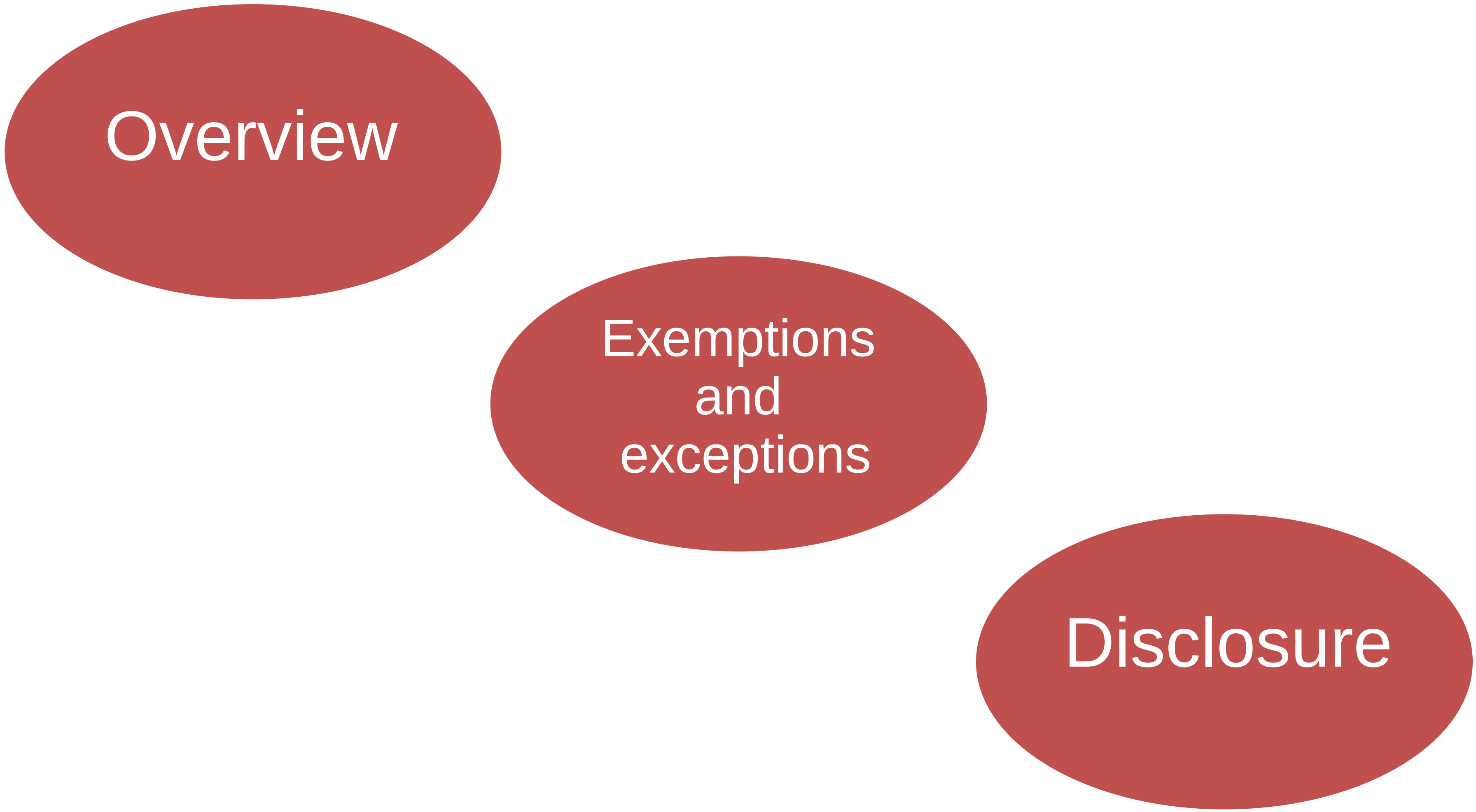
IFRS 1 - First-Time Adoption of IFRS

First time adoption session outline



IFRS 1
General principles

- Application
  - To the first IFRS financial statements
  - Each interim report under IAS 34 covered by its first IFRS financial statement period
- Requires
  - Identification of date of transition
  - Selection of accounting policies that comply with IFRSs
  - Preparation of an opening IFRS financial position
  - Preparation of the first IFRS financial statements

Key dates

1st Apr 2013 | 31^{st} Mar 2014 | 31 Mar 2015

Comparative Period

First IFRS Financial Statement

Date of transition =
Opening IFRS Statement of financial position

First IFRS reporting date

IFRS 1
Opening IFRS balance sheet

- IFRS 1 requires an entity in its opening IFRS balance sheet to:
  - Recognise all assets and liabilities required by IFRSs
  - Not recognise assets and liabilities not permitted by IFRSs; and
  - Classify all assets, liabilities and equity as required by IFRSs
- EXCEPT where an exemption or exception allows or requires otherwise

Adjustments as a result of applying IFRSs for the first time will be adjusted in retained earnings.

First IFRS financial statements

- The first IFRS financial statements are:
  - The first financial statements to contain “an explicit and unreserved statement of compliance with IFRSs”
- IFRS 1 requires retrospective adoption of most IFRSs, BUT
  - There are specific exemptions and exceptions
  - The latest version of each IFRS will be applied
  - There is guidance on the use of previous estimates
  - The disclosure requirements are extensive

IFRS 1
Selection of accounting policies

- Accounting policies based on current version of IFRSs at the reporting date
  - Early adoption of other standards is permitted

- Retrospective application to opening IFRS balance sheet and all periods, subject to
  - Optional exemptions; and
  - Mandatory exceptions

Optional Exemptions

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

- Investments in subsidiaries, joint ventures and associates;
- assets and liabilities of subsidiaries, associates and joint ventures;
- joint arrangements;
- share-based payment transactions;
- insurance contracts;
- deemed cost;
- leases;
- cumulative translation differences;
- compound financial instruments;
- designation of previously recognised financial instruments;
- fair value measurement of financial assets or financial liabilities at initial recognition;
- decommissioning liabilities included in the cost of property, plant and equipment;
- borrowing costs;
- transfers of assets from customers;
- extinguishing financial liabilities with equity instruments;
- stripping costs in the production phase of a surface mine; and
- designation of contracts to buy or sell a non-financial item.
- Etc.

IFRS 1
Exceptions summary

Mandatory **exceptions**

- Estimates
- Non Controlling Interests
- Government loans
- Derecognition of financial assets and liabilities
- Hedge accounting

Exemptions

Exemption	Impact
Business combinations	Previous business combinations need not be restated But if one business combination is restated, all those occurring after that date must be restated
Deemed Cost of Property, plant and equipment, investment properties, intangibles	Fair value at transition date or previous revaluation as deemed cost. The previous revaluation must have been broadly comparable to FV at revaluation date.
Cumulative translation differences	IAS 21 requires an entity: (a) to recognise 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 **May be set to zero for all subsidiaries**

Exemptions

Exemption	Impact
Compound financial instruments	These are split at inception into separate liability and equity components. The split account provision of IAS 32 need not be applied where the liability component of a compound financial instrument is not longer outstanding at transition date
Designation of financial assets and liabilities	Designation as “at fair value through profit or loss” at transition
Assets and liabilities of subsidiaries, associates and joint ventures	If parent’s transition occurs before subsidiary:- • Amounts in CFS of parent (except for consolidation and business combination adjustments) • Carrying amount under IFRSs at own transition date

Exemptions

Exemption	Impact
Share-based payments	An entity is encouraged, but not required, to apply IFRS 2 share based payments to:- • Equity instruments granted on or before 7th Nov, 2002; • Equity instruments granted after 7th Nov 2007 that had vested prior to the entity's transition date; • Liabilities arising from share based payments transactions that were settled prior to the entity's transition date.
Leases	Assessment of whether an arrangement contains a lease need not be applied to periods before transition date. Able to determine based on the facts and circumstances on transition date

Business combinations exemption

IFRS 3 need not be applied to combinations before date of transition

  - BUT, if one combination is restated, ALL subsequent combinations are restated

- When the exemption is used
  - No change in classification
  - Post combination carrying amount deemed cost for assets and liabilities measured at cost
  - Assets and liabilities measured at fair value restated at date of transition – adjust retained earnings

Business combinations exemption

- Goodwill is
  - Recognised at the carrying amount under previous GAAP and adjusted for
    - Intangibles that are not recognised under IFRS
    - Intangibles that must be recognised under IFRS
    - Contingent consideration not recognised; and
  - Tested for impairment
- Goodwill deducted from equity remains in equity

Mandatory exceptions

- Retrospective application of IFRS 9 is <u>PROHIBITED</u> for **financial assets and liabilities derecognised**

- **Government Loans:-** shall apply the requirements in IFRS9 and IAS20 prospectively to govt. loans exiting at the date of transition to IFRSs and shall not recognise the corresponing benefit of the govt. loan at a below market rate of interest as a government grant.

- **NCI:-**IFRS 10 will be applied prospectively from the date of transition for attributable total comprehensive income and changes in ownership's interest.

Mandatory exceptions – Hedge Accounting

– Hedge accounting

At the date of transition to IFRSs, an entity shall:

- measure all derivatives at fair value; and
- eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities

Designated as hedge under previous GAAP and hedge effectiveness

Yes

Fair Value hedge

Cash flow hedge

No

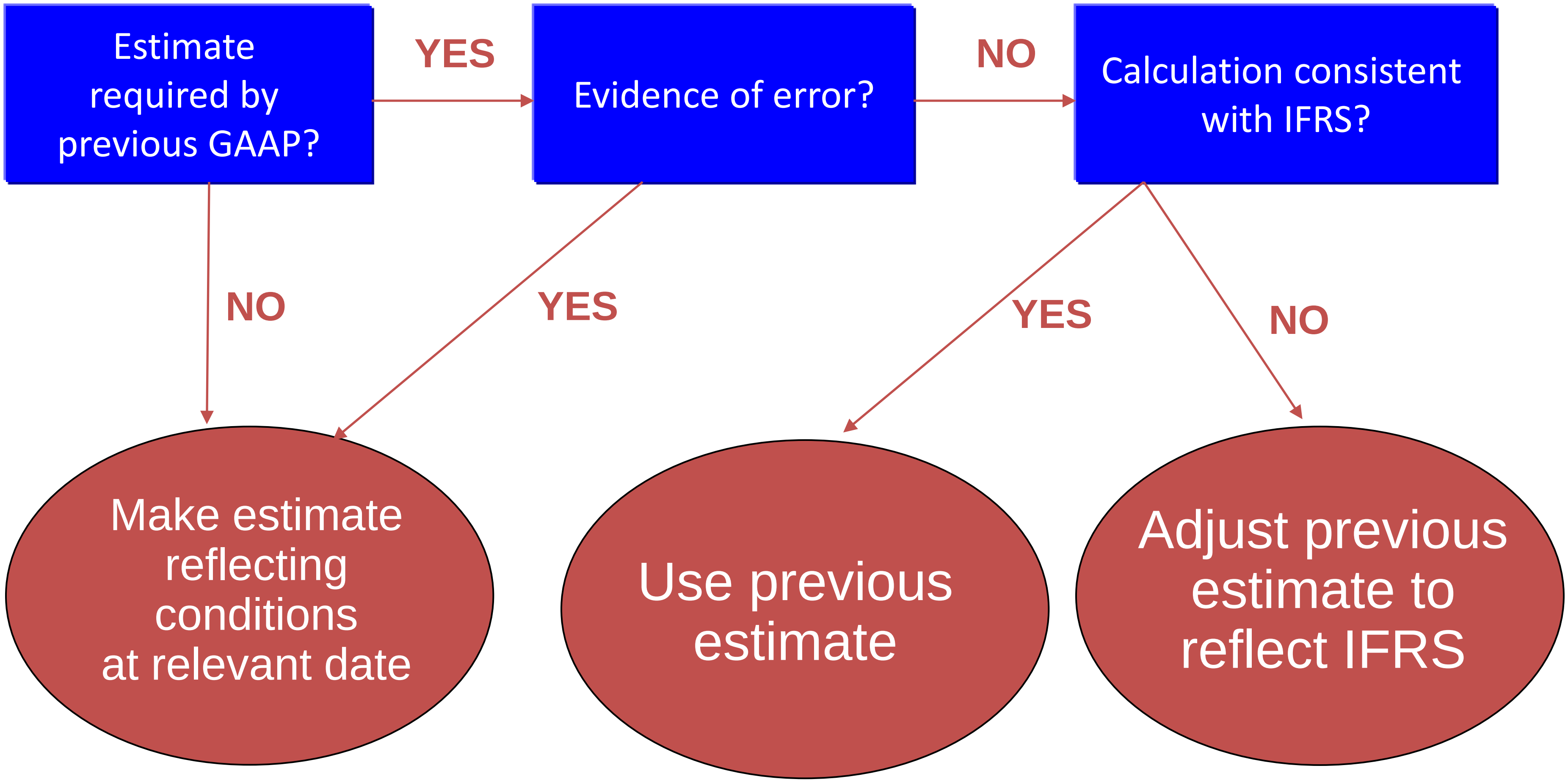
Will not reflect in its opening IFRS statement of financial position a hedging relationship – recognise in retained earnings

Mandatory exception (IFRS 5)

- Assets held for sale / discontinued operations
  - Apply IFRS 5 from 1 January 2005: no restatement of comparatives except:
    - May apply from earlier date only if information obtained at earlier date
  - First-time adopters after 2005 must apply retrospectively and restate comparatives

Mandatory exception (estimates)

Use of information available at the date of transition to IFRSs and conditions arising after the date of transition will not be considered



Disclosures

- Reconciliation of equity from previous GAAP to IFRS for both the following periods
  - at transition and
  - End of latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP

  (eg 1 Apr 2013 and 31 Mar 2014)
- Reconciliation of last year's net profit under previous GAAP to IFRS (eg year to 31 Mar 2014)
- Sufficient detail to understand adjustments to each line item
- Errors made under Previous GAAP and identified during transition
- Fair value as deemed cost, then aggregate FV and the amount of the adjustment
- IAS 36 disclosures for impairment identified during transition

Disclosures

- Interim financial information
  - Reconciliation of equity/net profit as above for previous full year
  - Reconciliation of equity and total comprehensive income for comparative interim period (eg 6 months to 30 Sep 2014)
  - Further information to comply with IAS 34