

# First-time adoption: IFRS and the IFRS for SMEs

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**AABE**

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*Established under proclamation no 847/2006*

- » Understand the principle of first-time adoption
- » Attain an understanding of the recognition and measurement mandatory exceptions and optional exemptions that override the principle and that form the bulk of the requirements in:
  - » IFRS 1 *First-time Adoption of International Financial Reporting Standards*; and
  - » Section 35 *Transition to the IFRS for SMEs*.
- » Attain an understanding of the presentation and disclosure requirements specified for an entity's first IFRS/IFRS for SMEs financial statements

The principle



## The first-time adoption principle paragraph 7 of IFRS 1 and paragraphs 35.6 and 35.7

- » An entity prepares its first IFRS/IFRS for SMEs financial statements (including its comparative figures) on the basis of accounting policies determined in accordance with the version of IFRS/IFRS for SMEs that is effective at the end of its first IFRS/IFRS for SMEs reporting period.
- » Note, a first-time adopter
  - » can early apply new Standards that are not yet effective
    - » ignore transitional provisions unless IFRS 1/Section 35 indicate otherwise
  - » cannot apply Standards that are superseded between the date of its transition to IFRS/IFRS for SMEs and the date of its first IFRS/IFRS for SMEs financial statements



## First-time adoption defined terms

- » **First IFRS/IFRS for SMEs Financial Statements:** first set of financial statements in which the entity makes an explicit and unreserved statement of compliance with IFRS/the IFRS for SMEs
- » **Date of Transition to IFRS/IFRS for SMEs:** is beginning of earliest period presented in first IFRS/IFRS for SMEs financial statements
- » **Opening IFRS/IFRS for SMEs Statement of Financial Position:** an entity's statement of financial position at the date of transition to IFRS



## First-time adoption Ethiopia Phase 1

- » **Who?** Significant Public Interest Entities -Financial Institutions and public enterprises owned by Federal or Regional Governments- Adoption of IFRS –starting at the start of EFY 2009-i.e specifically July 8, 2017.
- » **Date of transition to IFRS:** 8 July 2015
- » **Opening IFRS Statement of Financial Position:** 8 July 2015
- » **First IFRS financial statements:** 7 July 2017 (ie 2016/2017) with 2015/2016 as IFRS comparative figures



## First-time adoption Ethiopia Phase 2

- » **Who?** Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) adoption of IFRS and for and ISAS for Charities and Societies adoption of IPSAS- Start adoption of the standards at the start of EFY 2010-i.e specifically July 8, 2018;
- » **Date of transition to IFRS:** 8 July 2016
- » **Opening IFRS Statement of Financial Position:** 8 July 2016
- » **First IFRS financial statements:** 7 July 2018 (ie 2017/2018) with 2016/2017 as IFRS comparative figures



## First-time adoption Ethiopia Phase 2 continued

- » **What if Entity's year end is after 8 July?** For example, Entity has 30 November year-end.
- » **Date of transition to IFRS:** 1 December 2016
- » **Opening IFRS Statement of Financial Position:** 1 December 2016
- » **First IFRS financial statements:** 30 November 2018 (ie 2017/2018) with 2016/2017 as IFRS comparative figures





## First-time adoption test your understanding

An Entity's first IFRS financial statements are for the year ended 30 September 2018 (it presents one year of comparative figures).

**What is the Entity's date of transition to IFRS?** Choose one of:

- 1) 1 October 2015
- 2) 1 October 2016
- 3) 1 October 2017
- 4) 1 October 2018



## First-time adoption Ethiopia Phase 3

- » **Who?** Small and Medium-sized Entities adoption of IFRS for SMEs- Start adoption of the standards at the start of EFY 2011- i.e specifically July 8, 2019;
- » **Date of transition to IFRS for SMEs:** 8 July 2017
- » **Opening IFRS for SMEs Statement of Financial Position:** 8 July 2017
- » **First IFRS for SMEs financial statements:** 7 July 2019 (ie 2018/2019) with 2017/2018 as IFRS for SMEs comparative figures



## First-time adoption Ethiopia Phase 3 continued

- » **What if Entity's year end is after 8 July?** For example, Entity has 30 November year-end.
- » **Date of transition to IFRS for SMEs:** 1 December 2017
- » **Opening IFRS for SMEs Statement of Financial Position:** 1 December 2017
- » **First IFRS for SMEs financial statements:** 30 November 2019 (ie 2018/2019) with 2017/2018 as IFRS comparative figures



## First-time adoption test your understanding

An Entity's first IFRS for SMEs financial statements are for the year ended 31 December 2019 (it presents one year of comparative figures).

**What is the Entity's date of transition to the IFRS for SMEs?**

Choose one of:

- 1) 1 January 2016
- 2) 1 January 2017
- 3) 1 January 2018
- 4) 1 January 2019



# First-time adoption accounting policies

- » Criteria for selecting accounting policies
  - » relevance and faithful representation
- » Some initial accounting policies are a free choice between specified alternatives
- » Other accounting policy decisions depend on facts and circumstances (ie are not a free choice)



## First-time adoption

examples of policy decisions that depend facts and circumstances

### Determining:

- » functional currency
- » method of depreciation/amortisation
- » whether to use % of completion or cost recovery accounting for service providers and construction contracts (IFRS for SMEs only)
- » whether point in time or over time, transfer of control (IFRS 15 only)
- » whether, for inventory, to use specific identification or a cost formula (for example, FIFO)



## First-time adoption

### examples of policy decisions that depend facts and circumstances

Determining whether:

- » an event after end of the period is an adjusting or a non-adjusting event
- » to make the current/non-current presentation or to report assets and liabilities in liquidity order
- » to present the analysis of expenses by their nature or by their function
- » an undue cost or effort threshold specified in the IFRS for SMEs is satisfied, determines, for example, whether to use the cost model or the fair value model for investment property,



## First-time adoption

### examples of policy choices that do not depend on circumstances

#### **Free choice** for initial accounting policy:

- » present direct or indirect operating cash flows
- » PPE: cost model or revaluation model
- » qualifying intangible assets: cost model or revaluation model (IFRS only)
- » investment property: cost model or fair value model (IFRS only)
- » government grants: IAS 20 allows a range of alternatives (the IFRS for SMEs does NOT)





## First-time adoption

### examples of policy choices that do not depend on circumstances

**Free choice** for initial accounting policy in separate financial statements:

- » investments in associates: cost, equity method, or fair value through profit or loss
- » investments in joint ventures: cost, equity method, or fair value through profit or loss
- » investments in subsidiaries: cost, equity method, or fair value through profit or loss



## First-time adoption adjustments to opening equity at the date of transition

First-time adoption adjustments from Previous GAAP to IFRS/IFRS for SMEs potentially involves:


- » derecognising some Previous GAAP assets and liabilities
- » recognising some new IFRS assets and new IFRS liabilities
- » reclassifying some items
- » changing the measurement used for some items



## First-time adoption

possible asset and liability recognition adjustments at the date of transition from Previous GAAP to IFRS/IFRS for SMEs

- » most internally generated intangible assets: research, brands
- » staff training
- » pre-operating/start-up costs
- » advertising costs
- » no accrued liabilities for general reserves, future losses, and most restructurings



# First-time adoption possible asset and liability recognition adjustments at the date of transition from Previous GAAP to IFRS/IFRS for SMEs


- » income smoothing provisions
- » future losses
- » most restructurings



## First-time adoption


### possible asset and liability recognition adjustments at the date of transition from Previous GAAP to IFRS/IFRS for SMEs

- » derivatives and embedded derivatives
- » obligations for defined benefit post-employment pensions, medical and life insurance
- » obligations for other long-term employee benefits
- » obligations for termination benefits
- » obligations for accrued vacation, sick leave etc
- » environmental restoration obligations
- » obligations in court cases that entity will more likely than not lose
- » deferred taxation



First-time adoption  
possible asset and liability recognition  
adjustments at the date of transition from  
Previous GAAP to IFRS/IFRS for SMEs

- » provisions for **onerous contracts**,
- » provisions for decommissioning assets
- » provisions for product warranties



# The first-time adoption possible classification differences at the date of transition from Previous GAAP to IFRS/IFRS for SMEs

- » dividends declared after the end of the reporting period are not liabilities
- » treasury shares are a deduction from equity, they are not an asset
  - » scope of consolidation
  - » specified and limited offsetting
- » liability versus equity:
  - » mandatorily redeemable preferred shares and puttables are a liability
  - » non-controlling interests are equity, not liability and not mezzanine
  - » equity component of convertible debt (if still outstanding at date of transition)



## First-time adoption

## possible measurement differences adjustments at the date of transition from Previous GAAP to IFRS/IFRS for SMEs

- » LIFO inventory cost formula prohibited
- » reversals of prior period impairment is required
- » biological assets in agricultural activity at fair value through profit or loss, exceptions:
  - » **IFRS**: non-produce parts of bearer plants
  - » **IFRS for SMEs**: fair value is not readily determinable without undue cost or effort
- » share-based payments
- » non-controlling interest (NCI) in business combinations
  - » **IFRS at initial recognition**: fair value or like IFRS for SMEs
  - » **IFRS for SMEs**: NCI's proportion of group values of subsidiary's net assets





## First-time adoption

possible measurement differences adjustments  
at the date of transition from Previous GAAP  
to IFRS/IFRS for SMEs

- » must conform parent and subsidiaries' accounting policies to group accounting policies for consolidation
- » expected value for provisions
- » fair value measurement for some
  - » financial instruments
  - » investment property
  - » exchanges on non-monetary assets
  - » share-based payments
  - » biological assets in agricultural activity

Mandatory exceptions from the principle

- Appendix B of IFRS 1 (and paragraphs 14 to 17)
- paragraph 35.9 of the IFRS for SMEs

(slides that follow present selected exceptions)




## First-time adoption: mandatory exceptions

On first-time adoption of **IFRS** an entity shall NOT

On first-time adoption of IFRS an entity MUST NOT retrospectively change its Previous GAAP accounting for (specified aspects of):

- » changes in accounting estimates
- » derecognition of financial assets and financial liabilities
- » hedge accounting
- » non-controlling interests
- » classification and measurement of financial assets
- » impairment of financial assets
- » embedded derivatives
- » government loans



# First-time adoption: IFRS 1 paragraphs 14 to 17

## test your understanding

Entity's date of transition to IFRS is 8 July 2016.

- » Under Previous GAAP at 7 July 2016 it **estimated its product warranty obligation** for the next 12 months using the expected value method at ETB1,000,000.
- » In the year ended 7 July 2017 it uses only ETB800,000 of that provision to settle in full its previous year's warranty obligation (ie with the benefit of hindsight the liability at 7 July 2016 would have been ETB800,000).

**At what amount must the Entity measure its warranty obligation in its opening IFRS statement of financial position? Choose one or more of:**

1) ETB800,000; or 2) ETB1,000,000.

**Under what circumstances would the other alternative be correct?**



## First-time adoption: mandatory exceptions

On first-time adoption of **IFRS** an entity shall NOT

On first-time adoption of IFRS an entity MUST NOT retrospectively change its Previous GAAP accounting for:

» the derecognition of **financial assets and financial liabilities** that were derecognised before the date of transition.

### Optional exemption to the exception:

» However, provided the information needed to apply IFRS 9's derecognition requirements retrospectively had been obtained at the time of initial accounting for those transactions, IFRS 9's derecognition requirements may be (ie it can choose to do so) applied retrospectively from a date of the first-time adopter's choosing.



## First-time adoption: mandatory exceptions

On first-time adoption of the IFRS an entity shall NOT

On first-time adoption of IFRS an entity MUST NOT retrospectively change its Previous GAAP accounting for low interest government loans (recognition and measurement) ie it applies IFRS 9 only prospectively to such loans

» ie use Previous GAAP carrying amount in opening statement of financial position

### Optional exemptions to the exception:

» However, provided the information needed to apply IFRS 9 and IAS 20 retrospectively had been obtained at the time of the initial accounting for the loan that originated before the date of transition, the entity may (ie it can choose to do so) account apply IFRS 9 and IAS 20 retrospectively to the loan.

» Moreover, if to avoid an accounting mismatch the entity wishes, at the date of transition, to designate the liability at fair value through profit or loss it can do so.



## First-time adoption: IFRS mandatory exceptions test your understanding

Entity's date of transition to the IFRS is 8 July 2016.

- » Under Previous GAAP at 7 July 2016 it carried an **interest-free loan from the Ethiopian Government** at ETB1,000,000 (ie proceeds received = redemption amount).
- » At 8 July 2016 the fair value of the loan = ETB800,000.
- » Had the loan always been accounted for at amortised cost in accordance with IFRS, its carrying amount at 8 July 2016 would have been = ETB750,000.

**Which of these are possible carrying amounts for the loan in the opening IFRS statement of financial position?** Choose one or more of:

- 1) ETB750,000; 2) ETB800,000; 3) ETB1,000,000.



## First-time adoption: mandatory exceptions

On first-time adoption of the IFRS for SMEs an entity shall NOT

On first-time adoption of the IFRS for SMEs an entity MUST NOT retrospectively change its Previous GAAP accounting for:

- » the derecognition of **financial assets and financial liabilities** that were derecognised before the date of transition;
- » Conversely, **financial assets and liabilities** that would have been derecognised under the IFRS for SMEs before the date of transition but under Previous GAAP were not derecognised: a first-time adopter can choose either:
  - » derecognise them at the date of transition; or
  - » continue to recognise them until disposal or settlement.





First-time adoption: mandatory exceptions  
On first-time adoption of the IFRS for SMEs an entity shall NOT

On first-time adoption of the IFRS for SMEs an entity MUST NOT retrospectively change its Previous GAAP accounting for:

- » hedge accounting for hedging relationships that no longer exist at the date of transition
  - » Conversely, for hedging relationships that exist at the date of transition, follow the requirements of Section 12
- » accounting estimates
- » discontinued operations
- » measuring non-controlling interest



# First-time adoption: IFRS for SMEs mandatory exceptions

## test your understanding

Entity's date of transition to the IFRS for SMEs is 8 July 2017.

- » Under Previous GAAP at 7 July 2017 it estimated its product warranty obligation for the next 12 months using the expected value method at ETB1,000,000.
- » In the year ended 7 July 2018 it uses only ETB800,000 of that provision to settle in full its previous year's warranty obligation (ie with the benefit of hindsight the liability at 7 July 2017 would have been ETB800,000).

At what amount must the Entity measure its warranty obligation in its opening IFRS for SMEs statement of financial position?

Choose one or more of:

- 1) ETB800,000; or 2) ETB1,000,000.

Under what circumstances would the other alternative be correct?



First-time adoption: mandatory exceptions  
On first-time adoption of the IFRS for SMEs an entity shall NOT

On first-time adoption of the IFRS for SMEs an entity MUST NOT retrospectively change its Previous GAAP accounting for:

- » government loans (recognition and measurement)
  - » apply Sections 11 and 24 prospectively to such loans
    - » ie use Previous GAAP carrying amount, if any, in opening statement of financial position



## First-time adoption: mandatory exceptions test your understanding

- » Entity's date of transition to the IFRS for SMEs is 8 July 2017.
- » Under Previous GAAP at 7 July 2017 it carried an **interest-free loan from the Ethiopian Government** at ETB1,000,000 (ie proceeds received = redemption amount).
- » At 8 July 2017 the fair value of the loan = ETB800,000.
- » Had the loan always been accounted for at amortised cost in accordance with the IFRS for SMEs, its carrying amount at 8 July 2017 would have been = ETB750,000.

**Which of these are possible carrying amounts for the loan in the opening IFRS for SMEs statement of financial position? Choose one or more of:**

- 1) ETB750,000; 2) ETB800,000; 3) ETB1,000,000.

Optional exemptions from the principle

- Appendices C, D and E of IFRS 1; and
- paragraph 35.10 of the IFRS for SMEs

(slides that follow present selected exemptions)



optional exemptions

PPE, investment property and those intangible assets that meet intangible asset recognition criteria and trade in an active market

First-time adopter may, by optional exception, measure a qualifying item in the opening statement of financial position at 'deemed cost':

- » fair value at the date of transition;
- » revaluation under Previous GAAP (only if, at the date of the revaluation, the revalued amount is broadly comparable to fair value or cost/depreciated cost indexed for inflation (general or specific price index); or
- » event-driven fair value under Previous GAAP (for example, privatisation or initial public offering).



# First-time adoption: IFRS deemed cost optional exemption

## test your understanding

Entity's date of transition to IFRS is 8 July 2016.

- » Under Previous GAAP it carried an item of PPE at revalued amount of ETB180,000 at 7 July 2016.
- » At 8 July 2016 the fair value of the item = ETB200,000.
- » The original cost of the item = ETB300,000.
- » Had the item always been accounted for using the cost model in accordance with IFRS, its carrying amount at 8 July 2016 would have been = ETB150,000.

Which of these are possible carrying amounts for the item in the opening IFRS statement of financial position? Choose one or more of:

- 1) ETB150,000; 2) ETB180,000; 3) ETB200,000; 4) ETB300,000.



## First-time adoption:

## IFRS for SMEs deemed cost optional exemption test your understanding

Entity's date of transition to the IFRS for SMEs is 8 July 2017.

- » Under Previous GAAP it carried an item of PPE at revalued amount of ETB180,000 at 7 July 2017.
- » At 8 July 2017 the fair value of the item = ETB200,000.
- » The original cost of the item = ETB300,000.
- » Had the item always been accounted for using the cost model in accordance with the IFRS for SMEs, its carrying amount at 8 July 2017 would have been = ETB150,000.

Which of these are possible carrying amounts for the item in the opening IFRS for SMEs statement of financial position? Choose one or more of:

- 1) ETB150,000; 2) ETB180,000; 3) ETB200,000; 4) ETB300,000.





## First-time adoption: optional exemptions business combinations

First-time adopter can choose to apply IFRS/IFRS for SMEs business combination accounting prospectively from a date of its choosing on or before its date of transition. However,

- » **IFRS adopters:** follow rules provided in Appendix C to IFRS 1
  - » and must also apply IFRS 10 from the date it chooses to apply IFRS 3 prospectively
- » **IFRS for SMEs adopters:** follow rules in paragraph 35.10



## First-time adoption: **IFRS** optional exemptions designations in accordance with IFRS 9 *Financial Instruments*

First-time adopter of IFRS may, by optional exception, at the date of transition (provided the criteria specified in IFRS 9 for such designation are satisfied on the basis of facts and circumstances at the date of transition) designate as at fair value:

- » through profit or loss: any financial liability (to avoid an accounting mismatch; avoid separating an embedded derivative from a host that is not a financial asset etc)
- » through profit or loss: a financial asset (to avoid an accounting mismatch)
- » through profit or loss: a contract to buy or sell a non-financial item (to avoid an accounting mismatch) and provided all such contracts are so designated
- » through OCI: an investment in an equity instrument that is not held for trading



optional exemptions

separate financial statements using cost model  
for investments in subsidiaries, joint  
ventures and associates

First-time adopter may, by optional exception, use in its opening (separate) IFRS financial statements as deemed cost:

- » transition date fair value of the investment; or
- » Previous GAAP carrying amount.




First-time adoption: **IFRS** separate financial statements using cost model for investments in subsidiaries, joint ventures and associates.  
**test your understanding**

Entity's date of transition to the IFRS is 8 July 2016.

- » Under Previous GAAP it carried its **investment in its only associate** at ETB150,000 (ie cost without the reversal of a prior period impairment) at 7 July 2016.
- » At 8 July 2016 the fair value of the investment = ETB200,000.
- » The original cost of the investment = ETB180,000.
- » Had the item always been accounted for using the cost model in accordance with IAS 27, its carrying amount at 8 July 2016 would have been = ETB180,000.

**Which of these are possible carrying amounts for the item in the opening IFRS statement of financial position?** Choose one or more of:

- 1) ETB150,000; 2) ETB180,000; 3) ETB200,000.



## First-time adoption: IFRS optional exemptions insurance contracts (IFRS only)

First-time adopter may, by optional exception:

» apply the transitional provisions in IFRS 4 *Insurance Contracts*.

Expect in Q4 2016 too (IASB now drafting) for only specified eligible insurance entities, first-time adopter may, by optional exception:

» deferral approach (ie need not apply IFRS 9 *Financial Instruments* until the earlier of):

» it adopts the new Standard that IASB is drafting for insurance contracts; or

» 2021

» overlay approach to the adoption of IFRS 9