decommissioning, restoration or similar liability recognised as cost of asset and a corresponding provision in accordance with previous GAAP if any and recognise decommissioning, restoration or similar liability in accordance with paragraph D21 of this standard.
 - d) Identify each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item of property, plant and equipment as at the date of transition and subsequent depreciation of each significant part in accordance with Ind AS 16: *Property, Plant and Equipment*.
- IG8 An entity may elect to use one of the following amounts as the deemed cost of an item of property, plant and equipment:
- (a) fair value at the date of transition to Ind-ASs (paragraph D5 of this Ind-AS), in which case the entity gives the disclosures required by paragraph 30 of this Ind-AS;

- (b) a revaluation in accordance with previous GAAP that meets the criteria in paragraph D6 of this Ind-AS;
 - (c) fair value at the date of an event such as a privatisation or initial public offering (paragraph D8 of this Ind-AS); or
 - (d) an allocation of an amount determined under previous GAAP that meets the criteria in paragraph D8A of this Ind-AS.
 - (e) the carrying amount under previous GAAP of an item of property, plant and equipment that is used, or was previously used, in operations (paragraph D7A and D8B of the Ind-AS).
- IG9 Subsequent depreciation is based on that deemed cost and starts from the date for which the entity established the deemed cost.
- IG10 If an entity chooses as its accounting policy the revaluation model in Ind AS 16 for some or all classes of property, plant and equipment, it presents the cumulative revaluation surplus as a separate component of equity. The revaluation surplus at the date of transition to Ind-ASs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of transition to Ind-ASs, the entity gives the disclosures required by paragraph 30 of this Ind-AS.
- IG11 If revaluations in accordance with previous GAAP did not satisfy the criteria in paragraph D6 or D8 of this Ind-AS, an entity measures the revalued assets in its opening Balance Sheet on one of the following bases:
- a) cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in Ind AS 16;
 - b) deemed cost, being the fair value at the date of transition to Ind-ASs (paragraph D5 of this Ind-AS); or
 - c) revalued amount, if the entity adopts the revaluation model in Ind AS 16 as its accounting policy in accordance with Ind-ASs for all items of property, plant and equipment in the same class.
- IG12 Ind AS 16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, Ind AS 16 does not prescribe the unit of measure for recognition of an asset, i.e. what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances (see Ind AS 16 paragraphs 9 and 43).
- IG13 In some cases, the construction or commissioning of an asset results in an obligation for an entity to dismantle or remove the asset and restore the site on which the asset stands. An entity applies Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* in recognising and measuring any resulting provision. The entity applies Ind AS 16 in determining the resulting amount included in the cost of the asset, before depreciation and impairment losses. Items such as depreciation and, when applicable, impairment losses cause differences between the carrying amount of the liability and the amount included in the carrying amount of the asset. An entity accounts for changes in such liabilities in accordance with Appendix A to Ind AS 16 -*Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

However, paragraph D21 of Ind-AS 101 provides an exemption for changes that occurred before the date of transition to Ind-ASs, and prescribes an alternative

treatment where the exemption is used. An example of the first-time adoption of Appendix A to Ind AS 16, which illustrates the use of this exemption, is given at paragraphs IG201–IG203.

Ind AS 17 Leases

IG14 At the date of transition to Ind-ASs, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease (Ind AS 17 paragraph 13). In some cases, the lessee and the lessor may agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with Ind AS 17 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IG 15 [Refer to Appendix 1]

IG16 [Refer to Appendix 1]

Ind AS 18 Revenue

IG17 If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with Ind AS 18 (for example, the proceeds of a sale that does not qualify for revenue recognition), the entity recognises the amounts received as a liability in its opening Ind-AS Balance Sheet and measures that liability at the amount received.

Ind AS 19 Employee Benefits

IG18 [Refer to Appendix 1]

IG19 An entity's actuarial assumptions at the date of transition to Ind-ASs are consistent with actuarial assumptions made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 14 of this Ind-AS). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions.

IG20 An entity may need to make actuarial assumptions at the date of transition to Ind-ASs that were not necessary in accordance with its previous GAAP. Such actuarial assumptions do not reflect conditions that arose after the date of transition to Ind-ASs. In particular, discount rates and the fair value of plan assets at the date of transition to Ind-ASs reflect market conditions at that date. Similarly, the entity's actuarial assumptions at the date of transition to Ind-ASs about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of transition to Ind-ASs (paragraph 16 of this Ind-AS).

IG21 An entity's first Ind-AS financial statements will reflect measurements of employee benefit obligations at the following dates: the end of the first Ind-AS reporting period, the date of the comparative where an entity has decided to provide comparative financial information in accordance with Ind-AS balance sheet and the date of transition to Ind-ASs. Ind AS 19 encourages an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise

costs, an entity may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (Ind AS 19).

Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*

IG21A An entity may, in accordance with previous GAAP, have treated goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. If so, the entity is permitted to apply prospectively the requirements of paragraph 47 of Ind AS 21 to all acquisitions occurring after the date of transition to Ind-ASs.

Ind AS 103 *Business Combinations*

IG22 The following examples illustrate the effect of Appendix C to the Ind-AS, assuming that a first-time adopter uses the exemption.

IG Example 2 Business combination

Background

Entity B's first Ind-AS financial statements are for a period that ends on 31 March 2012 and has elected not to provide comparative information for the year ending 31 March, 2011 under this Ind-AS. On 1 July 2010, entity B acquired 100 per cent of subsidiary C. In accordance with its previous GAAP, entity B:

- (a) classified the business combination as an acquisition by entity B.
- (b) measured the assets acquired and liabilities assumed at the following amounts in accordance with previous GAAP at 1 April 2011 (date of transition to Ind-ASs):
 - (i) identifiable assets less liabilities for which Ind-ASs require cost-based measurement at a date after the business combination: Rs 200 (with a tax base of Rs150 and an applicable tax rate of 30 per cent).
 - (ii) pension liability (for which the present value of the defined benefit obligation measured in accordance with AS 15 (Revised 20XX) *Employee Benefits* is Rs 130 and the fair value of plan assets is Rs100): nil (because entity B used a pay-as-you-go cash method of accounting for pensions in accordance with its previous GAAP). The tax base of the pension liability is also nil.
 - (iii) goodwill: Rs180.
- (c) did not, at the acquisition date, recognise deferred tax arising from temporary differences associated with the identifiable assets acquired and liabilities assumed.

Application of requirements

In its opening (consolidated) Ind-AS Balance Sheet, entity B:

- (a) classifies the business combination as an acquisition by entity B even if the business combination would have qualified in accordance with Ind AS 103 as a reverse acquisition by subsidiary C (paragraph C4(a) of this Ind-AS).
- (b) does not adjust the accumulated amortisation of goodwill. Entity B tests the goodwill for impairment in accordance with Ind AS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Ind-ASs. If no impairment exists, the carrying amount of the goodwill remains at Rs 180 (paragraph C4(g) of this Ind-AS).
- (c) for those net identifiable assets acquired for which Ind-ASs require cost-based measurement at a date after the business combination, treats their carrying amount in accordance with previous GAAP immediately after the business combination as their deemed cost at that date (paragraph C4(e) of this Ind-AS).
- (d) does not restate the accumulated depreciation and amortisation of the net identifiable assets in (c), unless the depreciation methods and rates in accordance with previous GAAP result in amounts that differ materially from those required in accordance with Ind-ASs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life in accordance with Ind-ASs). If no such restatement is made, the carrying amount of those assets in the opening Ind-AS Balance Sheet equals their carrying amount in accordance with previous GAAP at the date of transition to Ind-ASs (Rs 200) (paragraph IG7).
- (e) if there is any indication that identifiable assets are impaired, tests those assets for impairment, based on conditions that existed at the date of transition to Ind-ASs (see Ind AS 36).
- (f) recognises the pension liability, and measures it, at the present value of the defined benefit obligation (Rs 130) less the fair value of the plan assets (Rs 100), giving a carrying amount of Rs 30, with a corresponding debit of Rs 30 to retained earnings (paragraph C4(d) of this Ind-AS). However, if subsidiary C had already adopted Ind-ASs in an earlier period, entity B would measure the pension liability at the same amount as in subsidiary C's financial statements (paragraph D17 of this Ind-AS and IG Example 9).
- (g) recognises a net deferred tax liability of Rs 6 (Rs 20 at 30 per cent) arising from:
 - (i) the taxable temporary difference of Rs 50 (Rs 200 less Rs 150) associated with the identifiable assets acquired and non-pension liabilities assumed, less
 - (ii) the deductible temporary difference of Rs 30 (Rs 30 less

IG Example 3 Business combination—restructuring provision

Background

Entity D's first Ind-AS financial statements are for a period that ends on 31 March 2012 and has elected not to provide comparative information for the year ending 31 March, 2011 under Ind-AS. On 1 January 2011, entity D acquired 100 per cent of subsidiary E. In accordance with its previous GAAP, entity D recognised an (undiscounted) restructuring provision of Rs 100 that would not have qualified as an identifiable liability in accordance with Ind AS 103. The recognition of this restructuring provision increased goodwill by Rs 100. At 31 March 2011 (date of transition to Ind-ASs), entity D:

- (a) had paid restructuring costs of Rs 60; and
- (b) estimated that it would pay further costs of Rs 40 in 2011-12 and that the effects of discounting were immaterial. At 31 March 2011, those further costs did not qualify for recognition as a provision in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Application of requirements

In its opening Ind-AS Balance Sheet, entity D:

- (a) does not recognise a restructuring provision (paragraph C4(c) of this Ind-AS).
- (b) does not adjust the amount assigned to goodwill. However, entity D tests the goodwill for impairment in accordance with Ind AS 36 *Impairment of Assets*, and recognises any resulting impairment loss (paragraph C4(g) of this Ind-AS).
- (c) as a result of (a) and (b), reports retained earnings in its opening Ind-AS Balance Sheet that are higher by Rs 40 (before income taxes, and before recognising any impairment loss) than in the Balance Sheet at the same date in accordance with previous GAAP.

IG Example 4 Business combination—intangible assets

Background

Entity F's first Ind-AS financial statements are for a period that ends on 31 March 2012 and has elected not to provide comparative information for the year ending 31 March, 2011 under Ind-AS.

On 1 October 2009 entity F acquired 75 per cent of subsidiary G. In accordance with its previous GAAP, entity F assigned an initial carrying amount of Rs 200 to intangible assets that would not have qualified for recognition in accordance with Ind AS 38 *Intangible Assets*. The tax base of the intangible assets was nil, giving rise to a deferred tax liability (at 30 per cent) of Rs 60.

On 31 March 2011 (the date of transition to Ind-ASs) the carrying amount of the intangible assets in accordance with previous GAAP was Rs 160, and the carrying amount of the related deferred tax liability was Rs 48 (30 per cent of Rs 160).

Application of requirements

Because the intangible assets do not qualify for recognition as separate assets in accordance with Ind AS 38, entity F transfers them to goodwill, together with the related deferred tax liability (Rs 48) and non-controlling interests (paragraph C4(g)(i) of this Ind-AS). The related non-controlling interests amount to Rs 28 (25 per cent of [Rs 160 – Rs 48 = Rs 112]). Thus, the increase in goodwill is Rs 84—intangible assets (Rs 160) less deferred tax liability (Rs 48) less non-controlling interests (Rs 28).

Entity F tests the goodwill for impairment in accordance with Ind AS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Ind-ASs (paragraph C4(g)(ii) of this Ind-AS).

IG Example 5 Business combination—goodwill deducted from equity and treatment of related intangible assets

Background

Entity H acquired a subsidiary before the date of transition to Ind-ASs. In accordance with its previous GAAP, entity H:

- (a) recognised goodwill as an immediate deduction from equity;
- (b) recognised an intangible asset of the subsidiary that does not qualify for recognition as an asset in accordance with Ind AS 38 *Intangible Assets*; and
- (c) did not recognise an intangible asset of the subsidiary that would qualify in accordance with Ind AS 38 for recognition as an asset in the financial statements of the subsidiary. The subsidiary held the asset at the date of its acquisition by entity H.

Application of requirements

In its opening Ind-AS Balance Sheet, entity H:

- (a) does not recognise the goodwill, as it did not recognise the goodwill as an asset in accordance with previous GAAP (paragraph C4(g)–(i) of this Ind-AS).
- (b) does not recognise the intangible asset that does not qualify for recognition as an asset in accordance with Ind AS 38. Because entity H deducted goodwill from equity in accordance with its previous GAAP, the elimination of this intangible asset reduces retained earnings (paragraph C4(c)(ii) of this Ind-AS).
- (c) recognises the intangible asset that qualifies in accordance with Ind AS 38 for recognition as an asset in the financial statements of the subsidiary, even though the amount assigned to it in accordance with previous GAAP in entity H's consolidated financial statements was nil (paragraph C4(f) of this Ind-AS). The recognition criteria in Ind AS 38 include the availability of a reliable measurement of cost (paragraphs IG45–IG48) and entity H measures the asset at cost less accumulated depreciation and less any impairment losses identified in accordance with Ind AS 36 *Impairment of Assets*. Because entity H deducted goodwill from equity in accordance with its previous GAAP, the recognition of this intangible asset increases retained earnings (paragraph C4(c)(ii) of this Ind-AS). However, if this intangible asset had been subsumed in goodwill recognised as an asset in accordance with previous GAAP, entity H would have decreased the carrying amount of that goodwill accordingly (and, if applicable, adjusted deferred tax and non-controlling interests) (paragraph C4(g)(i) of this Ind-AS).

IG Example 6 Business combination—subsidiary not consolidated in accordance with previous GAAP

Background

Parent J's date of transition to Ind-ASs is 1 April 2011. In accordance with its previous GAAP, parent J did not consolidate its 75 per cent subsidiary K, acquired in a business combination on 15 October 2009. On 1 April 2011:

- (a) the cost of parent J's investment in subsidiary K is Rs 180.
- (b) in accordance with Ind-ASs, subsidiary K would measure its assets at Rs 500 and its liabilities (including deferred tax in accordance with Ind AS 12 *Income Taxes*) at Rs 300. On this basis, subsidiary K's net assets are Rs 200 in accordance with Ind-ASs.

Application of requirements

Parent J consolidates subsidiary K. The consolidated Balance Sheet at 1 April 2011 includes:

- (a) subsidiary K's assets at Rs 500 and liabilities at Rs 300;
- (b) non-controlling interests of Rs 50 (25 per cent of [Rs 500 –Rs 300]); and
- (c) goodwill of Rs 30 (cost of Rs180 less 75 per cent of [Rs 500 –Rs 300]) (paragraph C4(j) of this Ind-AS). Parent J tests the goodwill for impairment in accordance with Ind AS 36 *Impairment of Assets* and recognises any resulting impairment loss, based on conditions that existed at the date of transition to Ind-ASs (paragraph C4(g)(ii) of this Ind-AS).

IG Example 7 Business combination—finance lease not capitalised in accordance with previous GAAP

Background

Parent L's date of transition to Ind-ASs is 1 April 2011. Parent L acquired subsidiary M on 15 April 2009 and did not capitalise subsidiary M's finance leases. If subsidiary M prepared financial statements in accordance with Ind-ASs, it would recognise finance lease obligations of 300 and leased assets of 250 at 1 April 2011.

Application of requirements

In its consolidated opening Ind-AS Balance Sheet, parent L recognises finance lease obligations of Rs 300 and leased assets of Rs 250, and charges Rs 50 to retained earnings (paragraph C4(f)).

Ind AS 23 *Borrowing Costs*

IG23 [Refer to Appendix 1]

IG24 [Refer to Appendix 1]

IG25 [Refer to Appendix 1]

Ind AS 27 *Consolidated and Separate Financial Statements*

IG26 A first-time adopter consolidates all subsidiaries (as defined in Ind AS 27), unless Ind AS 27 requires otherwise.

IG27 If a first-time adopter did not consolidate a subsidiary in accordance with previous GAAP, then:

- (a) in its consolidated financial statements, the first-time adopter measures the subsidiary's assets and liabilities at the same carrying amounts as in this Ind-AS financial statements of the subsidiary, after adjusting for consolidation procedures and for the effects of the business combination in which it acquired the subsidiary (paragraph D17 of this Ind-AS). If the subsidiary has not adopted Ind-ASs in its financial statements, the carrying amounts described in the previous sentence are those that Ind-ASs would require in those financial statements (paragraph C4(j) of this Ind-AS).
- (b) if the parent acquired the subsidiary in a business combination before the date of transition to Ind-AS, the parent recognises goodwill, as explained in IG Example 6.
- (c) if the parent did not acquire the subsidiary in a business combination because it created the subsidiary, the parent does not recognise goodwill.

IG28 When a first-time adopter adjusts the carrying amounts of assets and liabilities of its subsidiaries in preparing its opening Ind-AS Balance Sheet, this may affect non-controlling interests and deferred tax.

IG29 IG Examples 8 and 9 illustrate paragraphs D16 and D17 of this Ind-AS, which address cases where a parent and its subsidiary become first-time adopters at different dates.

IG Example 8 Parent adopts Ind-ASs before subsidiary

Background

Parent N presents its (consolidated) first Ind-AS financial statements for the year ended March 31, 2012. Its foreign subsidiary O, wholly owned by parent N since formation, prepares information in accordance with Ind-ASs for internal consolidation purposes from that date, but subsidiary O does not present its first Ind-AS financial statements until March 31, 2014.

Application of requirements

If subsidiary O applies paragraph D16(a) of this Ind-AS, the carrying amounts of its assets and liabilities are the same in both its opening Ind-AS Balance Sheet at 1 April 2014 and parent N's consolidated Balance Sheet (except for adjustments for consolidation procedures) and are based on parent N's date of transition to Ind-ASs.

Alternatively, subsidiary O may, in accordance with paragraph D16(b) of this Ind-AS, measure all its assets or liabilities based on its own date of transition to Ind-ASs (1 April 1, 2014). However, the fact that subsidiary O becomes a first-time adopter in 2014-15 does not change the carrying amounts of its assets and liabilities in parent N's consolidated financial statements.

IG Example 9 Subsidiary adopts Ind-ASs before parent

Background

Parent P presents its (consolidated) first Ind-AS financial statements in 2013-14. Its subsidiary Q, wholly owned by parent P since formation, presented its first Ind-AS financial statements in 2011-12. Until 2013-2014, subsidiary Q prepared information for internal consolidation purposes in accordance with parent P's previous GAAP.

Application of requirements

The carrying amounts of subsidiary Q's assets and liabilities at 1 April 2013 are the same in both parent P's (consolidated) opening Ind-AS Balance Sheet and subsidiary Q's financial statements (except for adjustments for consolidation procedures) and are based on subsidiary Q's date of transition to Ind-ASs. The fact that parent P becomes a first-time adopter in 2013-14 does not change those carrying amounts (paragraph D17 of this Ind-AS).

IG30 Paragraphs D16 and D17 of this Ind-AS do not override the following requirements:

- (a) to apply Appendix C to this Ind-AS to assets acquired, and liabilities assumed, in a business combination that occurred before the acquirer's date of transition to Ind-ASs. However, the acquirer applies paragraph D17 to new assets acquired, and liabilities assumed, by the acquiree after that business combination and still held at the acquirer's date of transition to Ind-ASs.
- (b) to apply the rest of this Ind-AS in measuring all assets and liabilities for which

paragraphs D16 and D17 are not relevant.

- (c) to give all disclosures required by this Ind-AS as of the first-time adopter's own date of transition to Ind-ASs.

IG31 Paragraph D16 of this Ind-AS applies if a subsidiary becomes a first-time adopter later than its parent, for example if the subsidiary previously prepared a reporting package in accordance with Ind-ASs for consolidation purposes but did not present a full set of financial statements in accordance with Ind-ASs. This may be relevant not only when a subsidiary's reporting package complies fully with the recognition and measurement requirements of Ind-ASs, but also when it is adjusted centrally for matters such as review of events after the reporting period and central allocation of pension costs. For the disclosure required by paragraph 26 of this Ind-AS, adjustments made centrally to an unpublished reporting package are not corrections of errors. However, paragraph D16 does not permit a subsidiary to ignore misstatements that are immaterial to the consolidated financial statements of its parent but material to its own financial statements.

Ind AS 29 *Financial Reporting in Hyperinflationary Economies*

IG32 An entity complies with Ind AS 21 *The Effects of Changes in Foreign Exchange Rates* in determining its functional currency and presentation currency. When the entity prepares its opening Ind-AS Balance Sheet, it applies Ind AS 29 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG33 An entity may elect to use the fair value of an item of property, plant and equipment at the date of transition to Ind-ASs as its deemed cost at that date (paragraph D5 of this Ind-AS), in which case it gives the disclosures required by paragraph 30 of this Ind-AS.

IG34 If an entity elects to use the exemptions in paragraphs D5–D8 of this Ind-AS, it applies Ind AS 29 to periods after the date for which the revalued amount or fair value was determined.

Ind AS 32 *Financial Instruments: Presentation*

IG35 In its opening Ind-AS Balance Sheet, an entity applies the criteria in Ind AS 32 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in Ind AS 32 (paragraphs 15 and 30), without considering events after that date (other than changes to the terms of the instruments).

IG36 For compound instruments outstanding at the date of transition to Ind-ASs, an entity determines the initial carrying amounts of the components on the basis of circumstances existing when the instrument was issued (Ind AS 32 paragraph 30). An entity determines those carrying amounts using the version of Ind AS 32 effective at the end of its first Ind-AS reporting period. If the liability component is no longer outstanding at the date of transition to Ind-ASs, a first-time adopter need not separate the initial equity component of the instrument from the cumulative interest accreted on the liability component (paragraph D18 of this Ind-AS).

Ind AS 34 *Interim Financial Reporting*

IG37 Ind AS 34 applies if an entity is required, or elects, to present an interim financial

report in accordance with Ind-AS. Accordingly, neither Ind AS 34 nor this Ind-AS requires an entity:

- (a) to present interim financial reports that comply with Ind AS 34; or
- (a) to prepare new versions of interim financial reports presented in accordance with previous GAAP. However, if an entity presents an interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind-AS financial statements, the entity restates the comparative information presented in that report so that it complies with Ind ASs, if an entity has opted to present the comparatives in accordance with paragraph 21(b) of this Ind AS.

IG38 An entity applies this Ind-AS in each interim financial report that it presents in accordance with Ind AS 34 for part of the period covered by its first Ind-AS financial statements. In particular, paragraph 32 of the Ind-AS 101 requires an entity to disclose various reconciliations (see IG Example 10).

IG Example 10 Interim financial reporting

Background

Entity R's first Ind-AS financial statements are for a period that ends on 31 March 2012, and its first interim financial report in accordance with Ind AS 34 is for the quarter ended 30 June 2011. Entity R prepared previous GAAP annual financial statements for the year ended 31 March 2011, and prepared quarterly reports throughout 2010-11.

Application of requirements

Situation A:

Where, an entity decides not to provide one year comparative period in accordance with paragraph 21(a) of this Ind-AS; In each quarterly interim financial report for 2011-12, entity R includes:

reconciliation of its equity reported in accordance with Ind-ASs to its equity in accordance with previous GAAP as on 1 April 2011 being the date of transition to Ind-ASs; and significant differences between previous GAAP and Ind-AS in respect of its total comprehensive income (or if it did not report such a total, profit or loss) for the quarter ended 30 June 2011.

Situation B:

Where, an entity decides to provide one year comparative period in accordance with paragraph 21(b) of this Ind-AS; in each quarterly interim financial report for 2011-12, entity R provides reconciliation:

(a) of its equity reported in accordance with Ind-ASs to its equity in accordance with previous GAAP as on as on the date of transition, i.e., 1 April 2010, and

(b) of its equity reported in accordance with Ind-ASs to Ind-AS to its equity in accordance with previous GAAP as on the deemed date of transition, i.e., 1 April 2010, and

(c) of its equity in accordance with Ind-AS at the end of the comparable quarter of 2010-11 to its equity in accordance with previous GAAP at that date; and

(d) of its total comprehensive income in accordance with Ind-AS for the comparable quarter of 2010-11 (current and year to date) to its total comprehensive income (or,

if it did not report such a total, profit or loss) in accordance with previous GAAP.

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the Balance Sheet and statement of comprehensive income. Entity R also explains the material adjustments to the statement of cash flows.

If entity R becomes aware of errors made in accordance with previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

If entity R did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial reports for 2011-12 disclose that information or include a cross-reference to another published document that includes it (paragraph 33 of this Ind-AS).

Ind AS 36 Impairment of Assets and Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

IG39 An entity applies Ind AS 36 in:

- (a) determining whether any impairment loss exists at the date of transition to Ind-ASs; and
- (b) measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date. An entity's first Ind-AS financial statements include the disclosures that Ind AS 36 would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind-ASs (paragraph 24(c) of this Ind-AS).

IG40 The estimates used to determine whether an entity recognises an impairment loss or provision (and to measure any such impairment loss or provision) at the date of transition to Ind-ASs are consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 14 and 15 of this Ind-AS). The entity reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.

IG41 In assessing whether it needs to recognise an impairment loss or provision (and in measuring any such impairment loss or provision) at the date of transition to Ind-ASs, an entity may need to make estimates for that date that were not necessary in accordance with its previous GAAP. Such estimates and assumptions do not reflect conditions that arose after the date of transition to Ind-ASs (paragraph 16 of this Ind-AS).

IG42 [Refer to Appendix 1].

IG43 Ind AS 36 requires the reversal of impairment losses in some cases. If an entity's opening Ind-AS Balance Sheet reflects impairment losses, the entity recognises any later reversal of those impairment losses in profit or loss (except when Ind AS 36

requires the entity to treat that reversal as a revaluation). This applies to both impairment losses recognised in accordance with previous GAAP and additional impairment losses recognised on transition to Ind-ASs.

Ind AS 38 Intangible Assets

IG44 An entity's opening Ind-AS Balance Sheet:

- (a) excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with Ind AS 38 at the date of transition to Ind-ASs; and
- (b) includes all intangible assets that meet the recognition criteria in Ind AS 38 at that date, except for intangible assets acquired in a business combination that were not recognised in the acquirer's consolidated statement of Balance Sheet in accordance with previous GAAP and also would not qualify for recognition in accordance with Ind AS 38 in the separate Balance Sheet of the acquiree (see paragraph C4 (f) of the Ind-AS).

IG45 The criteria in Ind AS 38 require an entity to recognise an intangible asset if, and only if:

- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

Ind AS 38 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG46 In accordance with paragraphs 65 and 71 of Ind AS 38, an entity capitalises the costs of creating internally generated intangible assets prospectively from the date when the recognition criteria are met. Ind AS 38 does not permit an entity to use hindsight to conclude retrospectively that these recognition criteria are met. Therefore, even if an entity concludes retrospectively that a future inflow of economic benefits from an internally generated intangible asset is probable and the entity is able to reconstruct the costs reliably, Ind AS 38 prohibits it from capitalising the costs incurred before the date when the entity both:

- (a) concludes, based on an assessment made and documented at the date of that conclusion, that it is probable that future economic benefits from the asset will flow to the entity; and
- (b) has a reliable system for accumulating the costs of internally generated intangible assets when, or shortly after, they are incurred.

IG47 If an internally generated intangible asset qualifies for recognition at the date of transition to Ind-ASs, an entity recognises the asset in its opening Ind-AS Balance Sheet even if it had recognised the related expenditure as an expense in accordance with previous GAAP. If the asset does not qualify for recognition in accordance with Ind AS 38 until a later date, its cost is the sum of the expenditure

incurred from that later date.

- IG48 The criteria discussed in paragraph IG45 also apply to an intangible asset acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits. Furthermore, as explained in paragraph 26 of Ind AS 38, the cost of a separately acquired intangible asset can usually be measured reliably.
- IG49 For an intangible asset acquired in a business combination before the date of transition to Ind-ASs, its carrying amount in accordance with previous GAAP immediately after the business combination is its deemed cost in accordance with Ind-ASs at that date (paragraph C4(e) of this Ind-AS). If that carrying amount was zero, the acquirer does not recognise the intangible asset in its consolidated opening Ind-AS Balance Sheet, unless it would qualify in accordance with Ind AS 38, applying the criteria discussed in paragraphs IG45–IG48, for recognition at the date of transition to Ind-ASs in the Balance Sheet of the acquiree (paragraph C4(f) of this Ind-AS). If those recognition criteria are met, the acquirer measures the asset on the basis that Ind AS 38 would require in the Balance Sheet of the acquiree. The resulting adjustment affects goodwill (paragraph C4(g)(i) of this Ind-AS).
- IG50 A first-time adopter may elect to use the fair value of an intangible asset at the date of an event such as a privatisation or initial public offering as its deemed cost at the date of that event (paragraph D8 of this Ind-AS), provided that the intangible asset qualifies for recognition in accordance with Ind AS 38 (paragraph 10 of this Ind-AS). In addition, if, and only if, an intangible asset meets both the recognition criteria in Ind AS 38 (including reliable measurement of original cost) and the criteria in Ind AS 38 for revaluation (including the existence of an active market), a first-time adopter may elect to use one of the following amounts as its deemed cost (paragraph D7 of this Ind-AS):
- a) fair value at the date of transition to Ind-ASs (paragraph D5 of this Ind-AS), in which case the entity gives the disclosures required by paragraph 30 of this Ind-AS; or
 - b) revaluation in accordance with previous GAAP that meets the criteria in paragraph D6 of this Ind-AS.
- IG51 If an entity's amortisation methods and rates in accordance with previous GAAP would be acceptable in accordance with Ind-ASs, the entity does not restate the accumulated amortisation in its opening Ind-AS Balance Sheet. Instead, the entity accounts for any change in estimated useful life or amortisation pattern prospectively from the period when it makes that change in estimate (paragraph 13 of this Ind-AS and paragraph 104 of Ind AS 38). However, in some cases, an entity's amortisation methods and rates in accordance with previous GAAP may differ from those that would be acceptable in accordance with Ind-ASs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts the accumulated amortisation in its opening Ind-AS Balance Sheet retrospectively so that it complies with Ind-ASs (paragraph 14 of this Ind-AS). However, if an entity uses the exemption in paragraph D8B, it uses the carrying amount of the intangible asset at the date of transition to Ind-ASs as deemed cost as if it had acquired an intangible asset with the same remaining

service potential for that amount at the date of transition to Ind-ASs. Subsequent amortisation is based on that deemed cost and starts from the date of transition to Ind-ASs.

Ind AS 39 Financial Instruments: Recognition and Measurement

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening Ind-AS Balance Sheet in accordance with Ind AS 39, except as specified in paragraphs B2–B6 of this Ind-AS, which address derecognition and hedge accounting.

Recognition

IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with Ind AS 39 and have not yet qualified for derecognition in accordance with Ind AS 39, except non-derivative financial assets and non-derivative financial liabilities derecognised in accordance with previous GAAP before date of transition, to which the entity does not choose to apply paragraph B3 (see paragraphs B2 and B3 of this Ind-AS). For example, an entity that does not apply paragraph B3 does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before date of transition if those transactions qualified for derecognition in accordance with previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after date of transition, those further transfers qualify for derecognition only if they meet the derecognition criteria of Ind AS 39 .

IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition in accordance with Ind AS 39 or have already qualified for derecognition in accordance with Ind AS 39 .

Embedded derivatives

IG55 When Ind AS 39 requires an entity to separate an embedded derivative from a host contract , the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in Ind AS 39 reflect circumstances at that date (Ind AS 39 paragraph 11). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it designates the entire combined contract as at fair value through profit or loss (Ind AS 39 paragraph 12). This results in fair value measurement (except when the entity cannot determine a reliable fair value, see Ind AS 39 paragraph 51(c), with changes in fair value recognised in profit or loss.

Measurement

IG56 In preparing its opening Ind-AS Balance Sheet, an entity applies the criteria in Ind AS 39 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. In particular:

(a) to comply with Ind AS 39 paragraph 51, classification of financial assets as held-to-maturity investments relies on a designation made by the entity in applying

Ind AS 39 reflecting the entity's intention and ability at the date of transition to Ind-ASs. It follows that sales or transfers of held-to-maturity investments before the date of transition to Ind-ASs do not trigger the 'tainting' rules in Ind AS 39 paragraph 9.

(b) to comply with Ind AS 39 paragraph 9, the category of 'loans and receivables' refers to the circumstances when the financial asset first satisfied the recognition criteria in Ind AS 39.

(c) in accordance with Ind AS 39 paragraph 9, derivative financial assets and derivative financial liabilities are always deemed held for trading (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). The result is that an entity measures at fair value all derivative financial assets and derivative financial liabilities that are not financial guarantee contracts.

(d) to comply with Ind AS 39 paragraph 50, an entity classifies a non-derivative financial asset or non-derivative financial liability in its opening Ind-AS Balance Sheet as at fair value through profit or loss only if the asset or liability was:

- i. acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. at the date of transition to Ind-ASs, part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking; or
- iii. designated as at fair value through profit or loss at the date of transition to Ind-ASs.

(e) to comply with Ind AS 39 paragraph 9, available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and those non-derivative financial assets that are not in any of the previous categories.

IG57 For those financial assets and financial liabilities measured at amortised cost in the opening Ind-AS Balance Sheet, an entity determines their cost on the basis of circumstances existing when the assets and liabilities first satisfied the recognition criteria in Ind AS 39. However, if the entity acquired those financial assets and financial liabilities in a past business combination, their carrying amount in accordance with previous GAAP immediately following the business combination is their deemed cost in accordance with Ind-ASs at that date (paragraph C4(e) of this Ind-AS).

IG58 An entity's estimates of impairments of financial assets measured at amortised cost at the date of transition to Ind-ASs are consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 14 of this Ind-AS). The entity treats the impact of any later revisions to those estimates as impairment losses (or, if the criteria in Ind AS 39 are met, reversals of impairment losses) of the period in which it makes the revisions.

Transition adjustments

- IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to Ind-ASs only to the extent that it results from adopting Ind AS 39. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are classified as held for trading, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the transition date (other than for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- IG58B Ind AS 8 applies to adjustments resulting from changes in estimates. If an entity is unable to determine whether a particular portion of the adjustment is a transition adjustment or a change in estimate, it treats that portion as a change in accounting estimate in accordance with Ind AS 8, with appropriate disclosures (Ind AS 8 paragraphs 32–40).
- IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre- Ind AS 39 revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of Ind AS 39. If, on initial application of Ind AS 39, an investment is classified as available-for-sale then the pre- Ind AS 39 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the available-for-sale financial asset in other comprehensive income and accumulates the cumulative gains and losses in that separate component of equity until the investment is impaired, sold, collected or otherwise disposed of. On subsequent derecognition or impairment of the available-for-sale financial asset, the entity reclassifies to profit or loss the cumulative gain or loss remaining in equity (Ind AS 39, paragraph 61(b)).

Hedge accounting

- IG60 Paragraphs B4–B6 of this Ind-AS deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of transition to Ind-ASs if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.
- IG60A An entity may, in accordance with its previous GAAP, have deferred or not recognised gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, an entity adjusts the carrying amount of the hedged item at the date of transition to Ind-ASs. The adjustment is the lower of:
- (a) that portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognised in accordance with previous GAAP; and
 - (b) that portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, in accordance with previous GAAP,

was either (i) not recognised or (ii) deferred in the Balance Sheet as an asset or liability.

IG60B An entity may, in accordance with its previous GAAP, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of transition to Ind-ASs, the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognised in equity. Any net cumulative gain or loss that has been reclassified to equity on initial application of Ind AS 39 remains in equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from equity to profit or loss. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with Ind AS 39 hedge accounting is no longer appropriate starting from the date of transition to Ind-ASs.

Ind AS 40 Investment Property

IG61 [Refer to Appendix 1]

IG62 In respect of investment property accounted for in accordance with Ind AS 40, an entity applies paragraphs IG7–IG13 on property, plant and equipment.

Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations

IG62A Ind AS 105 requires that an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use as at the date of transition to Ind-AS. However a first time adopter may measure non-current assets (or disposal groups) that meet the criteria to be classified as held for sale or for distribution to the owners and operations as at the date of transition to Ind-AS rather than going back to the date when the criteria to classify a non-current asset (or disposal group) as held for sale is met.

Explanation of transition to Ind-ASs

IG63 Paragraphs 24(a), (b) and (d), 25 and 26 of this Ind-AS require a first-time adopter to provide certain disclosures that give sufficient detail to enable users to understand the material adjustments to the Balance Sheet, statement of profit and loss and, if applicable, statement of cash flows.

The following two examples relate to a situation where an entity has elected to apply paragraph 21(b).

IG Example 11 A shows one way of satisfying requirements of paragraph 24(a) i.e reconciliation of equity at the date of transition to Ind-AS and reconciliation of total comprehensive income.

IG Example 11B shows another way of satisfying requirements of paragraph 24(a)

i.e reconciliation of equity at the date of transition to Ind-AS, and 24 (d) i.e reconciliation of equity and total comprehensive Income for the comparative year.

Paragraph 24(a), and (b) requires specific reconciliations of equity and total comprehensive income where an entity elects to apply paragraph 21(a).

IG Example 11C shows one way of satisfying requirements of paragraph 24(a) i.e reconciliation of equity at the date of transition to Ind-AS, and 24(b) i.e reconciliation of equity and total comprehensive income for the year of transition to Ind-AS .

IG Example 11A Reconciliation of equity and total comprehensive income.

Background

An entity first adopted Ind-ASs in 2011-12, with a date of transition to Ind-ASs of 1 April 2011. Its last financial statements in accordance with previous GAAP were for the year ended 31 March 2011.

Application of requirements

The entity's first Ind-AS financial statements include the reconciliations and related notes shown below.

Among other things, this example includes a reconciliation of equity at the date of transition to Ind-ASs (1 April 2011).

In practice, it may be helpful to include cross-references to accounting policies and supporting analyses that give further explanation of the adjustments shown in the reconciliations below.

If a first-time adopter becomes aware of errors made in accordance with previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies (paragraph 26 of this Ind-AS). This example does not illustrate disclosure of a correction of an error.

Reconciliation of equity at 1 April 2011 (date of transition to Ind-ASs) –				
Notes		Reclassified <i>Previous GAAP</i>	<i>Effect of transition to Ind-ASs</i>	Ind-ASs
		Rs	Rs	Rs
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
3	Other reserves	0	294	294
5, 9	Retained earnings	5,060	781	5,841
	Total equity	6,560	1,075	7,635

Notes to the reconciliation of equity at 1 April 2011:

1. Depreciation was influenced by tax requirements in accordance with previous GAAP, but in accordance with Ind-ASs reflects the useful life of the assets. The cumulative adjustment increased the carrying amount of property, plant and equipment by Rs. 100.
2. Intangible assets in accordance with previous GAAP included Rs 150 for items that are transferred to goodwill because they do not qualify for recognition as intangible assets in accordance with Ind-ASs
3. Financial assets are all classified as at available for sale in accordance with Ind-ASs and are carried at their fair value of Rs 3,891. They were carried at cost of Rs 3,471 in accordance with previous GAAP. The resulting gain of Rs 294 (Rs 420, less related deferred tax of Rs 126) is included in the other reserves.
4. Inventories include fixed and variable production overhead of Rs 400 in accordance with Ind-ASs, but this overhead was excluded in accordance with previous GAAP.
5. Unrealised gains of Rs 431 on unmatured forward foreign exchange contracts are recognised in accordance with Ind-ASs, but were not recognised in accordance with previous GAAP. The resulting gains of Rs 302 (Rs 431, less related deferred tax of Rs 129) are included in the retained earnings.
6. A pension liability of Rs 66 is recognised in accordance with Ind-ASs, but was not recognised in accordance with previous GAAP, which used a cash basis.
7. A restructuring provision of Rs 250 relating to head office activities was recognised in accordance with previous GAAP, but does not qualify for recognition as a liability in accordance with Ind-ASs.
8. The above changes increased the deferred tax liability as follows:

	Rs
Other reserves (note 3)	126
Retained earnings	334
Increase in deferred tax liability	460

Because the tax base at 1 April 2011 of the items reclassified from intangible assets to goodwill (note 2) equaled their carrying amount at that date, it is assumed for the purposes of this illustration that the reclassification did not affect deferred tax liabilities.

Ind AS 102 Share-based Payment

- IG64 A first-time adopter is encouraged, but not required, to apply Ind AS 102 *Share-based Payment* to equity instruments that were vested before the date of transition to Ind-ASs.
- IG65 For example, if an entity's date of transition to Ind_ASs is 1 April 2011, the entity applies Ind AS 102 to shares, share options or other equity instruments that had not yet vested at 1 April 2011.

[Paragraphs IG66–IG200 reserved for possible guidance on future standards]

Appendices to Indian Accounting Standards

Appendix A to Ind AS 16 Changes in Existing Decommissioning, Restoration and Similar Liabilities

- IG201 Ind AS 16 requires the cost of an item of property, plant and equipment to include the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Ind AS 37 requires the liability, both initially and subsequently, to be measured at the amount required to settle the present obligation at the end of the reporting period, reflecting a current market-based discount rate.
- IG202 Appendix A to Ind AS 16 requires that, subject to specified conditions, changes in an existing decommissioning, restoration or similar liability are added to or deducted from the cost of the related asset. The resulting depreciable amount of the asset is depreciated over its useful life, and the periodic unwinding of the discount on the liability is recognised in profit or loss as it occurs.
- IG203 Paragraph D21 of Ind-AS 101 provides a transitional exemption. Instead of retrospectively accounting for changes in this way, entities can include in the depreciated cost of the asset an amount calculated by discounting the liability at the date of transition to Ind-ASs back to, and depreciating it from, when the liability was first incurred. IG Example 201 illustrates the effect of applying this exemption, assuming that the entity accounts for its property, plant and equipment using the cost model.

IG Example 201 Changes in existing decommissioning, restoration and similar liabilities

Background

An entity's first Ind-AS financial statements are for a period that ends on 31 March 2012 and with transition date of 1 April, 2011.

The entity acquired an energy plant on 1 April 2008, with a life of 40 years. As at the date of transition to Ind-ASs, the entity estimates the decommissioning cost in 37 years' time to be Rs 470, and estimates that the appropriate risk-adjusted discount rate for the liability is 5 per cent. It judges that the appropriate discount rate has not changed since 1 April 2008.

Application of requirements

The decommissioning liability recognised at the transition date is Rs 77 (Rs 470 discounted for 37 years at 5 per cent).

Discounting this liability back for a further three years to 1 April 2008 gives an estimated liability at acquisition, to be included in the cost of the asset, of Rs 67. Accumulated depreciation on the asset is $\text{Rs } 67 \times 3/40 = \text{Rs } 5$.

The amounts recognised in the opening Ind-AS Balance Sheet on the date of transition to Ind-ASs (1 April, 2011) are, in summary:

Rs

Appendix C to Ind AS 17 Determining whether an Arrangement contains a Lease

IG204 Appendix C to Ind AS 17 specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.

IG205 Paragraph D9 of the Ind-AS provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods before transition to Ind-ASs, entities may determine whether arrangements in existence on the date of transition to Ind-ASs contain leases by applying paragraphs 6–9 of Appendix C to Ind AS 17 to those arrangements on the basis of facts and circumstances existing on that date.

IG Example 202 Determining whether an arrangement contains a lease

Background

An entity's first Ind-AS financial statements are for a period that ends on 31 March 2012. Its date of transition to Ind-ASs is therefore 1 April 2011.

On 1 April 2010 the entity entered into a take-or-pay arrangement to supply gas. On 1 April 2011, there was a change in the contractual terms of the arrangement.

Application of requirements

On 1 April 2011 the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6–9 of Appendix C to Ind AS 17 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on

the basis of facts and circumstances existing on 1 April 2010 and reassesses the arrangement on 1 April 2011. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14–IG16.

IG206 Paragraph D9A of Ind-AS 101 provides a transitional exemption in addition to that discussed in paragraph IG205. The exemption in paragraph D9A applies only to arrangements that were assessed in the same manner as required by Appendix C to Ind AS 17. If arrangements exist at the date of transition to Ind-ASs that an entity did not assess under previous GAAP in the same manner as required by Appendix C to Ind AS 17 to determine whether they contain a lease, the entity may apply the transition exemption discussed in paragraph IG205.

Appendix 1

Major differences between Indian Accounting Standard (Ind-AS) 101 *First-time Adoption of Indian Accounting Standards and IFRS 1*

Note: This Appendix is not a part of the Indian Accounting Standard (Ind AS) 101, First-time Adoption of Indian Accounting Standards. The purpose of this Appendix is only to highlight differences between Ind AS 101 and corresponding International Financial Reporting Standard (IFRS) 1, First-time Adoption of International Financial Reporting Standards.

1. Paragraph 3 of Ind-AS 101 specifies that 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, 1956 whereas IFRS 1 provides various examples of first IFRS financial statements.
2. Paragraph 4 of IFRS 1 provides various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provides the same. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.
3. Paragraph 32 (c) of IFRS 1 has been deleted in Ind AS 101 and included as paragraph 32A as a consequence of redrafting of the paragraph 32 in Ind AS 101. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.
4. IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except to the extent specifically provided in this standard as optional exemptions and mandatory exceptions.

Ind-AS 101, however, provides that the date of transition is the beginning of the current period and in addition provides an option to present comparative financial statements in accordance with Ind-AS on a memorandum basis.

Arising from this fundamental change, there are other consequential changes to Ind-AS 101. For example, disclosures required under paragraph 21 and reconciliations under paragraphs 24 to 26, Ind-AS 101 have been modified to accommodate this option available under Ind-AS 101. In addition, these have been modified to include the latest corresponding previous periods' financial statements as per the previous GAAP when presenting its first Ind-AS financial statements. The relevant Implementation Guidance and illustrative examples have been appropriately modified to reflect the option provided to transitioning entities.

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

Ind-AS 101, however, defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting Ind-AS for complying with the reporting requirements in India.

The change makes it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Indian accounting standards as was applicable to them as previous GAAP when it transitions to Ind-AS.

6. Paragraph 22 of IFRS 1 requires specific disclosures if the entity provides non-IFRS comparative information and historical summaries. Such disclosures are not required under Ind-AS 101. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.

7. IFRS requires reconciliations for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period to explain the transition to IFRS from previous GAAP.

Ind-AS 101, provides an option to provide a comparative period financial statements on memorandum basis. Accordingly, entities that do not provide comparatives need not provide reconciliation for total comprehensive income, cash flow statement and closing equity in the first year of transition but are expected to disclose significant differences pertaining to total comprehensive income. Entities that provide comparatives would have to provide reconciliations which are similar to IFRS.

8. All transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101. The following paragraphs provides the transitional provisions which are included in the other Ind ASs:

- (i) Paragraph D4 includes the transitional provisions of IFRS 4;
- (ii) Paragraph D22 includes the transitional provisions of IFRIC 12.

9. IFRS 1 provides for various optional exemptions that an entity can seek while an entity transitions to IFRS from its previous GAAP. Similar provisions have been retained under Ind-AS 101. However, there are few changes that have been made, which can be broadly categorized as follows:

(a) Elimination of effective dates prior to transition date. IFRS 1 provides for various dates from which a standard could have been implemented. For example,

- Paragraph B2 of IFRS 1 provides that, an entity would have had to adopt the de-recognition requirements for transactions entered after 1 January, 2004. However, for Ind-AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind-AS;
- Paragraph D2 of IFRS 1 provides that an entity is encouraged, but not required, to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002 or to instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005. However, for Ind-AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind-AS;

(b) Deletion of certain exemptions not relevant for India. Certain instances of such items are as follows:

- Paragraph D10 of IFRS 1 provides an entity that adopted the corridor approach for recording actuarial gain and losses arising from accounting for employee obligations with an option to recognize the entire such gain or loss to retained earnings, at the date of transition, rather than requiring them to split such gains and losses as recognized and unrecognized gains and losses. In India, since corridor approach is not elected, the resultant first time transition provision has been deleted,. In order to

maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101;

- Paragraph D23 of IFRS 1 provides for transitional adjustment requiring companies to apply the provisions of IAS 23 to be applied prospectively after the transition date. However, this was considered as not relevant in Indian situation as Ind AS 23 AS 16 always required an entity to capitalize borrowing costs as compared to IAS 23 where it provided an option to expense out such borrowing cost. Consequently, paragraphs IG 23 and IG 24 have also been deleted. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph numbers are retained in Ind AS 101. and
- (c) Inclusion/modification of existing exemptions to make it relevant for India. For example,
- Paragraph D7A has been added to provide for transitional relief from the retrospective application of Ind AS 16: *Property, Plant and Equipment*. Paragraph D7A provides an entity option to use carrying values of all such assets as on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind-AS. Paragraph 27B has been included in Ind AS 101 which requires the disclosure that if an entity adopts for first time exemption the option provided in accordance with paragraph D7A, the fact and the accounting policy shall be disclosed by the entity until such time that significant block of such assets is fully depreciated or derecognised from the entity's Balance Sheet.
 - Paragraph D9 provides for transitional relief from retrospective application of paragraphs 6-9 of the Appendix C of Ind AS 17.
 - Paragraph D11A has been added to provide the transitional relief from the retrospective application of Ind AS 19 that a first-time adopter may elect to recognise all cumulative actuarial gains and losses subsequent to the date of transition to Ind-AS in other comprehensive income as Ind AS 19 requires recognition of actuarial gains and losses for post-employment defined benefit plans and other long-term employment benefit plans in other comprehensive income immediately and are not reclassified to profit or loss in a subsequent period.
 - Paragraph D13 A has been added to provide exemption as a consequence of optional treatment for certain exchange differences given in Ind AS 21.
 - Paragraph D19A has been added to provide that the financial instruments carried at amortised cost should be measured in accordance with Ind-AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of Ind AS 39. If it is impracticable then the fair value of the financial asset at the date of transition to Ind-ASs shall be the new amortised cost of that financial asset at the date of transition to Ind-ASs.
 - D19B has been added to provide that financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind-AS.
 - Paragraph D-26 has been added to provide for transitional relief while applying Ind AS 105 - *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph D26 provides an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

10. Paragraphs IG 15 and IG 16 of Appendix F have been deleted in Ind AS 101 as they are with reference to the earlier version of Ind AS 17, hence are not relevant. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph numbers are retained in Ind AS 101.
11. Paragraphs IG 18 and IG 42 of Appendix F has been deleted in Ind AS 101 as these are not relevant. In order to maintain consistency with paragraph number of IFRS 1, the paragraph numbers are retained in Ind AS 101.
12. Paragraph IG 61 has been deleted in Ind AS 101 as it is with reference to fair value model which is not permitted under Ind AS 40. In order to maintain consistency with of paragraph number of IFRS 1 , the same is retained in Ind AS 101
13. Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.
14. Paragraph IG 25 of Appendix F appears as 'Deleted 'in IFRS 1. In order to maintain consistency with paragraph number of IFRS 1, the same is retained in Ind AS 101.