Exposure Draft

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

(Last date for Comments December 15, 2012)

Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Amendments to In AS 101 *First-time Adoption of Indian Accounting Standards*

Following is the Exposure Draft of the Amendments to 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. The Board invites comments on any aspect of this 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.

Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than December 15, 2012. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

(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 Standards[1])

Paragraph B1 is amended (new text is underlined and deleted text is struck through).

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) [Refer to Appendix 1]

(e) <u>[Refer to Appendix 1]; and</u>

(f) government loans (paragraphs B10–B12).

After paragraph B7 a heading and paragraphs B8–B12 are added.

Government loans

B8-B9 [Refer to Appendix 1)

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 39 *Financial Instruments: Recognition and Measurement* 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 39 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 39 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–D19B relating to the designation of previously recognised financial instruments at fair value through profit or loss.

Amendments to guidance on implementing Ind AS 101 *First-time Adoption of Indian Accounting Standards*

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

A heading, paragraphs IG66 and IG Example 12 are added. The editorial note after IG65 has been amended and moved accordingly.

Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

IG66 Paragraph B10 of the Ind AS requires a first-time adopter to use its previous GAAP carrying amount of government loans existing at the date of transition to Ind AS as the Ind AS carrying amount of such loans at that date. A first-time adopter applies Ind AS 32 *Financial Instruments: Presentation* to classify such a loan as a financial liability or an equity instrument. Subsequently, the first-time adopter applies Ind AS 39 to such a loan. To do so, the entity calculates the effective interest rate by comparing the carrying amount of the loan at the date of transition to Ind ASs with the amount and timing of expected repayments to the government. IG Example 12 illustrates accounting for such a loan.

[*Paragraphs IG~~6~~67–IG200 reserved for possible guidance on future standards*]

IG Example 12 Government loan at a below-market rate of interest at the date of transition to Ind ASs

To encourage entities to expand their operations in a specified development zone where it is difficult for entities to obtain financing for their projects, the government provides loans at a below-market rate of interest to fund the purchase of manufacturing equipment.

Entity S's date of transition to Ind ASs is 1 January 20X2.

In accordance with the development scheme, in 20X0 Entity S receives a loan at a below-market rate of interest from the government for Rs.100,000. Under previous GAAP, Entity S accounted for the loan as equity and the carrying amount under previous GAAP was Rs. 100,000 at the date of transition to Ind ASs. The amount repayable will be Rs. 103,030 at 1 January 20X5.

No other payment is required under the terms of the loan and there are no future performance conditions attached to the loan. The information needed to measure the fair value of the loan was not obtained at the time of initially accounting for the loan.

The loan meets the definition of a financial liability in accordance with Ind AS 32. Entity S therefore reclassifies the government loan as a liability. It also uses the 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 statement of financial position. Entity S therefore reclassifies the amount of Rs. 100,000 from equity to liability in the opening Ind AS balance sheet. In order to measure the loan after the date of transition to Ind ASs, the effective interest rate starting 1 January 20X2 is calculated as below:

$$= \sqrt[3]{\left(\frac{103{,}030}{100{,}000}\right)} - 1$$

= 0.01

The carrying amounts of the loan are as follows:

Date	Carrying amount	Interest expense	Interest payable
	Rs.	Rs.	Rs.
1 January 20X2	100,000		
31 December 20X2	101,000	1,000	1,000
31 December 20X3	102,010	1,010	2,010
31 December 20X4	103,030	1,020	3,030

Appendix 1

Comparison with IFRS 1, First-time Adoption of International Financial Accounting Standards

Paragraph B1 (d) & (e), B8 and B9 deal with IFRS 9. Since, at present, Ind AS 39 corresponding to IAS 39 is made applicable instead of the Ind AS corresponding to IFRS 9, paragraphs have been deleted in Ind AS 101. However, in order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.