First time adoption of Ind AS – (Ind AS 101)

This standard is based on International Financial Reporting Standard 1 (IFRS 1) – First-time adoption of International Financial Reporting Standards.

A. Important Definitions

Before we begin discussion on this topic, we need to understand following terms:

1. First Ind AS financial statements - An entity's first Ind AS financial statements are the first annual financial statements in which the entity adopts Ind AS notified under the Companies Act, 2013 and makes an ***explicit and unreserved statement*** in those financial statements of compliance with Ind ASs.
2. Date of transition to Ind AS – The beginning of the earliest period for which an entity presents full comparative information under Ind AS in first Ind AS financial statements.
3. First Ind AS reporting period – The latest reporting period covered by an entity's first Ind AS financial statements.
4. First-time adopter - An entity that presents its first Ind AS financial statements.
5. Opening Ind AS Balance Sheet – An entity's Balance Sheet at the date of transition to Ind AS.

B. When this standard is applicable?

This standard shall be applied by a company in:

1. Its first Ind AS financial statements
2. 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.

Note: If an entity already applied Ind AS, then it shall not apply this standard for changes in accounting policies made by them. Such cases will be covered by Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors and specific transitional requirements in other Ind AS.

C. Steps in preparation of financial Statements

1. Opening Balance Sheet

The first step in preparation of Ind AS financial statements is to prepare the Opening Ind AS Balance Sheet at the date of transition to Ind AS. For example, if the entity adopts Ind AS in FY 2015-16 (April to March 16) and gives full comparative information for FY 2014-15, then its date of transition will be 1 April 2014 (beginning of earliest comparative period). Supposing if the entity gives full comparative information for FY 2013-14 also in its financial statements for FY 2015-16, then its date of transition will be 1 April 2013 (beginning of earliest comparative period).

2. Accounting policies to be used

The Accounting policies used in first Ind AS financial statements and all comparative periods (including opening Balance Sheet) shall comply with each Ind AS effective **at the end of its first Ind AS reporting period.** So in our example discussed above, all the Ind AS applicable as on 31 March 2016 shall be applied for all the periods presented in financial statements. *An entity may apply a new Ind AS that is not yet mandatory, if that Ind AS permits early application.*

The accounting policies adopted by an entity on account of Ind AS may be different from those used as per previous GAAP, resulting in adjustments to be made, arising from events & transactions before the date of transition to Ind AS. The entity should recognise such differences directly in retained earnings.

3. Adjustments to be made in Opening Balance Sheet

The following adjustments needs to be made in an entity's Opening Ind AS Balance Sheet:

1. recognise all assets and liabilities whose recognition is required by Ind AS;
2. derecognise items as assets or liabilities if Ind AS do not permit such recognition;
3. reclassify items that is 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 AS; and
4. apply Ind AS in measuring all recognised assets and liabilities.

There could be certain assets and liabilities which are required to be recognised by Ind AS but were not required under previous GAAP. Similarly, there could be certain assets and liabilities required to be recognised by previous GAAP but does not require recognition under Ind AS. Also, certain assets or liabilities may need to be reclassified under Ind AS. For example, Actuarial gain/loss will form part of equity (other comprehensive income) under Ind AS which is treated as part of P&L Account under present Accounting Standards.

Further, all the accounting policies needs to be checked whether they are in compliance with Ind AS. Thus, the accounting policies used in the opening Ind AS Balance Sheet will not be always the same as previous GAAP. Any adjustments arising on account of such differences shall be recognised directly in retained earnings in its opening Ind AS Balance Sheet.

An entity shall not apply the transitional provisions in other Ind AS when it presents its first Ind AS financial statements. Transitional provisions in other Ind AS are for those who are already applying Ind AS and have made changes in accounting policies.

D. Exceptions in preparing opening Ind AS Balance Sheet:

This standards establishes two types of exceptions as follows:

1. Prohibition on retrospective application of some Ind AS – The standard prohibits retrospective application of certain requirements of other Ind AS.
2. Exemptions from requirements of some Ind AS – The standard provides exemptions from complying with certain requirements of other Ind AS. Here, the entity has an option to exercise the exemption.

E. Presentation and disclosure

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

F. Components of First Ind AS financial Statements:

The first Ind AS financial Statements shall comprise of following **minimum** statements

- Three Balance Sheets (Current Year (CY), Previous Year (PY) and Opening Ind AS Balance Sheet)
- Two Statements of Profit and Loss (CY and PY)
- Two Statements of Cash Flows (CY and PY)
- Two Statements of Changes in Equity (CY and PY)
- Related notes including comparative information for all statements presented.

G. Reconciliation of financial Statements

On account of adoption of Ind AS, the reported items of previous years will get affected. Hence, the entity should explain how the following **reported** items are affected, on account of transition from previous GAAP to Ind AS:

1. Balance Sheet
2. Financial performance
3. Cash flows

The entity's first Ind AS Financial Statements shall include the following reconciliations:

a. Reconciliation of equity reported in accordance with previous GAAP to its equity in accordance with Ind AS both for the following dates:
    - Date of transition to Ind AS
    - End of latest period presented in its most recent annual financial statements in accordance with previous GAAP
b. Reconciliation to total comprehensive income as per Ind AS for the period reported in its most recent annual financial statements.
c. Disclosure as per Ind AS 36, if any impairment is recognised for first time
d. Material adjustments to the statement of cash flows

Note: If the entity has made correction of any errors reported under previous GAAP, the same shall be distinguished from changes in accounting policies.

H. Non-Ind AS comparative information and historical summaries

Some entities present historical summaries for selected data for periods before the earliest comparative period for which full comparative data is presented by the entity. Also, some entities present comparative data as per previous GAAP along with comparative information required by Ind AS 1. The entity should label such information as not being prepared in accordance with Ind AS and should also disclose the nature of adjustments which needs to be made to make such information comply with Ind AS.