IFRS 1 – First-time Adoption of International Financial Reporting Standards & Ind AS 101

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Session Objective and Key Take–aways

Session Objective:

The objective of this session is to explain the IFRS literature relating to First-time Adoption of IFRS

The session shall focus on

- Key requirements of IFRS 1
- More Common implementation issues
- Significant areas requiring more attention during audits
- Identification of Transitional adjustments between Indian GAAP and IFRS
- Inter-relationships with other standards
- Select illustrations.
- Differences Between Ind-AS 101 and IFRS 1

Key Take-aways:

At the end of the session participants are likely to understand the key IFRS requirements, discern the more common transitional adjustments and identify the more common disclosures that needs to be made in the IFRS financial statements.

First-time Adoption of IFRS - Application

Application

- to the first IFRS financial statements ; and
- each interim financial report under IFRS in the first period

The first IFRS financial statements are:

The term 'first IFRS financial statements' is defined in IFRS 1 as an entity's "first annual financial statements in which an entity adopts IFRSs, by an explicit and unreserved statement of compliance with IFRSs"

Financial statements are <u>not</u> IFRS financial statements when

- there is no explicit statement of compliance with IFRSs
- they do not comply with all aspects of IFRSs
- IFRSs are used to fill gaps in local guidance

Typical situation – When IFRS 1 is applicable

When an entity in past;

- Included a reconciliation of some items from a previous GAAP to IFRS.
- Complied with some, but not all, IFRSs, in addition to a previous GAAP.
- Complied with IFRS in all respects, in addition to a previous GAAP, but did not include an explicit and unreserved statement of compliance with IFRS.
- Was prepared in accordance with IFRS, but used them only for internal purposes (i.e., the IFRS financial statements were not distributed to the company's owners or external users).
- Was prepared as a group reporting package using IFRS principles.
- Did not prepare financial statements.

In all above situations, IFRS 1 is applicable

First-time Adoption of IFRS - Requirements

IFRS 1 requires

- Identify the first IFRS financial statements.
- Prepare an opening balance sheet at the date of transition to IFRS.
- Select accounting policies that comply with IFRS, (latest version of IFRS applicable on the reporting date) and apply those policies retrospectively
- Consider whether to apply any of the optional exemptions from retrospective application.
- Apply the mandatory exceptions from retrospective application.
- Make extensive disclosures to explain the transition to IFRS.

Optional Exemptions

IFRS 1 - Optional Exemptions summary

Significant	Some	Minor
• Business Combination • PPE, Investment Properties, Intangibles *(Ind-AS – One additional option)* • Cumulative translation differences	• Borrowing Cost • Transition date for Subsidiaries, Associates and JV's • Compound Instruments • Investments in subsidiaries, associates and JCE's • Share based payments	• Decommissioning liabilities • Leases • FV measurement of Financial instruments on initial recognition • Service Concession Arrangements • Designation of financial assets and liabilities • Insurance contracts • Transfer of assets from Customers • Extinguishing financial liabilities with equity instrument • Severe hyperinflation • Striping costs

* Application of exemption may vary from Company to Company

Optional Exemptions

Exemption	Impact
Business combinations	For all transactions qualifying as business combinations under IFRS 3R, a company can choose to: • Not restate business combinations before the date of transition. • Restate all business combinations before the date of transition. • Restate a particular business combination, in which case all subsequent business combinations must also be restated and the IAS 36 impairment guidance must be applied.
Cumulative translation differences	The cumulative translation reserve may be reset to zero.

Optional Exemptions

Exemption	Impact
Fair value as deemed Cost	For property, plant and equipment, a company can choose to measure the value using: • Cost in accordance with IFRS. • Fair value at the date of transition as deemed cost. • A revaluation carried out at a previous date (like a IPO) less accumulated depreciation till the date of transition as deemed cost. *(Ind-AS allows carry forwards of Book value under Indian GAAP)* Fair value as deemed cost can be done for an individual assets and not necessary for class for asset This exemption can also be applied to intangible assets that meet the criteria for revaluation in IAS 38 and to investment properties where the cost method in IAS 40 is applied. The exemption may not be used for any other assets or for liabilities.

Refer to ISA 540 – Auditing estimates Including Fair Value Accounting Estimates and Disclosures

Optional Exemptions

Exemption	Impact
Assets and liabilities of subsidiaries, associates and joint Ventures	A subsidiary that adopts IFRS later than its parent can elect to apply IFRS 1 or to use the carrying amounts of its assets and liabilities included in the consolidated financial statements, subject to elimination of consolidation adjustments. If a parent adopts IFRS later than its subsidiary, the parent, in its consolidated financial statements, must measure the assets and liabilities of the subsidiary at the same carrying amounts as in the IFRS financial statements of the subsidiary, adjusting for normal consolidation entries.

ISA 600 Special Consideration
ISA 620 Using the work of an Auditors Expert

Optional Exemptions

Exemption	Impact
Investments in subsidiaries, jointly controlled entities and Associates	In their separate financial statements, first-time adopters can measure their investment in subsidiaries, jointly controlled entities and associates at either: • Cost, determined in accordance with IAS 27R; • Deemed cost, defined as fair value (determined in accordance with IAS 39) at the company's IFRS transition date, or • Deemed cost, defined as previous GAAP carrying amount at the IFRS transition date.

Quick quiz - First Time adoption (1/3)

	Quick Quiz	
1	"Reporting date" is the ending of the latest period for which a First Time Adopter presents full comparative information under IFRS.	✓
2	Comparative information need not be presented in the first IFRS financial statements. *(In Ind-AS 101 – it is optional)*	✗
3	The "business combinations" exemption can be applied selectively to individual business combinations prior to the reporting date.	✗
4	A First Time Adopter must recognise all cumulative actuarial gains and losses in equity in the opening IFRS balance sheet for defined benefit plans.	✗
5	Fair value cannot be used as deemed cost for intangibles.	✗

Quick quiz - First Time adoption (2/3)

	Quick Quiz	
6	A group which does not apply the CTA differences exemption must reconstruct all historical IFRS balance sheets and statements of comprehensive income of its consolidated foreign subsidiaries, joint ventures and associates.	✓
7	In its separate financial statements, a First Time Adopter must reconstruct the cost of an investment in a subsidiary in accordance with IAS 27 R.	✗
8	If a group adopts IFRS later than its subsidiaries, the group cannot apply the IFRS 1 exemption to the subsidiary balances in the group's first IFRS financial statements.	✓
9	For First Time Adopters, Goodwill must be tested for impairment at the transition date as well as at reporting date.	✓
10	A First Time Adopter must apply the guidance in IAS 27 R for changes in ownership that occurred after the date of transition	✓

Quick quiz - First Time adoption (3/3)

	Quick Quiz	
11	Entity D is planning an IPO and is required to include financial statements covering the three years ended 31 December 2010, prepared in accordance with IFRS, in the offering circular. They will apply IFRS for the first time in the financial statements included in the offering document. In this case which is the transition date (being beginning of earliest period presented)?	1st January, 2008
12	Entity B prepares its first IFRS financial statements for the year ending 31 December 2010. There are significant differences between entity B's previous GAAP and IFRS. Entity B's management, therefore, plans to prepare its opening IFRS balance sheet at 1 January 2010, so it has a starting point for its accounting under IFRS. The first IFRS financial statements will include one year comparative information for the balance sheet, but there will be no comparative information for the income statement and cash flow statement. Are these financials are in compliance with IFRS 1?	No

Quick quiz - Business combination

	Quick Quiz	
1	If goodwill was recognised in equity in previous GAAP, it should not be reclassified out of equity upon adopting IFRS.	✓
2	If goodwill was amortised in previous GAAP, the amortisation would be reversed and goodwill restated and then tested for impairment.	✗
3	IPR&D should be separately recognised from goodwill – even if it was not for previous GAAP.	✗
4	If an assembled workforce was recognised in prior GAAP, it should continue to be recognised upon adopting IFRS.	✗

Mandatory Exceptions

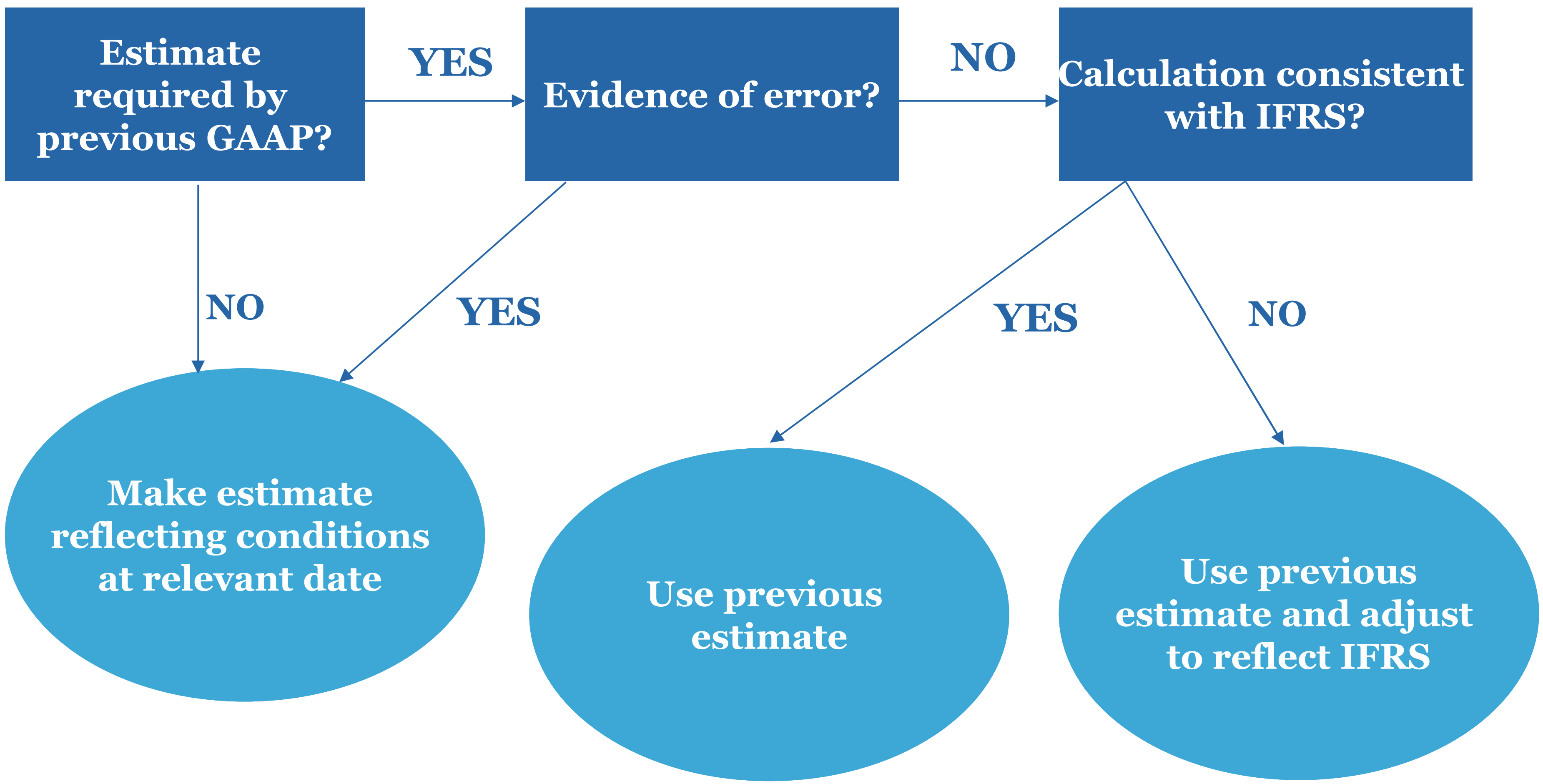
Overview of IFRS 1 exceptions

Apply Standards in force at reporting date however five mandatory exceptions

Significant	Some	Minor
• Estimates	• Hedge Accounting • Non controlling interest *(applicable on or after 1st July 2009, can be early adopted)*	• De-recognition of Financial Asset/ Liability

* Application of exception may vary from Company to Company

First-time Adoption of IFRS - Estimates



Quick quiz - Estimates

	Quick Quiz	
1	A Ltd makes provision for warranty @ 5% of total revenue based on historical trend for the year 2010-11. In 2011-12, the company came to know that products manufactured by it from a new factory in 2010-11 had a design defect and due to that the warranty costs will rise substantially for sales of the products manufactured in the new factory. Whether the company can revise its estimates of warranty cost while preparing its first IFRS financials?	✗
2	B Ltd creates provision for Leave Encashment on the basis of basic salary + special allowance of all the employees. During the preparation of its first IFRS financial statements, it discovered that in the estimates done for the year 2010-11 the company had mistakenly considered only basic salary for estimating the amount of Leave Encashment provision. Whether B Ltd can revise its estimates for Leave Encashment for 2010-11?	✓
3	In the financials for the year 2010-11, C Ltd had disclosed 5 lacs as contingent liability for one of the claims made against it by a customer as C Ltd ascertained that it was not very probable that it will be asked to make that payment. During 2011-12, the customer filed a case against C Ltd for 5 lacs and C Ltd ascertains that settlement will be done for 3 lacs. Can C Ltd make a provision for 3 lacs for the year 2010-11?	✗

Reconciliations/ Disclosures

- Reconciliation statements
  - Equity from previous GAAP to IFRS
    - at the date of transition to IFRSs and
    - the end of the latest period presented in the company's most recent annual financial statements under previous GAAP.
  - Reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements under previous GAAP.
- There are detailed disclosure requirements under IFRS 1 when impairment losses, under IAS 36, are recognized in the opening IFRS balance sheet.

(Ind –AS exemption for disclosure of comparative)

The reconciliations should give sufficient details to enable users to understand the material adjustments to the balance sheet and income statement and to distinguish changes in accounting policies from the correction of errors identified during transition. A sample reconciliation footnote is included at the end of this guide.

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