

Exposure Draft

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

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Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

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

Following is the Exposure Draft of revised Indian Accounting Standard (Ind AS) 101, First-time Adoption of Indian Accounting Standards issued by the Accounting Standards Board of The Institute of Chartered Accountants of India, for comments. This Ind AS would replace the existing Ind AS 101, First-time Adoption of Indian Accounting Standards. The Board invites comments on any specific aspect of the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to comment

Comments should be submitted using one of the following methods:

1. Electronically: Visit at the following link
<http://www.icai.org/comments/asb/>
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ICAI Bhawan, Post Box No. 7100,
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Further clarifications on this Exposure Draft may be sought by e-mail to achin.poddar@icai.in

Indian Accounting Standard (Ind AS) 101

First-time Adoption of Indian Accounting Standards

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Exposure Draft

Ind AS 101

First-time Adoption of Indian Accounting Standards

(The Exposure Draft of the Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. (This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)

Objective

- 1 The objective of this Ind AS is to ensure that an entity's *first Ind AS financial statements*, and its interim financial reports for part of the period covered by those financial statements contain high quality information that:
 - (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 statements; and
 - (b) each interim financial report, if any, that it presents in accordance with Ind AS 34 *Interim Financial Reporting* for part of the period covered by its first Ind AS financial statements.
- 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, 2013 and makes an explicit and unreserved statement in those financial statements of compliance with Ind ASs.
- 4 [Refer to Appendix 1]
- 4A [Refer to Appendix 1]
- 4B [Refer to Appendix 1]
- 5 This Ind AS does not apply to changes in accounting policies made by an

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material

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–D.**
- 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 2017. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to Ind ASs is the beginning of business on 1 April 2015 (or, equivalently, close of business on 31 March 2015). Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 2016.

Application of requirements

Entity A is required to apply the Ind ASs effective for periods ending on 31 March 2017 in:

- a) preparing and presenting its opening Ind AS Balance Sheet at 1 April 2015; and
- b) preparing and presenting its Balance Sheet for 31 March 2017 (including comparative amounts for the year ended 31 March 2016), Statement of profit or loss, Statement of changes in equity and Statement of cash flows for the year to 31 March 2017 (including comparative amounts for the year ended 31 March 2016) and disclosures (including comparative information for the year ended 31 March 2016).

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 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–D.
- 10 Except as described in paragraphs 13–19 and Appendices B–D, 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 Ind AS establishes two categories of exceptions to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:
- (a) paragraphs 14–17 and Appendix B prohibit retrospective application of some aspects of other Ind ASs.
 - (b) Appendices C–D grant exemptions from some requirements of other Ind ASs.

Exceptions to the retrospective application of other Ind ASs

- 13 This Ind AS 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 2015 and new information on 15 July 2015 requires the revision of an estimate made in accordance with previous GAAP at 31 March 2015. 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 2016.
- 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. They also apply to a comparative period presented in an entity's first Ind AS financial statements, 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-D. An entity shall not apply these exemptions by analogy to other items.
- 19 [Deleted]

Presentation and disclosure

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

Comparative information

- 21 An entity's first Ind AS financial statements shall include at least three Balance Sheet, two Statements of profit or loss, two Statements of cash flows and two Statements of changes in equity and related notes, including

comparative information for all statements presented.

Non-IndAS comparative information and historical summaries

- 22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with Ind ASs. This Ind AS does not require such summaries to comply with the recognition and measurement requirements of Ind ASs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by Ind AS 1. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
- (a) label the previous GAAP information prominently as not being prepared in accordance with Ind ASs; and
 - (b) disclose the nature of the main adjustments that would make it comply with Ind ASs. An entity need not quantify those adjustments.

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.**

23A [Refer to Appendix 1]

23B [Refer to Appendix 1]

Reconciliations

- 24 To comply with paragraph 23, an entity's first Ind AS financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Ind ASs for both of the following dates:
 - (i) the date of transition to Ind ASs; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
 - (b) a reconciliation to its total comprehensive income in accordance with Ind ASs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
 - (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.

- 25 The reconciliations required by paragraph 24(a) and (b) 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 reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 27 Ind AS 8 does not apply to the 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 reconciliations required by paragraph 24(a) and (b).
- 27AA If an entity adopts the first time exemption option provided in accordance with paragraph D7AA, the fact and the accounting policy shall be disclosed by the entity until such time that those items of Property, plant and equipment, investment properties or intangible assets, as the case may be, are significantly depreciated, impaired 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 as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.
- 29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated 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, joint ventures and associates

- 31 Similarly, if an entity uses a deemed cost in its opening Ind AS Balance Sheet for an investment in a subsidiary, joint venture 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.

Use of deemed cost after severe hyperinflation

- 31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening Ind AS Balance Sheet because of severe hyperinflation (see paragraphs D26–D30), the entity's first Ind AS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:
- (a) a reliable general price index is not available to all entities with

transactions and balances in the currency.

- (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

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 satisfy the following requirements in addition to the requirements of Ind AS 34:

- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Ind ASs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with Ind ASs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.
- (c) 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 (a) and (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 ASs	The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
fair value	<i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113.)
first Ind AS Financial Statements	The first annual financial statements in which an entity adopts 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)	Ind ASs are Accounting Standards prescribed under Section 133 of the Companies Act, 2013.
opening Ind AS Balance Sheet	An entity's Balance Sheet at the date of transition to Ind ASs .
previous GAAP	The basis of accounting that a first-time adopter used for its statutory reporting requirement in India immediately before adopting Ind AS's. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, shall consider those financial statements as previous GAAP financial statements.

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);
 - (c) non-controlling interests (paragraph B7);
 - (d) classification and measurement of financial assets (paragraphs B8–B8C);
 - (e) impairment of financial assets (paragraphs B8D–B8G);
 - (f) embedded derivatives (paragraph B9); and
 - (g) government loans (paragraphs B10–B12).

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 109 prospectively for transactions occurring on or after the date of transition to Ind ASs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to Ind ASs, 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 Despite paragraph B2, an entity may apply the derecognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by Ind AS 109, 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 109 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with Ind ASs an individual item within that net position, or a net position if that meets the requirements in paragraph 6.6.1 of Ind AS 109, 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 109, the entity shall apply paragraphs 6.5.6 and 6.5.7 of Ind AS 109 to discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

Non-controlling interests

- B7 A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:
- (a) the requirement in paragraph B94 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 23 and B96 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 B97–B99 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 retrospectively to past business combinations, it shall also apply Ind AS 110 in accordance with paragraph C1 of this Ind AS.

Classification and measurement of financial assets

- B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 or the conditions in paragraph 4.1.2A of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
- B8A If it is impracticable to assess a modified time value of money element in accordance with paragraphs B4.1.9B–B4.1.9D of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs, an

entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind ASs without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B–B4.1.9D of Ind AS 109. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the date of transition to Ind ASs without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B–B4.1.9D of Ind AS 109 until those financial assets are derecognized.

B8B If it is impracticable to assess whether the fair value of a prepayment feature is insignificant in accordance with paragraph B4.1.12(c) of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind-ASs, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind-ASs without taking into account the exception for prepayment features in paragraph B4.1.12 of Ind AS 109. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the date of transition to Ind ASs without taking into account the exception for prepayment features in paragraph B4.1.12 of Ind AS 109 until those financial assets are derecognised.

B8C If it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.

Impairment of financial assets

B8D An entity shall apply the impairment requirements in Section 5.5 of Ind AS 109 retrospectively subject to paragraphs B8E, B8F and B8G of this Ind AS.

B8E At the date of transition to Ind ASs, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph 5.5.6 of Ind AS 109) and compare that to the

credit risk at the date of transition to Ind ASs (also see paragraphs B8EA–B8EB of this Ind AS).

B8EA An entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost or effort. An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind ASs, whether there have been significant increases in credit risk since initial recognition. If an entity is unable to make this determination without undue cost or effort paragraph B8G of this Ind AS applies.

B8EB In order to determine the loss allowance on financial instruments initially recognised (or loan commitments or financial guarantee contracts to which the entity became a party to the contract) prior to the date of initial application, both on transition and until the derecognition of those items, an entity shall consider information that is relevant in determining or approximating the credit risk at initial recognition. In order to determine or approximate the initial credit risk, an entity may consider internal and external information, including portfolio information, in accordance with paragraphs B5.5.1–B5.5.6 of Ind AS 109.

B8F When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

- (a) the requirements in paragraph 5.5.10 and B5.5.22–B5.5.24 of Ind AS 109; and
- (b) the rebuttable presumption in paragraph 5.5.11 of Ind AS 109 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

B8G If, at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date, in which case paragraph B8F(a) applies).

Embedded derivatives

B9 A first-time adopter shall assess whether an embedded derivative is required

to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of Ind AS 109.

Government loans

- B10 A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32 *Financial Instruments: Presentation*. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109 *Financial Instruments* and Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind ASs as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind ASs.
- B11 Despite paragraph B10, an entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind ASs, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.
- B12 The requirements and guidance in paragraphs B10 and B11 do not preclude an entity from being able to use the exemptions described in paragraphs D19–D19C relating to the designation of previously recognised financial instruments at fair value through profit or loss.

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. This Appendix should only be applied to business combinations within the scope of Ind AS 103 Business Combinations.

- C1 A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind 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 110 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2010, it shall restate all business combinations that occurred between 30 June 2010 and the date of transition to Ind ASs, and it shall also apply Ind AS 110 from 30 June 2010.
- 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 earnings.²
- (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

² 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.

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 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) (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 103 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 D9AA);
 - (e) [deleted]
 - (f) cumulative translation differences (paragraphs D12 and D13);
 - (g) investments in subsidiaries, joint ventures 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 (paragraphs D19–D19C);
 - (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 115 Service Concession Arrangements (paragraph D22);
 - (n) borrowing costs (paragraph D23);
 - (o) [deleted];
 - (p) extinguishing financial liabilities with equity instruments (paragraph D25);
 - (q) severe hyperinflation (paragraphs D26–D30);
 - (r) joint arrangements (paragraph D31-D31AL);
 - (s) stripping costs in the production phase of a surface mine (paragraph D32);
 - (t) designation of contracts to buy or sell a non-financial item (paragraph D33);
 - (u) revenue from contracts with customers (paragraph D34 - D35); and

- (v) non-current assets held for sale and discontinued operations (paragraph D35AA).
- (w) non-current assets held for sale and discontinued operations (paragraph D35AB).

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 (eg, 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 ASs. 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 full comparative 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 An entity 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.

D7AA Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs 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 to Ind ASs, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS. For this purpose, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements. Where a subsidiary was not consolidated under previous GAAP, the amount required to be reported by the subsidiary as per previous GAAP in its individual financial statements shall be the previous GAAP amount. If an entity avails the option under this paragraph, no further adjustments to the deemed cost of the property, plant and equipment so determined in the opening balance sheet shall be made for transition adjustments that might arise from the application of other Ind ASs. This 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 privatization or initial public offering.

- (a) If the measurement date is at or before the date of transition to Ind ASs, the entity may use such event-driven fair value measurements as deemed cost for Ind ASs at the date of that measurement.
- (b) If the measurement date is after the date of transition to Ind ASs, but during the period covered by the first Ind AS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. At the date of transition to Ind ASs, the entity shall either establish the deemed cost by applying the criteria in paragraphs D5–D7 or measure assets and liabilities in accordance with the other requirements in this Ind AS.

D8A Under some GAAP's exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centers 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 IndAS106 *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 are governed by a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator (as defined in Ind AS 14 Regulatory Deferral Accounts).

Leases

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.

D9AA When a lease includes both land and building elements, a first time adopter may assess the classification of each element as finance or an operating lease at the date of transition to Ind ASs on the basis of the facts and circumstances existing as at that date. If there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; and any difference between those fair values is recognised in retained earnings.

D10 [Deleted]

D11– [Deleted]

Cumulative translation differences

D12 Ind AS 21 requires an entity:

(a) to recognise some translation differences in other comprehensive

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.

Investments in subsidiaries, joint ventures and associates

D14 When an entity prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

- (a) at cost; or
- (b) in accordance with Ind AS 109.

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 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, joint venture 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 (this election is not available to a subsidiary of an investment entity, as defined in Ind AS 110, that is required to be measured at fair value through profit or loss); 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. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

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 Ind AS 109 permits a financial liability (provided it meets certain criteria) to

be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to Ind ASs, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of Ind AS 109 at that date.

- D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.
- D19C For a financial liability that is designated as a financial liability at fair value through profit or loss, an entity shall determine whether the treatment in paragraph 5.7.7 of Ind AS 109 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.

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

- D20 Despite the requirements of paragraphs 7 and 9 of this Ind AS, an entity may apply the requirements in paragraph B5.1.2A (b) of Ind AS 109 prospectively to transactions entered into on or after the 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 centers 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 C to Ind AS 115

D22 A first-time adopter may apply the following provisions while applying the Appendix C to Ind AS 115:

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

D24 [Deleted]

Extinguishing financial liabilities with equity instruments

D25 A first-time adopter may apply the Appendix E of Ind AS 109 *Extinguishing Financial Liabilities with Equity Instruments* from the date of transition to Ind ASs.

Severe hyperinflation

D26 If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to Ind ASs. This applies to entities that are adopting Ind ASs for the first time, as well as entities that have previously applied Ind ASs.

D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
- (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

D28 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D27, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

D29 When an entity's date of transition to Ind ASs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to Ind ASs. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening Ind AS Balance Sheet.

D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of Ind AS 1) is provided for that shorter period.

Joint arrangements

D31 [Deleted]

Joint ventures - transition from proportionate consolidation to the equity method

- D31AA When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind ASs. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.
- D31AB The balance of the investment in joint venture at the date of transition to Ind ASs, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.
- D31AC A first-time adopter shall test investment in joint venture for impairment in accordance with Ind AS 36 at the date of transition to Ind ASs, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the date of transition to Ind ASs. The initial recognition exception in paragraphs 15 and 24 of Ind AS 12 Income Taxes does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.
- D31AD If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust retained earnings at the date of transition to Ind ASs. The entity shall disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures at the date of transition to Ind ASs.
- D31AE An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance at the date of transition to Ind ASs. That disclosure shall be prepared in an aggregated manner for all joint ventures at the date of transition to Ind ASs.
- D31AF After initial recognition at the date of transition to Ind ASs, an entity shall account for its investment in the joint venture using the equity method in accordance with Ind AS 28.

Joint operations—transition from the equity method to accounting for assets and liabilities

- D31AG When changing from the equity method to accounting for assets and

liabilities in respect of its interest in a joint operation, an entity shall, at the date of transition to Ind ASs, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28 and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

D31AH An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the date of transition to Ind ASs on the basis of the information used by the entity in applying the equity method.

D31AI Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of Ind AS 28, and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

- a. offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.
- b. adjusted against retained earnings at the date of transition to Ind ASs, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.

D31AJ An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the date of transition to Ind ASs.

D31AK The initial recognition exception in paragraphs 15 and 24 of Ind AS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.

Transition provisions in an entity's separate financial statements

D31AL An entity that, in accordance with paragraph 10 of Ind AS 27, was previously accounting in its separate financial statements for its interest in

a joint operation as an investment at cost or in accordance with Ind AS 109 shall:

- a. derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs D31AG –D31AI.
- b. provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the date of transition to Ind ASs.

Stripping costs in the production phase of a surface mine

D32 A first-time adopter may apply the Appendix B of Ind AS 16 *Stripping Costs in the Production Phase of a Surface Mine* from the date of transition to Ind ASs. As at transition date to Ind ASs, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the transition date to Ind ASs.

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

D33 Ind AS 109 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (see paragraph 2.5 of Ind AS 109). Despite this requirement an entity is permitted to designate, at the date of transition to Ind ASs, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of Ind AS109 at that date and the entity designates all similar contracts.

Revenue from contracts with customers

D34 A first-time adopter may use one or more of the following practical expedients when applying Ind AS 115 retrospectively:

- (a) for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period;

- (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; and
- (c) for all reporting periods presented before the beginning of the first Ind AS reporting period, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

D34AA For any of the practical expedients in paragraph D34 that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:

- (a) the expedients that have been used; and
- (b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

D35 A first-time adopter is not required to restate contracts that were completed before the earliest period presented. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous GAAP.

Non-current assets held for sale and discontinued operations

D35AA 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 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

[Refer to Appendix 1]

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 Ind AS 101, First-time Adoption of Indian Accounting Standards. The purpose of this Appendix is only to highlight major 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, 2013 whereas IFRS 1 provides various examples of first IFRS financial statements.
2. Paragraph 4, 4A, 4B, 23A and 23B of IFRS 1 provide various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provide the same. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.
3. IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. However, Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS.

The change 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 ASs.

4. Under IFRS 1, para C4(c) requires, 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 in the retained earnings as at the transition date except in certain specific instances where it requires adjustment in the goodwill. In such specific instances where IFRS 1 allows adjustment in the goodwill, under Ind AS 101 it can be adjusted with the Capital reserve to the extent such adjustment amount does not exceed the balance available in Capital reserve.
5. Certain IFRS 1 exceptions to the retrospective application of other Ind ASs refer to transitional provisions of other IFRSs. However Ind ASs does not provide transitional provisions, accordingly transitional provisions in other IFRSs have been incorporated in the paragraphs B8A, B8B, B8D, B8E, B8EA and B8EB of Ind AS 101.
6. Certain exemptions in Appendix D of IFRS 1 refer to transitional provisions of other IFRSs. However Ind ASs do not provide transitional provisions, accordingly wherever considered an appropriate transitional provision in other IFRSs has been incorporated in the respective exemptions in Appendix D of Ind AS 101. The following paragraphs in IFRS 1 provide the transitional

provisions of other IFRSs which are included in Ind AS 101:

- (i) Paragraph D4 includes the transitional provisions of IFRS 4 *Insurance Contracts*;
 - (ii) Paragraph D9 includes the transitional provisions of IFRIC 4 *Determining whether an Arrangement contains a Lease*;
 - (iii) Paragraph D22 includes the transitional provisions of IFRIC 12 *Service Concession Arrangements*;
 - (iv) Paragraph D25 includes the transitional provisions of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*;
 - (v) Paragraph D31 includes the transitional provisions of IFRS 11 *Joint Arrangements*;
 - (vi) Paragraph D32 includes the transitional provisions of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*; and
 - (vii) Paragraph D34 and D35 includes the transitional provisions of IFRS 15 *Revenue from contracts customer*.
7. 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 to Ind ASs. IFRS 1 provides for various dates from which a standard could have been implemented. For example,*

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 borrowing cost exemptions not relevant for India:*

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 to Ind ASs. However, this was considered as not relevant in Indian situation as 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.
 - (c) *Inclusion/modification of existing exemptions to make it relevant for India. For example,*
 - 1. Paragraph D7AA has been added to provide for transitional relief from the retrospective application of Ind AS 16: *Property, Plant and Equipment*. Paragraph D7AA, provides an entity option to use

carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS. Paragraph 27AA 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 D7AA, the fact and the accounting policy shall be disclosed by the entity until such time that those items of property, plant and equipment, investment properties or intangible assets, as the case maybe, are significantly depreciated, impaired or derecognised from the entity's Balance Sheet.

2. Paragraph D9AA has been added to provide for transitional relief while applying Ind AS 17: *Leases*. D9AA provides an entity to use the transition date facts and circumstances for lease arrangements which includes both land and building elements to assess the classification of each element as finance or an operating lease at the transition date to Ind ASs. Also, if there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; any difference between those fair values is recognised in retained earnings.
 3. Paragraph D35AA has been added to provide for transitional relief while applying Ind AS 105 - *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph D35AA 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.
8. Appendix E of IFRS 1 on 'Short-term exemptions from IFRSs', however Ind AS 101 does not provide the above said short-term exemption. In order to maintain consistency with Appendix numbers of IFRS 1, the Appendix E is retained in Ind AS 101.
 9. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are effective from annual period beginning on or after January 1, 2018 and January 1, 2017, respectively. As the above said standards are not yet effective consequential amendments due to these standards have not been incorporated in current version of IFRS 1. However, corresponding Ind AS 109 *Financial Instruments* and Ind AS 115 *Revenue from Contracts with Customer* have been issued with consequential amendments in other IFRS including IFRS 1. Accordingly, there consequential amendments Ind AS 109 and Ind AS 115 have been incorporated in Ind AS 101.
 10. Different terminology is used in Ind AS 101, 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'.