# IFRS 1

## First Time Adoption of IFRSs

### INTRODUCTION

#### Background

The adoption of a new body of accounting standards will inevitably have a significant effect on the accounting treatments used by an entity and on the related systems and procedures. In 2005 many countries adopted IFRS for the first time and over the next few years other countries are likely to do the same. In addition, many Alternative Investment Market (AIM) companies and public sector companies adopted IFRS for the first time for accounting periods ending in 2009 and 2010, and US companies are likely to move increasingly to IFRS.

#### Objective of IFRS 1

IFRS 1 First-time Adoption of International Financial Reporting Standards was issued to ensure that an entity's first IFRS financial statements contain high quality information that:

(a) is transparent for users and comparable over all periods presented;

(b) provides a suitable starting point for accounting under IFRSs; and

(c) can be generated at a cost that does not exceed the benefits to users.

#### First IFRS financial statements

An entity applies IFRS 1 in its first IFRS financial statements. An entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRS by an explicit and unreserved statement of compliance with IFRS.

Any other financial statements (including fully compliant financial statements that did not state so) are not the first set of financial statements under IFRS.

### OPENING IFRS SFP

#### Transition date

An entity prepares and presents an opening IFRS statement of financial position at the date of transition to IFRS as a starting point for IFRS accounting. Generally, this will be the beginning of the earliest comparative period shown (i.e. full retrospective application). Given that the entity is applying a change in accounting policy on adoption of IFRS, IAS 1 Presentation of Financial Statements requires the presentation of at least three statements of financial position (and two of each of the other statements).

#### Procedure

Preparation of an opening IFRS statement of financial position typically involves adjusting the amounts reported at the same date under previous GAAP.

#### Recognition of adjustments

All adjustments are recognised directly in retained earnings (or, if appropriate, another category of equity) not in profit or loss.

#### Estimates

Estimates in the opening IFRS statement of financial position must be consistent with estimates made at the same date under previous GAAP even if further information is now available (in order to comply with IAS 10).
TRANSITION PROCESS

**Accounting policies**
The entity should select accounting policies that comply with IFRSs effective at the end of the first IFRS reporting period. These accounting policies are used in the opening IFRS SFP and throughout all periods presented. The entity does not apply different versions of IFRS effective at earlier dates.

**Derecognition of assets and liabilities**
Previous GAAP statement of financial position may contain items that do not qualify for recognition under IFRSs e.g. IFRSs does not permit capitalisation of research, staff training and relocation costs.

**Recognition of new assets and liabilities**
New assets and liabilities may need to be recognised e.g. deferred tax balances and certain provisions such as environmental and decommissioning costs.

**Reclassification of assets and liabilities**
For example, compound financial instruments need to be split into their liability and equity components.

**Measurement**
Value at which asset or liability is measured may differ under IFRSs e.g. discounting of deferred tax assets/liabilities not allowed under IFRS.

MAIN EXEMPTIONS FOR OPENING IFRS SFP

<table>
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<tr>
<th>PPE, intangible assets &amp; investment properties</th>
<th>Fair value/previous GAAP revaluation may be used as a substitute for cost at date of transition to IFRSs.</th>
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</table>
| Business combinations | For business combinations prior to the date of transition to IFRSs:  
  ▪ The same classification (acquisition or uniting of interests) is retained as under previous GAAP.  
  ▪ For items requiring a cost measure for IFRSs, the carrying value at the date of the business combination is treated as deemed cost and IFRS rules are applied from thereon.  
  ▪ Items requiring a fair value measure for IFRSs are revalued at the date of transition to IFRSs.  
  ▪ The carrying value of goodwill at the date of transition to IFRSs is the amount as reported under previous GAAP. |
| Employee benefits | Unrecognised actuarial gains and losses can be deemed zero at the date of transition to IFRSs. IAS 19 is applied from then on. |
| Cumulative translation differences on foreign operations | Translation differences (which must be disclosed in a separate translation reserve under IFRS) may be deemed zero at the date of transition to IFRS. IAS 21 is applied from then on. |
| Adoption of IFRS by subsidiaries, associates and joint ventures | The transition date of parent may be used as transition date of the subsidiary, associate and joint ventures. |
### EXTRA DISCLOSURES

| **EQUITY** | A reconciliation of previous GAAP equity (net assets) to IFRSs is required at the date of transition to IFRSs and for the most recent financial statements presented under previous GAAP. |
| **PROFIT** | A reconciliation of profit for the most recent financial statements presented under previous GAAP. |

### ORGANISATIONAL AND PROCEDURAL CHANGES

The technical changes involved in adopting a new body of standards will provide a challenge to company management and their advisers. These are some of the key issues:

| **Accurate assessment of the task involved.** | Underestimation or wishful thinking may hamper the effectiveness of the conversion and may ultimately prove inefficient. |
| **Proper planning.** | This should take place at the overall project level, but a detailed task analysis could be drawn up to control work performed. |
| **Human resource management** | The project must be properly structured and staffed. |
| **Training** | Where there are skills gaps, remedial training should be provided. |
| **Monitoring and accountability** | A relaxed "it will be all right on the night" attitude could spell danger. Implementation progress should be monitored and regular meetings set up so that participants can personally account for what they are doing as well as flag up any problems as early as possible. Project drift should be avoided. |
| **Achieving milestones** | Successful completion of key steps and tasks should be appropriately acknowledged, i.e. what managers call 'celebrating success', so as to sustain motivation and performance. |
| **Physical resources** | The need for IT equipment and office space should be properly assessed. |
| **Process review** | Care should be taken not to perceive the conversion as a one-off quick fix. Any change in future systems and processes should be assessed and properly implemented. |
| **Follow-up procedures** | Good management practice dictates that follow-up procedures should be planned and in place to ensure that the transfer is effectively implemented and that any necessary changes are identified and implemented on a timely basis. |
| **Contractual terms** | These may be affected, such as covenants related to borrowing facilities based on statement of financial position ratios. The potential effect of the new Standards on these measurements should be assessed and discussed with the lenders at an early stage. |

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