

## Mandatory Exemptions

AASB 1 prohibits retrospective application to the opening balance sheet of some aspects of other AEIFRS (eg estimates). These mandatory exemptions are listed at paragraph 26–34 of AASB 1.

## PRESENTATION OF COMPARATIVE INFORMATION

AASB 1 paragraph 36 requires an entity's first AEIFRS financial report to include at least one year of comparative information under AEIFRS. Clause 36.1 states that comparative information is required to facilitate understanding of the current reporting period and does not replace the original financial report for the preceding period. AASB 1, however, allows first-time adopters exemption from the requirements to restate comparative information for the following AEIFRSs —

- ⇒ AASB 132 Financial Instruments: Disclosure and Presentation;
- ⇒ AASB 139 Financial Instruments: Recognition and Measurement;
- ⇒ AASB 4 Insurance Contracts;
- ⇒ AASB 1023 General Insurance Contracts; and
- ⇒ AASB 1038 Interpretation and Application of Standards.

An entity who chooses **not to comply** with the above Standards in its first year of transition shall —

- ⇒ apply the equivalent AGAAP in the comparative information to financial instruments within the scope of AASB 132 and AASB 139 and to insurance contracts within the scope of AASB 4, AASB 1023 and AASB 1038;
- ⇒ disclose this fact, together with the basis used to prepare this information; and
- ⇒ disclose the nature of the main adjustments that would make the information comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038. The entity does not need to quantify those adjustments, however, the entity shall treat any adjustment between the balance sheet at the comparative period's reporting date (ie the balance sheet that includes comparative information under previous GAAP) and the balance sheet at the start of the AEIFRS period as arising from a change in accounting policy.

**Similar to the optional and mandatory exemptions discussed above, Queensland Treasury will also be mandating the options as to which Standards must be complied with by public sector agencies.**

## AUDIT IMPLICATIONS

Although the opening balance sheet is not presented in the first full AEIFRS financial report as at 30 June 2006 or 31 December 2005, it must be audited by QAO in order for an audit opinion to be provided on the entity's first full AEIFRS financial report for financial periods commencing on or after 1 January 2005. The opening balance sheet is also used as a starting point by all entities to account for all transactions under AEIFRS.

As the accounting policies that an entity uses in its opening AEIFRS balance sheet may differ from those that were used for the same date using previous Australian GAAP, it is essential that detailed working papers are retained by clients and an adequate audit trail is maintained to support the adjustments from audited Australian GAAP to AEIFRS for the purposes of preparing the opening balance sheet. This would assist in the audit of the opening balance sheet by QAO.

Clients are encouraged to prepare opening AEIFRS balance sheets immediately after the completion of the 30 June financial statements and, should contact their QAO Engagement Leader or contract auditor regarding arriving at an agreed timetable for the audit verification of the opening balance sheet figures.

QAO will monitor the preparation and audit of opening AEIFRS balance sheets across the public sector in consultation with Queensland Treasury's quarterly IFRS Checklist for Public Sector Agencies.



# AASB1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards

**FACT SHEET**

**August 2004**

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#### Disclaimer

*This Fact Sheet is based on information available as at August 2004 and is not a substitute for the Standards, exposure drafts, AASB and IASB Standards. Users of this publication should be aware that the requirements of IFRS could change over time. For further information, please refer to the AASB website.*

## PURPOSE

The QAO Fact Sheet on Accounting Standard AASB 1 – First-Time Adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS) is designed to assist public sector entities in their transition to adoption of the International Financial Reporting Standards for the first time. This fact sheet is based on information contained in AASB 1.

The Fact Sheet has been developed specifically for the public sector environment and therefore draws on the key requirements of the Standard that have application to public sector entities, particularly in relation to preparation of opening AEIFRS balance sheets.

For more information on AEIFRSs, QAO has produced a number of publications with application to the public sector including –

- IFRS – Frequently Asked Questions Booklet;
- IFRS – Practical Examples Booklet;
- IFRS Checklist for Public Sector Agencies; and
- QAO Guidelines on AASB 136 Impairment of Assets.

These publications are available on the QAO website at [www.qao.qld.gov.au](http://www.qao.qld.gov.au) and will be updated progressively by QAO.

## APPLICATION OF STANDARD

This Standard applies to –

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
- (b) general purpose financial reports of each other reporting entity; and
- (c) financial reports that are, or are held out to be, general purpose financial reports.

## EFFECTIVE DATE

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. AASB 1 applies when an entity first complies with each of the AEIFRSs effective at the reporting date for its first AEIFRS financial report. This is the first annual financial report in which an entity adopts AEIFRSs, by an explicit and unreserved statement of compliance with these Standards.

AASB 1 requires an entity to do the following in the opening AEIFRSs balance sheet that it prepares as a starting point for its accounting under AEIFRS –

- (a) recognise all assets and liabilities whose recognition is required by AEIFRSs;
- (b) not recognise items as assets or liabilities if AEIFRSs 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 AEIFRSs; and
- (d) apply AEIFRSs in measuring all recognised assets and liabilities.

AASB 1 grants 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 reports. This Standard also prohibits retrospective application of AEIFRSs in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.

This Standard requires disclosures that explain how the transition from previous GAAP (previous Australian Accounting Standards and UIG Abstracts) to AEIFRSs affected the entity's reported financial position, financial performance and cash flows.

## TRANSITION AND FIRST-TIME ADOPTION

Application of this standard will begin in the first annual reporting period on or after 1 January 2005 in the context of adopting all AEIFRSs. The important dates for the transition to and adoption of AEIFRS are –

Process	30 June year end clients	31 December year end clients
Prepare full financial report under Australian GAAP.	1 July 2003 to 30 June 2004 1 July 2004 to 30 June 2005	1 Jan 2003 to 31 Dec 2003 1 Jan 2004 to 31 Dec 2004
Prepare Opening AEIFRS Balance Sheet as at date of transition.	As at 1 July 2004	As at 1 Jan 2004
Simultaneously account for transactions and balances under Australian GAAP and under AEIFRS.	1 July 2004 to 30 June 2005	1 Jan 2004 to 31 Dec 2004
Entities account for full operations under AEIFRS. Must prepare full AEIFRS financial report with AEIFRS comparatives.	1 July 2005 to 30 June 2006	1 Jan 2005 to 31 Dec 2005

AASB 1 also requires entities to use the same accounting policies in its opening AEIFRS balance sheet and throughout all periods presented in its first AEIFRS financial report. Those accounting policies shall comply with each of the AEIFRSs effective at the reporting date for its first AEIFRSs financial report except for a number of optional and mandatory exemptions discussed later on.

An entity should recognise adjustments as a result of adopting AEIFRS directly in retained earnings, or if appropriate, another category of equity. It should be noted that this only relates to those adjustments made as a result of adopting AEIFRS, and does not extend to any other adjustment that the entity has made.

## OPENING AEIFRS BALANCE SHEETS

Under AASB 1 paragraph 6, an entity shall prepare an opening AEIFRS balance sheet at the date of transition to AEIFRSs. This is the starting point for its accounting under AEIFRSs. An entity, however, does not need to present its opening AEIFRS balance sheet in its first AEIFRS financial report.

The Standard establishes two categories of exceptions to the principle that an entity's opening AEIFRS balance sheet shall comply with each of the AEIFRSs. Paragraphs 13-25 grant exemptions from some requirements of other AEIFRSs; and paragraphs 26-34 prohibit retrospective application of some aspects of other AEIFRSs.

**With respect to the optional and mandatory exemptions, and other options available under AASB 1 and other AEIFRS (refer below), Queensland Treasury has advised that they intend to mandate the options to be adopted by public sector agencies for consistency purposes.**

## Optional Exemptions

AASB 1 allows first-time adopters to elect to use 1 or more exemptions from some requirements of other AEIFRS, for example –

- (paragraph 16) an entity may elect to measure an item of property, plant and equipment at the date of transition to AEIFRS at its fair value and use that fair value as its deemed cost at that date.
- (paragraph 17) a first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to AEIFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to fair value or cost or depreciated cost under AEIFRS.

All the optional exemptions are listed in paragraph 13–25 of AASB 1.