Accounting (Basics) - Lecture 10

Transition to IFRS for SMEs

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First-time adoption

- An entity's first financial statements that conform to this IFRS are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the IFRS for SMEs.
- Financial statements prepared in accordance with these IFRS are an entity's first such financial statements if, for example, the entity:
  a) did not present financial statements for previous periods;
  b) presented its most recent previous financial statements under national requirements that are not consistent with these IFRS in all respects; or
  c) presented its most recent previous financial statements in conformity with full IFRSs.

First-time adoption

- Section “Financial Statements Presentation” of these IFRS defines a complete set of financial statements. It requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Therefore, an entity’s date of transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information in accordance with these IFRS in its first financial statements that conform to this IFRS.

Preparing financial statements at the date of transition

- An entity shall, in its opening statement of financial position as of its date of transition to the IFRS for SMEs (i.e. the beginning of the earliest period presented):
  a) recognize all assets and liabilities whose recognition is required by the IFRS for SMEs;
  b) not recognize items as assets or liabilities if these IFRS does not permit such recognition;
  c) reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under these IFRS; and
  d) apply these IFRS in measuring all recognized assets and liabilities.
- The accounting policies that an entity uses in its opening statement of financial position under these IFRS may differ from those that it used for the same date using its previous financial reporting

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framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to these IFRS. Therefore, an entity shall recognize those adjustments directly in retained earnings at the date of transition to this IFRS.

- On first-time adoption of this IFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:
  a) derecognition of financial assets and financial liabilities – financial assets and liabilities derecognized under an entity's previous accounting framework before the date of transition should not be recognized upon adoption of the IFRS for SMEs. Conversely, for financial assets and liabilities that would have been derecognized under the IFRS for SMEs in a transaction that took place before the date of transition, but that were not derecognized under an entity's previous accounting framework, an entity may choose (a) to

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derecognize them on adoption of the IFRS for SMEs or (b) to continue to recognize them until disposed of or settled.

b) hedge accounting – an entity shall not change its hedge accounting before the date of transition to the IFRS for SMEs for the hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section "Other Financial Instruments Issues".
c) accounting estimates.
d) discontinued operations.
e) measuring non-controlling interests – the requirements to allocate profit or loss and total comprehensive income between non-controlling interest and owners of the parent shall be applied prospectively from the date of transition to the IFRS for SMEs (or from such earlier date as this IFRS is applied to restate business combinations).

Preparing financial statements at the date of transition

- An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this IFRS:
  a) business combinations – a first-time adopter may elect not to apply Section “Business Combinations and Goodwill” to business combinations that were effected before the date of transition to these IFRS.
  b) fair value as deemed cost – a first-time adopter may elect to measure an item of property, plant and equipment, an investment property, or an intangible asset on the date of transition to these IFRS at its fair value and use that fair value as its deemed cost at that date.
  c) revaluation as deemed cost – a first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property, or an intangible asset at, or before, the date of transition to this IFRS as its deemed cost at the revaluation date.

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d) cumulative translation differences – Section "Foreign Currency Translation" requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to the IFRS for SMEs (i.e. a 'fresh start').

e) separate financial statements – when an entity prepares separate financial statements, Section "Consolidated and Separate Financial Statements" requires it to account for its investments in subsidiaries, associates, and jointly controlled entities either:

   i. at cost less impairment, or

   ii. at fair value with changes in fair value recognized in profit or loss.

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f) compound financial instruments – Section “Liabilities and Equity” requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to these IFRS.

g) deferred income tax – a first-time adopter is not required to recognize, at the date of transition to the IFRS for SMEs, deferred tax assets or deferred tax liabilities relating to differences between the tax basis and the carrying amount of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.

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h) arrangements containing a lease – a first-time adopter may elect to determine whether an arrangement existing at the date of transition to the IFRS for SMEs contains a lease on basis of facts and circumstances existing at that date, rather than when arrangement was entered into.

i) decommissioning liabilities included in the cost of property, plant and equipment – Section "Property, Plant and Equipment" states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes

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other than to produce inventories during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the IFRS for SMEs, rather than on the date(s) when the obligation initially arose.

- If it is impracticable for an entity to provide any disclosures required by this IFRS for any period before the period in which it prepares its first financial statements that conform to this IFRS, the omission shall be disclosed.

Disclosures

- An entity shall explain how the transition from its previous financial reporting framework to these IFRS affected its reported financial position, financial performance and cash flows. For doing this an entity's first financial statements prepared using these IFRS shall include:
  a) a description of the nature of each change in accounting policy.
  b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this IFRS for both of the following dates:
     i. the date of transition to these IFRS, and
     ii. the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

Disclosures

c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this IFRS for the same period.

- If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations made shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.
- If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to these IFRS.