

IFRS 1: Making the right decisions in the transition process

International Financial Reporting Standards ("IFRS") has an accounting standard entirely addressing the issue of first time adoption of IFRS.

The International Accounting Standards Board issued IFRS 1 in June 2003 and subsequently amended it many times. The last version was issued in 2008 and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. IFRS 1 replaced SIC-8 First-time Application of IASs as the Primary Basis of Accounting. The Board developed the IFRS to address concerns about the full retrospective application of IFRSs required by SIC-8. IFRS 1 applies when an entity adopts IFRSs for the first time.

In general, IFRS 1 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 prepares as a starting point for its accounting under IFRSs:

- (a) recognize all assets and liabilities whose recognition is required by IFRSs;
- (b) not recognize items as assets or liabilities if IFRSs 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 IFRSs; and
- (d) apply IFRSs in measuring all recognized assets and liabilities.

IFRS 1 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. 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. IFRS 1 also requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows.

IFRS 1 includes a list of exceptions to make the transition to first-time adoption smoother and easier. This list is made up of mandatory exceptions and optional exemptions. The mandatory exceptions included in IFRS 1 are:

- Accounting estimates;
- De-recognition of financial assets and liabilities;
- Hedge accounting; and
- Non controlling interests.

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

- share-based payment transactions;

- insurance contracts;
- deemed cost;
- leases;
- employee benefits;
- cumulative translation differences;
- investments in subsidiaries, jointly controlled entities and associates;
- assets and liabilities of subsidiaries, associates and joint ventures;
- 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;
- financial assets or intangible assets accounted for in accordance with IFRIC 12;
- borrowing costs; and
- transfers of assets from customers.

While some of the transition exemptions will not be necessary for Indian GAAP filers, because of the similarities between the two accounting bases, there will still be a considerable amount of decision making that would be required if a India company were making the transition to IFRS.

Making the right election on matters such as using the fair value for property, plant and equipment as its deemed historical cost can have a significant impact on profitability in the current and future periods, and far reaching consequences.

The advantages and disadvantages of adopting the optional exemptions will need to be weighed by each Company separately. To take the best advantage of the options available under IFRS 1, it is essential for a Company to obtain adequate understanding of what these options are and how they may impact your Company at an early juncture.

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