INDAS 101 –
CONSOLIDATED FINANCIAL STATEMENTS

(TOTAL NO. OF QUESTIONS – 13)

INDEX

RTPs QUESTIONS

Q1 (May 18)

ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

SOLUTION

Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that the government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 'First Time Adoption of Ind AS'. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that, which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

a) *recognise all assets and liabilities whose recognition is required by Ind AS;*

b) *not recognise items as assets or liabilities if Ind AS 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 AS; and*

d) *apply Ind AS in measuring all recognised assets and liabilities."*

Accordingly, as per the above requirements, in the given case, contributions recognised in the Capital Reserve should be transferred to the appropriate category under 'Other Equity' at the date of transition to Ind AS.

Q2 (May 19)

XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f. 1st April, 2018 with a transition date of 1st April, 2017.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(Rs in Lakhs)

Particulars	31.03.2018	31.03.2017
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	**42,208**	**41,075**
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments ·	1,263	3,763
Other Current Assets	1,554	104
Total	**42,208**	**41,075**

Additional Information:

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	Rs in Lakhs
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advise and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

SOLUTION

As per Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

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. The balance of the investment in the joint venture at the date of transition to Ind AS, is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2054
Less: Trade Payables	75
Short Term Provisions	35
Deemed cost of the investment in JV	**1944**

Calculation of proportionate goodwill share of Joint Venture i.e. ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	**104**
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	475
	23,137

Note: *Only those assets and liabilities have been taken into account for calculation of proportionate goodwill share of Joint Venture, which were given in the question as proportionate share of assets and liabilities of ABC Ltd. added to XYZ Ltd.*

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) x Net asset of JV]

= (1507 / 23,137) x 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in IGAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	31.3.2017	Ind AS Adjustment	Transition date Balance Sheet as per Ind AS
Non-Current Assets			
Property Plant & Equipment	22,288	(1,200)	21,088
Intangible assets –	1,507	(119)	1,388
Goodwill on Consolidation		-	
Investment Property	5,245	(405)	5,245
Long Term Loans & Advances	6,350	1,944	5,945
Non- current investment in JV	-	-	1,944
Current Assets		(280)	
Trade Receivables	1,818	-	1,538
Investments ·	3,763		3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**(110)**	**40,965**
Shareholder's Funds	7,953	-	7,953
Share Capital	16,597	-	16,597
Reserves & Surplus			
Non-Current Liabilities	1,000		1,000
Long Term Borrowings	691		691
Long Term Provisions	5,904		5,904
Other Long-Term Liabilities			
Current Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	475	(35)	440
Total	**41,075**	(110)	**40,965**

Q3 (Nov 19)

Mathur India Private Limited has to present its first financials under IndAS for the year ended 31stMarch, 20X3. The transition date is 1st April,20X1.

The following adjustments were made upon transition to Ind AS:

(a) *The Company opted to fair value its land as on the date on transition.*

The fair value of the land as on 1st April, 20X1 was 10 crores. The carrying amount as on 1st April, 20X1 under the existing GAAP was Rs. 4.5crores.

(b) The Company has recognised a provision for proposed dividend of Rs. 60 lacs and related dividend distribution tax of Rs. 18 lacs during the year ended 31st March, 20X1. It was written back as the opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is Rs. 75 lacs.

(d) The Company has an Equity Share Capital of Rs. 80 crores and Redeemable Preference Share Capital of Rs. 25 crores.

(e) The reserves and surplus as on 1st April, 20X1 before transition to Ind AS was Rs. 95 crores representing Rs. 40 crores of general reserve and Rs. 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in the nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1st April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April,20X1.

Ignore deferred tax impact.

SOLUTION

Computation of balance total equity as on 1stApril, 20X1 after transition to Ind AS

			Rs in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1stApril, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1stApril, 20X1

		Rs in crore
Equity share capital		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1stApril20X1		0.78
Adjustment due to remeasurement		

Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1stApril, 20X1 after transition to Ind AS		182.03

Q4. (May 20)

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of Rs 100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31, 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is April 1, 20X3.

Suggest how Sigma Ltd. should account for this compound financial instrument on the date of transition.

The present value of Re. 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

SOLUTION

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be Rs. 31,50,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/5)]. The premium payable on redemption is being recognised as borrowing costs as per AS 16 i.e. under previous GAAP on a straight-line basis.

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 would involve separating two portions of equity. The first portion is recognised 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 Ind AS 101, 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 AS.

In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	Rs
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment on each debenture for years 1 to 4 (6 x 3.17) (Note 1)	19.02
PV of principal repayment on each debenture (including premium) 110 x 0.68 (Note 2)	74.80
Total liability component on each debenture (A)	93.82

Total equity component per debenture (Balancing figure) (B) = (C) – (A)	6.18
Face value per debenture (C)	100
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	**28,14,600**

Thus, on the date of transition, the amount of Rs 30,00,000 being the amount of debentures will be split as under:

Debt	Rs 28,14,600
Equity	Rs 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	Opening balance	Finance cost @ 10%	Interest paid	Closing balance
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, Sigma Ltd. shall –

a. recognise the carrying amount of convertible debentures at ₹ 30,27,666;

b. recognise equity component of compound financial instrument of ₹ 1,85,400;

c. debit ₹ 63,066 to retained earnings being the difference between the previous GAAP amount of ₹ 31,50,000 and ₹ 30,27,666 and the equity component of compound financial instrument of ₹1,85,400; and

d. de-recognise the debenture liability in previous GAAP of ₹ 31,50,000.

Notes:

1. 3.17 is the annuity factor of the present value of Re. 1 at a discount rate of 10% for 4 years.
2. On maturity, Rs. 110 will be paid (Rs. 100 as principal payment + Rs. 10 as premium)

Q5. (RTP May 21 & MTP March 22)

HIM Limited having net worth of Rs.250 crores is required to adopt Ind AS from 1 April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Rahul, the senior manager, of HIM Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

Issue 1: As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was Rs. 5,00,000. The land was acquired for a consideration of Rs. 5,00,000. However, the fair value of land as on the date of transition was Rs. 8,00,000.

Issue 2: Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was Rs.4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was Rs.5,00,000.

Issue 3: Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal installments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs. 1,80,000 as against the carrying amount of loan which at present equals Rs. 2,00,000.

Issue 4: The company has declared a dividend of Rs. 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by the board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 5: The company had acquired intangible assets as trademarks amounting to Rs. 2,50,000. The company is assumed to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was Rs. 3,00,000. However, the company wants to carry the intangible assets at Rs. 2,50,000 only.

Issue 6: After consideration of possible effects as per Ind AS, the deferred tax impact is computed as Rs. 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustment.

Management wants to know the impact of Ind AS in the financial statements of the company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for HIM Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue for preparation of transition date balance sheet. Also pass journal entries for each issue.

SOLUTION

Preliminary Impact Assessment on Transition to Transition to Ind AS in HIM Limited's Financial Statements

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation	Ind AS 101 allows entity to elect to measure property, Plant an Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land Rs.3,00,000 should be adjusted in other equity

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Property Plant and Equipment Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments	All financial assets (other than in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are

	measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	based on its categorization either Fair Value through Profit & Loss (FVTOCI) or at business model assessment and contractual cash flow. Since investment in mutual fund are designated at FVTPL, increase of Rs.1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Investment in mutual funds Dr.	1,00,000	
To Retained earnings		1,00,000

Issue 3: Borrowings Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, such expenditure is charged to Profit and Loss account or capitalized as the case may be.	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the value of the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is Rs. 1,80,000 as against its book value of Rs. 2,00,000. Accordingly, the difference of Rs. 20,000 is adjusted through Retained Earning.

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Borrowing / Loan payable Dr.	20,000	
To Retained earning		20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, provision for proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during and approved. Therefore, the provision declared for the preceding year should be reserved (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

Journal Entry on the date of transition

Particulars	Debt (Rs.)	Credit (Rs.)
Provisions Dr.	30,000	
To Retained earnings		30,000

Issue 5: Intangible assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/ trademark on a straight-line basis over a maximum of 10 years as per AS 26.	The useful life of an intangible asset like brand/trademark can be indefinite. Not required to be amortised to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since the company intends to use the carrying amount instead of book value at the date of transition.

Issue 6: Deferred tax

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, deferred taxes are accounted as per income statement approach	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On the date of transition to Ind AS, deferred tax liability would be increased by Rs. 25,000.

Journal Entry on the date of transition

Particulars	Debt (Rs.)	Credit (Rs.)
Retained earnings Dr.	25,000	
To Deferred tax liability		25,000

Q6. (Nov 21)

While preparing an opening balance sheet on the date of transition, an entity is required to:

(a) recognise all assets and liabilities whose recognition is required by Ind AS;

(b) 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 AS; and

(c) apply Ind AS in measuring all recognised assets and liabilities. Give examples for each of the above 4 categories.

SOLUTION

The examples of the items that an entity may need to recognise, derecognise, remeasure, reclassify on the date of transition are as under:

(a) recognise all assets and liabilities whose recognition is required by Ind AS:

- **(i)** customer related intangible assets if an entity elects to restate business combinations
- **(ii)** share-based payment transactions with non-employees
- **(iii)** recognition of deferred tax on land

(b) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but is a different type of asset, liability or component of equity in accordance with Ind AS:

- **(i)** redeemable preference shares that would have earlier been classified as equity;
- **(ii)** non-controlling interests which would have been earlier classified outside equity; and

(c) apply Ind ASs in measuring all recognised assets and liabilities:

- **(i)** discounting of long-term provisions
- **(ii)** measurement of deferred income taxes for all temporary differences instead of timing differences.

Q7. (Nov 22)

On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

- Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
- Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was Rs. 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd.

How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Solution

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind AS. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.

While preparing the financial statements for the financial year 20X3 -20X4, an error has been discovered which occurred in the year 20X1 -20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by Rs. 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the ' Share based payment reserve (equity)' and adjusting the retained earnings by Rs. 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31 st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by Rs. 2,00,000 and 'employee benefits expense' would be debited by Rs. 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by Rs. 2,00,000 and 'employee benefits expense' would be debited by Rs. 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d- previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

MTPs QUESTIONS

Q8 (April 18)

X Ltd. has a subsidiary Y Ltd. on first time adoption of IND AS by Y Ltd., it availed the optional exemption of the non-restating its past business combinations. However, X Ld. In its consolidated financial statement has decided to restate all its past business combinations.

Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated statement of X Ltd. considering that X Ltd. dopes not avail the business combination exemption?

Will the answer be different if X Ltd. adopts Ind AS after Y Ltd.

Solution

As per para C1 od Appendix C of ind AS 101, a first-time adopter may elect not to apply the ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS). However, it is a first time adopter restates any business combination to comply with the Ind AS 103, it shall restate all later business combination and shall also apply Ind AS 110 from that same date.

Based on the above, if X Ltd. restates past business combinations, it would have to be applied to all business combinations of the group including those by subsidiary Y Ltd. for the proposer of Consolidated Financial Statements.

Para D17 of the Appendix D of Ind as 101 states that if an entity becomes a first-time adopter later than its subsidiary at the same carrying amounts as in financial statement of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Thus, in case where the parent adopts Ind AS later than the subsidiary then it does not change the amounts already recognised by the subsidiary.

Q9 (October 19 – 15 Marks)

H Ltd. has the following assets and liabilities as at March 31, 20X1, prepared in accordance with previous GAAP:

Particulars	Notes	Amount (Rs.)
Property, Plant and Equipment	1	1,34,50,000
Investments in S. Ltd.	2	48,00,000
Debtors		2,00,000
Advances for purchase of inventory		50,00,000
Inventory		8,00,000
Cash		49,000
Total assets		**2,42,99,000**
Deferral loan	3	60,00,000
Creditors		30,00,000
Short term borrowing		8,00,000
Provisions		12,00,000
Total liabilities		1,10,00,000
Share capital		1,30,00,000
Reserves:		2,99,000

Cumulative translation difference	4	1,00,000
ESOP reserve	4	20,000
Retained earnings		1,79,000
Total equity		1,32,99,000
Total equity and liabilities		**2,42,99,000**

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 20X1:

1. In relation to property, plant and equipment, the following adjustments were identified:

- Property, plant and equipment comprise land held for capital appreciation purposes costing Rs. 4,50,000 and was classified as investment property as per Ind AS 40.
- Exchange differences of Rs. 1,00,000 were capitalised to depreciable property, plant and equipment on which accumulated depreciation of Rs. 40,000 was recognised.
- There were no asset retirement obligations.
- The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.

2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for Rs. 48,00,000 that carried a fair value of Rs. 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.

3. Financial instruments:

- Deferral loan Rs. 60,00,000:

The deferral loan of Rs. 60,00,000 was obtained on March 31, 20X1, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 20X1, is Rs. 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for deferral loan.

4. The retained earnings of the Company contained the following:

- ESOP reserve of Rs. 20,000:

The Company had granted 1,000 options to employees out of which 800 have already vested. The Company followed an intrinsic value method for recognition of ESOP charge and recognised Rs. 12,000 towards the vested options and Rs. 8,000 over a period of time as ESOP charge and a corresponding reserve. If the fair value method had been followed in accordance with Ind AS 102, the corresponding charge would have been Rs. 15,000 and Rs. 9,000 for the vested and unvested shares respectively. The Company intends to avail the Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.

- Cumulative translation difference

Rs.1,00,000 The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of Rs. 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.

SOLUTION

1. **Property, plant and equipment:** As the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately. As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values. As such, the past capitalised exchange differences require no adjustment in this case.
2. **Investment in subsidiary:** On first time adoption of Ind AS, a parent company has an option to carry its investment in the subsidiary at fair value as at the date of transition in its separate financial statements. As such, the company can recognise such investment at a value of Rs. 68,00,000.
3. **Financial instruments:** As the deferral loan is a financial liability under Ind AS 109, that liability should be recognised at its present value discounted at an appropriate discounting factor. Consequently, the deferral loan should be recognised at Rs. 37,25,528 and the remaining Rs. 22,74,472 would be recognised as deferred government grant.
4. **ESOPs:** Ind AS 101 provides an exemption of not restating the accounting as per the previous GAAP in accordance with Ind AS 102 for all options that have vested by the transition date. Accordingly, out of 1000 ESOPs granted, the first-time adoption exemption is available on 800 options that have already vested. As such, its accounting need not be restated. However, the 200 options that are not vested as at the transition date, need to be restated in accordance with Ind AS 102. As such, the additional impact of Rs. 1,000 (i.e., 9,000 less 8,000) would be recognised in the opening Ind AS balance sheet.
5. **Cumulative translation difference:** As per Ind AS 101, the first-time adopter can avail an exemption regarding requirements of Ind AS 21 in context of cumulative translation differences. If a first-time adopter uses this exemption the cumulative translation differences for all foreign operations are deemed to be zero as at the transition date. In that case, the balance is transferred to retained earnings. As such, the balance of Rs. 1,00,000 should be transferred to retained earnings.
6. **Retained earnings should be increased by Rs. 20,99,000 on account of the following:**

	Rs.
Increase in fair value of investment in subsidiary (note 2)	20,00,000
Additional ESOP charge on unvested options (note 4)	(1,000)
Transfer of cumulative translation difference balance to retained earnings (note 5)	1,00,000
Increase in Retained Earnings	20,99,000

After the above adjustments, the carrying values of assets and liabilities for the purpose of opening Ind AS balance sheet of Company H should be as under:

Particular	Notes	Previous	Adjustments	Ind AS GAAP
Non-Current Assets				
Property, plant and equipment	1	1,34,50,000	(4,50,000)	1,30,00,000
Investment property	1	0	4,50,000	4,50,000
Investment in S Ltd.	2	48,00,000	20,00,000	68,00,000

Advances for purchase of inventory		50,00,000		50,00,000
Current Assets				
Debtors		2,00,000		2,00,000
Inventory		8,00,000		8,00,000
Cash		49,000		49,000
Total assets		**2,42,99,000**	**20,00,000**	**2,62,99,000**
Non-current Liabilities				
Deferral loan	3	60,00,000	(22,74,472)	37,25,528
Deferred government Grant	3	0	22,74,472	22,74,472
Current Liabilities				
Creditors		30,00,000		30,00,000
Short term borrowing		8,00,000		8,00,000
Provisions		12,00,000		12,00,000
Total liabilities		1,10,00,000		1,10,00,000
Share capital		1,30,00,000		1,30,00,000
Reserves:				
Cumulative translation difference	5	1,00,000	(1,00,000)	0
ESOP reserve	4	20,000	1,000	21,000
Other reserves	6	1,79,000	20,99,000	22,78,000
Total equity		1,32,99,000	20,00,000	1,52,99,000
Total equity and liabilities		**2,42,99,000**	**20,00,000**	**2,62,99,000**

Q10 (October 20 – 20 Marks)

Shaurya Limited is the company having its registered and corporate office at New Delhi. 60% of the Shaurya Limited's shares are held by the Government of India and the rest by other investors.

This is the first time that Shaurya limited would be applying Ind AS for the preparation of its financials for the current financial year 2019-2020. Following balance sheet is prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31 March 2018

(All figures are in '000, unless otherwise specified)

Particulars	Amount
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred tax liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000

TOTAL ASSETS	**85,00,000**
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000
(b) Intangible assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-current Investments	5,00,000
(e) Long Term Loans and Advances	1,50,000
(f) Other Non-Current Assets	2,00,000
(2) Current Assets	
(a) Current Investments	18,00,000
(b) Inventories	12,50,000
(c) Trade Receivables	9,00,000
(d) Cash and Bank Balances	10,00,000
(e) Other Current Assets	4,00,000
TOTAL	**85,00,000**

Additional Information (All figures are in '000) :

1. Other current liabilities include Rs 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and Rs 60,000 are statutory government dues.
2. Long term loans and advances include Rs 40,000 loan and the remaining amount consists of Advance to staff of Rs 1,10,000.
3. Other non-current assets of Rs 2,00,000 consist of Capital advances to suppliers.
4. Other current assets include Rs 3,50,000 current assets receivable in cash and Prepaid expenses of Rs 50,000.
5. Short term provisions include Dividend payable of Rs 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2017 -2018 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief financial officer of Shaurya Limited has also presented the following information against corresponding relevant items in the balance sheet:

a) Property, Plant & Equipment consists of a class of assets as office buildings whose carrying amount is Rs 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be Rs 15,00,000. Company wants to follow a revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.

b) The fair value of Intangible assets as on the date of transition is estimated to be Rs 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account.

c) Shaurya Ltd. had acquired 80% shares in a company, Excel private limited few years ago thereby acquiring the control upon it at that time. Shaurya Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

d) Trade receivables include an amount of Rs 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates, the provision needs to be revised to Rs 25,000.

e) Company had given a loan of Rs1,00,000 to an entity for the term of 10 years six years ago. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7%. The principal amount is to be repaid in equal installments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs 50,000 as against the carrying amount of loan which at present amounts to Rs 40,000. However, Ind AS 109 mandates to charge the interest expense as per effective interest method after the adjustment of transaction costs. Management says it is a tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.

f) In the long-term borrowings, Rs 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4%, however the prevailing rate in the market at present is 8%. The fair market value of the loan stands at Rs 4,20,000 as on the relevant date.

g) Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is Rs 2,00,000 as included in 'current investment'. However, the fair value of mutual funds as on the date of transition is Rs 2,30,000.

h) Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be Rs 50,000 on account of Ind AS transition adjustments.

Requirements:

- Prepare transition date balance sheet of Shaurya Limited as per Indian Accounting Standards

Show necessary explanation for each of the items presented by the chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

SOLUTION

Transition date (opening) IND-AS BALANCE SHEET of SHAURYA LIMITED As at 1 April 2018 (All figures are in '000, unless otherwise specified)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1)	20,00,000	5,00,000	25,00,000
Goodwill (Note 2)	1,00,000	-	1,00,000
Other Intangible assets (Note 3)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investment (Note 5)	18,00,000	30,000	18,30,000
Trade receivables (Note 6)	9,00,000	-	9,00,000
Cash and cash equivalents/Bank	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000

Other current assets	50,000	-	50,000
TOTAL ASSETS	**85,00,000**	**5,40,000**	**90,40,000**
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	7,90,000	32,90,000
Non-current liabilities			
Financial liabilities			
Borrowings (Note-7)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note-8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	**85,00,000**	**5,40,000**	**90,40,000**

OTHER EQUITY

	Retained Earnings (Rs)	Fair value reserve	Total
As at 31 March, 2018	27,90,000 (W.N.1)	5,00,000	32,90,000

Working Note 1:

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	2,00,000
Total	**27,90,000**

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not be recognized as liability as at the Balance Sheet date.

Note 1: Property, plant & Equipment:

As per Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

It had to be applied for all items of property, plant and equipment. So, if the exemption is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date, it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of Rs. 10 lakhs.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS 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 AS, adjusted to reflect, for example, changes in a general or specific price index.*

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, companies can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Ind AS 101 states that 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 AS.

Accordingly, Rs 50, would be the carrying amount of loan and the difference of Rs 10,000 (Rs 50,000 – Rs 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss. 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.

The IND AS states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Note 6: Trade receivables:

Ind AS 101 states that an entity's estimates in accordance with Ind ASs at the date of transition to Ind AS 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.

Ind AS 101 further states that 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.*

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 2019.

Note 7: Government Grant:

Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised as measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Ind AS 101 states, 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, 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 AS 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 AS.

Note 8: Dividend

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

QUESTIONS FROM PAST EXAM PAPERS

Q11 (Nov. 18)

Growth Limited on 1st April, 2015 issued 50,000, 7% convertible debentures of face value of Rs100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 2017.

Suggest how Growth Limited should account for this compound financial instrument on the date of transition. Also discuss Ind AS on 'Financial Instrument' presentation in the above context.

The present value of Rs1 receivable at the end of each year based on discount rates of 7% and 10% can be taken as:

End of Year	1	2	3	4	5
7%	0.94	0.87	0.82	0.76	0.71
10%	0.91	0.83	0.75	0.68	0.62

Solution

Since the liability is outstanding on the date of Ind AS transition, Growth Ltd. is required to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, first the liability component will be measured discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option)

Calculation of Equity & Liability component on initial recognition

	(Rs)
Present Interest payments for 5 years on debentures by applying annuity factor [(50,000 x 7% x 100) x 3.79]	13,26,500
PV of principal repayment (including premium) (50,000x110x0.62)	34,10,000
Total liability component	47,36,500
Total equity component (Balancing figure)	2,63,500
Total proceeds from issue of Debentures	50,00,000

Thus, on the date of transition, the amount of Rs50,00,000 being the amount of debentures will split as under:

Debt	Rs 47,36,500
Equity	Rs 2,63,500

Q12 (July 21)

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-2015, the Company had received a loan of Rs. 2.0 crore at a below - market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was Rs. 2.0 crore at the date of transition. The amount repayable on 31st March 2024 will be Rs. 2.50 crore.

The Company has been advised to recognize the difference of Rs. 0.50 crores in equity by correspondingly increasing the value of various assets under property, plant & equipment by an equivalent amount on *proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, Rs. 2.50 crore should be presented as a deduction from property, plant & equipment.*

Discuss the above treatment and share your views as per applicable Ind AS.

Solution

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

Treatment to be done:

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 AS 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 AS.

In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet.

It calculates the annual effective interest rate (EIR) starting 1st April 2020 as below: EIR = Amount / Principal$^{(1/t)}$ i.e. 2.50/2$^{(1/4)}$ i.e. 5.74%. approx. At this rate, Rs. 2 crore will accrete to Rs. 2.50 crore as at 31st March 2024.

During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (Rs.)	Interest expense for the year (Rs.) @ 5.74% p.a. approx.	Closing amortised cost (Rs.)
31st March 2021	2,00,00,000	11,48,000	2,11,48,000
31st March 2022	2,11,48,000	12,13,895	2,23,61,895
31st March 2023	2,23,61,895	12,83,573	2,36,45,468
31st March 2024	2,36,45,468	13,54,532	2,50,00,000

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 AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101 .

Q13 (December 21 – 8 Marks)

Rainy Pvt Ltd is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The company has decided to present its first financials under Ind AS for the year ended 31st March 2021. The transition date is 1st April 2019.

The following adjustments were made upon transition to Ind AS:

i) The company opted to fair value its land as on the date of transition. The fair value of the land as of

1st April 2019 was Rs. 95 lakhs. The carrying amount as of 1st April 2019 under the existing GAAP was Rs. 42.75 lakhs.

ii) The company has recognized a provision for a proposed dividend of Rs. 5.7 lakhs and related dividend distribution tax of Rs. 1.65 Lakhs during the year ended 31st March 2019. It was written back as on the opening balance sheet date.

iii) The company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of Rs. 2 lakhs as part of reserves. On first time adoption of Ind AS, the company intends to avail Ind AS exemption of resetting the cumulative translation difference to zero.

iv) The company had made an investment in a subsidiary for Rs. 18.62 lakhs that carried a fair value of Rs. 25.75 lakhs as at the transition date. The company intends to recognize the investment at its fair value as at the date of transition.

v) The company has an Equity Share Capital of Rs. 760 lakhs and Redeemable Preference Share Capital of Rs. 180 lakhs. The company identified that the preference shares were in the nature of financial liabilities.

vi) The Reserves and Surplus as of 1st April 2019 before the transition to Ind AS was Rs. 910 lakhs representing Rs. 380 lakhs of general reserve and Rs. 40 lakhs of Capital Reserve acquired out of business combination and balance is surplus in the Retained Earnings.

What is the balance of total equity (Equity and other equity) as of 1st April 2019 after transitioning to Ind AS? Show reconciliation between Total Equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 2019.

Ignore deferred tax impact.

Solution

Computation of balance total equity as on 1st April, 2019 after transition to Ind AS

			Rs. in lakh
Share capital- Equity share Capital			760.00
Other Equity			
General Reserve		380.00	
Capital Reserve		40.00	
Retained Earnings (910.00 – 380.00 – 40.00)	490.00		
Add: Increase in value of land (95.00 – 42.75)	52.25		
Add: Derecognition of proposed dividend (5.70 + 1.65)	7.35		
Add: Transfer of cumulative translation difference balance to retained earnings	2.00		
Add: Increase in value of Investment (25.75 – 18.62)	7.13	558.73	978.73
Balance total equity as on 1st April, 2019 after transition to Ind AS			**1,738.73**

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 2019

		Rs. in lakh
Equity share capital		760.00
Redeemable Preference share capital		180.00
		940.00
Reserves and Surplus		910.00

Total Equity as per AS		***1,850.00***
Adjustment due to reclassification:		
Preference share capital classified as financial liability		*(180.00)*
Adjustment due to de-recognition:		
Proposed dividend not considered as liability as on 1st April, 2019		*7.35*
Adjustment due to re-measurement:		
Increase in the value of Land due to re-measurement at fair value	*52.25*	
Resetting of cumulative translation difference balance to zero in Ind AS Transition date Balance Sheet	*2.00*	
Increase in the value of investment due to re-measurement at fair value	*7.13*	*61.38*
Equity as on 1st April, 2019 after transition to Ind AS		***1,738.73***