



DATE: 12 OCTOBER 2003  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: LI LI LIAN AND MATTHEW BOHUN  
SUBJECT: **FIRST-TIME ADOPTION OF IPSASS**

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### **ACTION REQUIRED**

The Committee is asked to:

- **decide** if the PSC should develop an IPSAS or other guidance on first-time adoption of IPSASs.

### **AGENDA MATERIAL:**

	<b>Pages</b>
15.2 Strategy Paper	15.2 – 15.16
15.3 Summary of IFRS 1	15.17 – 15.20
15.4 IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	15.21 – 15.42
15.5 Media release on the issue of IFRS 1	15.43 15.45

### **BACKGROUND**

At the Vancouver 2003 meeting, the PSC noted that the IASB had issued IFRS 1 *First-time Adoption of IFRSs* in June 2003 and, that there may be a case for the PSC to develop a similar Standard.

As directed, Staff have prepared a Paper which discusses whether the PSC should issue an IPSAS on the first-time adoption of IPSASs. The Paper also compares the transitional provisions in IPSASs with those in their equivalent IASs/IFRSs and IFRS 1. In reviewing the transitional provisions in IPSASs, it was noted that some confusion may arise about whether an entity is required to present comparative information when it first adopts IPSASs.

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## **Issues Paper – First-time Adoption of IPSASs**

### ***Introduction***

International Financial Reporting Standard IFRS 1 *First-time Adoption of International Financial Reporting Standards* was issued on 19 June 2003. IFRS 1 was issued to replace SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*. IFRS 1 applies to an entity's first IFRS financial statements and each interim financial report presented under IAS 34, *Interim Financial Reporting* for any part of the period covered by its first IFRS financial statements. A summary of IFRS 1 is included at Agenda Item 15.3.

Consistent with its policy of harmonizing with IASs/IFRSs, the PSC will need to consider whether to develop an IPSAS based on IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

### ***Adopting IPSASs for the First Time***

IPSAS 1 *Presentation of Financial Statements* makes it clear that an entity claiming to comply with IPSASs will need to comply with all IPSASs:

***“26. An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standard.”***

An entity adopting IPSASs for the first time may be:

- a) an entity that adopts accrual accounting for the first time and applies IPSASs to present its general purpose financial statements;
- b) an entity that had previously presented its general purpose financial statements on an accrual or modified accrual basis consistent with its general national accepted accounting principles, but has decided to adopt IPSASs; or
- c) a newly created entity that adopts IPSASs for the first time.

There is no IPSAS on first-time adoption of IPSASs. However, a number of the individual IPSASs include transitional provisions providing relief to first-time adopters of that particular IPSAS. A summary of these transitional provisions is attached to this Issues Paper. (Attachment 1)

Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Government and Government Entities* provides guidance on the approaches that may be adopted in the transition to the accrual basis of accounting. This Study is relevant to all entities intending to adopt IPSASs, including those currently reporting on an accrual basis under other standards or principles. Study 14 is not an authoritative document and cannot specify additional transitional provisions or override the provisions of IPSASs. Currently, it does not include a summary of the transitional provisions in IPSASs.

### ***Transitional Provisions in IPSASs and in IFRS 1 for First-time Adopters***

As noted above, individual IPSASs include transitional provisions that provide relief to entities adopting that particular IPSAS for the first time. These transitional provisions would be available to entities adopting all IPSASs for the first time.

In many cases, these transitional provisions are not the same as the transitional provisions in the equivalent IAS/IFRS or the exemptions/exceptions in applying IASs/IFRSs in IFRS 1.

Where the transitional provision in an IPSAS differs from its equivalent IAS/IFRS, the transitional provisions of the IPSAS provide more generous relief than do their equivalent IASs/IFRSs – for example, short-term relief from certain requirements for presentation of comparatives (IPSAS 1), consolidations (IPSAS 6), leases (IPSAS 13), investment property (IPSAS 16), and property, plant and equipment (IPSAS 17). The PSC decided to provide the additional transitional relief when finalizing these IPSASs to acknowledge particular public sector issues related to the initial adoption of these IPSASs – that is, that most entities adopting IPSASs would be moving from a cash or modified cash or modified accrual basis to an IPSAS basis, rather than moving from an accrual basis consistent with national standards to an accrual basis consistent with IPSASs. (It was anticipated that any entity already applying accrual accounting accordance with national GAAP would not need to take advantage of the generous transitional provisions in IPSASs for example, the requirements for consolidating all controlled entities.)

*Staff View: The existing transitional requirements in IPSASs should not be withdrawn or replaced. The public sector circumstances that prompted the PSC's decision to include these transitional provisions have not changed.*

#### **IFRS 1 – Relief for First-time Adopters**

In most cases, the transitional provisions in individual IPSASs also provide more generous relief than does IFRS 1. However, in the following cases, IFRS 1 provides more generous relief than in the equivalent IPSAS (or the IAS/IFRS on which the IPSAS is based). This occurs in respect of:

- IAS 21 (IPSAS 4) *The Effects of Changes in Foreign Exchange Rates* – On first adoption of IASs/IFRSs, an entity is not required to identify existing cumulative translation differences as a separate component of equity for all foreign operations. Cumulative translation for all foreign operations are deemed to be zero at the date of transition to IFRSs; and the gain and loss on a subsequent disposal of any foreign operations will only include translation differences that arose after the date of transition to IFRSs. IPSAS 4 does not include this relief; and
- IAS 10 (IPSAS 14) *Events After the Balance Sheet Date* – On first adoption of IASs/IFRSs an entity will treat the receipt of information received after the date of transition to IFRSs about estimates that it had made under previous GAAP as a non-adjusting event under IAS 10, *Events After the Balance Sheet Date*. (This provision does not apply to cases where the estimates need adjustment for any differences in accounting policies or where there is objective evidence that the estimates were in error.) IPSAS 14 does not include this relief.

Consistent with its policy of harmonizing with IASs/IFRSs, the PSC will need to consider whether there is a public sector specific reason for not providing this additional relief to public sector entities adopting IPSASs for the first time.

*Staff View: In respect of certain requirements of IAS 21 (IPSAS 4) and IAS 10 (IPSAS 14), IFRS 1 provides relief to first-time adopters of IASs/IFRSs that is additional to the relief provided in the individual IASs/IFRSs and in the equivalent IPSASs. The PSC considered transitional provisions when finalizing the IPSASs. However, there is no public sector specific reason not to make the additional IFRS 1 relief available to public sector entities adopting IPSASs for the first time. (Whether an IPSAS on first-time adoption is required to deliver this relief is considered later in this Paper.)*

IFRS 1 includes relief from the requirements of the following IASs/IFRSs for which IPSASs have not been issued:

- IAS 19 *Employee Benefits*;
- IAS 22 *Business Combinations*; and
- IAS 39 *Financial Instruments: Recognition and Measurement*.

As the PSC issues IPSASs based on these IASs/IFRSs, it will need to consider whether there is a public sector specific reason to:

- include in the IPSAS the transitional provisions which differ from those included in the IAS/IFRS; and
- not provide to first-time adopters of IPSASs the additional relief in IFRS 1

*Staff View: PSC decisions regarding transitional provisions in respect of IPSASs based on IAS 19, IAS 22 and IAS 39 (or the IFRSs that replace these IASs) should be made as the PSC considers the application of these standards to the public sector.*

### ***Other Issues Relevant to First-time Adoption of IPSASs***

IPSAS 3 paragraph 55 requires changes in an accounting policy as a result of the adoption of an IPSAS to be accounted for in accordance with the specific transitional provisions in that IPSAS. In the absence of transitional provisions, an entity that changes its accounting policy will have to apply the requirements of paragraphs 60 and 65 in IPSAS 3. Paragraphs 60 and 65 require that when an accounting policy change is made (including the adoption of IPSASs or adoption of a new IPSAS), comparative information should be restated unless it is impracticable to do so.

- “55. A change in accounting policy which is made on the adoption of an International Public Sector Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that International Public Sector Accounting Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 59, 60, 63 and 64 or the allowed alternative in paragraphs 65, 67 and 68.***
- 60. Any resulting adjustment should be reported as an adjustment to the opening balance of accumulated surpluses or deficits. Comparative information should be restated unless it is impracticable to do so.***

65. *A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 60, should be presented unless it is impracticable to do so.*

IPSAS 1, paragraph 60 provides entities with specific relief from the requirement to provide comparative information for the reporting period to which IPSAS 1 is first applied.

- “60. *Unless an International Public Sector Accounting Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.*”

These requirements of IPSASs 1 and IPSAS 3 may be read to be contradictory, or at least may result in some confusion, since the IPSAS 1 relief from the requirement to provide comparative information on initial adoption of IPSAS 1 is not formally headed “*Transitional Provision*” and does not appear at the end of the IPSAS as is the case with transitional provisions of other IPSASs. However, the relief from comparative information in IPSAS 1 paragraph 60 is clearly in the nature of a transitional provision.

*Staff View: It would be useful to clarify that the relief from the requirement to provide comparative information on initial adoption of IPSAS 1 is a transitional provision. This may be achieved by including a commentary paragraph to this effect in IPSAS 1 or by relocating the relevant phrases in paragraph 60 to the transitional provision section of IPSAS 1. (For example, including a transitional provision in IPSAS 1 which specifies that: “Comparative information for the previous period is not required to be disclosed in respect of the financial statements for the reporting period to which this Standard is first applied.”) Such a change would not itself warrant re-exposure of IPSAS 1. In addition, such a change could be processed as part of any amendments made to IPSASs in response to the IASB’s General Improvements Project.*

### ***Should a Standard on First-time Adoption of IPSASs be developed?***

The IASB has agreed that IFRS 1 will contain all material on first-time adoption of IFRSs, and other/individual IFRSs will not generally apply to first-time adopters.

There is an attraction in having a single document that draws together all requirements and guidance relating to the first-time adoption of IPSASs. An IPSAS on first-time adoption would also maintain the nexus between IPSASs and IFRSs and remove any uncertainty that might exist about whether the requirements of IFRS 1 might apply when IPSASs are first adopted.

However, it is questionable whether such an IPSAS is necessary. As noted above, the transitional provisions included in each of the existing IPSASs were developed to acknowledge that many entities would be adopting IPSASs for the first time.

Therefore, it is likely that the PSC would only wish to vary the transitional provisions included in existing IPSASs in respect of IPSAS 4 and IPSAS 14. This is because these are the only cases in which IFRS 1 provides more generous relief to that included in existing IPSASs. As such, an IPSAS on first-time adoption need only include “black letter” requirements in respect of adoption of these two IPSASs, but could include a summary of the transitional provisions in the other IPSASs.

The requirements of the IASs/IFRSs on which IPSASs 4 and IPSAS 14 are based on are being amended as part of the IASB’s general improvements project. If the PSC determines that it will amend IPSASs in response to the IASB’s general improvement project, the transitional provisions in IPSASs 4 and 14 can be amended to incorporate the relief provided by IFRS 1 in respect of first time adoption of IASs/IFRSs.

*Staff View: A standard on first-time adoption of IPSASs should not be actioned at this time. Amendments to deal with the additional relief provided by IFRS 1 to first time adopters of IPSAS 4 and IPSAS 14 should be included in those standards as the PSC processes amendments emanating from the IASB’s general improvements project. This view may need to be revisited if the PSC does not decide to amend existing IPSASs to ensure harmonization with IASs/IFRS, but wishes to provide the additional relief in IFRS 1.*

It may be that development of an IPSAS equivalent to IFRS 1 will be necessary at a later date when the PSC has considered issues that relate to the recognition and measurement of IASs/IFRSs based on IAS 19, *Employee Benefits*, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 22, *Business Combinations* (or the IFRSs that replace these IASs). However, it may also be the case that, as discussed in agenda paper 14.2, the PSC will:

- rely on the “hierarchy” for guidance on particular of these IASs/IFRSs, in which case there will not be a separate IPSAS; or
- if it adopts the “review and rewrite” approach to the preparation of an IPSAS, include in the IPSASs themselves transitional provisions which specify the relief available to the first time adopters of IPSASs.

Whether or not a separate IPSAS on first-time adoption is necessary to deal with transitional requirements for these IPSASs will be considered as the PSC considers the application of these standards to the public sector and its strategy in respect of them.

### ***Should Other Guidance on First-time Adoption of IPSASs be Developed?***

As noted above, there is an attraction in having a single document that draws together all requirements relating to the first-time adoption of IPSASs, and can be built on as those requirements develop.

*Staff View: This could be developed as a separate appendix or chapter in Study 14 when it is next updated. This is the logical place to provide guidance on first-time adoption of IPSASs. If developed as a separate chapter or appendix, it can also be “detached” and used as a stand alone document if needed.*

*(Staff considered whether this was a suitable subject for a Guideline and concluded that it was not since it did not add to the body of guidance. It also seemed to be too “slim” a subject for a separate Study or Occasional Paper.)*

## ***Attachment 1: Transitional Provisions in Accrual-based IPSASs***

### **Introduction**

IPSASs that have specific transitional provisions are:

- *IPSAS 1 Presentation of Financial Statements*
- *IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*
- *IPSAS 4 The Effects of Changes in Foreign Exchange Rates*
- *IPSAS 5 Borrowing Costs*
- *IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities*
- *IPSAS 8 Financial Reporting of Interests in Joint Ventures*
- *IPSAS 13 Leases*
- *IPSAS 15 Financial Instruments: Disclosure and Presentation*
- *IPSAS 16 Investment Property*
- *IPSAS 17 Property, Plant and Equipment*
- *IPSAS 19 Provisions, Contingent Liability and Contingent Assets*

### **Specific Transitional Provisions**

Details of the specific transitional provisions in each IPSAS are outlined in figure 1 below.

### **Implications for First Time Adopters of IPSASs**

The implications of these transitional provisions for first time adopters of IPSASs are outlined below.

When an entity prepares its first general purpose financial statements that comply with IPSASs, it:

- (a) should comply with all the requirements of every applicable IPSAS on issue (IPSAS 1, paragraph 26) except in relation to items which have not been recognized as a result of transitional provisions in specific IPSASs (IPSAS 1, paragraph 134). Notwithstanding the existence of transitional provisions, entities are encouraged to comply in full with all the requirements of every applicable IPSAS as soon as possible (IPSAS 1, paragraph 135);
- (b) need not present comparative information (IPSAS 1, paragraph 60); and
- (c) applies the transitional provisions, which:
  - (i) require that the entity should, except where the amount is not reasonably determinable, separately classify and disclose the cumulative balance, at the beginning or the period, of exchange differences deferred and classified as net assets/equity in previous periods (IPSAS 4, paragraph 66);

- (ii) allow economic entities up to three years to eliminate any inter-entity balances and transactions when preparing consolidated financial statements that consolidate controlled entities or joint-ventures accounted for on proportionate consolidation basis (IPSAS 6, paragraph 58; IPSAS 8, paragraph 63). Where an entity takes advantage of these transitional provisions it must disclose the fact that not all inter-entity balances and transactions have been eliminated (IPSAS 6, paragraph 60; IPSAS 8, paragraph 65);
- (iii) do not require an entity to apply the provisions of IPSAS 13 *Leases* to assets that are not recognized in accordance with the transitional provisions of another IPSAS in respect of those assets until the expiration of the other IPSAS's transitional provisions, or five years, whichever is earlier (IPSAS 13, paragraph 36);
- (iv) allows an entity to recognize and measure finance leases in accordance with IPSAS 13 prospectively. The balance of pre-existing finance leases is deemed to have been properly determined by the lessor (IPSAS 13, paragraph 73);
- (v) require that entities adopting accrual accounting for the first time report the effect of the initial recognition of investment property as an adjustment to accumulated surpluses or deficits (IPSAS 16, paragraph 79)<sup>1</sup>;
- (vi) allow entities adopting accrual accounting for the first time in accordance with IPSASs to recognize investment property and property, plant and equipment at cost or fair value. Where investment property, or property, plant and equipment was acquired for no cost or a nominal cost, cost is the item's fair value as at the date of acquisition (IPSAS 16, paragraph 80; IPSAS 17, paragraph 81);
- (vii) do not require entities to recognize property, plant and equipment for a period of five years following the date of first adoption of IPSAS 17 (IPSAS 17, paragraph 80). Where an entity takes advantage of this transitional provision, that fact must be disclosed. Information on the major classes of asset that have not been recognized must also be disclosed (IPSAS 17, paragraph 87); and
- (viii) require entities to report the effect of applying IPSAS 19 as an adjustment to the opening balance of accumulated surpluses and deficits for the period in which IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* is first adopted.<sup>2</sup>

When an entity prepares its second and subsequent general purpose financial statements, it is also required to disclose comparative information for all numerical data in the general purpose financial report. Where an entity takes advantage of the

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<sup>1</sup> IPSAS 3, paragraph 60 requires that the effect of any change in accounting policy be recognized as an adjustment to the opening balance of accumulated surpluses and deficits, so whilst this requirement is explicitly re-stated in IPSAS 16, it also applies to other IPSASs.

<sup>2</sup> IPSAS 3, paragraph 60 requires that the effect of any change in accounting policy be recognized as an adjustment to the opening balance of accumulated surpluses and deficits, so whilst this requirement is explicitly re-stated in IPSAS 19, it also applies to other IPSASs.

transitional provision not to recognize items of property, plant and equipment for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but which are recognized in the second or subsequent reporting period should be disclosed (IPSAS 17, paragraph 87).

### **Establishment of Opening Balances**

There is no explicit statement in IPSASs to require entities to prepare opening balances when first adopting IPSASs<sup>3</sup>. However, IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policy* requires entities to adjust opening accumulated surpluses (deficits) for the net assets held at the beginning of the reporting period where there is a change in accounting policies due to the adoption of IPSASs for the first time. Consequently, entities that take advantage of transitional provisions, such as those in IPSAS 17 *Property, Plant and Equipment*, and delay recognition of some assets, are required to restate the opening balance of accumulated surpluses and deficits for the period in which assets are initially recognized.

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<sup>3</sup> IFRS 1 requires entities to prepare an opening balance sheet at the date of transition to IFRSs. The date of transition is the beginning of the earliest period for which it presents full comparative information under IFRSs in its first IFRS financial statement.

**Figure 1 – Transitional Provisions in IPSASs**

<b>IPSAS</b>	<b>Details of Transitional Provision</b>
IPSAS 1 <i>Presentation of Financial Statements</i> Issued: May 2000 Effective date: 1 July 2001	<ul style="list-style-type: none"> <li>• Comparative information not required in respect of the financial statements for the reporting period to which IPSAS 1 is first applied. (Paragraph 60)</li> <li>• Apply all requirements of the Standard from the date of first adoption of the Standard, except in relation to items that have not been recognized as a result of transitional provisions in other IPSASs. Disclosure provisions of IPSAS 1 would not be applied to those items until the transitional provisions expire. (Paragraph 134)</li> <li>• Notwithstanding the existence of transitional provisions, the entity is encouraged to comply in full with the provisions of that other Standard as soon as possible. (Paragraph 134)</li> </ul>
IPSAS 2 <i>Cash Flow Statements</i> Issued: May 2000 Effective date: 1 July 2001	<ul style="list-style-type: none"> <li>• No transitional provisions.</li> </ul>
IPSAS 3 <i>Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies</i> Issued: May 2000 Effective date: 1 July 2001	<ul style="list-style-type: none"> <li>• The selection and application of accounting policies are discussed in IPSAS 1. A change from one basis of accounting to another basis of accounting is a change in accounting policy. (IPSAS 3, paragraph 49)</li> <li>• A change in the accounting treatment, recognition or measurement of a transaction or event within a basis of accounting is regarded as a change in accounting policy. (IPSAS 3, paragraph 50)</li> <li>• Any resulting adjustment should be reported as an adjustment to the opening balance of accumulated surpluses or deficits. Comparative information should be restated unless it is impracticable to do so. (IPSAS 3, paragraph 60)</li> </ul> <p><b>Benchmark Treatment</b></p> <ul style="list-style-type: none"> <li>• A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of accumulated surpluses or deficits. Comparative information should be restated unless it is impracticable to do so. Where the amount of an adjustment to opening balances cannot be reasonably determined the change in accounting policy is applied prospectively only. (Paragraphs 59 – 63)</li> </ul>

IPSAS	Details of Transitional Provision
	<p><b>Allowed Alternative Treatment</b></p> <ul style="list-style-type: none"> <li>A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information prepared in accordance with the allowed alternative treatment in this IPSAS, should be presented unless it is impracticable to do so. The change in accounting policy should be applied prospectively when the amount to be included in net surplus or deficit for the current period cannot be reasonably determined. (Paragraphs 65 – 67)</li> </ul>
<p>IPSAS 4 <i>The Effects of Changes in Foreign Exchange Rates</i>            Issued: May 2000            Effective date: 1 July 2001</p>	<ul style="list-style-type: none"> <li>On the first occasion that an entity applies IPSAS 4, the entity should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as net assets/equity in previous periods. (Paragraph 66)</li> </ul>
<p>IPSAS 5 <i>Borrowing Costs</i>            Issued: May 2000            Effective date: 1 July 2001</p>	<ul style="list-style-type: none"> <li>When the adoption of IPSAS 5 results in a change in accounting policy, the entity is encouraged to adjust its financial statements in accordance with IPSAS 3 <i>Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies</i>. (Paragraph 41)</li> <li>Entities following the allowed alternative treatment (i.e. capitalizing certain borrowing costs) should capitalize the borrowing costs incurred after the effective date of IPSAS 5, subject to the criteria for capitalization. (Paragraph 41)</li> </ul>
<p>IPSAS 6 <i>Consolidated Financial Statements and Accounting for Controlled Entities</i>            Issued: May 2000            Effective date: 1 July 2001</p>	<ul style="list-style-type: none"> <li>Following the date of first adoption of IPSAS 6, controlling entities have a period of 3 years to completely eliminate the inter-entity balances and transactions. (Paragraph 58)</li> </ul>

<b>IPSAS</b>	<b>Details of Transitional Provision</b>
IPSAS 7 <i>Accounting for Investments in Associates</i> Issued: May 2000 Effective date: 1 July 2001	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>
IPSAS 8 <i>Financial Reporting of Interests in Joint Ventures</i> Issued: May 2000 Effective date: 1 July 2001	<ul style="list-style-type: none"> <li>• Following the date of first adoption of IPSAS 8, if the entity chooses to proportionately consolidate its jointly controlled entities, the entity has a period of 3 years from the date of adoption to completely eliminate the inter-entity balances and transactions. (Paragraph 63)</li> </ul>
IPSAS 9 <i>Revenue from Non-Exchange Transactions</i> Issued: July 2001 Effective date: 1 July 2002	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>
IPSAS 10 <i>Financial Reporting in Hyperinflationary Economies</i> Issued: July 2001 Effective date: 1 July 2002	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>
IPSAS 11 <i>Construction Contracts</i> Issued: July 2001 Effective date: 1 July 2002	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>
IPSAS 12 <i>Inventories</i> Issued: July 2001 Effective date: 1 July 2002	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>

<b>IPSAS</b>	<b>Details of Transitional Provision</b>
<p>IPSAS 13 <i>Leases</i>            Issued: Dec 2001            Effective period:            1 Jan 2003</p>	<ul style="list-style-type: none"> <li>• Following the date of first adoption of IPSAS 13, where an entity has not recognized leased assets by virtue of the transitional provisions of another IPSAS, the entity does not have to apply all the requirements of IPSAS 13 in respect of those assets until the expiration of the other IPSAS's transitional provisions, or five years from when the entity first adopts IPSASs, whichever is earlier. (Paragraph 71)</li> <li>• Entities that have adopted accrual accounting and entities intending to comply with IPSAS 13 are encouraged, but not required, to apply the provisions of IPSAS 13 retrospectively. If IPSAS 13 is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and should be accounted for in accordance with provisions of the IPSAS 13. (Paragraph 73)</li> </ul>
<p>IPSAS 14 <i>Events After the Reporting Date</i>            Issued: December 2001            Effective date: 1 January 2003</p>	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>
<p>IPSAS 15 <i>Financial Instruments: Disclosure and Presentation</i>            Issued: Dec 2001            Effective period:            1 Jan 2003</p>	<ul style="list-style-type: none"> <li>• Following the date of first adoption of IPSAS 15, where comparative information for prior periods is unavailable, such information need not be presented. (Paragraph 102)</li> </ul>

<b>IPSAS</b>	<b>Details of Transitional Provision</b>
<p>IPSAS 16 <i>Investment Property</i> Issued: Dec 2001 Effective period: 1 Jan 2003</p>	<ul style="list-style-type: none"> <li>• Where, on adoption of the accrual basis of accounting for the first time, an entity initially recognizes investment property on adoption of IPSAS 16, the entity should report the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which IPSAS 16 is first adopted (paragraph 79).</li> <li>• An entity that adopts accrual accounting for the first time in accordance with IPSASs may initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost or for a nominal cost, cost is the investment property's fair value as at the date of acquisition. (Paragraph 80)</li> <li>• Under the fair value model (as specified) an entity should report the effect of adopting IPSAS 16 on its effective date (or earlier) as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the IPSAS is first adopted. In addition where the entity has previously publicly disclosed the fair value of investment property measured using the fair value model (as specified), the entity is encouraged to adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which fair value was publicly disclosed, and restate the comparative information for those periods. Where the entity has not previously publicly disclosed fair value information, the entity should not restate comparative information and should disclose that fact. (Paragraph 82)</li> </ul>
<p>IPSAS 17 <i>Property, Plant and Equipment (PPE)</i> Issued: Dec 2001 Effective period: 1 Jan 2003</p>	<ul style="list-style-type: none"> <li>• Entities are not required to recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of IPSAS 17. (Paragraph 80)</li> <li>• An entity that adopts accrual accounting for the first time in accordance with IPSASs may initially recognize property, plant and equipment at cost or fair value. For items of property, plant and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition. (Paragraph 81)</li> <li>• When an entity takes advantage of the transitional provisions, it must disclose that fact.</li> </ul>
<p>IPSAS 18 <i>Segment Reporting</i> Issued: June 2002 Effective date: 1 July 2003</p>	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>

<b>IPSAS</b>	<b>Details of Transitional Provision</b>
IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> Issued: Oct 2002 Effective period: 1 Jan 2004	<ul style="list-style-type: none"> <li>• The effect of adopting IPSAS 19 should be reported as an adjustment to the opening balance of accumulated surplus/(deficit) for the period in which the Standard was first adopted.</li> <li>• Entities are encouraged but not required, to adjust the opening balance of accumulated surpluses/ (deficits) for the earliest period presented and to restate comparative information. If comparative information is not restated this fact should be disclosed.</li> </ul>
IPSAS 20 <i>Related Party Disclosures</i> Issued: October 2002 Effective date: 1 January 2004	<ul style="list-style-type: none"> <li>• No Transitional Provisions</li> </ul>

## **IFRS 1: The First-time Adoption of International Financial Reporting Standards – A Summary**

### ***1. Background***

- 1.1 IFRS 1, First-time Adoption of International Financial Reporting Standards was issued on 19 June 2003. It replaces SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*. It applies if an entity's first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is encouraged.

### ***2. Scope***

- 2.1 IFRS 1 applies to an entity's first IFRS financial statements and each interim financial report for any part of the period covered by its first IFRS financial statements. The first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs by an "explicit and unreserved" statement of compliance with IFRSs.
- 2.2 The Standard does not apply to changes in accounting policies made by an entity that already applies IFRSs. These changes are the subject of requirements in IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* and specific transitional provisions of other IFRSs.

### ***3. Recognition and Measurement***

- 3.1 The first-time adopter needs to prepare an opening balance sheet at the date of transition to IFRSs. The date of transition is defined by IFRS 1 as the beginning of the earliest period for which it presents full comparative information under IFRSs in its first IFRS financial statement. Thus if the first IFRS financial statements are for the year ending 31 December 2005, the opening balance sheet will need to be prepared at 1 January of 2004.
- 3.2 The first-time adopter should comply with each IFRS that is effective at the reporting date for its first IFRS financial statements. The following briefly sets out steps to be taken in preparing the opening IFRS balance sheet:
- (i) Recognition of all assets and liabilities whose recognition is required by IFRSs. These include items never recognised under previous GAAP. For example, application of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* may result in the recognition of provisions such as those for restructuring costs, onerous contracts and decommissioning that have not been required under previous GAAP. Another example would be recognition of derivatives as required by IAS 39 *Financial Instruments: Recognition and Measurement*.

- (ii) Derecognition of all assets and liabilities that have been recognised under GAAP if the IFRSs do not permit recognition of those items. For example provisions may have been made under previous GAAP for future operating losses, major overhauls or other items whose recognition as liabilities is not warranted under IAS 37. Such provisions should be eliminated in the opening IFRS balance sheet. Another example would be the derecognition of expenditure that has been recognised as intangible assets under previous GAAP such as start up costs, pre-operating costs and research costs because IAS 38 *Intangible Assets* does not permit their recognition as intangible assets.
- (iii) Classification of all recognised assets and liabilities in accordance with IFRSs. Thus the entity may have to reclassify certain items in the opening IFRS balance sheet. For example, dividends declared or proposed after the balance sheet date cannot be recognised as a liability at the balance sheet date under IAS 10 *Events After the Balance Sheet Date*. They are reclassified as a component of retained earnings in the opening IFRS balance sheet.
- (iv) Application of IFRSs in measurement of all recognised assets and liabilities. Except for exceptions set out in paragraph 4.1 below, the first-time adopter would use the measurement principles in IFRSs effective at the reporting date for the first IFRS financial statements.

#### ***4. Optional Exemptions from Retrospective Application***

- 4.1 The following sets out exemptions from the requirements of other IFRSs that a first-time adopter may use:

*(a) business combinations:*

A first-time adopter may elect not to apply IAS 22 *Business Combinations* to most aspects of business combinations that occurred before the date of transition to IFRSs. Appendix B to IFRS 1 contains the requirements that the entity should apply to business combinations that the entity recognised before the date of transition to IFRSs.

*(b) fair value or revaluation as deemed cost*

A first-time adopter may elect to treat the fair value of an item of property, plant and equipment (PPE) at the date of transition to IFRSs as its deemed cost at that date. It may also elect to use a previous GAAP revaluation of an item of property, plant and equipment 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:

- (i) fair value; or
- (ii) cost or depreciated cost under IFRSs, adjusted to reflect, for example, changes in a general or specific price index.

The said elections can also be made in respect of investment property (if cost model in IAS 40 is applied) and intangibles that meet the restrictive criteria set out in the Standard.

Moreover, if a first-time adopter have established a deemed cost under previous GAAP for some or all of its assets and liabilities by measuring them at their fair value because of an event such as a privatization or initial public offering, it may elect to use those fair values as deemed cost for IFRSs.

*(c) employee benefits*

For a defined benefit plan, 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. If a first-time adopter uses this exemption, it should apply it to all defined benefit plans.

*(d) cumulative translation differences*

A first-time adopter may elect not to identify existing cumulative translation differences as a separate component of equity. Under this exemption, the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs and the gain or loss on a subsequent disposal of any foreign operation would only include translation differences that arose after the date of transition to IFRSs.

*(e) compound financial instruments*

Under IAS 32 *Financial Instruments: Disclosure and Presentation* an entity should split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, under IFRS 1, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRSs.

The Standard specifies how these exemptions operate if a parent become a first-time adopter earlier or later than its subsidiary or associate or joint venture.

## 5. Prohibition of Retrospective Application

- 5.1 The transitional provisions in other IFRSs do not, in general, apply to a first-time adopter. However, the Standard prohibits full retrospective application of IFRSs in the following cases:
- (i) A first-time adopter should not recognise financial assets or financial liabilities derecognised under previous GAAP in a financial year beginning before 1 January 2001 (effective date of IAS 39).
  - (ii) Based on the transitional provisions of IAS 39, a first-time adopter should apply that Standard prospectively for hedge accounting.
  - (iii) A first-time adopter treats the receipt of information received after the date of transition to IFRSs about estimates that it had made under previous GAAP, as a non-adjusting event under IAS 10 *Events After the Balance Sheet Date*. This provision does not apply to cases where the estimates need adjustment for any differences in accounting policies or where there is objective evidence that the estimates were in error.

## 6. Presentation and Disclosure

- 6.1 The Standard does not provide exemptions from the presentation and disclosure requirements in other IFRSs. Under IAS 1 *Presentation of Financial Statements*, an entity's first IFRS financial statements should include at least one year of comparative information under IFRSs. Any additional comparative information not complying with IFRSs must be prominently labeled and the nature of the main adjustments that would make that information comply with IFRSs should be disclosed. If an entity did not present financial statements for previous periods, its first IFRS financial statements should disclose that fact.
- 6.2 The Standard requires disclosures that explain how the transition from previous GAAP to IFRSs affected the reported financial position financial performance and cash flows of the entity. Specific disclosures are also required where fair values are used as deemed cost.

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FIRST-TIME ADOPTION OF  
INTERNATIONAL  
FINANCIAL REPORTING STANDARDS**

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# 19 June 2003

## IASB ISSUES A STANDARD ON TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Following recent decisions by various jurisdictions to adopt International Financial Reporting Standards (IFRSs), more than 90 countries will either require or permit the use of IFRSs during the next five years. Thousands of companies throughout the world will be making a transition in financial reporting by breaking away from national practices and changing to accounting standards set by the International Accounting Standards Board (IASB). To help companies making this change, and to enable users of company reports to understand the effect of applying a new (in some cases, completely new) set of accounting standards, the IASB today issued IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which explains how an entity should make the transition to IFRSs from another basis of accounting.

The IASB through IFRS 1 has sought to address the demand of investors to have transparent information that is comparable over all periods presented, while giving reporting entities a suitable starting point for their accounting under IFRSs. In developing the standard, the IASB consulted interested parties throughout the world and paid particular attention to the need to ensure that the cost of compliance with the new requirements does not exceed the benefits to users of the financial information. The standard is based on the proposals published as an exposure draft ED 1 in July last year, and contains changes that the IASB has made in the light of the 83 comment letters it received.

IFRS 1 requires an entity to comply with every IASB standard in force in the first year when the entity first adopts IFRSs, with some targeted and specific exceptions after consideration of the cost of full compliance. Under IFRS 1, entities must explain how the transition to IASB standards affects their reported financial position, financial performance and cash flows.

Introducing the standard, Sir David Tweedie, IASB Chairman, said:

“IFRS 1 is very timely, because demand is growing for high quality international standards set by the IASB. Thousands of companies throughout the world will be required to adopt IFRSs in the coming years, and the requirements in IFRS 1 are designed to ease the transition for all concerned and to ensure that users of accounts are given high quality information. This is the IASB's first completely new standard—several more will follow in the next year. We're on our way!”

Sir David also emphasised the role that national bodies play in the IASB's deliberations: “The French Conseil National de la Comptabilité (CNC) has participated actively and has made a significant contribution in the development of IFRS 1. The IASB has benefited greatly from its input.”

Copies of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (ISBN 1-904230-19-9 (three-part set) are available, at £15 each ( 24/US\$23) including postage, from: IASCF Publications Department, 1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom. Tel: +44 (0)20 7332 2730 Fax: +44 (0) 20 7332 2749 Email: [publications@iasb.org.uk](mailto:publications@iasb.org.uk) Web: [www.iasb.org.uk](http://www.iasb.org.uk)

Subscribers to the IASB's Comprehensive Subscription Service can view IFRS 1 from the secure online services area of the IASB's Website ([www.iasb.org.uk](http://www.iasb.org.uk)).

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## NOTES TO EDITORS

### About IFRS 1

1. IFRS 1 applies when an entity adopts IFRSs for the first time, by an explicit and unreserved statement of compliance with IFRSs.
2. To create a starting point for its later accounting under IFRSs, an entity adopting IFRSs for the first time (a *first-time adopter*) needs to prepare an *opening IFRS balance sheet* at the *date of transition to IFRSs* (the beginning of the earliest period for which it presents full comparative information under IFRSs in its first IFRS financial statements). For example, if an entity's first IFRS financial statements are for the year ended 31 December 2005, it will need to prepare an opening IFRS balance sheet at 1 January 2004.
3. In general, IFRS 1 requires a first-time adopter to comply with each IFRS that has come into effect at the reporting date for its first IFRS financial statements (31 December 2005 in the above example). In particular, it requires a first-time adopter to do the following in its opening IFRS balance sheet:
  - o recognise all assets and liabilities whose recognition is required by IFRSs.
  - o not recognise items as assets or liabilities if IFRSs do not permit such recognition.
  - o classify all recognised assets and liabilities in accordance with IFRSs.
  - o apply IFRSs in measuring all recognised assets and liabilities.
4. IFRS 1 grants a first-time adopter limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.
5. IFRS 1 applies if an entity's first IFRS financial statements are for a period beginning on or after 1 January 2004, although earlier application is encouraged. It replaces SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*. Like SIC-8, the IFRS requires retrospective application of IFRSs in most areas. Unlike SIC-8, the IFRS:
  - o includes some targeted exemptions.

- clarifies that an entity applies the latest version of IFRSs and specifies that the transitional provisions in other IFRSs do not apply to a first-time adopter, except for transitional provisions in IAS 39 *Financial Instruments: Recognition and Measurement* on hedge accounting and derecognition.
  - clarifies how a first-time adopter's estimates under IFRSs relate to its estimates for the same date under previous GAAP.
  - requires enhanced disclosure to explain how the transition to IFRSs affected the entity's reported financial position, financial performance and cash flows.
6. The IASB has published IFRS 1 together with two separate booklets. The first contains the IASB's Basis for Conclusions, which sets out the IASB's reasoning for the requirements in the IFRS; the second consists of implementation guidance.

### **About the IASB**

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.