PREPARING FIRST IFRS FINANCIAL STATEMENTS AS PROPOSED IN ED 1, FIRST-TIME APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 31 July 2002, the IASB issued exposure draft ED 1, First-Time Application of International Financial Reporting Standards. Comments are requested by 31 October 2002.

The purpose of the Standard is to ensure that all entities adopting IFRSs for the first time present comparative information in their financial statements that is as close as possible to the information provided by existing IFRS preparers, but w ithin cost/benefit constraints. The proposals would allow an entity to restate information either by applying either:

- **the SIC 8 approach (that is, retrospective restatement using the Standards applicable at the date of transactions and their subsequent revisions and transitional provisions if applicable), except that the exception to restatement because "the amount cannot be reasonably determined" will not be available; or**
- **all the other proposed requirements of the Standard on the First-Time Application of IFRS if the SIC 8 approach is not used. Under this approach, an entity is required to use every IFRS current at the end of the reporting period in which it first adopts IFRS. At least one year of comparative information prepared using those same IFRSs is required.**

First-time adopters of IFRSs must disclose how the transition to IFRS affected the entity's financial position, performance, and cash flows.

The following is a summary of the provisions of ED 1 if an enterprise chooses to apply the specific transitional provisions in the proposed Standard and decides to adopt IFRS in 2005 for its 31 December year-end.

1. **Select accounting policies based on IFRS in force at 31 December 2005.**
2. **Prepare 2005 and 2004 information and restate the opening balance sheet (beginning of the first period presented) using those Standards retrospectively:**
   a. **Reclassify local GAAP opening balance sheet items into the appropriate IFRS classification.**
   b. **Eliminate local GAAP assets and liabilities from the opening balance sheet, if they do not qualify for recognition under IFRS.**
   c. **Recognise and measure under IFRS all required assets and liabilities**
   d. **In preparing IFRS estimates retrospectively, use inputs and assumptions used to determine local GAAP estimates in previous periods if those inputs and assumptions are consistent IFRS.**
3. **Exceptions to the general restatement principle:**
   a. **Business combinations that occurred before opening balance sheet date:**
      i. **Keep local GAAP accounting, that is, do not restate:**

         – previous mergers or goodwill written-off from reserves

         – the carrying amounts of assets and liabilities recognised at the date of acquisition/merger

         – how goodwill was initially determined

      ii. **Must make IAS 36 impairment test of any remaining goodwill in the opening balance sheet (including potential reclassifications of local GAAP intangibles reclassified to goodwill).**

      iii. **Eliminate any negative goodwill**

continued...

b. Property, plant and equipment and investment property carried under the cost model:

   i. If restatement requires undue cost and effort, measure the item at its fair value at the opening balance sheet date (fair value becomes the "deemed cost" under IFRS).

   ii. Do not restate certain previous revaluations (local GAAP carrying amount becomes the "deemed cost" under IFRS).

c. Do not restate fair value adjustments that occurred during privatisations or initial public offerings.

d. Employee benefits – actuarial gains and losses: reset any corridor recognised under local GAAP to zero at the opening balance sheet date.

e. Accumulated translation reserves: do not restate local GAAP translation amounts that may have not been distinguished in accumulated reserves.

f. Hedging: conditions to qualify for hedge accounting apply as from the opening balance sheet date.