First Time Adoption of IFRSs

(IFRS 1)

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Today's Agenda

Simple and Comprehensive

Real Cases and Examples

Introduction

1. Objective and Scope
2. Recognition and Measurement
   a. Opening IFRS Balance Sheet
   b. Accounting Policies
   c. Exemption from Other IFRSs
   d. Exceptions to Retrospective Application
3. Presentation and Disclosure
   a. Comparative Information
   b. Explanation of Transition to IFRSs

Question and Answers

Introduction

- Tonight's prerequisite
  - adequate knowledge on full set of IFRSs
- IFRS 1
  - As a summary and checklist of some complicated IFRSs and IASs, including IAS 19, 21 and 39 and IFRS 4, 6 and 7
  - Provides some exemptions and compulsory for the entity adopting full set of IFRSs the first time
- Maybe …… too difficult and demanding in some areas

1. Objective and Scope

- To ensure that an entity's first IFRS financial statements (and its related interim financial reports) contain high quality information that:
  a) is transparent for users and comparable over all periods presented;
  b) provides a suitable starting point for accounting under IFRSs; and
  c) can be generated at a cost that does not exceed the benefits to users

1. Objective and Scope

An entity shall apply IFRS 1 in:

a) its First IFRS Financial Statements; and

b) each interim financial report, if any,

that it presents under IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.

First IFRS Financial Statements

– the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs

1. Objective and Scope

Example

Are the following first time adoption of IFRS?

- Financial statements that comply with some (but not all) IFRSs ✕
- Financial statements in "Country A" GAAP with reconciliation to IFRSs ✕
- Financial statements that comply SME Financial Reporting Framework and Standard ✕

1. Objective and Scope

Example

Examples of financial statements under IFRSs

- An entity's first IFRS financial statements if the entity presented its most recent previous financial statements:
  - i) under other accounting requirements that are not consistent with IFRSs in all respects;
  - ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;
  - iii) containing an explicit statement of compliance with some, but not all, IFRSs;
  - iv) under other accounting requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which other accounting requirements did not exist; or
  - v) under other accounting requirements, with a reconciliation of some amounts to the amounts determined under IFRSs.

1. Objective and Scope

Example

Examples of financial statements under IFRSs

- An entity's first IFRS financial statements if the entity
  - a) prepared financial statements under IFRSs for internal use only, without making them available to the entity's owners or any other external users;
  - b) prepared a reporting package under IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IAS 1 *Presentation of Financial Statements*; or
  - c) did not present financial statements for previous periods.

1. Objective and Scope

What are the requirements?

Retrospective Application

- IFRS 1 does not apply to changes in accounting policies made by an entity that already applies IFRSs.
- Such changes are the subject of:
  a) requirements on changes in accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  b) specific transitional requirements in other IFRSs.

To have the following 3 steps under IAS 8:

- as if that policy had always been applied
- restate opening balance of retained earnings
- restate comparative figures

Today's Agenda

Introduction

1. Objective and Scope
2. Recognition and Measurement

a. Opening IFRS Balance Sheet

b. Accounting Policies

c. Exemption from Other IFRSs

d. Exceptions to Retrospective Application of IFRSs

2. Recognition and Measurement

a. Opening IFRS Balance Sheet

- An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs
- This is the starting point for its accounting under IFRSs
- An entity need not present its opening IFRS balance sheet in its first IFRS financial statements

Date of transition to IFRSs is
- the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements

2. Recognition and Measurement

Example

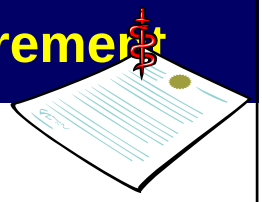
a. Opening IFRS Balance Sheet

- The reporting date of Company A's first IFRS financial statements is 31 Dec. 2007
- It prepares to present comparative information in the statements for 1 year only
- It also discloses its five year's financial summary.

Not full comparative

• Opening IFRS balance sheet	–	1 Jan. 2006
• Date of transition to IFRSs	–	1 Jan. 2006
• First reporting date	–	31 Dec. 2007

2. Recognition and Measurement

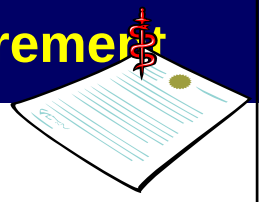


b. Accounting Policies

- An entity shall use the same accounting policies in
  - its opening IFRS balance sheet and
  - throughout all periods presented in its first IFRS financial statements
- Those accounting policies shall comply with each IFRS effective at the reporting date for its first IFRS financial statements
  - except for some exemptions stated in IFRS 1 (to be discussed)

Reporting date is defined as
- the end of the latest period covered by financial statements or by an interim financial report.

2. Recognition and Measurement



b. Accounting Policies

- An entity shall not apply different versions of IFRSs that were effective at earlier dates
- An entity may apply a new IFRS that is not yet mandatory if it permits early application

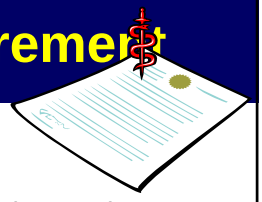
2. Recognition and Measurement

Example

- IFRS 3 *Business Combinations* shall apply to the accounting for business combinations for which the agreement date is on or after 1 January 2005.
- Before that, the accounting for business combinations is within the scope of IAS 22 *Business Combinations*.
- GV Macao Limited (GVM) is going to adopt IFRSs for its first IFRS financial statements for the year ended 31 December 2005 and present 1 year full comparative (i.e. both 2004 and 2005 would be presented).
- Can GVM apply IAS 22 for the business combinations agreed before 1 January 2005?

No
- GVM shall not apply different versions of IFRSs that were effective at earlier dates
- GVM should apply IFRS 3 for both 2004 and 2005

2. Recognition and Measurement



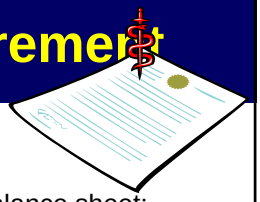
b. Accounting Policies

- The transitional provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs
  - They do not apply to a first-time adopter's transition to IFRSs

First-time adopter is
- an entity that presents its first IFRS financial statements

Transitional provisions
(in each IFRS/IAS)
are not applicable to first-time adopter

2. Recognition and Measurement



b. Accounting Policies

Recognise

Not Recognise

Reclassify

Measure

An entity shall in its opening IFRS balance sheet:

a. recognise all assets and liabilities whose recognition is required by IFRSs

b. not recognise 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 recognised assets and liabilities

Can you give some examples?

2. Recognition and Measurement

Example

b. Accounting Policies

Recognise

Not Recognise

Reclassify

Measure

Selected examples:

- Derivatives, deferred tax, actuarial gain or loss under defined benefit plan, environmental or decommissioning costs
- Research, start-up and pre-operating costs, staff training, deferred advertising cost, relocation costs
- Some intangible assets from goodwill, some preference shares reclassified to debts, compound financial instruments, some investments that meet the definitions of a subsidiary
- Deferred tax can't be discounted, derivatives at fair value

Can you give some examples?

2. Recognition and Measurement

Example

- Trident, a public limited company just listed on the Hong Kong Stock Exchange,
  - operates in the financial services sector and
  - is planning to prepare its first financial statements under IFRSs as at 31 December 2007.
- The Generally Accepted Accounting Practices (GAAP) used by Trident are very similar to IFRS but there are some differences.
- The Group is currently preparing its local GAAP financial statements for the year ending 31 December 2006.
- Based on the information, draft a memorandum to the Directors of Trident setting out the general principles behind IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

Modified from ACCA

2. Recognition and Measurement

Example

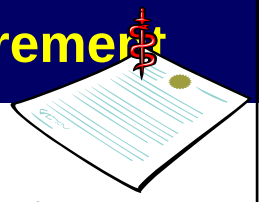
- The IFRS applies when a company adopts IFRSs for the first time by an explicit and unreserved statement of compliance with IFRSs.
- The opening balance sheet for the purpose of IFRS 1 and the date of transition will be as at 1 January 2006 as this is the beginning of the comparative period.
- As of that date the company will have to:
  - i) recognise and derecognise assets and liabilities as required by IFRSs
  - ii) reclassify items recognised under local GAAP as an asset, liability or equity that are treated differently under IFRSs
  - iii) apply IFRSs in measuring all recognised assets and liabilities
  - iv) recognise any adjustments required to move from previous GAAP to IFRS directly in retained earnings or an appropriate category of equity.

2. Recognition and Measurement

Example

- IFRS 1 grants limited exemptions from these requirements.
- The IFRS requires retrospective action in some areas but also prohibits this where judgment would be required by management about past conditions after the outcome of the transaction is already known.
- The transitional provisions in IFRS generally do not apply and the latest version of the IFRS at the date of the first financial statements (31 December 2007) shall apply to its opening balance sheet (1 January 2006) and throughout all periods presented in its first financial statements.
- Thus Trident will have to prepare its opening balance sheet retrospectively, which may cause problems in terms of the collection of the information required as at 1 January 2006.

2. Recognition and Measurement

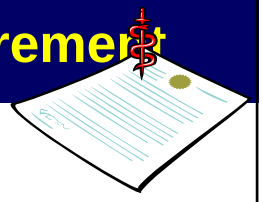


b. Accounting Policies

- The accounting policies that an entity uses in its opening IFRS balance sheet may differ from those that it used for the same date using its previous GAAP.
- The resulting adjustments arise from events and transactions before the date of transition to IFRSs.

- Therefore, an entity shall recognise those adjustments
  - directly in retained earnings
    (or, if appropriate, another category of equity, say revaluation surplus for property, plant and equipment)
  - at the date of transition to IFRSs.

2. Recognition and Measurement



b. Accounting Policies

Any exemptions from particular IFRSs?

- IFRS 1 establishes two categories of exceptions to the principle that an entity's opening IFRS balance sheet shall comply with each IFRS:
  a) grant exemptions from some requirements of other IFRSs.
  b) prohibit retrospective application of some aspects of other IFRSs.

c. Exemptions from Other IFRSs

d. Exceptions to Retrospective Application of IFRSs

2. Recognition and Measurement

c. Exemption from Other IFRSs

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

- An entity may elect to use one or more of some exemptions

1. Business combinations
2. Fair value or revaluation as deemed cost
3. Employee benefits
4. Cumulative translation differences
5. Compound financial instruments
6. Assets and liabilities of subsidiaries, associates and joint ventures
7. Designation of previously recognised financial instruments
8. Share-based payment transactions
9. Insurance contracts

An entity shall not apply these exemptions by analogy to other items.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

- An entity may elect to use one or more of some exemptions

10. Decommissioning liabilities included in the cost of property, plant and equipment
11. Leases
12. Fair value measurement of financial assets or financial liabilities at initial recognition
13. A financial asset or an intangible asset accounted for in accordance with IFRIC 12.

Shall we discuss them one by one?

An entity shall not apply these exemptions by analogy to other items.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

1. Business Combinations

Not required

- May elect not to apply IFRS 3 retrospectively to past business combinations (those occurred before the date of transition to IFRSs).
  - May not be required
    - to restate those business combinations accounted for in uniting of interest as acquisitions or
    - to restate the goodwill previously written off

If elected

- If elect to restate any business combination to comply with IFRS 3, it shall
  - restate all later business combinations and
  - apply IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* from that same date

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

1. Business Combinations

- Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply IAS 36 *Impairment of Assets*
  - in testing the goodwill for impairment at the date of transition to IFRSs, and
  - in recognising any resulting impairment loss in retained earnings (or, if so required by IAS 36, in revaluation surplus).
- The impairment test shall be based on conditions at the date of transition to IFRSs.

2. Recognition and Measurement

Example

- Peter Inc.
  - firstly adopts IFRSs for the year ended 31 Dec. 2007.
  - had 3 business combinations in its history (their respective dates of acquisition are 15 May 2005, 1 Jun. 2006 and 5 Jan. 2007)
  - had not complied IFRS 3 before
  - would elect to present 1 year comparative in its first IFRS financial statements
- If Peter Inc. elects not to apply IFRS 3 retrospectively, which business combination(s) would not be restated retrospectively.

- Reporting date under IFRS 1 is 31 Dec. 2007 and the date of transition is 1 Jan. 2006.
- In consequence, the business combination before 1 Jan. 2006 (i.e. 15 May 2005) would not be restated retrospectively.

2. Recognition and Measurement

Example

- Group ABC's policy to test the impairment loss of goodwill.
- However, some goodwill had been totally written off against retained earnings on the acquisition of certain subsidiaries.
- As a first-time adopter of IFRSs, ABC sets out that,
  - on the disposal or closure of the business to which the goodwill related, goodwill previously eliminated against retained earnings is charged to the income statement.

- Goodwill cannot be recycled to the income statement on the disposal of a subsidiary whose goodwill had been written off equity in the year of acquisition.
- Goodwill recognised in the opening IFRS balance sheet will be the carrying amount under the GAAP used by ABC as amended for any wrongly classified intangible asset and any contingent consideration.
- Goodwill should also be impairment tested using IAS 36 *Impairment of Assets* at the date of transition to IFRS.

Modified from ACCA

2. Recognition and Measurement

Case

2005 Annual Report

- In accordance with IFRS 1, HSBC has chosen not to restate
  - business combinations that took place prior to 1 January 2004, the date of transition to IFRSs ……
- Had this exemption not been taken the main effects would have been
  - to recognise additional deferred tax on fair value adjustments made at the date of acquisition and
  - to recognise additional intangible assets with consequential adjustments to the carrying value of goodwill and retained earnings as at 1 January 2004.
- The recognition of additional intangibles with a definite life would have given rise to an increased amortisation charge, which would have reduced IFRSs net income prospectively with a consequential reduction in total shareholders' equity.
- The restatement of goodwill would have had no impact on prospective net income unless it was written off following a subsequent impairment review.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

2. Fair value or revaluation as deemed cost

- An entity may elect to
  - measure an item of property, plant and equipment (PPE) at the date of transition to IFRSs at its fair value and
  - use that fair value as its deemed cost at that date.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

2. Fair value or revaluation as deemed cost

- A first-time adopter may use a previous GAAP revaluation of an item of PPE at, or before, the date of transition to IFRSs
  - as deemed cost at the date of the revaluation,

    if the revaluation was, at the date of the revaluation, broadly comparable to

    a) fair value; or

    b) cost or depreciated cost under IFRSs, adjusted to reflect, for example, changes in a general or specific price index.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

2. Fair value or revaluation as deemed cost

- The above elections (IFRS 1.16 and 1.17) are also available for:

  a) investment property, if an entity elects to use the cost model in IAS 40 *Investment Property*; and

  b) intangible assets that meet:

     i) the recognition criteria in IAS 38 *Intangible Assets* (including reliable measurement of original cost); and

     ii) the criteria in IAS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

2. Recognition and Measurement

Case

2005 Annual Report

- HSBC has elected to
  - measure individual items of property at fair value at the date of transition to IFRSs and use that fair value as deemed cost at that date.
- If HSBC had continued to revalue properties,
  - this would have led to increases in tangible fixed assets at 31 December 2004 and 31 December 2005 with corresponding increases in other reserves (net of deferred tax liabilities).
  - There would have been a slightly increased depreciation charge and reduced net income going forward.
- If HSBC had reverted to original cost as the basis for carrying properties,
  - net income under IFRSs would have been higher for 2004 and 2005 owing to a reduced depreciation charge, and shareholders' equity would have been lower.

2. Recognition and Measurement

Example

- On 30 October 2004, Trident
  - revalued its tangible non-current assets and
  - incorporated these values into its financial statements.
- Before using IFRSs, Trident
  - uses a straight line method to depreciate its tangible non-current assets.
  - developed computer software which was to be used as a financial modelling tool
    - the software cost had not been capitalised but charged to the income statement.
- Based on the information above, draft a memo. setting out the specific accounting implications of IFRS 1 for the Trident Group at the date of transition to IFRS.

Modified from ACCA

2. Recognition and Measurement

Example

- Under IFRS 1, a company can elect to
  - measure its tangible non-current assets at fair value at the date of transition to IFRSs and
  - use that value as 'deemed cost' at that date.
- Additionally, a first time adopter can elect to
  - use a local GAAP valuation of tangible non-current assets as deemed cost at the transition date (if conditions are met).
    - Trident could use this latter election if it so wishes.
- As the straight line method of depreciation is acceptable under IFRSs it can continue to be used.
- In terms of the software development costs,
  - if the costs meet the recognition and measurement criteria in IAS 38 *Intangible Assets*, then they will have to be capitalised.
  - if they do not meet the criteria, then they will remain expensed.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

3. Employee benefits (applicable to defined benefit plans)

- What is defined benefit plan (under IAS 19 *Employee Benefits*)?

- Defined benefit plan is one of the two post-employment benefit plans defined under IAS 19.
- Under defined benefit plans:
  a) the entity's obligation is to provide the agreed benefits to current and former employees; and
  b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity.
  If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

3. Employee benefits (applicable to defined benefit plans)

- What is defined benefit plan (under IAS 19 *Employee Benefits*)?

- Accounting for defined benefit plans is complex because
  - actuarial assumptions are required to measure
    - the obligation (of the employer) and the expense and
  - there is a possibility of actuarial gains and losses.
- Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

3. Employee benefits (applicable to defined benefit plan)

- Under IAS 19,
  - an entity may elect to <u>use a "corridor" approach</u> for its defined benefit plans that leaves some actuarial gains and losses unrecognised
    - unless such cumulative actuarial gains and losses beyond this "corridor"
  - <u>Retrospective application of this approach</u> requires an entity <u>to split</u> the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRSs <u>into</u>
    - a recognised portion and
    - an unrecognised portion.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

3. Employee benefits (applicable to defined benefit plan)

- However, a first-time adopter may elect to
  - recognise all cumulative actuarial gains and losses at the date of transition to IFRSs
    - even if it uses the corridor approach for later actuarial gains and losses.
    - In other words, dividing into recognised and unrecognised portions are exempted at the date of transition to IFRSs.
- If a first-time adopter uses this election,
  - it shall apply it to all defined benefit plans.

2. Recognition and Measurement

Example

- Trident has a separately administered defined benefit pension scheme.
- Contributions are charged to the income statement and the regular pension costs are attributed using the projected unit method.
- Variations in pension costs as a result of actuarial valuations are amortised over the average remaining service lives of employees.
- No actuarial gains and losses had been recognised in the financial statements.
- Based on the information above, draft a memo. setting out the specific accounting implications of IFRS 1 for the Trident Group at the date of transition to IFRS.

Modified from ACCA

2. Recognition and Measurement

Example

- IAS 19 *Employee Benefits* adopts a "corridor" approach which can leave some actuarial gains and losses unrecognised.
- The company currently has not recognised any actuarial gains and losses.
- The company has two choices in order to comply with IFRS at the transition date:
  a) Retrospectively apply IAS 19 from the inception of the scheme to the date of transition, applying the "corridor" approach at each year end, or
  b) Recognising all cumulative gains or losses at the date of transition to IFRSs and writing them off against retained earnings.

     It can use the "corridor approach" under this alternative after the date of transition.
- The latter approach would be less onerous to the company but it must be applied to all plans.

2. Recognition and Measurement

Example

- BerryBerry Limited would have its first IFRSs financial statements for the year ended 31 December 2007.
- It has a defined benefit plan for its employees, in which an actuarial loss at the date of transition to IFRSs has been accumulated to $ 5 million.
- It would adopt the "corridor approach" under IAS 19 to account for its actuarial gains or losses for its defined benefit plan.
- The actuary of BerryBerry Limited estimated that 40% of the cumulative actuarial losses at the date of transition to IFRSs was beyond BerryBerry's "corridor".
- Please comment and calculate the implication on applying and not applying IFRS 1.

2. Recognition and Measurement

Example

- BerryBerry has two choices in order to comply with IFRS 17 at the transition date:
  a) Retrospectively apply IAS 19 from the inception of the scheme to the date of transition, applying the "corridor" approach at each year end, or
  b) Recognising all cumulative gains or losses at the date of transition to IFRSs and writing them off against retained earnings.
  It can use the "corridor approach" under this alternative after the date of transition.
- By using (a) above, BerryBerry is required to
  – split the cumulative actuarial losses into 2 portions, 60% and 40% and
  – recognise 40% of such losses ($ 2 million) in its retained earnings
- By using (b) above, BerryBerry can
  – recognise all such losses, i.e. $ 5 million, its retained earnings at the date of transition to IFRSs (as exempted from IFRS 1.20),
  – can still use the "corridor approach" under IAS 19 after the date of transition.

2. Recognition and Measurement

Case

2005 Annual Report

HSBC

- HSBC
  – has elected to apply the employee benefits exemption and
  – has, therefore, recognised in equity at 1 January 2004 all cumulative actuarial gains and losses on post-employment benefit plans.
- Recognising certain actuarial gains and losses under the alternative 'corridor approach' would have
  – reduced liabilities and
  – increased retained earnings
  at 1 January 2004.
- HSBC has not elected to adopt a corridor approach going forward under IAS 19 'Employee Benefits'.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

4. Cumulative translation differences

- IAS 21 *The Effects of Changes in Foreign Exchange Rates*, requires an entity:
  a) to classify some translation differences as a separate component of equity; and
  b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) to the income statement as part of the gain or loss on disposal.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

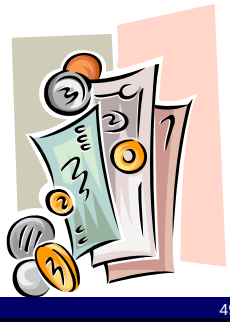
4. Cumulative translation differences

- A first-time adopter need not comply with IAS 21
  – for cumulative translation differences (to classify some translation differences as a separate component of equity) that existed at the date of transition to IFRSs.
- If a first-time adopter uses this exemption:
  a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and
  b) the gain or loss on a subsequent disposal of any foreign operation
     - shall exclude translation differences that arose before the date of transition to IFRSs and
     - shall include later translation differences.

2. Recognition and Measurement

Example

- NAA has used
  - to recognise all the exchange gains and losses on the translation of the financial statements of foreign operations in the income statements, and
  - to calculate the gains or losses on disposal of foreign operations by comparing the sales proceeds and the carrying amounts of the foreign operations at the date of disposal in its consolidated financial statements.
- In order to adopt IFRSs, NAA considers whether the above practice should be amended.



2. Recognition and Measurement

Example

- Under IAS 21 *The Effects of Changes in Foreign Exchange Rates,* NAA is required
  - to classify the translation differences as a separate component of the equity and
  - to reclassify the corresponding differences to the income statement when the foreign operation is disposed of.
- By using the exemption under IFRS 1, NAA can elect
  - not to comply with such requirements,
  - deem the cumulative translation differences for all foreign operations <u>to be zero</u> at the date of transition to IFRSs,
  - exclude <u>translation differences</u> that <u>arose before the date of transition to IFRSs</u> from the <u>gain or loss on a subsequent disposal</u> of any foreign operation, and
  - only <u>include later translation differences</u> in the gain or loss on a subsequent disposal of any foreign operation.

2. Recognition and Measurement

Case

ESPRIT

Esprit Holdings Limited

- Its annual report of 2004 stated that:
  - With effect from this financial year, the Company decided to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (instead of HK GAAP) and convert the comparative financial information for the year ended June 30, 2003 to be in accordance with IFRS.
- One of the exemption it elected:
  - The Group has adopted the option available in IFRS 1 to deem the translation reserve as at July 1, 2002 to be zero.
  - Under HK GAAP, this reserve was a debit of HK$100,664,000 as at July 1, 2002.

2. Recognition and Measurement

Case

HSBC

2005 Annual Report

- In accordance with IFRS 1, HSBC has set the cumulative exchange differences for all foreign operations to zero at the date of transition to IFRSs.
- On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement ……
- The alternative, a retrospective application of IAS 21 'The Effect of Changes in Foreign Exchange Rates', would have resulted in a re-allocation between
  - retained earnings and
  - other reserves at 1 January 2004

  but would have had no impact on total equity.

2. Recognition and Measurement

Example

- Trident's Group policy is to amortise goodwill but some goodwill had been totally written off against retained earnings on the acquisition of certain subsidiaries.
- On the disposal or closure of the business to which the goodwill related, goodwill previously eliminated against retained earnings is charged to the income statement.
- The gains and losses on the translation of the financial statements of overseas subsidiaries have been charged to retained earnings for many years and not recycled to the income statement on the disposal of subsidiaries.
- Based on the information above, draft a memo. setting out the specific accounting implications of IFRS 1 for the Trident Group at the date of transition to IFRS.

Modified from ACCA

2. Recognition and Measurement

Example

- Goodwill cannot be recycled to the income statement on the disposal of a subsidiary whose goodwill had been written off equity in the year of acquisition.
- Goodwill recognised in the opening IFRS balance sheet (1 Jan. 2004) will be the carrying amount under the GAAP used by Trident as amended for any wrongly classified intangible asset and any contingent consideration. Goodwill should also be impairment tested using IAS 36 *Impairment of Assets* at the date of transition to IFRS.
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires that some translation differences are classed as a separate component of equity on the disposal of the operation, the cumulative translation difference for that operation should be recognised in profit or loss when the gain or loss on disposal is recognised.
- However, Trident can elect under IFRS1 not to comply with these requirements, and set the cumulative translation differences for all operations to zero as at 1 Jan. 2004 and recognise any differences in accumulated profits/losses at that date.
- The directors will need to look at the nature of the records of the company in order to see if the necessary detail to comply with IAS 21 is available.

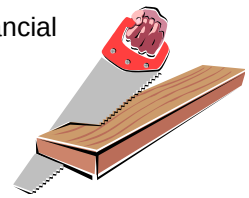
2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

5. Compound financial instruments

- IAS 32 requires an entity to split a compound financial instrument at inception into separate
  a) liability and
  b) equity components.



- If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating 2 portions of equity.
  a) The first portion is in retained earnings and represents the cumulative interest accreted on the liability component.
  b) The other portion represents the original equity component.

2. Recognition and Measurement

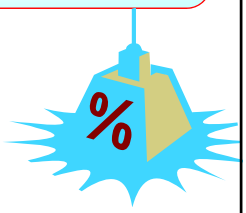
Example

c. Exemptions from Other IFRSs

Optional – entities can choose

5. Compound financial instruments

- On 1.1. 2003, NAA issued a zero convertible bond of $1,000 at par for 1 year.
  – A professional valuer estimated that the effective interest rate for a bond without such convertible right was 10% and the value of such bond amounted to $909.
  – NAA recognised the full amount received as a current non-interesting bearing loan.



- On 31.12.2003, NAA repaid the bond in full.
- In 2005, NAA decided to adopt IFRSs in full and to provide 1-year full comparative information.
- Advise NAA the implication of the above bond on its financial statements for the year ended 31.12.2005.

2. Recognition and Measurement

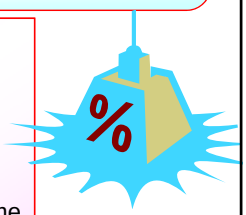
Example

c. Exemptions from Other IFRSs

Optional – entities can choose

5. Compound financial instruments

- Under IAS 32, NAA is required in the year ended 31.12.2003
  - to split the zero convertible bond into:
    - Liability $ 909
    - Equity 91
  - to recognise an interest expense of $91 in the income statement
- In substance, the retained earnings of 2004 to 2005 would be reduced by $91 and a separate equity account would be increased by $91.
- However, under IFRS 1 ……



2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

5. Compound financial instruments

- Under IFRS 1,
  - a first-time adopter <u>need not separate</u> these 2 portions
    - if the liability component is <u>no longer outstanding</u> at the date of transition to IFRSs.

- Following the previous example, NAA is not required to spilt the liability (or retained earnings) portion and the equity portion
  - as the bond is no longer outstanding on 1.1.2004.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

6. Assets and Liabilities of subsidiaries, associates and JV

Later for subsidiary

- If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its (subsidiary's) financial statements (or separate financial statements), measure its assets and liabilities at either:
  a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs; or
  b) the carrying amounts required by the rest of IFRS 1, based on the subsidiary's date of transition to IFRSs.
- A similar election is available to an associate or joint venture.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

6. Assets and Liabilities of subsidiaries, associates and JV

Later for parent

- If an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture)
  - the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the separate financial statements of the subsidiary (or associate or joint venture),
    - after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

Consolidation Financial Statements

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

6. Assets and Liabilities of subsidiaries, associates and JV

Earlier or later

- If a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements
  - it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Consolidation Financial Statements — Same amount — Separate Financial Statements

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

7. Designation of previously recognised financial instruments

- IAS 39 *Financial Instruments: Recognition and Measurement* permits a financial asset to be designated on initial recognition as
  - available for sale or
  - a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss.
- Despite this requirement exceptions apply in the following circumstances,
  - any entity is permitted to make an available-for-sale designation at the date of transition to IFRSs.
- Such exemption for financial instruments to be designated as financial asset or financial liability at fair value through profit or loss should still comply with the fair value option amendment.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

8. Share-based payment transactions

- A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted
  - That were granted on or before 7 November 2002, or
  - That were granted after 7 November 2002 that vested before the later of
    - a) the date of transition to IFRSs and
    - b) 1 January 2005.
- If a first-time adopter elects to apply IFRS 2 to such equity instruments, it may do so only if
  - the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in IFRS 2.

Only allowed if fair value disclosed before

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

8. Share-based payment transactions

- A first-time adopter is encouraged, but not required, to apply IFRS 2 to liabilities arising from share-based payment transactions
  - That were settled before the date of transition to IFRSs
  - That were settled before 1 Jan. 2005
- For liabilities to which IFRS 2 is applied,
  - a first-time adopter is not required to restate comparative information to extent that the information relates to a period or date that is earlier than 7 Nov. 2002.

2. Recognition and Measurement

Case

2005 Annual Report

HSBC

- HSBC has elected to undertake full retrospective application of IFRS 2 'Share-based Payment'.
- The alternative, excluding share options issued before 7 November 2002 as permitted by IFRS 1,
  - would have slightly reduced administrative expenses and increased net income in 2004.
- There would have been no impact on retained earnings or total equity.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

9. Insurance contracts

- A first-time adopter may apply
  - the transitional provisions in IFRS 4 *Insurance contracts*.
- IFRS 4 restricts
  - changes in accounting policies for insurance contracts,
  - including changes made by a first-time adopter.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

10. Changes in existing decommissioning liabilities included in PPE cost

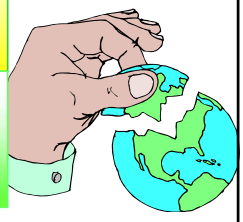
- IFRIC (Interpretation) 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires
  - specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates;
  - the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

Remember what is decommissioning liabilities or costs?

2. Recognition and Measurement

In IAS 16, the cost of PPE comprises:

1. Purchase price
2. Directly attributable costs (DAC)
3. 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 *(Existed in SSAP 17)*
   - as a consequence of having used the item during a particular period for purposes, other than to produce inventories during that period *(also refer IAS 37)* *(New in IAS 16)*



e.g. air-condition plant are installed in leasehold head office or a showroom
- In addition to the normal removal cost, the original restoring cost is also estimated for damage or pollution incurred during the lease term

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

10. Changes in existing decommissioning liabilities included in PPE cost

- A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs.
- Briefly, if a first-time adopter uses this exemption, it shall:
  - measure the liability as at the date of transition to IFRSs in accordance with IAS 37;
  - estimate the amount by discounting the liability using its best estimate of the historical risk-adjusted discount rate(s); and
  - calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs,
    - on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under IFRSs.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

11. Leases

- A first-time adopter may apply
  - the transitional provisions in IFRIC (Interpretation) 4 *Determining whether an Arrangement contains a Lease*.
- Therefore, a first-time adopter may determine
  - whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

12. Fair value measurement of financial assets or financial liabilities

- Notwithstanding the requirements in IFRS 1, an entity may apply the requirements in
  - the last sentence of IAS 39 paragraph AG76, and
  - paragraph AG76A,

  in either of the following ways:

  a) prospectively to transactions entered into after 25 October 2002; or

  b) prospectively to transactions entered into after 1 January 2004.

Last sentence of IAS 39.AG76 IAS 39.AG76G

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

12. Fair value measurement of financial assets or financial liabilities

Last sentence of IAS 39.AG 76:

- The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received)
  - unless the fair value of that instrument is
    - evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or
    - based on a valuation technique whose variables include only data from observable markets.

Last sentence of IAS 39.AG76 IAS 39.AG76G

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

12. Fair value measurement of financial assets or financial liabilities

IAS 39.AG76A:

- The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of IAS 39.
  - The application of paragraph AG76 may result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability.
  - In such a case, IAS 39 requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Last sentence of IAS 39.AG76
IAS 39.AG76G

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

13. Service concession arrangements

- A first-time adopter may apply the transitional provisions in IFRIC (Interpretation) 12 *Service Concession Arrangements*.

What is a service concession arrangement?

2. Recognition and Measurement

c. Exemptions from Other IFRSs

Optional – entities can choose

13. Service concession arrangements

- IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements
- It applies to public-to-private service concession arrangements if:
  a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
  b) the grantor controls–through ownership, beneficial entitlement or otherwise–any significant residual interest in the infrastructure at the end of the term of the arrangement.
- Such an arrangement is also described as
  – a "build-operate-transfer",
  – a "rehabilitate-operate-transfer" or
  – a "public-to-private" service concession arrangement.

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

No Choice! Mandatory!

IFRS 1 prohibits retrospective application of some aspects of other IFRSs relating to:

1. Derecognition of financial assets and financial liabilities
2. Hedge accounting
3. Estimates, and
4. Assets classified as held for sale and discontinued operations

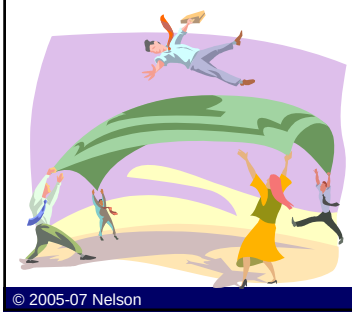
2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

1. Derecognition of financial assets and financial liabilities

- A first-time adopter shall
  - apply the derecognition requirements in IAS 39 prospectively from the effective date of IAS 39.

Apply Derecognition Prospectively



- In other words, if a first-time adopter derecognised financial assets or financial liabilities under its previous GAAP in a financial year beginning before 1 January 2004,
  - it shall not recognise those assets and liabilities under IFRSs (unless they qualify for recognition as a result of a later transaction or event).

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

1. Derecognition of financial assets and financial liabilities

Allow Retrospective Application on condition

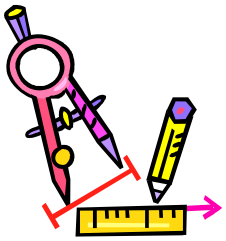
- Notwithstanding the above requirements, an entity may apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing,
  - provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time initially accounting for those transactions.

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

2. Hedge accounting

- An entity shall not reflect in its opening IFRS balance sheet a hedging relationship of a type that does not qualify for hedge accounting under IAS 39.
- However, if an entity designated a net position as a hedged item under previous GAAP,
  - it may designate an individual item within that net position as a hedged item under IFRSs
    - provided that it does so no later than the date of transition to IFRSs.

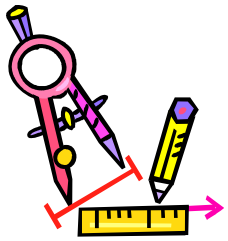


2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

2. Hedge accounting

- If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IAS 39,
  - the entity shall apply IAS 39.91 and IAS 39.101 to discontinue hedge accounting.
- Transactions entered into before the date of transition to IFRSs
  - shall not be retrospectively designated as hedges.



2. Recognition and Measurement

Example

- Trident has several financial instruments in issue. It has preference share capital which was originally redeemable on 1 January 2001.
- However if the preference shareholders so wish the capital can be converted into ordinary shares of Trident at any time up to 31 December 2007 at which time the preference shares will be converted compulsorily.
- Additionally Trident enters into foreign exchange contracts to hedge existing monetary assets and liabilities, and hedges against the effects of changes in exchange rates in the net investment in overseas subsidiaries. Hedge accounting is currently not used by Trident.
- Based on the information above, draft a memo. setting out the specific accounting implications of IFRS 1 for the Trident Group at the date of transition to IFRS.

Modified from ACCA

2. Recognition and Measurement

Example

- Under IFRSs compound financial instruments such as the redeemable convertible preference capital, should be split into separate liability and equity components.
- However, as the liability component is no longer outstanding on these preference shares, IFRS 1 allows the first time adopter not to separate these two elements and treat it as 100% equity.
- Further the treatment of hedge accounting under IFRS 1 is quite complex. Basically IFRS 1 requires prospective application of IAS 39 in relation to hedging. If the hedging relationship does not qualify under IAS 39 for hedge accounting then it should not be accounted for in the opening IFRS balance sheet.
- Additionally a first time adopter is not permitted to recognise financial assets and liabilities that had been derecognised under previous GAAP prior to the initial effective date of IAS 39.

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

3. Estimates

- An entity's estimates under IFRSs at the date of transition to IFRSs
  - shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies),
  - unless there is objective evidence that those estimates were in error.
- An entity may receive information after the date of transition to IFRSs about estimates that it had made under previous GAAP.
  - Under the above paragraph, an entity shall treat the receipt of that information in the same way as non-adjusting events after the balance sheet date under IAS 10 *Events After the Balance Sheet Date*.

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

4. Assets classified as held for sale and discontinued operations

- IFRS 5 requires that it shall be applied prospectively to
  - non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and
  - operations that meet the criteria to be classified as discontinued after the effective date of IFRS.
- IFRS 5 permits an entity to apply the above requirements for any date before the effective date of IFRS,
  - provided the valuations and other information needed to apply the IFRS were obtained at the time those criteria were originally met.

2. Recognition and Measurement

d. Exceptions to Retrospective Application of IFRSs

4. Assets classified as held for sale and discontinued operations

- An entity with a date of transition to IFRSs
  - before 1 January 2005,
    - shall apply the transitional provisions of IFRS 5
  - on or after 1 January 2005,
    - shall apply IFRS 5 retrospectively.

Today's Agenda

Introduction

1. Objective and Scope
2. Recognition and Measurement

3. Presentation and Disclosure
   a. Comparative Information
   b. Explanation of Transition to IFRSs

3. Presentation and Disclosure

a. Comparative information

b. Explanation of transition to IFRSs

- IFRS 1 does not provide exemptions from the presentation and disclosure requirements in other IFRSs

3. Presentation and Disclosure

a. Comparative information

- To comply with IAS 1, an entity's first IFRS financial statements shall include at least one year of comparative information under IFRSs
- The areas to be addressed:
  1. Exemption from the requirement to restate comparative information for IAS 39 and IFRS 4
  2. Exemption from the requirement to present comparative information for IFRS 6
  3. Exemption from the requirement to provide comparative disclosures for IFRS 7
  4. Historical summaries

3. Presentation and Disclosure

a. Comparative information

⇒ 1. Exemption from the requirement to restate comparative information for *IAS 32, IAS 39 and IFRS 4*

- In its first IFRS financial statements, an entity that adopts IFRSs before 1 Jan. 2006 shall present at least one year of comparative information
  - but this comparative information need not comply with IAS 32, IAS 39 or IFRS 4
- An entity that chooses to present comparative information that does not comply with IAS 32, IAS 39 or IFRS 4 in its first year of transition shall fulfill certain conditions

3. Presentation and Disclosure

Case

2005 Annual Report

HSBC

- In preparing these consolidated financial statements, HSBC has elected to take advantage of certain transitional provisions within IFRS 1 *'First-time Adoption of International Financial Reporting Standards'* ('IFRS 1') which offer exemption from
  - presenting comparative information or
  - applying IFRSs retrospectively.
- The most significant of these provisions is the exemption from presenting comparative information in accordance with IFRSs in the following areas:
  - IAS 32 *'Financial Instruments: Presentation'* ('IAS 32');
  - IAS 39 *'Financial Instruments: Recognition and Measurement'* ('IAS 39'); and
  - IFRS 4 *'Insurance Contracts'* ('IFRS 4').

3. Presentation and Disclosure

a. Comparative information

⇒ 2. Exemption from the requirement to provide comparative information for *IFRS 6*

- An entity that adopts IFRSs before 1 Jan. 2006 and chooses to adopt IFRS 6 *Exploration for and Evaluation of Mineral Resources* before 1 January 2006
  - need not present the disclosures required by IFRS 6 for comparative periods in its first IFRS financial statements.

3. Presentation and Disclosure

a. Comparative information

⇒ 3. Exemption from the requirement to provide comparative disclosures for *IFRS 7*

- An entity that adopts IFRSs before 1 Jan. 2006 and chooses to adopt IFRS 7 *Financial Instruments: Disclosures* in its first IFRS financial statements
  - need not present the comparative disclosures required by IFRS 7 in those financial statements.

3. Presentation and Disclosure

Case

2005 Annual Report

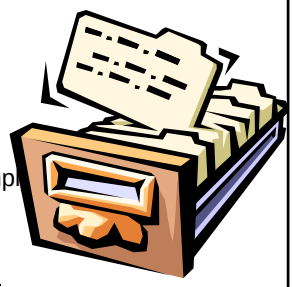
HSBC

- In addition, HSBC has elected not to present comparative information for disclosures required under IFRS 7 *'Financial Instruments: Disclosure'* (IFRS 7) as permitted for entities applying the standard for annual periods beginning before 1 January 2006.
- The notes affected by the transition provisions within IFRS 1 that do not contain comparative information are:
  - net income from financial instruments designated at fair value;
  - net earned insurance premiums;
  - net insurance claims incurred and movement in policyholders' liabilities;
  - net operating income;
  - analysis of financial assets and liabilities by measurement basis;
  - financial assets designated at fair value;
  - hedging instruments within the derivatives note;
  - securitisation and other structured transactions;
  - financial liabilities designated at fair value and liabilities under insurance contracts issued.

3. Presentation and Disclosure

a. Comparative information

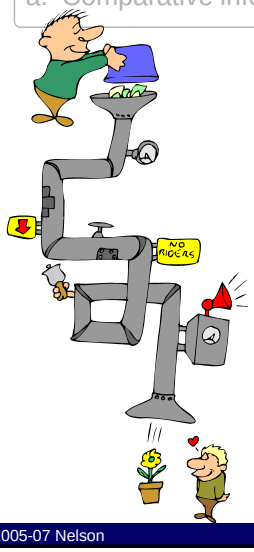
⇒ 4. Historical summaries



- Some entities present historical summaries of selected data for periods before the date of transition
  - IFRS 1 does not require such summaries to comp with the recognition and measurement requirements of IFRSs
- Some entities present comparative information under previous GAAP as well as the comparative information required by IAS 1, an entity shall
  - have proper label and
  - disclose the nature of the main adjustments that would make it comply with IFRSs (need not quantify those adjustments)

3. Presentation and Disclosure

a. Comparative information → b. Explanation of transition to IFRSs



- An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows
- The areas to be covered:
  1. Reconciliations
  2. Designation of financial assets or financial liabilities
  3. Use of fair value as deemed cost
  4. Interim financial reports

3. Presentation and Disclosure

1. Reconciliations

b. Explanation of transition to IFRSs

- The first IFRS financial statements shall include:
  a. Reconciliations of:
     - its equity reported under previous GAAP to
     - its equity under IFRSs, for both:
       - the date of transition to IFRSs and
       - the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP

Reconciliation of Equity

  b. Reconciliation of
     - the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to
     - its profit or loss under IFRSs for the same period

Reconciliation of Profit or Loss

3. Presentation and Disclosure

Example

1. Reconciliations

b. Explanation of transition to IFRSs

- If Entity NAA adopts IFRSs in full for the year ending 31 December 2007 and provide one year comparative.
- Please suggest the date or period of reconciliation required under IFRS 1.

1 Jan. 2006 and 31 Dec. 2006 → Reconciliation of Equity

The year ended 31 Dec. 2006 → Reconciliation of Profit or Loss

3. Presentation and Disclosure

Case

2005 Annual Report

HSBC

Reconciliation of previously reported shareholders' funds under UK GAAP to total shareholders' equity under IFRSs at 31 December 2004 and 1 January 2004

	At 31 December 2004 US$m	At 1 January 2004 US$m
Shareholders' funds as previously reported under UK GAAP	86,623	74,473
Goodwill	1,869	(22)
	88,492	74,451
Retirement benefits	(4,470)	(3,529)
Dividends	2,996	2,627
Leases	(503)	(402)
Share-based payments	198	211
Software capitalisation	551	518
Property	(1,607)	–
Land held under operating leases	(495)	(755)
Other	42	245
Tax	318	382
Total shareholders' equity under IFRSs	85,522	73,748

3. Presentation and Disclosure

Case

2005 Annual Report

HSBC

Reconciliation of previously reported profit attributable to shareholders under UK GAAP to profit attributable to shareholders under IFRSs for the year ended 31 December 2004

	Year ended 31 December 2004 US$m
Profit before tax under UK GAAP	17,608
Goodwill amortisation	1,818
	19,426
Other goodwill adjustments	(102)
Retirement benefits	(170)
Leases	(90)
Share-based payments	(152)
Software capitalisation	25
Property	106
Tax on associates	(48)
Other	(52)
Profit before tax under IFRSs	18,943
Tax – UK GAAP	(4,507)
Tax – IFRSs adjustments	(178)
Minority interests – UK GAAP	(1,261)
Minority interests – IFRSs adjustments	(79)
Profit attributable to shareholders under IFRSs	12,918

3. Presentation and Disclosure

Case

ESPRIT

Extract of Reconciliations (2004 Annual Report)

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS *continued*

(b) Reconciliation of equity as at June 30, 2003 *continued*

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Financed by:				
Share capital		118,869	–	118,869
Share premium		1,270,243	–	1,270,243
Contributed surplus		6,602	–	6,602
Translation reserve	(i),(vi)	31,141	122,967	154,108
Retained profits		2,810,872	(168,708)	2,642,164
Shareholders' funds		4,237,727	(45,741)	4,191,986
Obligations under finance leases				
– due after one year		336	–	336
Long-term bank loan		776,411	–	776,411
Deferred tax liabilities	(v)	4,256	314,057	318,313
		781,003	314,057	1,095,060
		5,018,730	268,316	5,287,046

3. Presentation and Disclosure

Case

ESPRIT

Extract of Reconciliations (2004 Annual Report)

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS *continued*

(c) Reconciliation of profit for the year ended June 30, 2003

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Turnover		12,381,458	–	12,381,458
Cost of goods sold		(6,198,869)	–	(6,198,869)
Gross profit		6,182,589	–	6,182,589
Staff costs		(1,603,630)	–	(1,603,630)
Depreciation and amortization	(i),(ii),(iii)	(378,884)	106,314	(272,570)
Other operating costs	(i),(v)	(2,479,118)	(2,900)	(2,482,018)
Operating profit		1,720,957	103,414	1,824,371
Interest income		41,584	–	41,584
Finance costs		(32,463)	–	(32,463)
Share of results of associates	(iv)	61,024	(15,561)	45,463
Profit before taxation		1,791,102	87,853	1,878,955
Taxation				
– Company and subsidiaries	(vi)	(592,208)	2,082	(590,126)
– Associates	(iv)	(13,324)	13,324	–
		(605,532)	15,406	(590,126)
Profit attributable to shareholders		1,185,570	103,259	1,288,829

3. Presentation and Disclosure

1. Reconciliations

b. Explanation of transition to IFRSs

- The first IFRS financial statements shall include:
  c. if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS balance sheet,
     - the disclosures that IAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRSs.

- If an entity did not present financial statements for previous periods,
  – its first IFRS financial statements shall disclose that fact.

3. Presentation and Disclosure

2. Designation of financial assets or financial liabilities

b. Explanation of transition to IFRSs

- An entity is permitted to designate
  – a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or
  – a financial asset as available for sale in accordance with IFRS 1.25A.
- The entity shall disclose
  – the fair value of financial assets or financial liabilities designated into each category at the date of designation and
  – their classification and carrying amount in the previous financial statements.

3. Presentation and Disclosure

3. Use of fair value as deemed cost

b. Explanation of transition to IFRSs

- If an entity uses fair value in its opening IFRS balance sheet as deemed cost for an item of PPE, an investment property or an intangible asset,
  - the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS balance sheet:
    a) the aggregate of those fair values; and
    b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

3. Presentation and Disclosure

4. Interim financial reports

b. Explanation of transition to IFRSs

- If an entity presents an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall have the following disclosure:
  a) Each such interim financial report shall, if there is comparative information, include reconciliations of:
     i) its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
     ii) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period.
  b) additionally, the reconciliations described before or a cross-reference to another published document that includes these reconciliations.

First Time Adoption of IFRSs

(IFRS 1) 31 July 2007

Full set of slides in PDF can be found in
www.NelsonCPA.com.hk

Do you need IFRS 1
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First Time Adoption of IFRSs

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