First Time adoption of Ind-AS

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Flow of discussion -

- PART A – Understanding the Process
- PART B – Implementation issues

Ind-AS 101 – First Time adoption of Ind-AS

- Decisions to be taken for preparation of Ind-AS compliant financial statements –
  - Determine the Date of Transition.
  - Choosing Accounting Policies that shall be applicable with Ind-AS in force at the end of reporting period.
  - Deciding whether to prepare Memorandum statement for comparative year or continuing with I-GAAP for previous year.
  - Choosing amongst the exceptions available for first time adoption (carve outs)

Date of Transition -

- This is the most important difference between IFRS 1 and Ind-AS 1.
- IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS.
- As against this, Ind-AS 101 provides that the date of transition is the beginning of the current period and in addition provides an option to present comparative financial statements in accordance with Ind-AS on a memorandum basis.

Under IFRS	Under Ind-AS
If the IFRS compliant statements to be issued as on 31.03.15, then DATE OF TRANSITION IS **01.04.13**	If the IFRS compliant statements to be issued as on 31.03.15, then DATE OF TRANSITION IS **01.04.14**

Preparation of Opening Ind-AS Balance sheet (activities to be done) -

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

1. Recognise all assets and liabilities whose recognition is required by Ind-ASs; *e.g. – Employment benefits – Plan Assets and Liabilities*
2. Derecognise items as assets or liabilities if Ind-ASs do not permit such recognition; *e.g. - Deferred revenue expenses, Intangible assets which do not met recognition criteria under Ind-AS*
3. 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 *e.g. – Show separately assets held for sale from PPE and from Investment Property*
4. Apply Ind-ASs in measuring all recognised assets and liabilities. *E.g. – Initial provision for restoration of site for PPE*

- An entity shall recognise effects of above adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind-ASs.

First set of Ind-AS compliant statements -

Suppose, entity has to present Ind-AS compliant statements for the year ended **31st March, 2015**, then the First Ind-AS financial statements shall consist of the following -

CHOICE 1 = If entity decides to present comparatives on memorandum basis	CHOICE = 2 If entity decides to present comparatives as per previous GAAP
-4 Balance Sheet(s) = 01.04.13 (Op Ind-AS B/s), 31.03.14 (last yr. Cl. Ind-AS B/s) and 31.03.15 (Current yr. Cl. Ind-AS B/s), and 31.03.14 (Last yr Cl I-GAAP B/s), - 3 Profit & Loss A/c's = 31.03.14 (Last yr Ind-AS P&L), 31.03.15 (Current yr Cl. Ind-AS P&L) and - 31.03.14 (I-GAAP P&L), - 3 Statement of Cash Flows = 31.03.14 (Last yr Ind-AS CF), 31.03.15 (Current yr Cl. Ind-AS CF) and 31.03.14 (I-GAAP CF), - 2 Statement of changes in Equity = 31.03.14 (Last yr. Ind-AS SOCIE) 31.03.15 (current yr Ind-AS SOCIE)	-3 Balance Sheet(s) = 01.04.14 (Op Ind-AS B/s), 31.03.15 (Cl Ind-AS B/s) and 31.03.14 (Last yr Cl I-GAAP B/s), - 2 Profit & Loss A/c's = 31.03.15 (Cl Ind-AS P&L) and 31.03.14 (Last yr Cl. I-GAAP P&L), - 2 Statement of Cash Flows = 31.03.15 (Cl Ind-AS CF) and 31.03.14 (Last yr Cl. I-GAAP CF), - 1 Statement of changes in Equity = - 31.03.15 (Cl Ind-AS SOCIE)

Most Important statement – Reconciliation statement

- To explain how the transition from I-GAAP to Ind-AS has taken place, an entity shall disclose –

  - Reconciliation of its equity reported in accordance with Ind-ASs to its equity in accordance with previous GAAP on the date of transition *(or Deemed Date where Memorandum comparatives are presented)* to Ind-ASs.

  - Significant differences between previous GAAP and Ind-AS in respect of its total comprehensive income.

Example of reconciliation statement -

Ind-AS requires to present reconciliation of Equity as well as significant differences in I-GAAP and Ind-AS. For doing so, preparing reconciliation of entire financials is advisable, summary of which shall look like as follows -

Closing Bal Sheet	I-GAAP	Ind-AS	Diff	Reco No.
Share Capital	372,500,000	372,500,000	-	
Reserves & Surplus	1,390,797,270	1,358,148,088	32,649,181	1
	1,763,297,270	1,730,648,088		
Fixed Assets				
Gross Block	234,318,135	1,730,855	232,587,279	2
Less : Accumulated Depreciation	(86,126)	-		
Capital Work-In-Progress	622,157,358	640,599,757	(18,442,399)	3
Land Lease	-	230,088,158	(230,088,158)	4
Cash and Bank Balances	856,153,266	856,153,266	-	
Loans and Advances	10,717,197	10,717,197	-	
Current Liabilities	(8,641,145)	(8,641,145)	-	
Miscellaneous Expenditure	15,328,645	-	15,328,645	5
Preoperative Expenses	33,349,940	-	33,349,940	6
	1,763,297,270	1,730,648,088		

Some important notes on Ind-AS – 1 Presentation of Financial Statements

- Ind AS 1 – No format for presentation is prescribed.
- It prescribes the minimum disclosures requirements.
- Ind AS 27, - Prescribed format for consolidated financial statements.

Offsetting of Income & Expenses, Assets & Liabilities – whether permissible ?

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS
- Whether Trade receivables shown after reduction of provision for doubtful allowance will be permissible ?
  - Yes, as it is not offsetting, but Measuring assets net of valuation allowances.
- When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be off set?
  - Yes, only if the entity has a legal right to set off and the entity intends to do so.

Implementation issues – Let us begin with the work -

- Same decisions as discussed earlier to be taken –

  - Date of transition – Mandatory or Voluntary adoption or third option (not prescribed in Ind-AS, but may be worked out to judge our preparations) !

  - Comparative figures – How many companies are likely to opt for presenting comparative financials on memorandum basis – Choice likely to remain on paper only for most companies.

Ind-AS Carve outs – Helping tools

- Main Objectives of Carve outs are very simple –
  - To reduce the transition cost, and
  - To avoid the retrospective application of accounting standards for opening Ind-AS
- However, carve outs are helpful only for first time preparation of Ind-AS compliant statements.
- Future transactions will not escape the accounting methodology suggested by Ind-AS

Ind-AS Carve outs (few examples) -

- Tangible NCA – Use of Deemed Cost in opening Ind-AS (Fair value on transition date or Book value of previous I-GAAP adjusted to certain aspects)
- Employee benefits –Acturial gains and losses subsequent to date of transition only shall be disclosed in OCI
- Cumulative translation differences and accumulated exchange differences – Need to follow only prospectively
- Compound financial instruments – no separation of equity component required, if liability component is not outstanding on transition date
- NCA held for sale – measurement to be made on date of transition and impairment, if any to be recognised in retained earning.

Thank you