

Comments on Exposure Draft of Amendments to Ind AS 101

First-time Adoption of Indian Accounting Standards

1. The following two changes are proposed to Ind AS 101 *First-time Adoption of Indian Accounting Standards*:
 - a. Presently paragraph D7AA requires that if an entity opts for the exemption given by paragraph D7AA, it should use it for all items of property, plant and equipment. The exposure draft proposes to replace the word “all” with “a class”; and
 - b. The exposure draft proposes to delete the requirement that the previous GAAP number so arrived at is not to be adjusted for other changes happening due to transition to Ind AS.
2. The exposure draft fails to explain the rationale for making the changes to Ind AS 101 at this hour when companies to which Ind AS became applicable in the first phase have already finalised their policies and positions.
3. The changes are proposed to be effective from 1 April 2017 which means it will be applicable to companies adopting Ind AS on or after 1 April 2017. However, in absence of transition provisions, the financial statements of companies in first phase and second phase would be incomparable.
4. It should be kept in mind that paragraph D7AA is a carve-out. Therefore, it is an innovation of The Institute of Chartered Accountants of India. This carve-out was conceptualised in 2011 edition of Ind AS. Further, while finalising Ind AS 101 in 2014, the same was considered again. The word “all” was not changed since paragraph D7AA is a carve-out. Ind AS is said to be converged with IFRS. Therefore, to maintain sanctity of the convergence principle, the carve-outs should be minimum and need to be restrictive. If the use of carve-out is permitted openly, the Ind AS would become another version of Indian GAAP.
5. However, the carve-outs were used by the companies openly and twisted to suit their needs. This is evident from the results of the companies where most of the companies selected the option given by paragraph D7AA as it did not require companies to scratch their heads. This was the best evidence of pragmatism. However, the fact that paragraph D7AA relieved companies and auditors from

scratching their heads became a botherance as it restricted innovation. Human brain is curious and always seeks innovation. Innovation requires not only scratching of heads but also pulling hairs and legs. Therefore, companies started tweaking the requirements of paragraph D7AA to suit their needs by scratching heads and pulling hairs and legs.

6. The only reason for replacement of the word “all” with the words “a class”, that could be thought of in absence of any explanation in this regard, is to accommodate the practices followed by certain influential companies which had scratched their heads and taken a view that paragraph D5 can be applied together with paragraph D7AA based on class of property, plant and equipment. This view was taken when paragraph D7AA categorically prohibits application of the carve out on convenience basis. The amendment proposed is an evidence that law follows practice.
7. It is difficult to understand as to why an entity cannot follow paragraph D7AA on an item by item basis as paragraph D5. What stops the Accounting Standards Board from permitting previous GAAP measure on an item by item basis. Application of paragraph D7AA on an item basis would align it with the requirements of paragraph D5. In our view, if the requirements of paragraph D7AA are to be liberalised, then it must be aligned with D5 by replacing the word “all” with the words “an item”.
8. The amendment introduces the words “a class”. However, it fails to explain what those words mean. The amendment could refer to Ind AS 16. However, in our view, D7AA should permit choice on item basis rather than class. This also avoids the headache of defining a class and ensuring its proper interpretation and consistent application.
9. One option could be to delete entire paragraph D7AA and amend paragraph D5 to include an option of continuing with previous GAAP value. This would solve all challenges faced in application of paragraph D7AA.
10. There have been issues with the phrase “Where there is no change in functional currency” which is evident from the clarifications issued by ITFG. However, there is no amendment to the same. It is recommended that when the Accounting Standards Board is considering the changes to be made to D7AA, it makes a thorough study of the requirements of that paragraph and the challenges faced

by companies in implementing them and not restrict the changes to accommodation purposes. The starting point should be as to what problem paragraph D7AA was intended to solve, how it has addressed that problem, what new challenges that were not envisaged have cropped up and what could be the solution for ensuring that such challenges remain a one-time affair. However, the exposure draft fails to evidence whether any research of that sort was done and if done what methodology was adopted and what were its conclusions.

11. The lack of research is evident from the proposed amendment to delete the following sentence from paragraph D7AA:

"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 AS."

It may be noted that this requirement was not present in 2011 version of Ind AS 101. It was introduced in 2015 version of Ind AS after much thought and debate.

12. Further, Appendix 1 to the amendment explains that when the entity chooses to adopt the carrying value as at the date of transition to Ind AS as the deemed cost as per paragraph D7AA, consequential changes arising on the application of other Ind AS should be adjusted from the deemed cost of property, plant and equipment.

13. Indian GAAP was more regulator oriented than investor oriented. There are many requirements in Indian GAAP that are not in accordance with the principles of Ind AS. Three examples of those requirements would be:

- a. Depreciation rates regulated by Schedule XIV which were biased and not neutral as it permitted higher rates but not lower
- b. Mandatory capitalisation of foreign exchange differences in the era of pre-revised Schedule VI. It may be noted that AS 11 revised in 2003 was effective on prospective basis and permitted the accounting as per AS 11 of 1994 to foreign currency transactions entered before 01 April 2004. Thus, there could be amounts lying in fixed assets of foreign currency transactions entered before 01 April 2004.
- c. Accounting for forward contracts governed by AS 11 rather than financial instruments standard.

14. The requirement of no adjustment to previous GAAP measure was introduced looking to the fact that adjusting the above numbers because of the requirements of Ind AS 21, Ind AS 20, Ind AS 23, Ind AS 109 etc. would be impracticable. Further, the costs of making such adjustments would exceed the benefits. Therefore, it was considered that if an entity opts for paragraph D7AA which was restrictive in nature as it required that option to be availed for all assets, the previous GAAP measure should be considered as sacrosanct. The principle of no adjustment that was introduced in 2015 version was looking to the hardships to which companies and auditors will be put to if such adjustments are required. Further, if such retrospective adjustments are required to be made even after opting for exemption from retrospective adjustments required by paragraph 10 of Ind AS 101, the rationale of giving such an exemption itself is defeated. It is difficult to understand that on one side the Accounting Standards Board is taking a liberal view by replacing "all" with "a class" and on the other hand it is making things difficult by requiring adjustments that are highly impractical and would not add any value.
15. Further, the amended standard will become effective from 01 April 2017. Therefore, it is the second phase companies which are less than half the size of the first phase companies who would be required to do such retrospective adjustments. Rationally, smaller companies should be provided with more exemptions. However, what is proposed is to put such companies into more hardships. This is being done when the Accounting Standards Board is well aware of the limitations of such companies as was evident from the applicability of Accounting Standards to different levels of entities.
16. Further, it is not clear as to why Appendix should contain a requirement. Is Appendix an integral part of the standard? What is the authoritative status of Appendix that explains the differences between Ind AS and IFRS.