Financial Instruments

&

First Time Adoption of Ind AS

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Has achieved Copyrights for various Books on

- Ind AS &
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Parag Kulkarni is the very first & youngest Indian to complete CA exams from India, USA, England & Wales. He is an associate member of Institute of Chartered Accountants in England & Wales (ICAEW) and Institute of Chartered Accountants of India (ICAI). He has also completed Diploma in IFR from the Association of Chartered Certified Accountants (ACCA), London and IFRS Certification from ICAI. He is a holder of Practicing Certificate from Institute of Chartered Accountants in England & Wales.

Parag is a registered **Chartered Valuer** and known for his valuations of Derivatives, other Financial Assets, Licenses and other Intangibles.

Parag has worked on certain large assignments in BFSI Sector on Convergence of financial statements prepared under Indian GAAPs to reporting under IFRS to comply overseas listing requirements as a part of business acquisition report consisting of 31 Indian and Foreign subsidiary/associate entities . He has successfully delivered a qualitative subsequent reviews of implementation process of New Indian Accounting Standards (Ind AS) at large listed entities in FMCG, and Power Sector. He has also worked intensively on implementation of Ind AS in Phase I & Phase II entities.

He has taught more than 2500 Indian Chartered Accountants for IFRS Certification and IFRS Intensive Course conducted by ICAI. He has also taught Professionals in India, Dubai, and Oman.
He has been a Speaker of 3 Live IFRS Webcasts by ICAI & has Co-ordinated 15 IFRS Webcasts for ICAI.

Parag is the Author of the Book on Internal Audit (Presently used by ICSI for Dip. in Internal Audit Course).

Previously, he has been a Co-opted member on Young Members' Empowerment Committee of ICAI.

In addition, he has contributed in the content for *Guidance Note on Audit of Banks* published by ICAI.

Ind AS 32: Financial Instruments: Presentation

1. **Objective:** is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

2. **Scope:**

This Standard shall be applied by all entities to all types of financial instruments except:

a. Those interests in subsidiaries, associates or JV.
b. Employers' rights and obligations under employee benefit plans.
c. Insurance contracts.
d. Financial instruments within the scope of Ind AS 104.
e. Financial instruments, contracts and obligations under share-based payment transactions, except for:

Contracts within the scope of para 8–10 of this Standard, to which this Standard applies,

i. Para 33 and 34 of this Standard.

3. **Key Terms:**

i. Financial instrument	ii. Financial liability
iii. Financial asset	iv. Fair value
v. Equity instrument	vi. Puttable instrument

4. **Key Definitions:**

Financial Instrument: Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

Equity Instrument: Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

5. **Classification as liability or equity:**

A financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form, and the definitions of financial liability and equity instrument.

The classification is not subsequently changed based on changed circumstances.

A financial instrument is an equity instrument only if

a. the instrument includes no contractual obligation to deliver cash or another financial asset to another entity and
b. if the instrument will or may be settled in the issuer's own equity instruments, it is either:
   i. A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
   ii. A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

6. **Illustration:**

If an entity issues preference (preferred) shares that pay a fixed rate of dividend and that have a mandatory redemption feature at a future date, the substance is that they are a contractual obligation to deliver cash and, therefore, should be recognised as a liability.

In contrast, preference shares that do not have a fixed maturity, and where the issuer does not have a contractual obligation to make any payment are equity.

In this example even though both instruments are legally termed preference shares they have different contractual terms and one is a financial liability while the other is equity.

7. **Contingent settlement provisions**

A financial instrument may require entity to deliver cash/ another financial asset/ settle such that it is financial liability upon Contingent event.

8. **Compound financial instruments:**

- The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component.

- Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with para 15.

9. Treasury shares:

- If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity.
- No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.
- Such treasury shares may be acquired and held by the entity or by other members of the consolidated group.
- Consideration paid or received shall be recognised directly in equity.

10. Offsetting:

A financial asset and a financial liability shall be offset and the net amount presented in the BS when, and only when, an entity:

a. Currently has a legally enforceable right to set off the recognised amounts; and
b. Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity **shall not offset** the transferred asset and the associated liability (Ind AS 109).

Ind AS 107: Financial Instruments: Disclosures

1. **Objective:** is to require entities to provide disclosures in their FS that enable users to evaluate:
   a. The significance of financial instruments for the entity's financial position and performance; and
   b. The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks

2. **Scope:**
   a. Exceptions to the scope:

This Ind AS shall be applied by all entities to all types of financial instruments, **except**:

a. Those interests in subsidiaries, associates or JV
b. Employers' rights and obligations arising from employee benefit plans.
c. Insurance contracts.
d. Financial instruments, contracts and obligations under share-based payment transactions.
e. Instruments that are required to be classified as equity instruments.

   b. Application:

- Applies to Recognised and Unrecognised financial instruments
- Recognised = Financial instruments that are within the scope of Ind AS 109
- Unrecognised = Financial instruments outside the scope of Ind AS 109, but within the scope of this Ind AS.

3. **Disclosure requirements of IFRS 7:**

Certain other disclosures are required by class of financial instrument. For those disclosures an entity must group its financial instruments into classes of similar instruments as appropriate to the nature of the information presented.

   a. Information about the significance of financial instruments:
      i. Balance sheet:

- Disclose the significance of financial instruments for an entity's financial position and performance. This includes disclosures for each of the following categories:
- financial assets & liabilities measured at FVTPL, showing separately those held for trading and those designated at initial recognition.
- financial assets & liabilities measured at amortised cost.

      ii. Statement of profit or loss:

- Items of income, expense, gains, and losses, with separate disclosure of gains and losses from:
  - financial assets & liabilities measured at FVTPL, showing separately those held for trading and those designated at initial recognition.
  - financial assets & liabilities measured at amortised cost.
- <u>Other key disclosures:</u>

The fair value hierarchy based on the lowest level of input significant to the overall fair value:

  - Level 1 – quoted prices for similar instruments
  - Level 2 – directly observable market inputs other than Level 1 inputs
  - Level 3 – inputs not based on observable market data

   b. Nature and extent of exposure to risks arising from financial instruments:

Disclose information that enables users of FS to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

      i. Qualitative disclosures

- The qualitative disclosures describe:
  - risk exposures for each type of financial instrument
  - management's objectives, policies, and processes for managing those risks
  - changes from the prior period

ii. Quantitative disclosures

- The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's KMP. These disclosures include:
  - summary quantitative data about exposure to each risk at the reporting date
  - disclosures about credit risk, liquidity risk, and market risk and how these risks are managed as further described below
  - concentrations of risk

- **Credit risk:**
- Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.
- Disclosures about credit risk include:
  - maximum amount of exposure (before deducting the value of collateral), description of collateral.
  - information about collateral or other credit enhancements obtained or called.

- **Liquidity risk:**
- Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.
- Disclosures about liquidity risk include:
  - a maturity analysis of financial liabilities
  - description of approach to risk management

- **Market risk:**
- Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.
- Disclosures about market risk include:
  - A sensitivity analysis of each type of market risk to which the entity is exposed
  - If an entity prepares a sensitivity analysis such as value-at-risk that reflects interdependencies of market risk, it may disclose that analysis instead of a separate sensitivity analysis for each type of market risk
  - Additional information if the sensitivity analysis is not representative of the entity's risk exposure.

c. Transfers of financial assets:

Disclose information that enables users of its FS:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

Ind AS 109: Financial Instruments

1. **Objective:** is to establish principles for the financial reporting of *financial assets* and *financial liabilities* that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

2. **Scope:**
This Standard shall be applied by all entities to all types of financial instruments except:

a. Those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with Ind AS110 Consolidated Financial Statements, Ind AS 27 Separate Financial Statements or Ind AS 28 Investments in Associates and Joint Ventures. However, in some cases, Ind AS110, Ind AS 27 or Ind AS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in Ind AS 32 Financial Instruments: Presentation.

b. rights and obligations under leases to which Ind AS 17 Leases applies. However:
   i. lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;
   ii. finance lease payables recognised by a lessee are subject to the derecognition requirements of this Standard; and
   iii. derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.

c. employers' rights and obligations under employee benefit plans, to which Ind AS 19 Employee Benefits applies.

d. financial instruments issued by the entity that meet the definition of an equity instrument in Ind AS 32 (including options and warrants) or that are required to be classified as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of Ind AS 32. However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a).

e. rights and obligations arising under (i) an insurance contract as defined in Ind AS 104 Insurance Contracts, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, or (ii) a contract that is within the scope of Ind AS104 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of Ind AS104 if the derivative is not itself a contract within the scope of Ind AS104. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or Ind AS104 to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

f. any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of Ind AS103 Business Combinations at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

g. loan commitments other than those loan commitments described in paragraph 2.3. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.
h. financial instruments, contracts and obligations under share-based payment transactions to which Ind AS102 Share-based Payment applies, except for contracts within the scope of paragraphs 2.4–2.7 of this Standard to which this Standard applies.
i. rights to payments to reimburse the entity for expenditure that it is required to make to settle a liability that it recognises as a provision in accordance with Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, or for which, in an earlier period, it recognised a provision in accordance with Ind AS 37.
j. rights and obligations within the scope of Ind AS115 Revenue from Contracts with Customers that are financial instruments, except for those that Ind AS115 specifies are accounted for in accordance with this Standard.

3. Recognition and derecognition:

i. Initial Recognition:

An entity shall recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs B3.1.1 and B3.1.2). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1.1–4.1.5 and measure it in accordance with paragraphs 5.1.1–5.1.3. When an entity first recognises a financial liability, it shall classify it in accordance with paragraphs 4.2.1 and 4.2.2 and measure it in accordance with paragraph 5.1.1.

ii. Derecognition of financial assets:

- Before evaluating whether, and to what extent, derecognition is appropriate under paragraphs 3.2.3–3.2.9, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows.

a. Paragraphs 3.2.3–3.2.9 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.
   i. The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs 3.2.3–3.2.9 are applied to the interest cash flows.
   ii. The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of all cash flows of a debt instrument, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows provided that the transferring entity has a fully proportionate share.
   iii. The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from

a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of interest cash flows from a financial asset, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows provided that the transferring entity has a fully proportionate share.

b. In all other cases, paragraphs 3.2.3–3.2.9 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90 per cent of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90 per cent of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8 per cent of the principal amount of the receivables, paragraphs 3.2.3–3.2.9 are applied to the financial asset (or a group of similar financial assets) in its entirety.

In paragraphs 3.2.3–3.2.12, the term 'financial asset' refers to either a part of a financial asset (or a part of a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.

- An entity shall derecognise a financial asset when, and only when:
    a. the contractual rights to the cash flows from the financial asset expire, or
    b. it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.
- An entity transfers a financial asset if, and only if, it either:
    a. transfers the contractual rights to receive the cash flows of the financial asset, or
    b. retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 3.2.5.

4. Transfers that quality for derecognition:

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 3.2.13.
- If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.
- On derecognition of a financial asset in its entirety, the difference between:
    a. the carrying amount (measured at the date of derecognition) and
    b. the consideration received (including any new asset obtained less any new liability assumed)

shall be recognised in profit or loss.

5. **Transfers that do not qualify for derecognition:**

- If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

6. **Continuing involvement in transferred assets:**

- If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.
- When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:
  a. the amortised cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost, or
  b. equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.
- The entity shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.
- For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 5.7.1, and shall not be offset.

7. **All Transfers:**

- If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any income arising from the transferred asset with any expense incurred on the associated liability (see paragraph 42 of Ind AS 32)

8. **Derecognition of financial liabilities:**

- An entity shall remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.
- The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

9. Classification:

- Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, FVTOCI or FVTPL on the basis of both:
  a. the entity's business model for managing the financial assets and
  b. the contractual cash flow characteristics of the financial asset.
- A financial asset shall be measured at amortised cost if both of the following conditions are met:
  a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
  b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.

- A financial asset shall be measured at FVTOCI if both of the following conditions are met:
  a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
  b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.

- A financial asset shall be measured at FVTPL unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at FVTOCI in accordance with paragraph 4.1.2A. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).x

10. Classification of financial liabilities:

- An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:
  a. financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
  b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 3.2.15 and 3.2.17 apply to the measurement of such financial liabilities.
  c. financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:
     i. the amount of the loss allowance determined in accordance with Section 5.5 and
     ii. the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS115.
  d. commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:
     i. the amount of the loss allowance determined in accordance with Section 5.5 and
     ii. the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS115.

e. contingent consideration recognised by an acquirer in a business combination to which Ind AS103 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

11. Option to designate a financial liability at fair value through profit or loss:

- An entity may, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:
  a. it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32); or
  b. a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in Ind AS 24 Related Party Disclosures), for example, the entity's board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36).

12. Other Hybrid Contracts:

- If a hybrid contract contains a host that is not an asset within the scope of this Standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this Standard if, and only if:
  a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host (see paragraphs B4.3.5 and B4.3.8);
  b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
  c. the hybrid contract is not measured at fair value with changes in FVTPL (i.e. a derivative that is embedded in a financial liability at FVTPL is not separated).

13. Reclassification:

- When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with paragraphs 4.1.1–4.1.4. See paragraphs 5.6.1–5.6.7, B4.4.1–B4.4.3 and B5.6.1–B5.6.2 for additional guidance on reclassifying financial assets.
- An entity shall not reclassify any financial liability.

14. Initial Measurement:

Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

15. Effective interest method:

Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a. purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

b. financial assets that are not purchased or originated credit impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

16. Write-off:

An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event (see paragraph B3.2.16(r)).

17. Reclassification of financial assets:

If an entity reclassifies financial assets in accordance with paragraph 4.4.1, it shall apply the reclassification **prospectively** from the reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Paragraphs 5.6.2–5.6.7 set out the requirements for reclassifications.

18. Gains and Losses:

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

a. it is part of a hedging relationship (see paragraphs 6.5.8– 6.5.14);
b. it is an investment in an equity instrument and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 5.7.5;
c. it is a financial liability designated as at FVTPL and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income in accordance with paragraph 5.7.7; or
d. it is a financial asset measured at FVTOCI in accordance with paragraph 4.1.2A and the entity is required to recognise some changes in fair value in other comprehensive income in accordance with paragraph 5.7.10.

19. Hedging Instruments:

i. Qualifying Instruments:

- A derivative measured at FVTPL may be designated as a hedging instrument, except for some written options (see paragraph B6.2.4).
- For hedge accounting purposes, only contracts with a party external to the reporting entity (i.e. external to the group or individual entity that is being reported on) can be designated as hedging instruments.

20. Hedging Items:

i. Qualifying Items:

- A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:
  a. A single item; or
  b. A group of items (subject to para 6.6.1-6.6.6 and B6.6.1–B6.6.16).

A hedged item can also be a component of such an item or group of items (see paragraphs 6.3.7 and B6.3.7–B6.3.25).

- The hedged item must be reliably measurable.
- If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.

Ind AS 101: First-time Adoption of Indian Accounting Standards

1. **Objective:**
is to ensure that an entity's first Ind AS FS, and its interim financial reports for part of the period covered by those FS, contain high quality information that:
a. is transparent for users and comparable over all periods presented;
b. provides a suitable starting point for accounting in accordance with Ind ASs; and
c. can be generated at a cost that does not exceed the benefits.

2. **Scope:**
An entity shall apply this Ind AS in:
a. its first Ind AS FS; and
b. each interim financial report, if any, that it presents in accordance with Ind AS 34, for part of the period covered by its first Ind AS FS.

3. **Key terms:**

i. First Ind AS FS	ii. Ind AS
iii. First Ind AS reporting period	iv. Opening Ind AS Balance Sheet

4. **Key definitions:**

Ind AS: Ind AS are Accounting Standards prescribed under Section 133 of the Companies Act, 2013.

First Ind AS FS: The first annual FS in which an entity adopts Ind AS, by an explicit and unreserved statement of compliance with Ind AS.

5. **Accounting policies:**
An entity should use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS FS. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period with some exceptions.

6. **Estimates:**
An entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs 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.

7. **Presentation and disclosure**
   a. **Comparative information**
   b. **Non-Ind AS comparative information and historical summaries**
   c. **Explanation of transition to Ind ASs:**

Entity should explain how the transition from previous GAAP to Ind AS affected its reported BS, financial performance and cash flows.

   d. **Reconciliation**
   e. **Designation of financial assets and liabilities**
   f. **Use of FV as deemed cost**
   g. **Use of deemed cost for oil and gas assets**
   h. **Use of deemed cost for operations subject to rate regulations**
   i. **Use of deemed cost after severe hyperinflation**
   j. **Interim financial reports**

Derecognition of some previous GAAP assets and liabilities

The entity should eliminate previous-GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under Ind ASs. For example:

- Ind AS 38 does not permit recognition of expenditure on any of the following as an intangible asset:
  - Research

  - Start-up, pre-operating, and pre-opening costs
  - Training
  - Advertising and promotion
  - moving and relocation

If the entity's previous GAAP had recognised these as assets, they are eliminated in the opening Ind AS balance sheet

Recognition of some assets and liabilities not recognised under previous GAAP

Conversely, the entity should recognise all assets and liabilities that are required to be recognised by Ind AS even if they were never recognised under previous GAAP. For example:

- Ind AS 39 requires recognition of all derivative financial assets and liabilities, including embedded derivatives. These were not recognised under many local GAAPs.
- Ind AS 19 requires an employer to recognise a liability when an employee has provided service in exchange for benefits to be paid in the future. These are not just post-employment benefits (e.g., pension plans) but also obligations for medical and life insurance, vacations, termination benefits, and deferred compensation. In the case of 'over-funded' defined benefit plans, this would be a plan asset.
- Ind AS 37 requires recognition of provisions as liabilities. Examples could include an entity's obligations for restructurings, onerous contracts, decommissioning, remediation, site restoration, warranties, guarantees, and litigation.
- Deferred tax assets and liabilities would be recognised in conformity with Ind AS 12.