

# IFRS Accounting for *First time adoption*

Date: June 2023  
Addis Ababa



The views expressed in this presentation are my own and not necessarily those of any organization with which I am associated.

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## Aims

Understanding IFRS for first time adaptors

First time adoption

IFRS Due Process

Consistent application

International sustainability standards board

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First Time adoption

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## Scope

- » IFRS 1 is applicable to:
  - » An entities **first IFRS financial statements**; and
  - » all **interim financial reports**, if any, presented applying IAS 34 for part of the period covered by its first IFRS financial statements

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## Definitions

- » **Previous GAAP**: The basis of accounting that a first-time adopter used immediately before adopting IFRSs.
- » For SOE's in Ethiopia, that is probably be Ethiopian GAAP

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## Scope

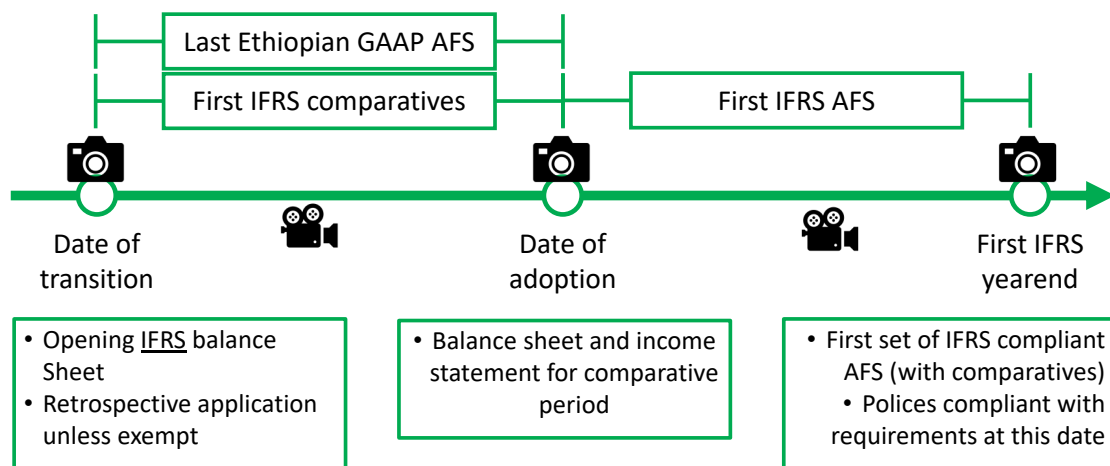
### First Financial statements

- » First annual financial statements in which **entity makes an explicit and unreserved statement** of compliance with IFRSs – for eg
  - » Previously complied with **Ethiopian GAAP**, or
  - » **Did not prepare** publicly available financial statements, or
  - » Published financial statements **but did not include an explicit and reserved statement** of compliance statement
- » An entity that **previously applied IFRS** but did not do so in most recent financials can also apply the standard

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## Time line







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## Presentation

The first IFRS financial statements must include:

- » at least 3 **statements of financial position** 
- » two statements of **profit or loss and other comprehensive income**, 
- » two statements of **cash flows** and 
- » two statements of **changes in equity** and 
- » related **notes**, including comparative information for all statements presented.

IFRS 1.21

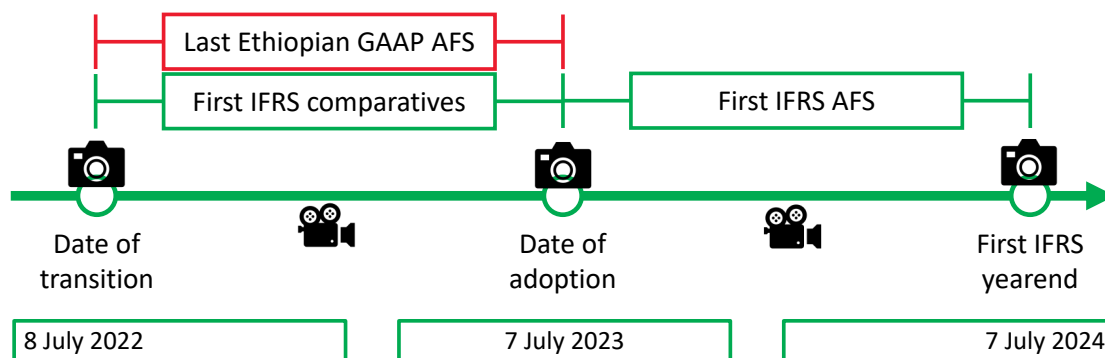
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## Example SOE applying IFRS in Ethiopia

- » An SOE in Ethiopia is required to produce IFRS financial statements for its financial year ended in 7 July 2024
- » It previously produced IFRS financials in 2009 to 2012
- » Is the SOE eligible to use IFRS 1?  
1) Yes, 2) No
- What is transition date to IFRS?  
1) 7 July 2024, 2) 7 July 2023, 3) 7 July 2022, 4) 7 July 2009

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## Time line for all examples



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## Time line for all examples


» What IFRS balance sheet must you produce in your 7 July 2024 Financial statements? 

#	Item	Yes/No
1.	7 July 2021	
2.	7 July 2022	
3.	8 July 2022	
4.	7 July 2023	
5.	7 July 2024	

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## Time line for all examples


» What IFRS balance sheet must you produce in your 7 July 2024 Financial statements? 

#	Item	Yes/No
1.	7 July 2021	No
2.	7 July 2022	No
3.	8 July 2022	Yes
4.	7 July 2023	Yes
5.	7 July 2024	Yes

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## Time line for all examples


» What IFRS income statement(s) must you produce in your financial statements on 7 July 2024? 

#	Item	Yes/No
1.	12 months to 8 July 2022	
2.	12 months to 7 July 2023	
3.	12 months to 7 July 2024	

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## Time line for all examples

» What IFRS income statement(s) must you produce in your financial statements on 7 July 2024? 

#	Item	Yes/No
1.	12 months to 8 July 2022	No
2.	12 months to 7 July 2023	Yes
3.	12 months to 7 July 2024	Yes


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## Example Presentation

First IFRS financial statements:

8 July 2022	8 July 2022 to 7 July 2023	7 July 2023	8 July 2023 to 7 July 2024	7 July 2023
Balance sheet		Balance sheet		Balance sheet
	Profit or loss		Profit or loss	
	OCI		OCI	
	Cash flow		Cash flow	
	SOCIE		SOCIE	
Notes	Notes	Notes	Notes	Notes

IFRS 1.21 

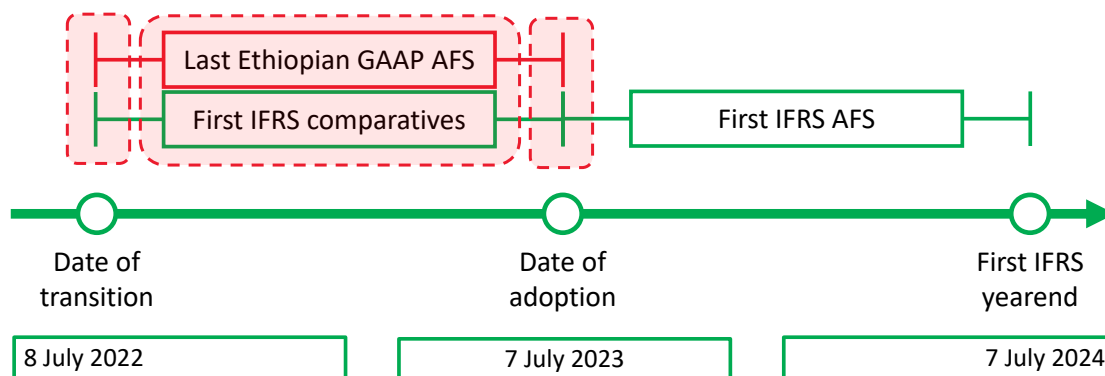


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## Reconciliations required under IFRS 1



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## Disclosure Explanation

- » Explain how transition affected financial position, financial performance and cash flows, including reconciliations between Ethiopian GAAP and IFRS for:
  - » Change in equity at transition date and date of last GAAP financials
  - » Differences in total comprehensive income for most recent comparative
  - » Changes in impairments of non financial assets
- » Any errors under Ethiopian GAAP should clearly distinguished
- » Disclose if the SOE did not previously present financial statements
- » Explanations what specific recognition and measurement exemptions permitted under IFRS 1 have been applied

IFRS 1.23 to 28

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## Optional exemptions

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## Overview of first-time IFRS adoption

- » Key principle: first-time adopter applies IFRS retrospectively.
- » However, to reduce the burden of retrospective application, there are:
  - » Mandatory exceptions that prohibit retrospective application; and
  - » optional exemptions from retrospective application.
- » Most Ethiopian companies will be required to make significant changes from their existing accounting policies to comply with IFRS.
- » Many companies will need to collect additional information to make IFRS disclosures.

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## Optional exemption Business combinations

- » First-time adopter can choose to apply IFRS business combination accounting prospectively from a date of its choosing on or before its date of transition. However,
  - » follow detailed rules provided in Appendix C to IFRS 1, and
  - » must also apply IFRS 10 from the date it chooses to apply IFRS 3 prospectively

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## Example Business combination

- » SWCs First IFRS Financial Statements are as at 7/7/2024 (with 2022/23 as comparative figures in accordance with the IFRS)
- » In 2018 SWC had a business combination that it accounted for using the 'pooling of interests method' under Ethiopian GAAP
- » In its opening IFRS balance sheet at 7/7/2022, should SWC restate accounting for business combination as an acquisition? Choose:
  - 1) Yes, SOE is required to restate the business combination.
  - 2) No, SOE is prohibited from restating the business combination.
  - 3) SOE can choose whether to restate the business combination.

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## Example Business combination

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  - 1) Yes, SOE is required to restate the business combination.
  - 2) No, SOE is prohibited from restating the business combination.
  - 3) **SOE can choose whether to restate the business combination**

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## Select other optional exemptions

- » Deemed cost (D5–D8B);
- » Leases (D9 and D9B–D9E);
- » Cumulative translation differences (D12–D13A);
- » Fair value measurement of financial assets or financial liabilities at initial recognition (D20);
- » Decommissioning liabilities included in the cost of property, plant and equipment (D21 and D21A);
- » Borrowing costs (D23);
- » Revenue (paragraphs D34 and D35)

Note: A first-time Adopter is prohibited from applying these exemptions by analogy to other items.

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## Optional exemption Deemed cost

- » First-time adopter may measure a qualifying item in the opening statement of financial position at 'deemed cost':
  - » fair value at the date of transition; or
  - » 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).

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## Example Deemed cost

- » SWC's date of transition to IFRS is 8 July 2022.
- » Under Eth GAAP it carried an item of PPE at revalued amount of Br198,000 at 7 July 2022.
  - » At 8 July 2022 the fair value of the item = Br200,000.
  - » The original cost of the item = Br300,000.
- » Had it always been accounted for in accordance with IFRS cost model, carrying amount would have been Br150,000.
- » Which is a possible carrying amount? Choose one or more of:
  - » 1) Br150,000; 2) Br198,000; 3) Br200,000; 4) Br300,000.

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## Example Deemed cost

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- » Which is a possible carrying amount? Choose one or more of:
- » 1) Br150,000; 2) Br198,000; 3) Br200,000; 4) Br300,000.

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## Optional exemptions Foreign currency

- » First-time adopter may, by optional exception deem the foreign currency translation reserve to be nil at the date of transition
- » If so deemed, under IFRS the gain or loss 'recycled' on future disposal of the foreign operation reflects only translation adjustments arising after the date of transition

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## Option exemptions Borrowing costs

First-time adopter, by optional exception, need not retrospectively capitalise borrowing costs in accordance with IAS 23. Instead:

- » it may apply the requirements of IAS 23 from the date of transition or from an earlier date from which it applies IAS 23 to all qualifying assets; and
- » must not restate the earlier borrowing cost component that was capitalised under previous GAAP

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## Optional exemptions Revenue

First-time adopter may, by optional exception at its transition date:

- » not restate contracts that were completed before its transition date; and
- » apply the practical expedients set out in paragraph C5 (together with C6) of transition requirements of IFRS 15.

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## Other optional exemptions

- » IFRS 1 includes a long list of optional exemptions
- » These exemptions are your friends, they make transition easier
- » It is important to go through them and maximise your use of them
- » They are included in appendixes C, D and E to the standard

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## Mandatory exceptions

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## Mandatory exceptions

- » Principle: apply the same accounting policies in opening balance sheet and throughout all periods presented
- » Mandatory exceptions are typically a rule - the standard:
  - » Prohibits retrospective application in specified cases
  - » Provides alternative methods
  - » Applies even if SOE can apply fully retrospective

*IFRS 1, paragraph 7, and paragraph 13*

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## Accounting estimates

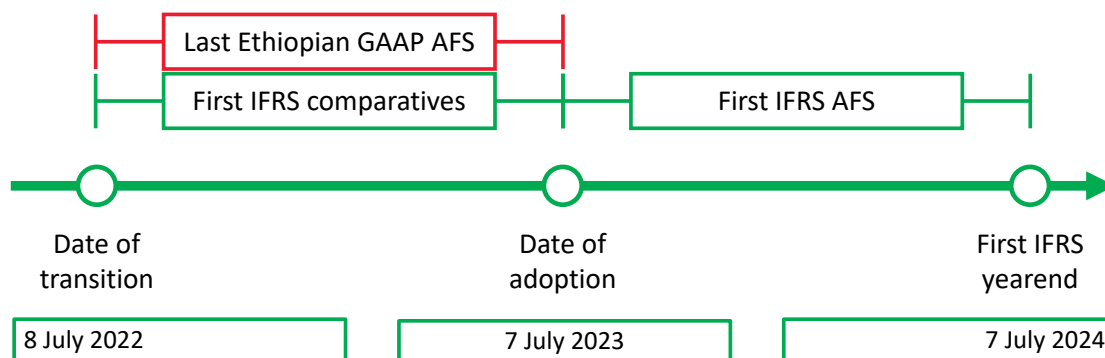
- » Use the same estimates applying IFRSs at date of transition as used under Ethiopian GAAP, unless there is objective evidence estimates were in error.
- » In restating opening balances, the requirements of IAS 10 should be used to evaluate any new information obtained after Ethiopian GAAP financial statements were published
- » If required to make estimates under IFRS that were not required under Ethiopian GAAP, the estimates must reflect conditions at the date of transition

*IFRS 1, paragraph 14 to 16*

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## Time line for all examples in this section



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## Example Estimates

- » SWC's **date of transition** to IFRSs is 7/7/2022.
- » Applying Ethiopian GAAP, at 7/7/2022 SWC **estimated its product warranty obligation** at ETB1 000 000 applying an **expected value method**
- » By 15/3/2023, **all warranties had expired** and the SWC had **actually expended ETB900 000** to settle the obligations
- » What warranty obligation should be reported in IFRS at 7/7/2022
  - 1) ETB900 000 or 2) ETB1 000 000
- » Would your answer change if SOE used most likely amount method?

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## Example Estimates

- » What warranty obligation should be reported in IFRS at 7/7/2022
  - 1) ETB900 000 or 2) ETB1 000 000
- » Would you answer change if SWC used most likely amount method?
  - 1) Doesn't reflect new information received subsequent to opening IFRS balance sheet. Instead, SWC reflects effect of new information in profit or loss for the year ended 7/7/2023.
  - 2) IFRS requires use of expected value method where there are large populations. Therefore SWC should record the estimate applying estimated value

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## Derecognition of financial assets and liabilities

- » IFRS 9 derecognition requirements must be applied prospectively
- » Any financial assets or liabilities derecognised as a result of a transaction under Ethiopian GAAP are not re-recognised applying IFRS 9
- » **UNLESS:**
  - » If the necessary information was obtained at the time of the initial transaction, the SOE may elect to apply IFRS 9 the criteria retrospectively from a date of the entities choosing
  - » However, if/when a later transaction occurs, it may result in the recognition of the assets or liabilities

IFRS 1, paragraph B2 to B3

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## Classification and measurement of financial instruments

- » IFRS 9 business model and SPPI tests are based on facts and circumstances at date of transition
- » But, if impracticable to:
  - » Assess modified interest rates at date of transition, assessment is done without considering the modifications
  - » assess significance of fair value of a prepayment feature, assess without considering the exception for prepayment features
  - » apply EIR retrospectively, use the fair value of the asset or liability at date of transition as the opening carrying amount

*IFRS 1, paragraph B8 to B8C*

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## Impairment of financial assets

- IFRS 9 impairment requirements are applied retrospectively subject to:
- » Using reasonable and supportable information available without undue cost or effort to assess change in credit risk before transition
  - » In determining significant increases in credit risk, an SOE may use:
    - » low credit risk relief; and
    - » 30 day rebuttable presumption if it will be applied going forward.
  - » If assessing requires undue cost or effort, recognise lifetime expected credit losses until asset is derecognised

*IFRS 1.B8D to B8G*

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## Government loans

- » A first-time adopter
  - » classifies loans from government as a financial liability or equity
  - » applies IFRS 9 and IAS 20 prospectively to loans existing at date of transition to IFRSs using its Ethiopian GAAP carrying amount)
- » However, FTA:
  - » may apply IFRS 9/IAS 20 retrospectively provided information needed had been obtained at time of initial recognition.
  - » May designate previously recognised financial instruments at fair value through profit or loss.

IFRS 1.B10 to B12

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## Example Government loans

- » SWC's date of transition to IFRSs is 7/7/2022.
- » SWC received a low interest loan of ETB100 000 from government in 2020, repayable 7/7/2025. Under Ethiopian GAAP, loan was accounted for as equity with a carrying value of ETB100 000.
- » SWC is obliged to repay an amount of ETB103 030

In opening IFRS balance sheet, should the loan be recorded as:

1) equity, or 2) a liability

Should the carrying value be recorded at

1) ETB100 000, or 2) ETB103 030, or 3) some other value

See example 12 in the Implementation guidance to IFRS 1

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## Example Government loans

- » SWC's **date of transition** to IFRSs is 7/7/2022.
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In opening IFRS balance sheet, **should the loan be recorded as:**

1) equity, or 2) a **liability**

Should the carrying value be recorded at

1) **ETB100 000**, or 2) ETB103 030, or 3) some other value

See example 12 in the Implementation guidance to IFRS 1

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## Example Government loans

	A (description)	B (cash flows)
1	7/7/2022	(100 000)
2	7/7/2023	-
3	7/7/2024	-
4	7/7/2025	103 030
5		1.000%

Using Excel to  
calculate internal  
rate of return

Cell B5  
contains:  
=IRR(B1:B4)

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## Example Government loans

Yr ending	Opening balance	Interest @ 1.000%*	Cash outflow	Closing balance
7/7/23	100 000	1 000	-	101 000
7/7/24	101 000	1 010	-	102 010
7/7/25	102 010	1 020	103 030	-

\* Internal rate of return = effective interest rate

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## Example Government loans - Reconciliations required under IFRS 1

Balance sheet at 8/7/2021	Note	Eth GAAP	Transition	IFRS
<u>Total liabilities</u>				
Long term liability	1	-	100 000	100 000
<u>Total Equity</u>				
Equity contribution: government	1	100 000	-100 000	-
<b>Income statement for year to 7/7/2022</b>				
Interest expense	1	-	1 000	1 000

IFRS 1 IG example 11

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## Example

### Government loans - Reconciliations required under IFRS 1

Balance sheet at 7/7/22	Note	Eth GAAP	Transition	IFRS
<u>Total liabilities</u>				
Long term liability	1	-	101 000	101 000
<u>Total Equity</u>				
Equity contribution: government	1	100 000	-100 000	-
Retained income		-	-1 000	-1 000

IFRS 1 IG example 11

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## Example

### Government loans - Reconciliations required under IFRS 1

IFRS Balance sheet at 7/7/23	Note	2023	2022	2021
<u>Total liabilities</u>				
Long term liability	1	102 100	101 000	100 000
<u>Total Equity</u>				
Equity contribution: government	1	-	-	-
Retained income		-2 100	-1 000	-

IFRS 1 IG example 11

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## Example

### *Government loans - Reconciliations required under IFRS 1*

#### Notes to the reconciliation

- 1 The entity received a low interest loan from the Ethiopian Government in 2020, repayable in 2025. The loan was accounted for in equity applying Ethiopian GAAP. Applying IAS 20, the loan has been reclassified as a long term liability, but applying IFRS 1, the carrying amount has remained as USD100 000. Th loan will bear interest at 1% until maturity, and the interest expense is accounted for in the income statement.

*IFRS 1 IG example 11*

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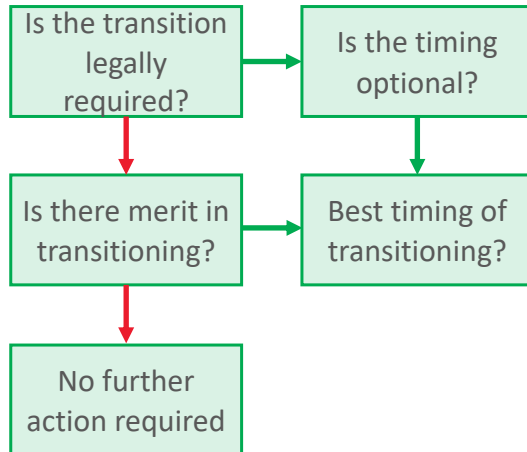
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## Planning for adoption

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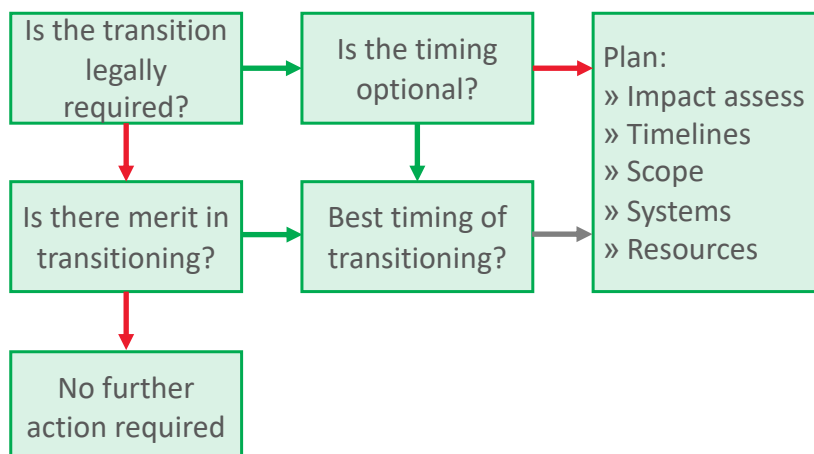
## Decision tree (1 of 2)



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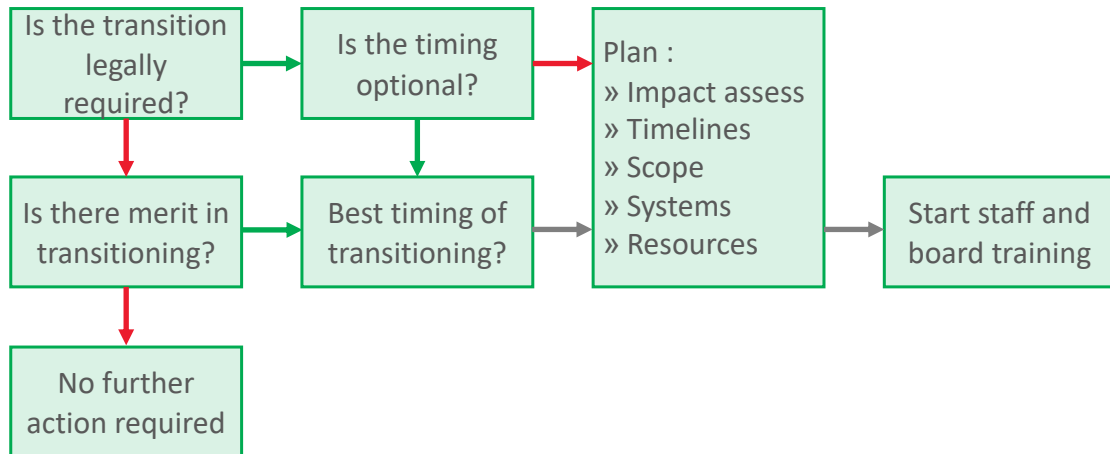
## Decision tree (1 of 2)



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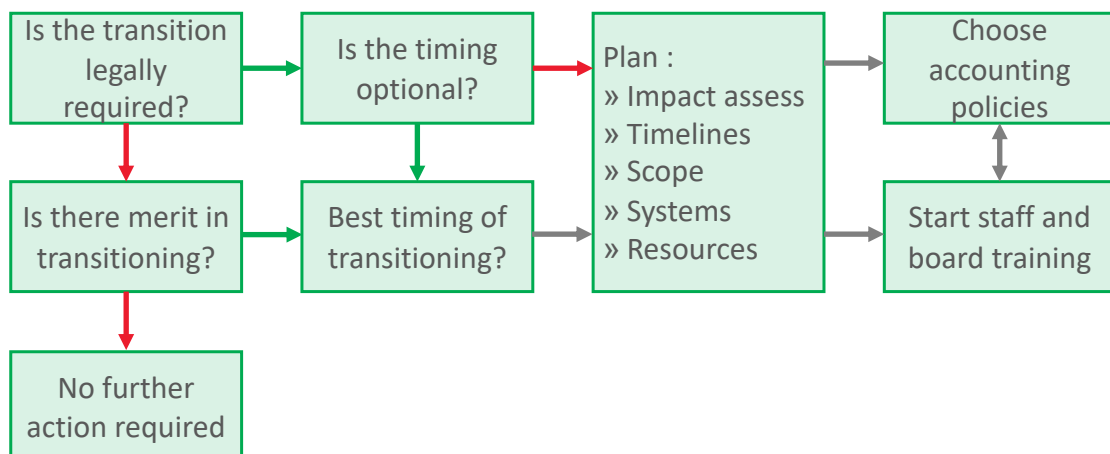
## Decision tree (1 of 2)



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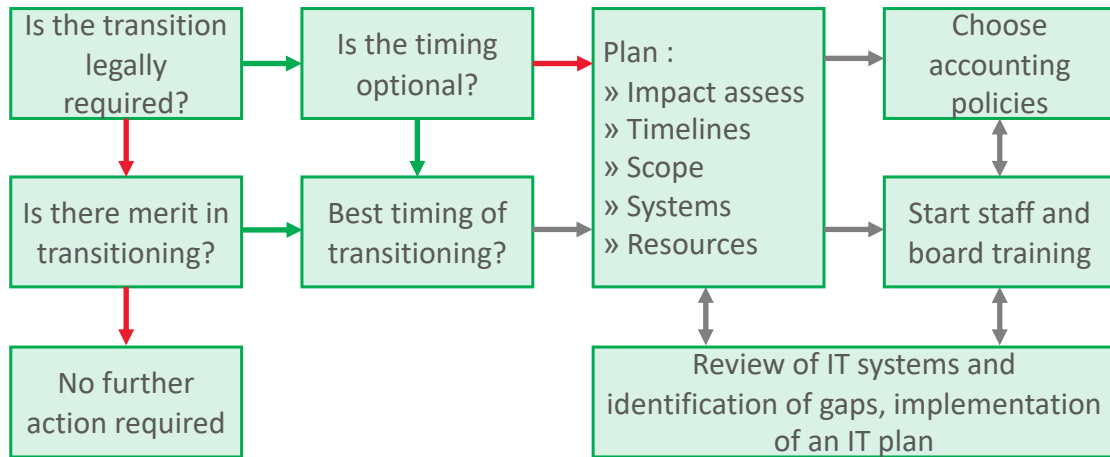
## Decision tree (1 of 2)



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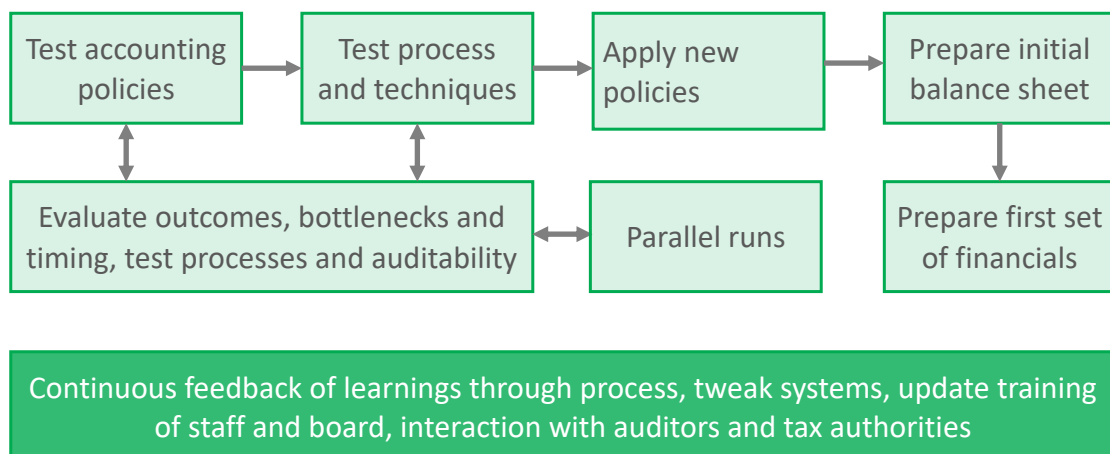
## Decision tree (1 of 2)



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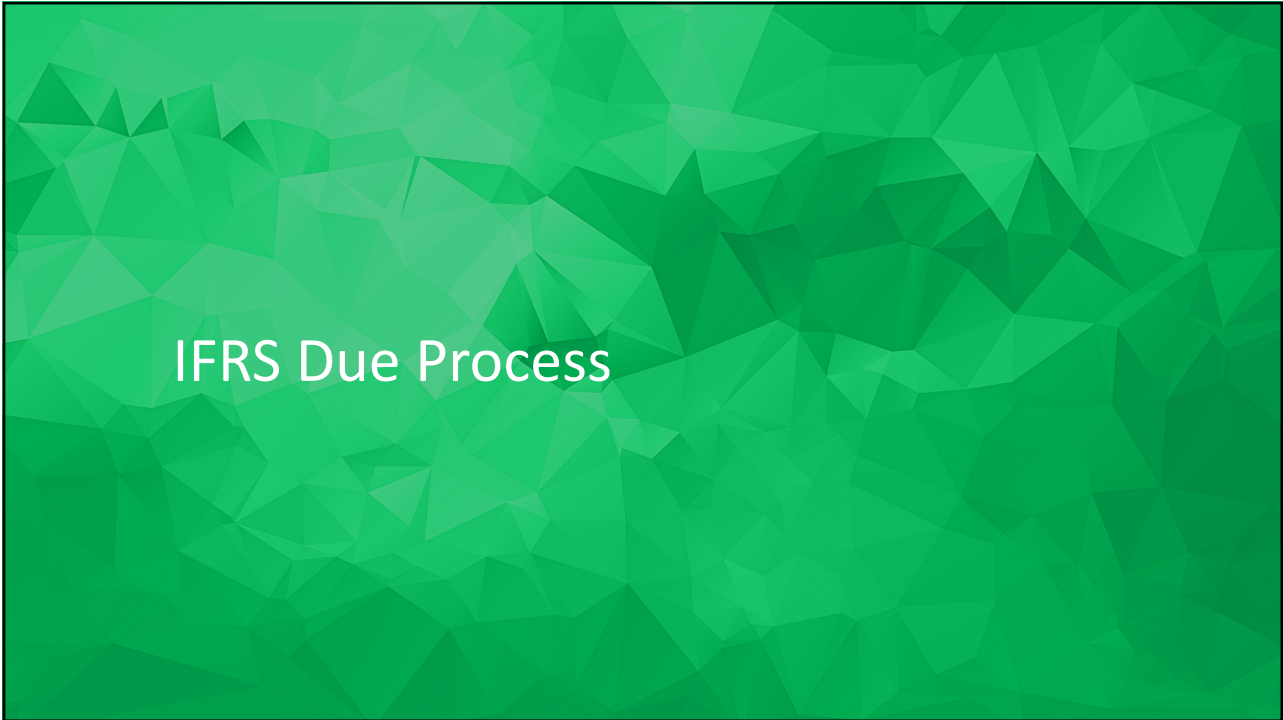
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## Decision tree (2 of 2)

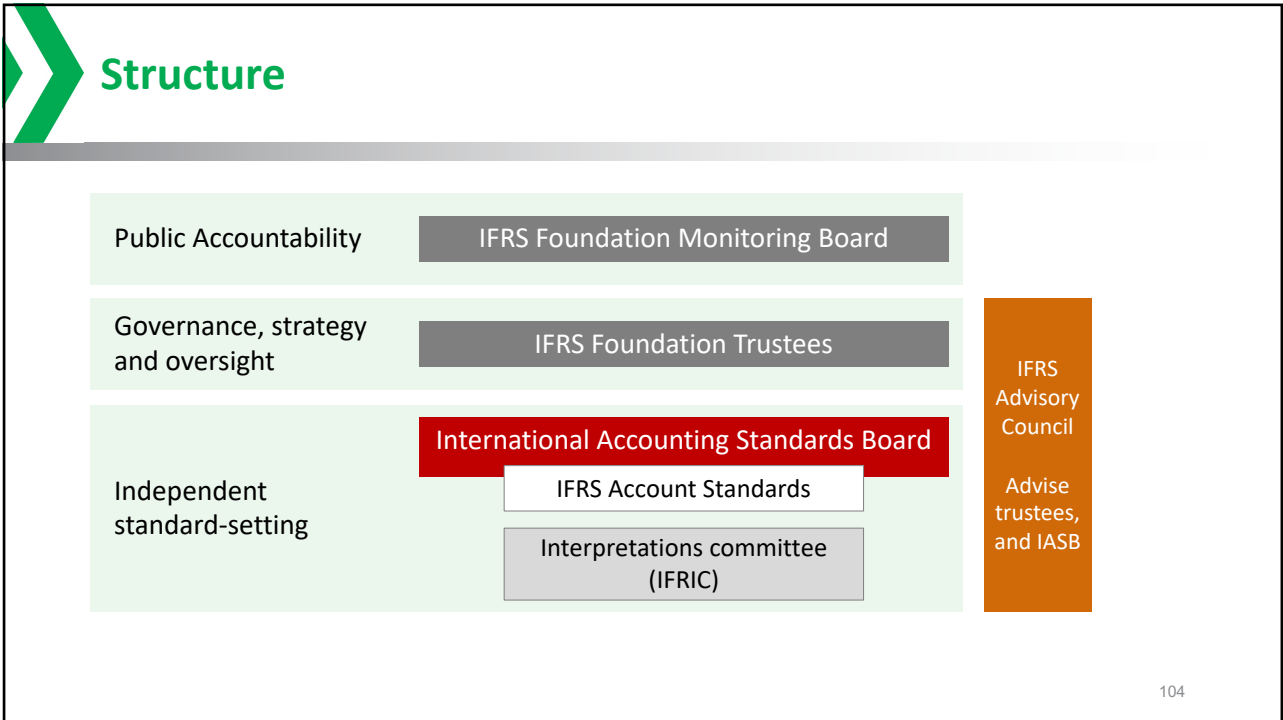


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## Due Process Outline

- » The requirements followed by IASB/IFRIC when:
  - » setting IFRS Standards and
  - » developing the IFRS Taxonomy, and
  - » supporting consistent application (interpretations, narrow scope, education)
- » Principles:
  - » Transparency
  - » Full and fair consultation
  - » Accountability

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## Due Process Principles

- Transparency:** Board and IFRIC technical meetings
- » All papers for the meetings are publicly available before the meeting
  - » The meetings occur in public, are webcast and are archived
  - » All comment letters are publicly posted
  - » Consultation meetings are summarised in board papers
- Full and fair consultation:** the Board and IFRIC consult on
- » Board agenda, new standards, amendments to standards, changes to taxonomy, agenda decisions and interpretations.

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## Due Process Principles

**Accountability:** Board and IFRIC technical meetings

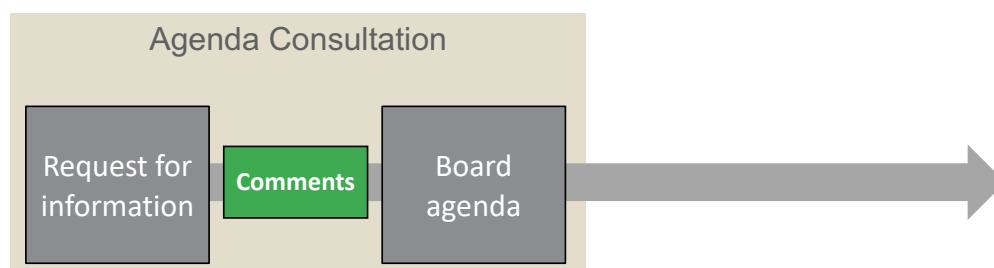
- » The **rationale** for decisions is explained (basis of conclusions)
- » **Costs and benefits** of changes are analysed and explained
- » **Trustees oversee** compliance with due process

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## Due Process The Standard Setting Process



- Used by the board to set its priorities
- Commences with request for information
- All deliberations occur in public
- Publication of Boards agenda

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## Due Process *The Standard Setting Process*



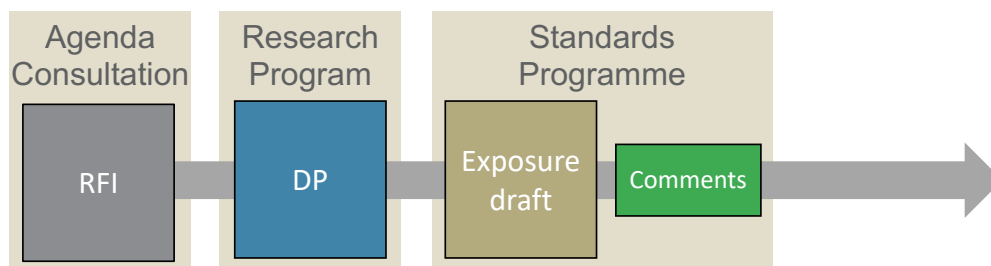
- Evidence-based decision making,
- Commences with research phase
- Discussion paper describes Boards view of research (is not a proposal)

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## Due Process *The Standard Setting Process*



- A draft proposal typically written as though a final standard
- Asks specific questions to assess quality and workability of draft

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## Due Process

### The Standard Setting Process

The diagram illustrates the standard setting process through three main stages:

- Agenda Consultation:** Includes the Request for Information (RFI).
- Research Program:** Includes the Due Process (DP).
- Standards Programme:** Includes the Exposure draft and the Final standard.

A large grey arrow points from the 'Final standard' box to the right, indicating the progression of the process.

- Comments used to compile final standard
- Typically published with a 18 month or longer delay before effective date

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## Due Process

### The Standard Setting Process

The diagram illustrates the standard setting process through four main stages:

- Agenda Consultation:** Includes the Request for Information (RFI).
- Research Program:** Includes the Due Process (DP).
- Standards Programme:** Includes the Exposure draft and the Final standard.
- Implementation:** Includes the Interpretation Narrow scope, which leads to a green box labeled 'Comments'.

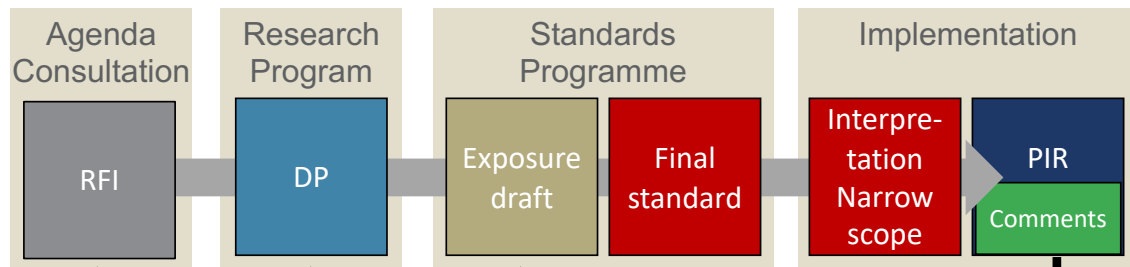
A large grey arrow points from the 'Final standard' box to the 'Interpretation Narrow scope' box, and another arrow points from the 'Interpretation Narrow scope' box to the 'Comments' box.

- Interpretation committee responds to questions or matters identified
- Publishes draft agenda decision or interpretation, or forwards to board to consider amendment to standard, subject to finalization
- Finalized after considering comments

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## Due Process *The Standard Setting Process*



- Post implementation review (usually 5 or more years after effective date of standard)
- Considers experience applying standard
- Can result in amendments to standard

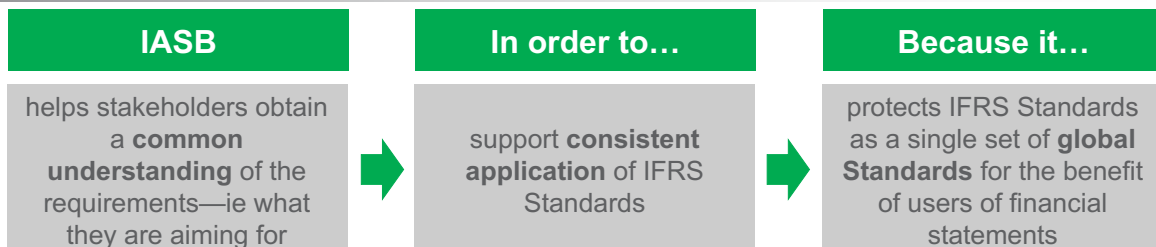
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Supporting consistent application of  
IFRS Standards

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## Support consistent application



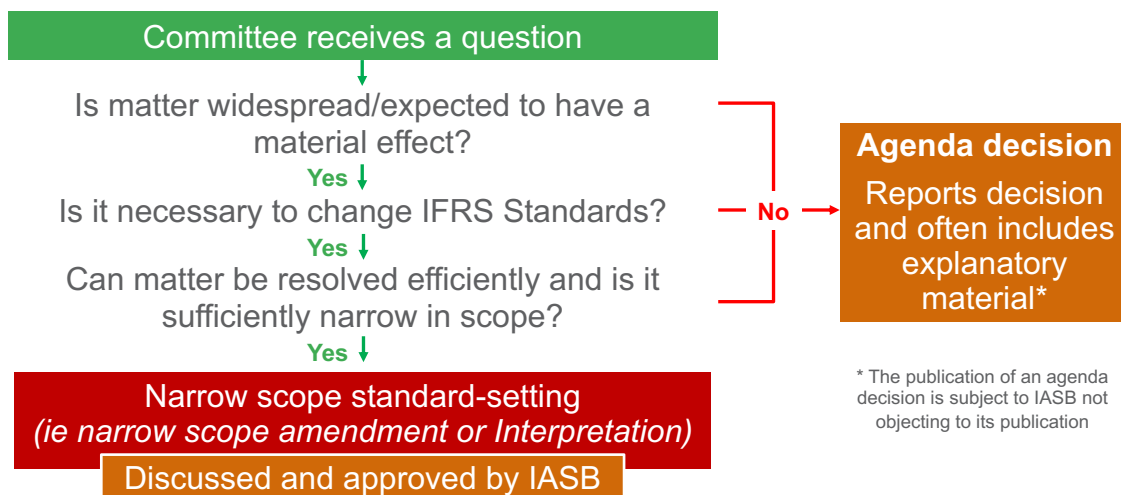
### What's the challenge?



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## Due Process *Interpretations Committee*

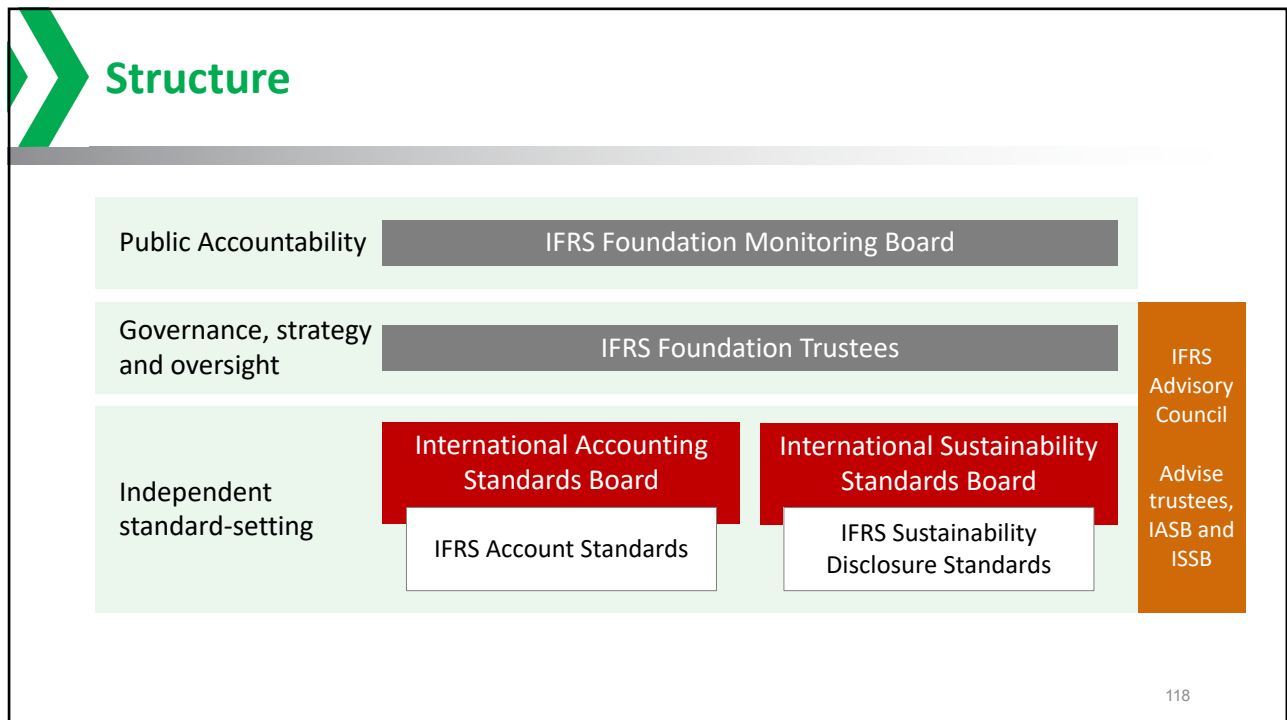


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# International Sustainability Standards Board

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## Scope of ISSB

- » To develop in the public interest:
  - » High quality standards
  - » Comprehensive sustainability disclosures
  - » Focussed on needs of investors and financial markets
- » Covering disclosures for:
  - » Environmental
  - » Sustainability
  - » Governance
- » Initial focus on climate

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## Approach of ISSB

- » Will **build on** existing investor focuses initiatives
  - » Climate Disclosures Board
  - » Task force for Climate Related Financial Disclosures
  - » Integrated Reporting Framework
  - » World economic forums stakeholder Metrics
- » **Joint preparations** through Technical Readiness Working Group
- » **Expertise, staff and content** from this group will be consolidated with those of the IFRS Foundation

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## Co-operation with the IASB

- » Will work in close co-operation to ensure
  - » Connectivity and compatibility between the sets of standards
  - » Standards compliment each other
- » Each Board will work independently, **but**
- » Will meet regularly together at staff and board level
- » Will use the IIRC to facilitate and advice on connectivity and comparability

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Discussion

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