PASSFR.EU

A Digital Learning Platform for Generation Z: Passport to IFRS®

IFRS® Standard 1 First-time Adoption of International Financial Reporting Standards

Co-funded by the Erasmus+ Programme of the European Union

What is the Purpose of IFRS Standard 1?

IFRS Standard 1 ensures that the financial information stated in accordance with the IFRS Standards:

- is transparent and comparative;
- provides a suitable starting point for accounting and is in accordance with IFRS Standards;
- and its adoption can be generated at a cost that does not exceed the benefits.

What is Meant by First Time Adoption of IFRS Standards?

What is Meant by First Time Adoption of IFRS Standards?

a) the entity’s most recent financial reports have been prepared:

- according to the national standards;
- according to the IFRS Standards, but without confirmation that they complied with the IFRS Standards;
- according to the national standards and partly complying with the IFRS Standards;
- according to the national standards with some reconciliations to the IFRS Standards.

What is Meant by First Time Adoption of IFRS Standards?

b) the entity prepared the most recent financial reports according to the IFRS Standards, but only for its internal use without making them available for other users;

What is Meant by First Time Adoption of IFRS Standards?

c) the entity prepared only the consolidated financial reports according to the IFRS Standards, but did not prepare the complete set of statement accruing requirements of IAS Standard 1 *Presentation of Financial Statements*;

What is Meant by First Time Adoption of IFRS Standards?

d) the entity has not prepared any financial statements at all.

What is Main Definition?

Date of transition to IFRS Standards

refers to the first day of the earliest period for which the entity presents the full comparative information under the IFRS Standards in its first IFRS Standard financial reports.

What is Main Definition?

Date of transition to IFRS Standards	refers to is the first day of the earliest period for which the entity presents the full comparative information under the IFRS Standards in its first IFRS Standard financial reports.
First IFRS Standard financial statements	refers to the first annual financial reporting, for which the entity confirms that they have been prepared in accordance with the IFRS Standards.

What is Main Definition?

Date of transition to IFRS Standards	refers to the first day of the earliest period for which the entity presents the full comparative information under the IFRS Standards in its first IFRS Standard financial reports.
First IFRS Standard financial statements	refers to the first annual financial reporting, for which the entity confirms that they have been prepared in accordance with the IFRS Standards.
First IFRS Standard reporting period	is the first reporting period, for which the entity prepares the financial reports in accordance with IFRS Standards.

What is Main Definition?

Date of transition to IFRS Standards	refers the first day of the earliest period for which the entity presents the full comparative information under the IFRS Standards in its first IFRS Standard financial reports.
First IFRS Standard financial statements	refers to the first annual financial reporting, for which the entity confirms that they have been prepared in accordance with the IFRS Standards.
First IFRS Standard reporting period	is the first reporting period, for which the entity prepares the financial reports in accordance with IFRS Standards.
First-time adopter	refers to an entity that presents its first financial reports in accordance with the IFRS Standards..

The Opening Statement of Financial Position

Example of Comparative Financial Information

Period of comparative information:
It makes the decision to present one-year comparative information. In this case, the date of the transition is 1st January 20X8.

Example of Comparative Financial Information

Period of comparative information:
It makes the decision to present one-year comparative information. In this case, the date of the transition is 1st January 20X8.

Preparation of opening the financial statement:
The opening statement of the financial position should be prepared as of the 1st January 20X8.

Example of Comparative Financial Information

Period of comparative information:
It makes the decision to present one-year comparative information. In this case, the date of the transition is 1st January 20X8.

Preparation of opening the financial statement:
The opening statement of the financial position should be prepared as of the 1st January 20X8.

Preparation of financial statements for the reporting year:
20x9 financial statements are prepared in accordance with the IFRS. Thus, financial reporting for year 20X9 would be comparative to the financial reporting for year 20X8.

What are the Rules for Preparing the Opening Statement of Financial Position?

With certain exceptions indicated by IFRS Standard 1, an entity should do the following when preparing its opening statement of financial position:

What are the Rules for Preparing the Opening Statement of Financial Position?

When preparing its opening balance sheet, the entity must follow the rules below with the exceptions listed in the IFRS Standard:

a) **recognize all assets and liabilities for which the recognition is required in accordance with the IFRS Standards;**

What are the Rules for Preparing the Opening Statement of Financial Position?

When preparing its opening balance sheet, the entity must follow the rules below with the exceptions listed in the IFRS Standard:

a) recognize all assets and liabilities for which the recognition is required in accordance with the IFRS Standards;

b) do not recognize as assets or liabilities of items, if such recognition is not permitted by the IFRS Standards;

What are the Rules for Preparing the Opening Statement of Financial Position?

When preparing its opening balance sheet, the entity must follow the rules below with the exceptions listed in the IFRS Standard:

a) recognize all assets and liabilities for which the recognition is required in accordance with the IFRS Standards;

b) do not recognize as assets or liabilities of items, if such recognition is not permitted by the IFRS Standards;

c) make the reclassification for those items of assets, liability or equity, which are differently treated, if comparing the previously used national accounting standards to the IFRS Standards;

What are the Rules for Preparing the Opening Statement of Financial Position?

When preparing its opening balance sheet, the entity must follow the rules below with the exceptions listed in the IFRS Standard:

a) recognize all assets and liabilities for which the recognition is required in accordance with the IFRS Standards;

b) do not recognize as assets or liabilities of items, if such recognition is not permitted by the IFRS Standards;

c) make the reclassification for those items of assets, liability or equity, which are differently treated, if comparing the previously used national accounting standards to the IFRS Standards;

d) measure all recognized items of assets and liabilities as it is regulated under the IFRS Standards.

Mandatory Exemptions for the First-time Adoption of IFRS Standards

- Estimates
- Derecognition of financial assets and financial liabilities
- Hedge accounting

Mandatory Exemptions for the First-time Adoption of IFRS Standards

- Consolidation and non- controlling interests
- Government loans
- Classification and measurement of financial assets

Mandatory Exemptions for the First-time Adoption of IFRS Standards

- Impairment of financial assets
- Embedded derivatives
- Insurance contracts

Optional Exemptions for the First-time Adoption of IFRS Standards

- Business combinations
- Share-based transactions
- Deemed cost
- Leases

Optional Exemptions for the First-time Adoption of IFRS Standards

- Cumulative translation differences
- Investment in subsidiaries, associates and joint ventures
- Assets and liabilities of subsidiaries, associates, and joint ventures
- Compound financial instruments

Optional Exemptions for the First-time Adoption of IFRS Standards

- Designation of previously recognized financial instruments measured at fair value through profit or loss
- Fair value measurement of financial assets or financial liabilities at initial recognition
- Decommissioning liabilities included in the cost of property, plant and equipment
- Financial assets or intangible assets accounted for in accordance with the IFRIC 12 ® Service Concession Arrangements

Optional Exemptions for the First-time Adoption of IFRS Standards

- Borrowing costs
- Extinguishing financial liabilities with equity instruments
- Severe hyperinflation
- Joint arrangements

Optional Exemptions for the First-time Adoption of IFRS Standards

- Stripping costs in the production phase of a surface mine
- Designation of contracts to buy or sell a non-financial item measured at fair value through profit or loss
- Revenue
- Foreign currency transactions and advance consideration

Opening Statement of Financial Position Preparation

- All **estimates** of an entity on the opening statement of financial position should be the same, including the ones made in accordance with the previous national standards and the IFRS Standards, unless it is clear that those estimates were made in error.

Examples of the Opening Statement of Financial Position Preparation

Entity X prepares its first financial reporting in accordance with the IFRS for the year 20x5. Its date of the opening is 1 January 20x4. Entity X did not need to make allowance for bad debts arising from sales in October 20x3 in the financial reporting for year 20x3. In April 20x4, it was clear that the customer will not be able to cover its debt for the amount of CU5,000.

Examples of the Opening Statement of Financial Position Preparation

Solution 1.

When preparing financial reporting for 20x3, the entity was not aware that the customer would not be able to cover its debt. Therefore, it did not have to make allowance on the bad debt. Therefore, in the opening of 1 January 20x4, entity X is also not making these allowance.

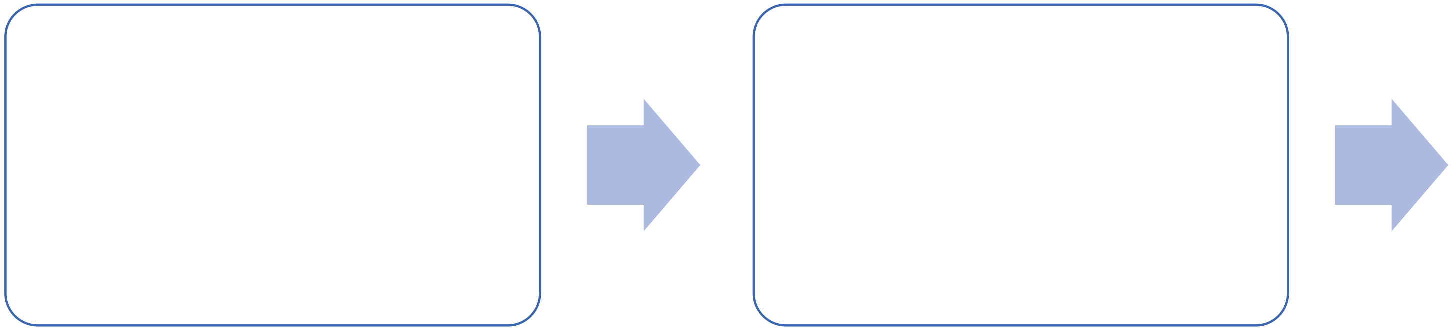
Examples of the Opening Statement of Financial Position Preparation

Solution 2.

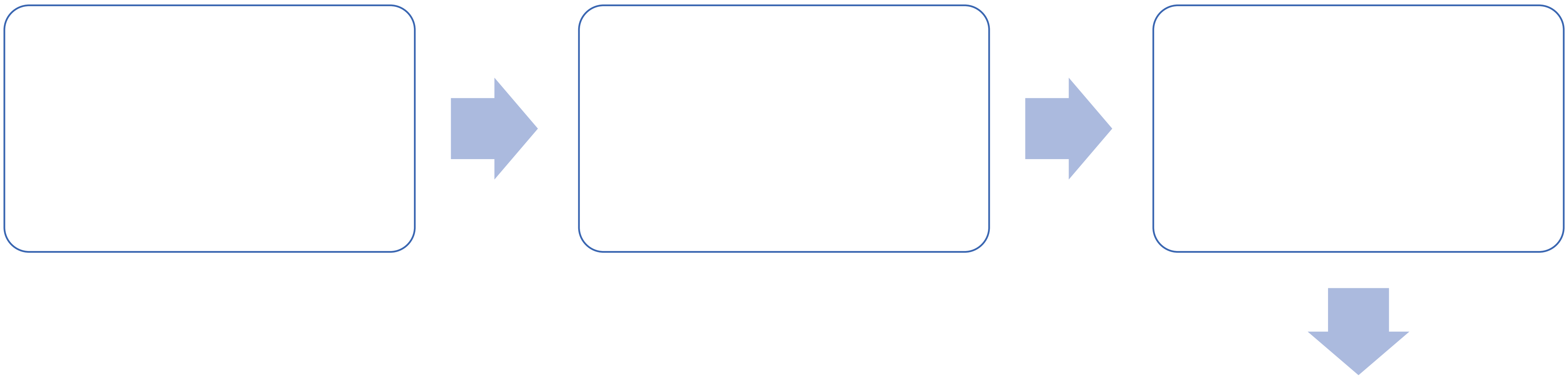
When preparing the financial reporting for 20x3, the entity had to make an additional check whether that the customer would be able to cover its debt. Then it would collect the evidence of possible insolvency and make. Therefore, in the opening statement of financial position of 1 January 20x4, entity X is making of CU5,000 as it is clear evidence of an error on estimates.

Procedures for the First-time Adoption of IFRS

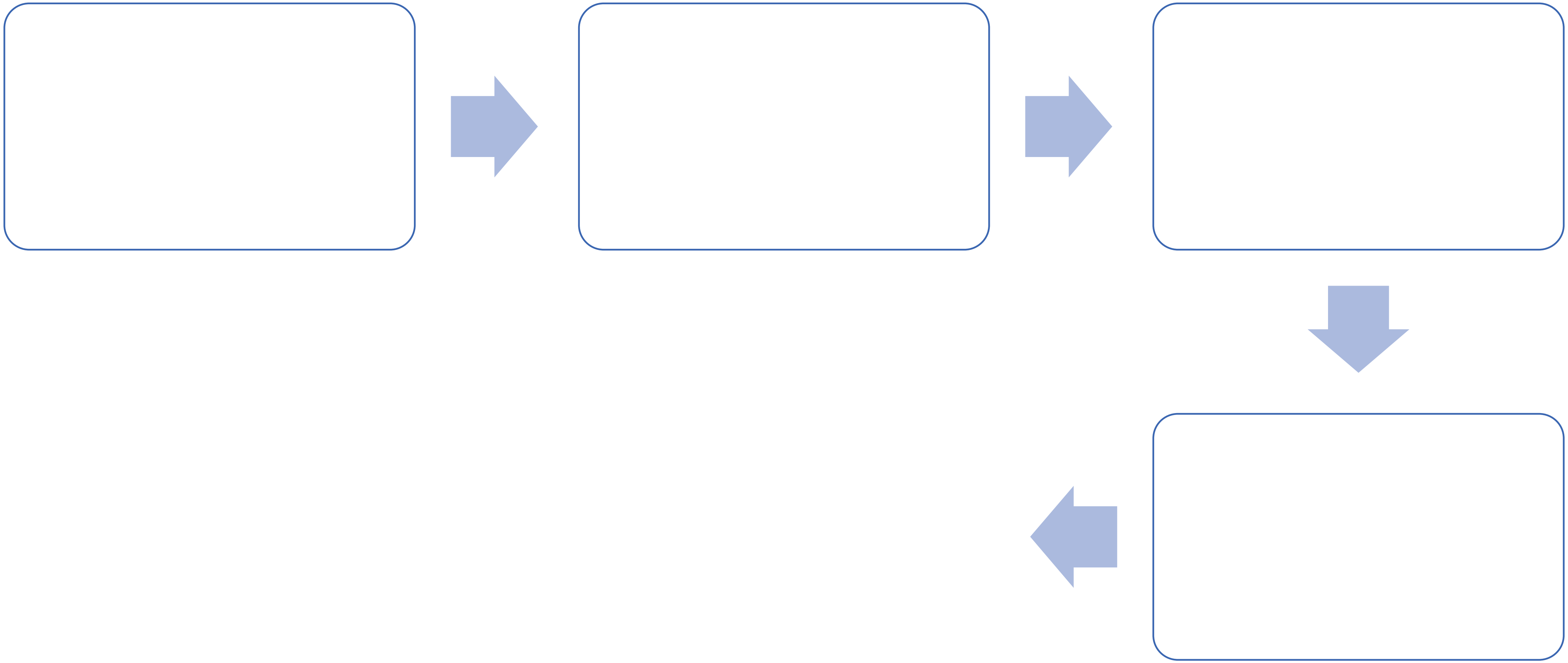
Procedures for the First-time Adoption of IFRS



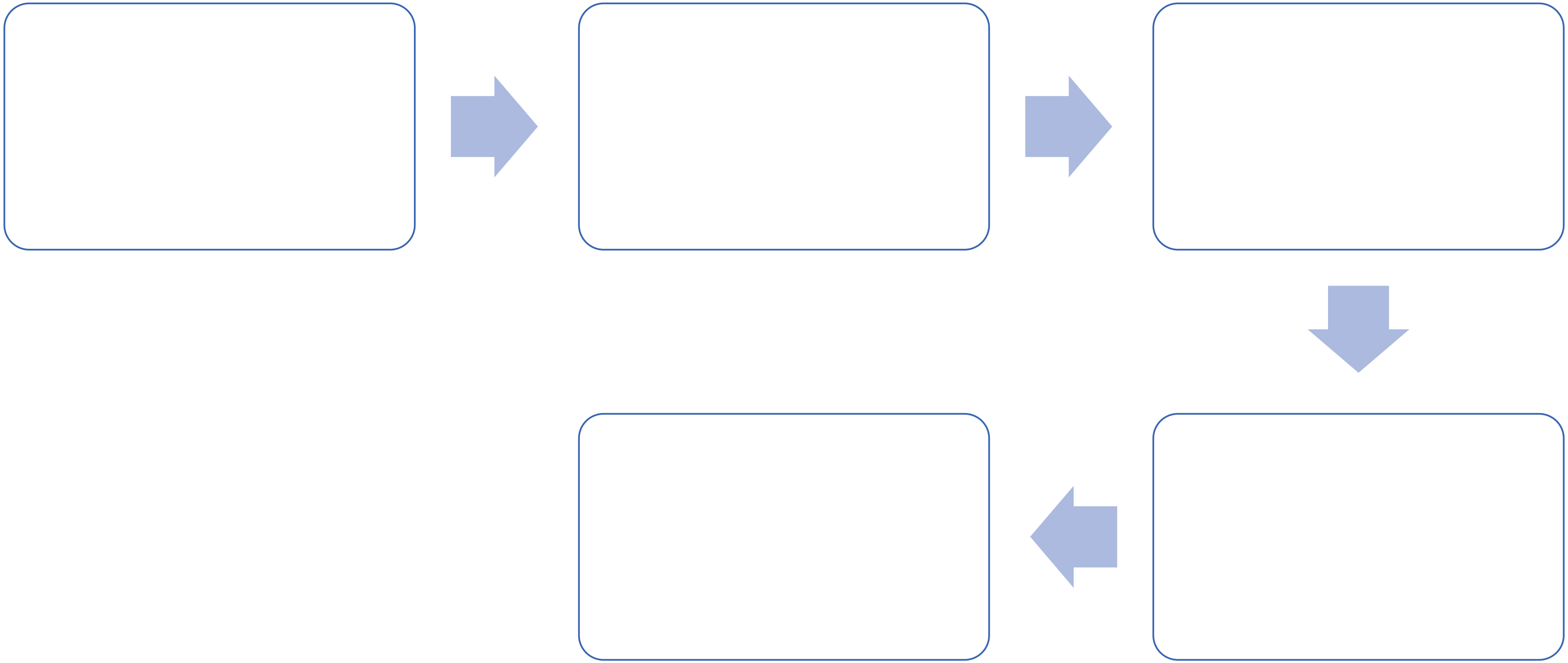
Procedures for the First-time Adoption of IFRS



Procedures for the First-time Adoption of IFRS

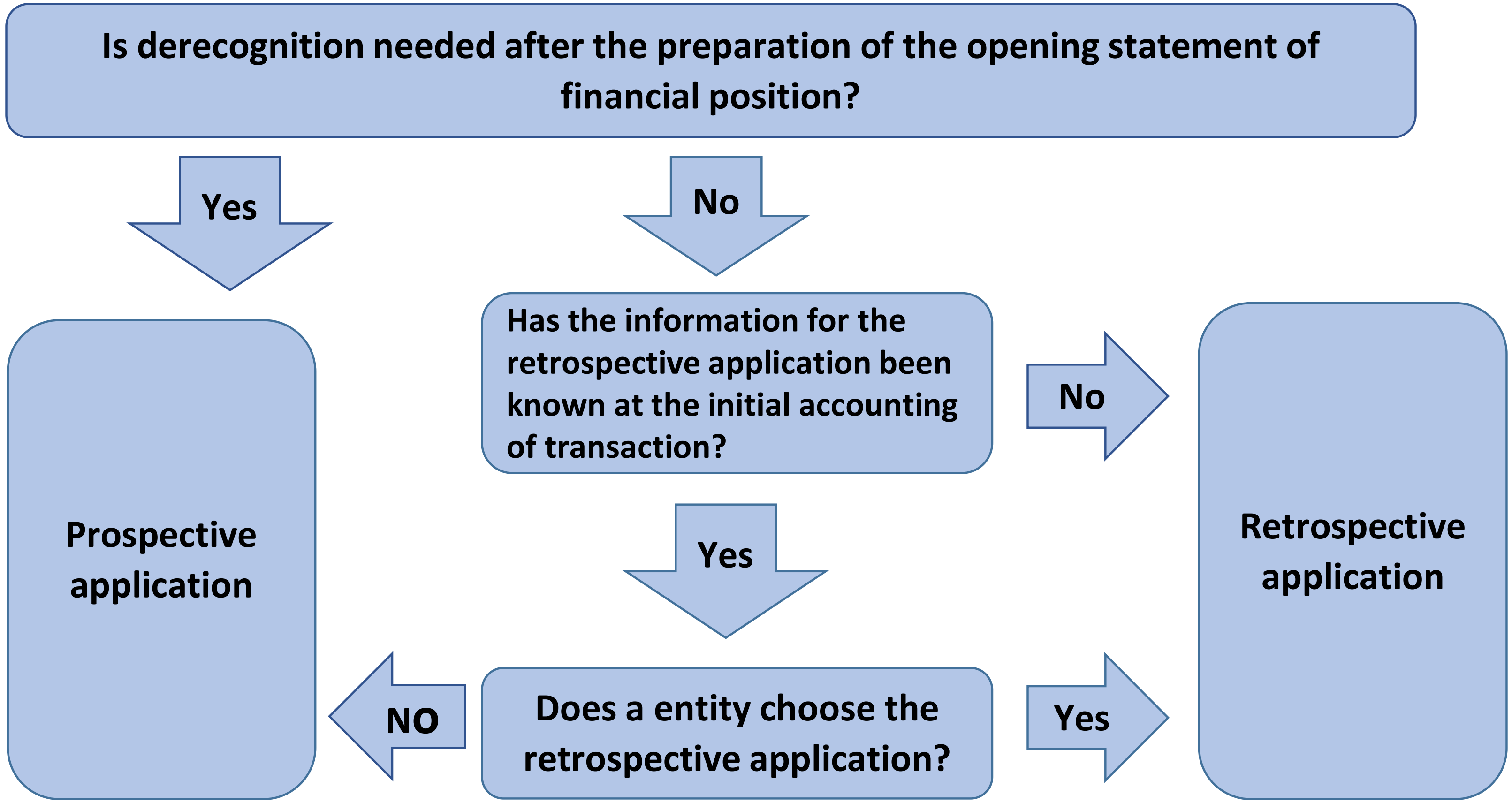


Procedures for the First-time Adoption of IFRS



Derecognition of the Financial Assets and Financial Liabilities

Derecognition After the Opening Balance



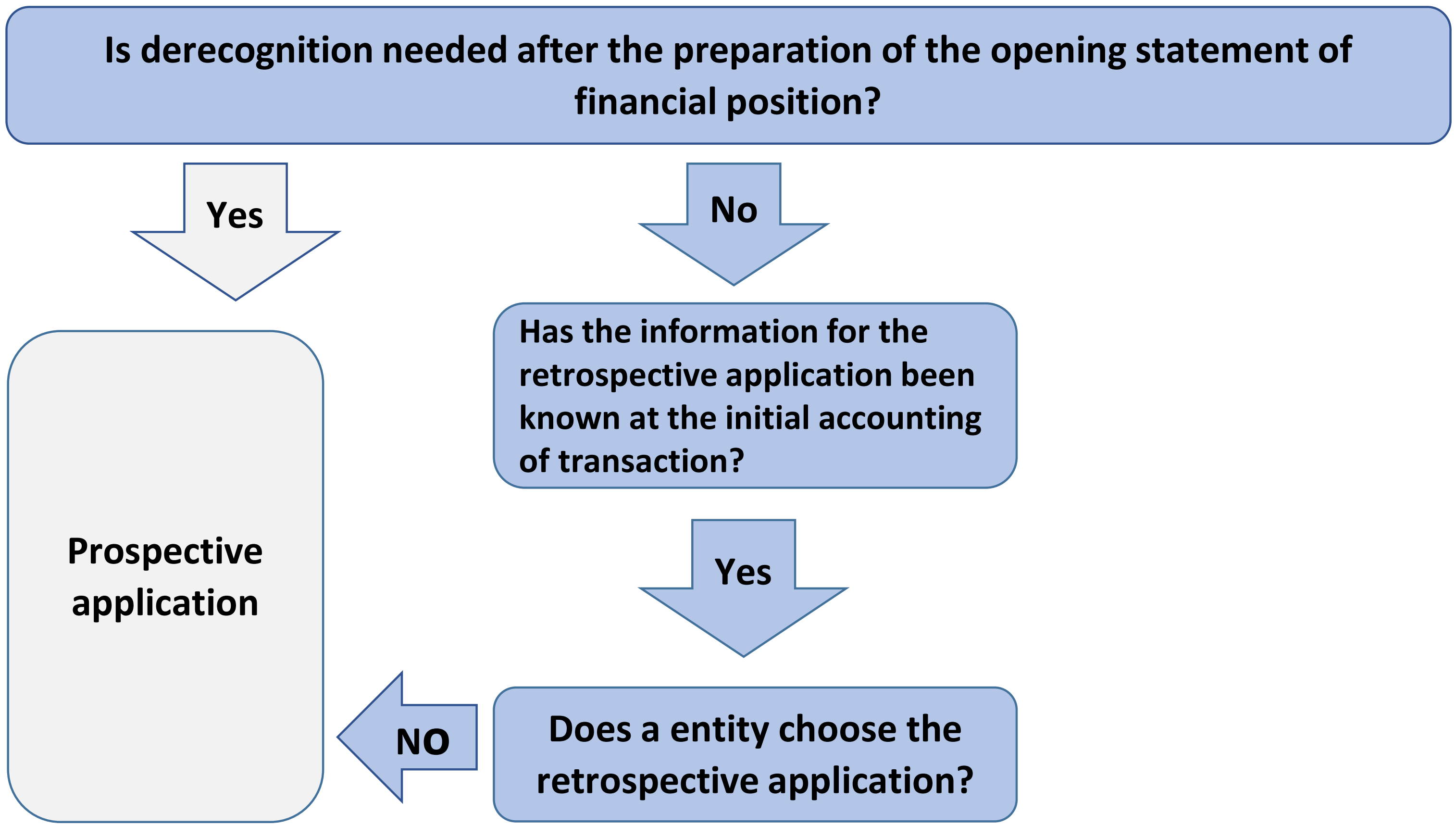
Derecognition After the Opening Balance

Is derecognition needed after the preparation of the opening statement of financial position?

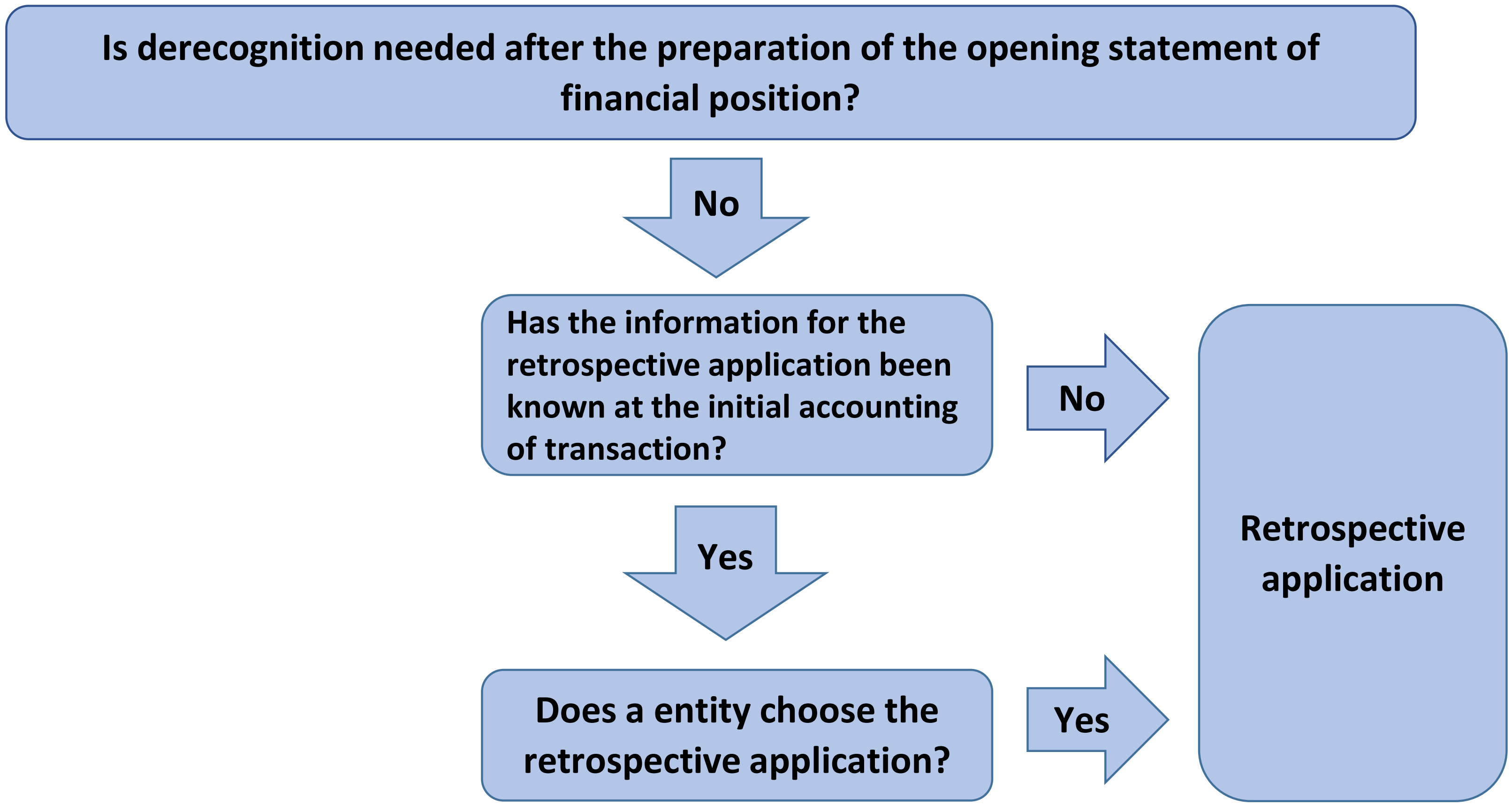
Yes

Prospective application

Derecognition After the Opening Balance



Derecognition After the Opening Balance



What does the First IFRS Financial Statement Consist of?

What does the First IFRS Financial Statement Consist of?

- ✓**three statements of the financial position (at the end of the current period and the two comparative periods);**

What does the First IFRS Financial Statement Consist of?

✓three statements of the financial position (at the end of the current period and the two comparative periods);

✓**two statements of profit or loss and other comprehensive income, separate statements of profit or loss (if presented), changes in equity, cash flows (covering the current period and the comparative period);**

What does the First IFRS Financial Statement Consist of?

- ✓three statements of the financial position (at the end of the current period and the two comparative periods);
- ✓two statements of profit or loss and other comprehensive income, separate statements of profit or loss (if presented), changes in equity, cash flows (covering the current period and the comparative period);
- ✓**related notes, including comparative information for all the statements presented.**

Practical example

- Entity X is the first-time adopter of IFRS Standards. It has decided to switch its accounting to comply with the IFRS Standards starting year **20x5** with the comparative information for one year.
- Therefore, the date of transition and the date of the opening statement of financial position is **1 January 20x4**.

Practical example

- Entity X applied some changes in the accounting policies, so they would comply with the requirements of the IFRS Standards.

Article	20x4, CU	Prior accounting policy	New accounting policy
Land	10,000	Cost model	Revaluation model
Intangible assets	0	Expensing	Capitalization
Buildings	148,250	Cost model	Revaluation model
Inventory	5,000	Acquisition cost	Net realisable value

Practical example

- Under the previous accounting policy, the land was measured applying the cost model. Under the *IAS Standard 16 Property, Plant and Equipment*, entity X apply the revaluation model. The effect of the revaluation of land increases in the value of land and in equity by CU3,000.

Article	Before the adaptation of IFRS 31 December, 20x4, CU	Adjustments for the opening statement of financial position, CU	Comparative information on the date of transition 1 January 20x4, CU	Adjustments for the comparative period, CU	Comparative information 31 December 20x4, CU
Land	10,000	3,000	13,000		13,000

Practical example

- The total development expenses during 20x3 were CU2,000 and CU3,000 during 20x4. The effect of this change is an increase in the equity by CU2,000 at the opening balance on 1 January 20x4 and by CU5,000 on 31 December 20x4.

Article	Before the adaptation of IFRS 31 December, 20x4, CU	Adjustments for the opening statement of financial position, CU	Comparative information on the date of transition 1 January 20x4, CU	Adjustments for the comparative period, CU	Comparative information 31 December 20x4, CU
Intangible assets	0	2,000	2,000	3,000	5,000

Practical example

- In May 20x4, Entity X purchased buildings for the value of CU150,000. The period for straight line depreciation is 50 years. Under the previous accounting policy, the buildings were measured applying the cost model.
- Therefore, depreciation calculated for June – December in 20x4 was CU1,750 and the value of buildings on 31 December 20x4 was CU148,250.

Practical example

- Under IFRS Standard, the entity applies the revaluation model.
- As the market value of the building at the acquisition was CU204,000, the changes in the comparative balance are registered both as the increasing value of the buildings by CU54,000, and as the increase in the calculated depreciation by CU630.

Article	Before the adaptation of IFRS 31 December, 20x4, CU	Adjustments for the opening statement of financial position, CU	Comparative information on the date of transition 1 January 20x4, CU	Adjustments for the comparative period, CU	Comparative information 31 December 20x4, CU
Buildings	148,250	-	-	53,370	201,960

Practical example

- Inventories under the previous accounting policy were measured at their acquisition cost of CU 5,000 on 31 December 20x4.
- Under the *IAS Standard 2 Inventories*, the entity measures inventories at the lower of their cost and net realisable value.
- The entity has reliable information that the net realisable value of inventories at the opening balance date was smaller due to the situation in the market by CU1,000. The effect of change is the reduction in equity by CU1,000.

Practical example

- During 20x4, the market situation has changed, the inventory was not moving throughout the entire 20x4, but its net realisable value increased by CU500.

Article	Before the adaptation of IFRS 31 December, 20x4, CU	Adjustments for the opening statement of financial position, CU	Comparative information on the date of transition 1 January 20x4, CU	Adjustments for the comparative period, CU	Comparative information 31 December 20x4, CU
Inventory	5,000	-1,000	4,000	500	4,500

PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

Co-funded by the
Erasmus+ Programme
of the European Union