ICAI: FAQ on treatment of Securities Premium Account under Ind AS on the date of transition

Issue 7[1] **Company ABC Ltd. had issued non-convertible debentures redeemable at premium, which were outstanding as on March 31, 2015. The Company has measured this financial liability at amortised cost in accordance with Ind AS 109, *Financial Instruments.* In the past, the Company had utilised the Securities Premium Account for providing for the debenture redemption premium payable and writing off debenture issue expenses in view of the requirements of section 78 of the Companies Act, 1956 and section 52 of the Companies Act 2013 (such utilisation is not allowed once Ind AS becomes applicable).**

As the amount of Securities Premium Account had been utilised to provide for debenture redemption premium payable and to write off debenture issue expenses, what retrospective accounting adjustments in this regard are required to be done in the books under Ind AS on transition date.

Response: Non-convertible debentures (financial liability) in the given case are classified as subsequently measured at amortised cost under Ind AS 109. Accordingly, Company ABC Ltd. will have to arrive at the amortised cost at the date of transition by applying the effective interest method (EIM) with retrospective effect from the date of issue of debentures. In view of requirements of Ind AS 109, amortised cost computation using EIM includes all transaction costs that are directly attributable to the acquisition or issue of debentures, such as, expenses incurred on issue of debentures and premiums and discounts, if any.

In the above background, the Securities Premium Account utilised in past as described above, may result into higher carrying amount of non-convertible debentures as per Indian GAAP compared to amortised cost carrying amount required as per Ind AS 109 as on transition date and the excess amount needs to be reversed into an appropriate component of equity.

In this regard, the following requirement of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, may be noted:

> *"11. The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs."*

In view of the above-mentioned requirement of Ind AS 101, it may be mentioned that the excess of carrying value of financial liability as per Indian GAAP provided through Securities Premium over the amortised cost amount arrived at by using EIM as per Ind AS 109 as on

[1] This FAQ replaces the earlier Issue no. 7 of the Ind AS Transition Facilitation Group (ITFG) Clarification Bulletin 2 issued by the Accounting Standards Board.

transition date should be reversed by crediting other equity under capital reserve with corresponding debit to the relevant account which was credited earlier.