IFRS 1. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

I. In general, the **IFRS** requires an entity to comply with each **IFRS** effective at the end of its first **IFRS** reporting period. In particular, the **IFRS** requires an entity to do the following in the opening **IFRS** statement of financial position that it prepare as a starting point for its accounting under **IFRS**s:

a) recognise all assets and liabilities whose recognition is required by **IFRS**s;
b) not recognise items as assets or liabilities if **IFRS**s do not permit such recognition.
c) Reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under **IFRS**s; and
d) Apply **IFRS**s in measuring all recognised assets and liabilities.

II.

a) The **IFRS** grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.
b) The IFRS also prohibits retrospective application of IFRSs in some areas; particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

III. The **IFRS** requires disclosures that explain how the transition from previous GAAP to **IFRS**s affected the entity's reported financial position, financial performance and cash flows.

Objective:

1. The objective of this **IFRS** is to ensure that an entity's *first **IFRS** financial statements* and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

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

b) provides a suitable starting point for accounting under *International Financial Reporting Standards (**IFRS**s)*; and

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

2. An entity shall apply this **IFRS**s in:

   a) its first **IFRS** financial statements; and

   b) each interim financial report, if any, that it presents under **IAS** 34 Interim Financial Reporting for part of the period covered by its first **IFRS** financial statements.

Recognition and measurement

Opening IFRS statement of financial position

An entity shall prepare and present an opening **IFRS** statement of financial position at the date of transition to **IFRS**s. This is the starting point for its accounting under **IFRS**s**.**

Accounting Policies

An entity shall use the same accounting policies in its opening **IFRS** statement of financial position and throughout all periods presented in its first **IFRS** financial statements. Those accounting policies shall comply with each **IFRS** effective at the end of its first **IFRS** reporting period, except as specified in paragraphs of **IFRS** 1.

An entity may apply a new **IFRS** that is not yet mandatory if it permits early application. i.e., an entity shall not apply different versions of **IFRS**s that were effective at earlier dates**.**

The accounting policies that an entity used in its opening **IFRS** statement of financial position 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 **IFRS**s. Therefore, an entity shall recognise those adjustments directly in retained earnings (or. If appropriate, another category of equity) at the date of transition to **IFRS**s

Exemptions from other **IFRS**s

13. An entity may elect to use one or more of the following exemptions:

a) business combinations (Paragraph 15)
b) fair value or revaluation as deemed cost (paragraphs 16-19);
c) employee benefits (paragraphs 20 and 20A)
d) cumulative translation differences(paragraph 21 and 22)
e) compound financial instruments (paragraph 23);
f) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 24 and 25);
g) designations of previously recognised financial instruments (paragraph 25A);
h) share-based payment transactions (paragraphs 25b and 25C)
i) insurance contracts (paragraph 25D);
j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E)
k) leases (paragraph 25F)
l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G);
m) a financial asset or an intangible asset accounted for in accordance with IFRIC 12 *Service Concession Arrangements* (paragraph 25H); and
n) borrowing costs (paragraph 25I).

An entity shall not apply these exemptions by analogy to other items.

14. Some exemptions below refer to fair value, in determining fair values in accordance with this **IFRS**, an entity shall apply the definition of fair value and any more specific guidance in other **IFRS**s on the determination of fair values for the asset or liability in question. Those fair values shall reflect condition that existed at the date for which they were determined.

Business Combinations:

15. An entity shall apply the requirements in Appendix B to business combinations that the entity recognised before the date of transition to **IFRS**s.

Fair Value or revaluation as deemed cost;

16. An entity may elect to measure an item of property, plant and equipment at the date of transition to **IFRS**s at its fair value and use that fair value as its deemed cost at that date.

17. A first-time adopter may elect to use a previous GAAP revaluation of an items of property, plant and equipment at, or before the date of transition to **IFRS**s as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluations, broadly comparable to:

a) fair value; or
b) cost or depreciated cost under **IFRS**s, adjusted to reflect, for example, changes in a general or specific price index.

19. A first-time adopter may have established a deemed cost under previous GAAO for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatization or initial public offering. It may use such event-driven fair value measurements as deemed cost for **IFRS**s at the date of that measurement.

Cumulative translation differences

21. **IAS** 21 The *Effects of changes in Foreign Exchange* Rates requires an entity:

a) to recognised some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

22. However, a first time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to **IFRS**s. If a first-time adopter used this exemption:

a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to **IFRS**s; and
b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to **IFRS**s and shall include later translation differences.

Compound financial instruments

23. **IAS** 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 **IAS** 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component**.**

However, under this IFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRSs.

Assets and liabilities of subsidiaries, associates and joint ventures

24. If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to **IFRS**, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
b) the carrying amounts required by the rest of this **IFRS**, based on the subsidiary's date of transition to **IFRS**s. These carrying amounts could differ from those describes in (a):

i. when the exemptions in this **IFRS** result in measurements that depend on the date of transition to **IFRS**s.

ii. When the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in **IAS** 16 Property, plant and Equipment, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later that an entity that has significant influence or joint control over it.

25. However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts a in the financial statements of the subsidiary (or associate or joint venture) after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in the which the entity acquired the subsidiary. Similarly if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

<u>Other important points discussed in this point are</u>:

Share based payment transactions
Changes existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment.
Leases
Fair value measurement of financial assets or financial liabilities
Service concession arrangements
Borrowing costs

<u>Exceptions to retrospective application of other IFRSs:</u>

26. This **IFRS** prohibits retrospective application of some aspects of other **IFRS**s relating to:

a) derecognition of financial assets and financial liabilities (paragraphs 27 and 27A);
b) hedge accounting (paragraphs 28-30);
c) estimates (paragraphs 31-34);
d) assets classified as held for sale and discontinues operations (paragraphs 34A and 34B); and
e) some aspects of accounting for non-controlling interests (paragraph 34C).

<u>Derecognition of financial assets and financial liabilities</u>

27. Except as permitted by paragraph 27A, a first-time adopter shall apply the Derecognition requirements in IAS 39 prospectively.

Not withstanding paragraph 27, an entity may apply the derecognition requirements in IAS 39 retrospectively from date of the entity's choosing, provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecongnised as a results of past transactions was obtained at the time of initially accounting for those transactions.

<u>Hedge accounting:</u>

28. As required by IAS 39, at the date of transition to **IFRS**s, an entity shall:

a) measure all derivatives at fair value; and
b) eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities.

29. An entity shall not reflect in tis opening **IFRS** statement of financial position a hedging relationship of atype that does not qualify for hedge accounting under IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under **IFRS**s, provided that it does so no later than the date of transition to **IFRS**s.

30 If, before the date of transition to **IFRS**s, an entity had designated a transaction as hedge does not meet the conditions for hedge accounting in

IAS 39 the entity shall apply paragraphs 91 and 101 of IAS 39 (as revised in 2003) to discontinue hedge accounting. Transactions entered into before the date of transition to **IFRS**s shall not be retrospectively designated as hedges.

Estimates:

31. An entity's estimates under **IFRS**s at the date of transition to **IFRS** shall be consistent with estimates made for the same date under previous GAAP 9after adjustments to reflect any differences in accounting policies). Unless there is objective evidence that those estimated were in error.
32. If an entity receive information after the date of transition to **IFRS**s about estimates that it had made under previous GAAP, paragraph 31, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period under IAS 10 *Events after the Reporting Period.*

33. In particular, estimates at the date of transition to **IFRS**s of market prices, interest rates or foreign exchange rates reflect market conditions at that date.

34. Paragraphs 31-33 apply to the opening **IFRS** statement of financial position. They also apply to a comparative period presented in an entity's first **IFRS** financial statements, in which case the references to the date of transition to **IFRS**s are replaced by references to the end of that comparative period.

Other points discussed under this point are Assets classified as held for sale and discontinued operations and Non-controlling interests.

Presentation and disclosure:

35. Except as described in paragraph 37, this **IFRS** does not provide exemptions from the presentation and disclosure requirements in other **IFRS**s.

Comparative information:

36. To comply with IAS 1, an entity's first **IFRS** financial statements shall include at least three statements of financial position, two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

Presentation and disclosure Check list

IFRS 1 includes some presentation and disclosure requirements which increase the level of disclosures n the first **IFRS** financial statements.

IFRS1 does not provide any exemptions from the presentation and disclosure requirements in other **IFRS**; however lAS 8's requirements for disclosures on changes in accounting policies do not apply in the first **IFRS** financial statements.

36. Does the entity's first **IFRS** financial statements include at least **one year of comparative information** under **IFRS**?

36A. If the comparative information does **not comply with lAS 32, lAS 39 or IFRS 4**:

a) Has the entity disclosed the fact together with the basis used to prepare the information under previous GAAP?
b) Does the entity provide narrative disclosures of the nature of the man adjustments that t would need to make to comply with lAS 32, lAS 39 and **IFRS** 4?

37. If the entity presents **historical summaries** of selected data for periods before the first period for which it presents full comparative information under **IFRS**:

i) Is this information prominently labeled as not being prepared under **IFRS**?
ii) Does the entity provide narrative disclosures of the nature of the man adjustments that t would need to make to comply with
IFRS?

38. Has the entity **explained how the transition** from previous GAAP to **IFRS** affected its reported financial position, financial performance and cash flows?

39(a). Do the entity's first **IFRS** financial statements include **reconciliations of its equity** reported under previous GAAP to its equity under **IFRS** for both of the following dates:

i) the **date of transition to IFRS**?
ii) the end of the **latest period presented** n the entity's most recent annual financial statements under previous GAAP?

39(b). Does the entity's first **IFRS** financial statements include a **reconciliation of the profit or loss** reported under previous GAAP for the latest period in the entity most recent annual financial statements to its profit or loss under **IFRS** for the same period?

39(c) If the entity **recognised or reversed any impairment losses for the first time at the date of transition**, has it provided the disclosures that lAS 36 would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition?

40 If the entity presented a cash flow statement under its previous GAAP, has it explained the **material adjustments to the cash flow statement**?

41. If the entity became aware of errors made under previous GAAP, have the reconciliations **distinguished the correction of those errors from changes in accounting policies**?

43 If the entity did not present financial statements for previous periods, has it disclosed this fact in its first **IFRS** financial statements?

43A. If the entity designated previously recognised financial assets or financial liabilities as “at fair value through profit or loss” or as “available-for-sale”, has the following disclosures been provided:

i) the **fair value of any financial assets or financial liabilities** designated into each category?
ii) the **classification and carrying** amount in the previous financial statements?

44 If the entity used fair value in its opening **IFRS** balance sheet as deemed cost for an item of property, plant and equipment, an **investment property or an intangible asset**, has the entity’s first **IFRS** financial statements disclosed, for each line item in the balance sheet:

i) the aggregate of those fair values?
ii) the aggregate adjustment to the carrying amounts reported under previous GAAP?

Interim financial reports under lAS 34

45. If the entity presents an interim financial report under lAS 34, and it also presented an interim financial report under previous GAAP for the comparable interim period of the immediately preceding financial year has it in the interim financial report for a part of the period covered by its first **IFRS** financial statements included the following five reconciliations of:

<u>Equity under previous GAAP to equity under IFRS at:</u>

45(b) 1. the date of transition to **IFRS**?
45(a)(i) 2. the end of that comparable interim period?
45(b) 3. the end of the latest period presented in the entity’s most recent annual financial statements under previous GAAP?

<u>Profit or loss under previous GAAP to profit or loss under IFRS for the same period for:</u>

45(a)(ii) 4. the comparable interim period (current and year-to-date)?
45(b) 5. the latest period in the entity's most recent annual financial statements?

46 If the entity did not, in its most recent annual financial statements under previous GAAP, **disclose any events or transactions** that are material to an understanding of the current interim period, has it provided these disclosures in its interim financial report under IAS 34 or included a cross-reference to another published document that includes it?

Abbreviations

GAAP Generally Accepted Accounting Principles
IASB International Accounting Standards Board
IFRIC International Financial Reporting Interpretations Committee
IFRS International Financial Reporting Standards — comprising:
• International Financial Reporting Standards (**IFRS**),
• International Accounting Standards (IAS), and
• Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Definitions

Date of transition Beginning of the earliest period for which an entity presents full comparative information under **IFRS**s in its first **IFRS** financial statements.

Deemed cost Amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Fair value Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

First IFRS First annual financial statements in which an entity adopts **IFRS**, by financial statements an explicit and unreserved statement of compliance with **IFRS**.

First IFRS reporting The reporting period ending on the reporting date of an entity first period **IFRS** financial statements.
First-time adopter An entity that presents its first **IFRS** financial statements.

Opening IFRS The entity's balance sheet (published or unpublished) at the date of balance sheet transition.

Previous GAAP The basis of accounting that a first-time adopter used immediately before adopting **IFRS**.

Reporting date The end of the latest period covered by financial statements or by an interim financial report.